

(incorporated in the Cayman Islands with limited liability)

Stock Code: 2100



Contents

Corporate Information	2
Company Profile	4
Financial Summary	5
Chairman Letter	7
Definitions and Glossaries	9
Management Discussion and Analysis	14
Biographies of the Directors and Senior Management	29
Directors' Report	34
Corporate Governance Report	64
2022 Environmental, Social and Governance Report	88
Independent Auditor's Report	166
Consolidated Income Statement	171
Consolidated Statement of Comprehensive Income	173
Consolidated Balance Sheet	174
Consolidated Statement of Changes in Equity	176
Consolidated Statement of Cash Flows	178
Notes to the Financial Statements	179

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

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
17/F, Far East Finance Centre
16 Harcourt Road
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

5/F, Manulife Place
348 Kwun Tong Road
Kowloon
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
Fax: (852) 2117 0869
Email: baioo@christensencomms.com

Company Profile

Founded in 2009 and listed on the Hong Kong Stock Exchange in 2014, BAIIO Family Interactive Limited is a leading internet content and service provider in China. BAIIO primarily focuses on niche game genres, excelling in female-oriented games, pet collection and raising games, and “nijigen” (「二次元」) games. BAIIO has achieved a leading position in its targeted niche game segments in China and built a gaming brand that is popular among Generation Z users.

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

Looking ahead, BAIIO will continue to focus on developing games in its core niche segments of female-oriented, pet collection and raising, and “nijigen” (「二次元」) gaming content. Through its “IP Super Evolution” strategy, BAIIO will continue to leverage the IPs that were developed and accumulated throughout the years to launch a series of creative and attractive products, provide young users with premium and differentiated IP-based experiences and services, create a succession of hit titles and sequels, and become a platform that brings great joy to young people.

Financial Summary

INCOME STATEMENT HIGHLIGHT

	For the year ended		
	31 December		
	2022	2021	Year-over-year
	RMB'000	RMB'000	change %
Revenue	938,759	883,908	6.2%
Gross profit	360,628	400,559	(10.0%)
Operating (loss)/profit	(37,082)	29,706	(224.8%)
Non-International Financial Reporting Standards (“IFRSs”) Measures			
– Adjusted Net Profit ⁽¹⁾ (unaudited)	61,744	79,176	(22.0%)
– Adjusted EBITDA ⁽²⁾ (unaudited)	37,485	105,828	(64.6%)

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 means adjusted net profit less finance income-net, plus income tax (credit)/expense, depreciation of property and equipment, right-of-use assets and amortization of intangible assets.

	2022	2021	2020	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Continuing operations					
Revenue	938,759	883,908	1,128,967	680,598	284,489
Gross Profit	360,628	400,559	429,347	362,146	171,677
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 (Loss)/Profit	(37,082)	29,706	281,624	159,837	(7,367) ⁽¹⁾
– Profit After Tax	10,339	26,906	273,231	151,167	6,721 ⁽¹⁾
– Adjusted Net Profit ⁽²⁾ (unaudited)	61,744	79,176	289,214	151,416	11,794
– Adjusted EBITDA ⁽³⁾ (unaudited)	37,485	105,828	317,056	164,193	11,001

Notes:

- Operating (loss)/profit and profit after tax of 2018 eliminate the effect on the Disposal. They are unaudited and not defined under the IFRS.
- 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. For 2018, adjusted net profit eliminated the effect of the Disposal as well. The term of adjusted net profit is not defined under the IFRS. The use of adjusted net profit has material limitation as an analytical tool, as adjusted net profit does not include all items that impact our net profit for the year.
- Adjusted EBITDA means adjusted net profit less finance income-net, plus income tax (credit)/expense, 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				
	2022	2021	2020	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets					
Non-current assets	476,709	442,420	355,011	220,573	130,164
Current assets	1,579,558	1,571,922	1,725,873	1,712,162	1,529,229
Total assets	2,056,267	1,994,342	2,080,884	1,932,735	1,659,393
Equity and Liabilities					
Total equity	1,698,084	1,682,640	1,734,329	1,550,441	1,530,801
Non-current liabilities	52,574	63,270	81,075	95,413	17,182
Current liabilities	305,609	248,432	265,480	286,881	111,410
Total liabilities	358,183	311,702	346,555	382,294	128,592
Total Equity and Liabilities	2,056,267	1,994,342	2,080,884	1,932,735	1,659,393

Chairman Letter

Dear Shareholders,

In 2022, we witnessed a complex and volatile global political and economic environment, with all sectors facing challenges. For the game industry, 2022 was a year of restructuring and reform, though we were also affected by policy developments and other external factors. Nevertheless, the trend toward sound, high-quality development in the game industry has not changed.

During the past year, businesses continued to face short-term pressure, but BAI00 experienced steady growth and achieved stable performance. BAI00 remained committed to focusing on niche game genres, further consolidating the Group's popularity and leadership in IP. Meanwhile, BAI00 proactively improved its innovation and R&D capabilities, with the aim of providing more diversified and interesting game content to users around the world and growing the international user base of BAI00's IP.

CONTINUOUS INNOVATION OF CORE PRODUCTS, CREATING HIGH-QUALITY GAME EXPERIENCE FOR USERS

BAI00 is committed to focusing on the development of its three core values of "IP companionship, immersive experience and casual social interaction" in three niche game genres: female-oriented games, pet collection and raising games, and "nijigen" (「二次元」) games; its core mobile and web games in these segments experienced stable operations and maintained their good reputation among users during the year. BAI00 vigorously promoted China's priceless traditional culture and strived to integrate traditional Chinese art elements into its game content to enhance BAI00's brand and IP popularity. In addition, BAI00 has linked its mobile games with different brands to launch diversified, innovative and interesting game content, inject fresh vitality into BAI00's cross-border IP and achieve wider penetration among young people.

CONTENT INNOVATION AND R&D STRENGTHS HIGHLY RECOGNIZED BY THE MARKET

In order to meet users' growing expectations for game content, BAI00 leveraged its IP super evolution strategy to develop high-quality games that deliver richer, more interesting and meaningful game experiences. In 2022, the outstanding performance of BAI00's products and services won recognition from both the industry and the capital market.

In terms of international strategy, BAI00 adhered to its global strategic operation policy and made achievements in the overseas gaming market. BAI00 has successfully launched its mobile games in various overseas regions, where they have gained significant popularity and enabled more overseas users to experience BAI00's games and learn about Chinese culture.

Chairman Letter

OUTLOOK

Looking ahead to 2023, BAIOO will continue to focus on the three core values of “IP companionship, immersive experience and casual social interaction” while intensifying its efforts in the three game genres, namely female-oriented games, “nijigen” (「二次元」) games, and pet collection and raising games. BAIOO will continuously enrich its game portfolio through its IP strategy, increase its investment in R&D and strengthen independent game development efforts in order to ensure a steady pipeline of high-quality games and satisfying game experiences for users around the world.

Remaining true to its original aspiration, BAIOO will seize development opportunities in the domestic and overseas game markets, explore crossover collaboration opportunities with various cultural entities, 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. BAIOO will explore more ways of sharing culture and creativity across borders, enhance its IP influence by achieving linkage with multiple resources, and provide users with upgraded IP experiences and services. BAIOO will also optimize its sustainable business model with the goal of creating long-term value for Shareholders.

DAI Jian

Chairman, Chief Executive Officer and Executive Director

BAIOO Family Interactive Limited

29 March 2023

Definitions and Glossaries

DEFINITIONS

“AGM”	the annual general meeting of the Company to be convened and held in accordance with the Articles of Association
“AI”	artificial intelligence
“Articles of Association”	the articles of association of the Company as amended, supplemented or revised from time to time
“associate”	has the meaning ascribed to it under the Listing Rules
“Audit Committee”	the audit committee of the Company
“Board” or “Board of Directors”	the board of Directors
“BVI”	the British Virgin Islands
“CEO” or “Chief Executive Officer”	the chief executive officer of the Company
“Chairman”	the chairman of the Board
“Company” or “us” or “our Company”	BAIOO Family Interactive Limited (百奧家庭互動有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 25 September 2009 with its Shares listed on the Main Board of the Stock Exchange on 10 April 2014
“Company Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Contractual Arrangements”	a series of agreements entered into among Guangzhou WFOE, Guangzhou Baitian and the registered shareholders on 4 December 2013 and amended on 20 March 2014
“Controlling Shareholders”	has the meaning ascribed to it under the Listing Rules and unless the context requires otherwise, collectively refers to Mr. DAI Jian and Stmoritz Investment Limited
“Corporate Governance Code” or “CG Code”	the Corporate Governance Code as set out in Appendix 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 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 Tianti”	Guangzhou Tianti Network Technology Co., Ltd.* (廣州天梯網絡科技有限公司), a limited liability company incorporated in the PRC and a wholly-owned subsidiary of Guangzhou Baitian
“Guangzhou WFOE”	Baiduo (Guangzhou) Information Technology Limited* (百多(廣州)信息科技有限公司), a company incorporated on 29 October 2013 under the laws of the PRC, an indirect wholly-owned subsidiary of the Company
“independent third party”	any entity or party which is not connected (as defined in the Listing Rules) to any of our Directors, substantial shareholders or chief executives of our Company or its subsidiaries, or any of their respective associates
“IP”	intellectual property
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange on 10 April 2014
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time)

Definitions and Glossaries

“Memorandum and Articles of Association”	the memorandum and articles of association of the Company
“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

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 2022 (the “Year”), BAIOO maintained a steady and progressive pace of development and made further advances in the PC and mobile gaming business. During the Year, BAIOO remained focusing on niche game genres, further consolidating the Group’s popularity and leadership in these market segments. Meanwhile, BAIOO proactively bolstered its innovation and R&D capabilities, with the goal of growing the international audience for BAIOO’s IP and providing more diversified and interesting game content to users around the world.

BAIOO is committed to focusing on the development of the three core values of “IP companionship, immersive experience and casual social interaction” in three niche game genres: female-oriented games, pet collection and raising games, and “nijigen” (「二次元」) games; its core mobile and web games in these segments experienced stable operations and maintained their good reputation among users during the Year. In particular, BAIOO’s signature mobile games, namely Aobi Island: Dreamland (「奧比島: 夢想國度」), Shiwuyu (「食物語」), and Aola Star Mobile (「奧拉星手遊」) continued to be well-received by users. To improve users’ game experience, BAIOO has continuously provided game content updates and launched new themed game editions, while also linking its mobile games with different brands. Taking Aobi Island: Dreamland (「奧比島: 夢想國度」) as an example, BAIOO launched the brand crossover edition, “Aobi Island × Chi Forest” (「奧比島× 元氣森林」), demonstrating its focus on integrating trendy brands and real-life elements relevant to young people into a game experience of the Aobi Island community. During the Year, BAIOO also cooperated with other famous brands such as “Harper’s BAZAAR” magazine, Huawei, and Apple, and held numerous offline activities to spark new and different sector dynamics in BAIOO’s IP.

BAIOO has continued to champion China’s priceless traditional cultural heritage, including by incorporating traditional Chinese art into its game content. During the Year, the Group cooperated with numerous cultural organizations and classic animation IPs to further enhance the popularity of BAIOO’s brand and IP. Aola Star Mobile (「奧拉星手遊」) promoted Chinese traditional culture in several ways. For example, it cooperated with the traditional Chinese animation series “The Legend of Hei” (「羅小黑戰記」) to launch a special edition of “Home Together” (「一起回家」) during the Spring Festival, creating a fresh new game experience for users. In addition, it cooperated with the Guangdong Provincial Institute of Arts and Crafts to launch an “Aola Star × Cloisonne” (「奧拉星× 景泰藍」) crossover edition called “Spring of Cloisonne” (「千藍鬥春」), integrating elements of the traditional cloisonne production process into the game in order to carry forward the legacy of ancient traditional Chinese arts and crafts. Moreover, it cooperated with the Guangdong Lingnan Folk Arts and Crafts Research Institute to jointly launch a Tai Chi crossover promotional film, enabling the younger generations to appreciate the charm of Tai Chi.

Management Discussion and Analysis

Regarding BAIOO's another signature mobile games "Shiwuyu" (「食物語」), the Group presented a series of crossover and promotional activities during the Year, including the launch of branded game content in cooperation with Chinese traditional style animation IP "White Cat Legend" (《大理寺日誌》); expanded cooperation and brand promotion with Zhouheiya (「周黑鴨」); and the launch of a brand crossover with the hot pot brand Coucou (「湊湊」). The co-branded set meal was launched in 25 Coucou hot pot stores across the country. To celebrate the third launch anniversary of "Shiwuyu", the Group created a series of activities for users, including the joint launch of the "Shiwuyu" anniversary theme song CD with QQ Music; the launch of "Lantern made of fish scales" (魚鱗彩燈) content related to the national intangible cultural heritage of the Foshan lantern; the third annual fan art contest, as well as a live third anniversary celebration held on the famous domestic video site Bilibili. During this time, "Shiwuyu" reached the No. 1 spot on other mobile gaming list and also was a top search term on Weibo. In order to achieve wider penetration for "Shiwuyu" among young people, BAIOO launched the "Shiwuyu" animated mini-series "Young Master is Out Today" (《今天少主不在家》), which received unanimous acclaim from players following its broadcast premiere.

Since the launch of Legend of Aoqi Mobile (「奧奇傳說手遊」), the pet collection and raising game, BAIOO has injected the game with cultural elements covering the intangible cultural heritage of southern Guangdong by introducing environments such as the Cantonese Opera House and the Lantern House, where players can learn about and experience the charm of Cantonese opera culture and traditional lantern-making practices. In addition, the Group cooperated with Guangdong Radio and Television Station's Pearl River Channel and the Guangdong Institute of Arts and Crafts to launch a series of "Cantonese Opera + Colored Lanterns" (「粵劇+彩燈」) promotional activities, and cooperated with the first cultural and creative variety show in the Greater Bay Area of Guangdong, Hong Kong and Macau, "Cantonese Products in Chinese Style" (《國潮粵品》), to produce a crossover TV show related to intangible cultural heritage.

During the Year, BAIOO's outstanding performance won the attention and recognition of both industry peers and the capital market. In particular, BAIOO's mobile game Aobi Island: Dreamland (「奧比島: 夢想國度」) won a number of industry awards, including being named "Popular IP Game of the Year" at the Golden Gyroscope Awards, "Best Leisure Game of 2022" at the Golden Tea Awards, "Excellent Product of 2022" at the Game Appreciation Award, "2022 Most Popular Online Games" at the Golden Diamond Award and "Top 10 Games of the Year 2022 Outstanding Mobile Games Nomination" at the China Game Industry Annual Conference "Top 10 Games of the Year" Awards. BAIOO's mobile game "Shiwuyu" received the "Top 10 Games of the Year 2022 Outstanding Chinese Traditional Culture Games Nomination" at the China Game Industry Annual Conference "Top 10 Games of the Year" Awards. BAIOO's subsidiary, Guangzhou Baitian Information Technology Ltd., was also honored with the 21st China Internet "2021-2022 China Internet Industry Self-discipline Contribution and Public Welfare Award" and the 7th Guangzhou Internet + Industry Investment and Financing "Top 20 Internet Enterprises in Guangzhou" award, while BAIOO won the "Best Medium and Small Market Value Company" award at the 6th Golden Hong Kong Stock Awards and the "Best Capital Market Communication Award" at the 6th China Excellent IR Awards. These honors reflect the growing recognition and appreciation of the Group from both the industry and the capital market, as well as overall market confidence in the Group's long-term development.

Management Discussion and Analysis

In addition to actively expanding its share of the domestic gaming market, BAIOO has also achieved success in several overseas mobile gaming markets. At present, BAIOO's mobile games have been launched and gained popularity in markets including Hong Kong in China, Macau in China, Taiwan in China, Japan, South Korea, Singapore, Malaysia, Europe and the United States. During the Year, BAIOO continuously updated and optimized the content of its localized games, allowing more overseas users to enhance their understanding of Chinese culture through experiencing BAIOO's games.

INDUSTRY TRENDS

Since the implementation of the Chinese government policy aimed at preventing online gaming addiction and protecting underage users, the gaming industry has continued to be affected by policy factors. The industry downturn which began in the second half of 2021 basically continued throughout 2022.

However, according to the 2022 Progress Report on the Protection of Minors in China's Game Industry jointly released by the China Audio-Video and Digital Publishing Association (中國音數協遊戲工委), the China Game Industry Research Institute (中國遊戲產業研究院), and CNG (伽馬數據), more than 70% of minors spend less than 3 hours gaming per week, indicating that the problem of gaming addiction among minors has been basically solved. In addition, the Chinese game market has shown signs of bottoming out, with CNG's "October 2022 Game Industry Report" reporting that sales revenue of the Chinese game market grew by 4.66% to RMB19,768 million in October 2022, representing the first instance of month-on-month growth in nearly six months.

In April 2022, the National Press and Publication Administration restarted the release of game publishing licenses, creating favorable conditions for the industry's orderly recovery. Although the authorities suspended the issuance of licenses temporarily in October 2022, the approvals were re-started from November 2022 and continued through December 2022. It is evident that the atmosphere of China's game market is gradually improving, and the industry has resumed its trend of steady development.

Given the further saturation of the game market and the strengthening trend toward higher-quality gaming experiences, exploring users' segmentation needs has become the main focus of market competition. BAIOO has always concentrated on cultivating niche gaming markets and actively pursuing cooperation with leading brands to inject vitality into its IP and improve the user experience. Leveraging its in-depth insight into niche gamers and its strengths in operations and R&D, BAIOO will further consolidate its leading position and brand influence in its niche gaming segments.

OUTLOOK FOR 2023

Looking ahead to 2023, BAIIO will continue to focus on the three core values of “IP companionship, immersive experience and casual social interaction” while intensifying its efforts in the three game genres, namely female-oriented games, “nijigen” (「二次元」) games, and pet collection and raising games. As users’ expectations for game content and quality continue to grow, BAIIO will continuously enrich its game portfolio through its IP strategy, increase its investment in R&D, and strengthen independent game development efforts in order to ensure a steady pipeline of high-quality games and create differentiated game experiences for users around the world.

In addition, the Group will continue to explore new ways to integrate cultural creativity into the gaming experience through its IP super-evolution strategy, carefully incubating IP into the new generation of high-quality games, extending the influence of its IP, and providing users with differentiated and premium IP experience and services.

For example, BAIIO’s mobile game “Shiwuyu” is actively promoting Chinese traditional culture, welcoming the Spring Festival by partnering with Guangcai Intangible Heritage Culture to launch the “Shiwuyu × Guangcai Intangible Cultural Heritage” crossover edition, which presents colorful game activities including New Year’s lantern riddles, related fashion items, and customized woven gold colored porcelain plates. At the same time, Legend of Aoji Mobile (「奧奇傳說手遊」), together with the Guangdong Lingnan Folk Arts and Crafts Research Institute, launched a New Year’s edition of “Guangdong Awakening Lion” (「廣東醒獅」). It also launched a rich series of colorful cultural heritage-themed content, such as the Intangible Cultural Heritage School’s Awakening Lion Knowledge Workshop, which garnered praise and recognition from many users.

In 2023, the Group also plans to launch a new mobile game in China entitled “Echonox 24/36” (「時序殘響」) (formerly named “Project 24/36”), which is a 3-D urban weird story light strategy game with a unique world view and a strong artistic style. The main theme of the game is a cinematic narrative expression, fully playing a sense of weird atmosphere. The mobile game released its latest promotional video on 31 August 2022. The video’s release triggered an enthusiastic response and discussion among anime fans, and the game topped Bilibili’s game reservation list for three days. At the same time, BAIIO will also actively expand its overseas market and will usher the launch of a “Shiwuyu” international server and an overseas version of Aobi Island: Dreamland (「奧比島·夢想國度」) in 2023.

In the future, in addition to capturing development opportunities at home and abroad, BAIIO will continue to deepen its roots in Chinese culture, integrate more Chinese elements into its products, continue to provide users with innovative, interesting, and beneficial entertainment content, and actively demonstrate Chinese characteristics, Chinese spirit, and Chinese wisdom to both the younger generation in China and the wider world. In addition, the Group will adhere to corporate social responsibility practices by integrating more traditional Chinese culture into its game content, with the goal of providing healthy game environments for young people in China and around the world and contributing to the long-term health and sustainable development of the industry.

Management Discussion and Analysis

OPERATION INFORMATION

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

	For the year ended		
	31 December 2022 ⁽¹⁾	31 December 2021	Year-over-year Change
	<i>(QAA & QPA in millions, ARQPA in RMB)</i>		
Average QAA ⁽²⁾	10.1	10.0	1%
Average QPA ⁽³⁾	1.6	1.6	—
Average quarterly ARQPA ⁽⁴⁾	151.9	140.0	8.5%

Notes:

1. As of 31 December 2022, 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」), legend of Aoqi Mobile (「奧奇傳說手遊」) and Aobi Island Mobile (「奧比島手遊」).
2. The average QAA for online virtual worlds was approximately 10.1 million for the year ended 31 December 2022, representing an increase of approximately 1% compared with the year ended 31 December 2021. The increase was primarily due to new mobile game Aobi Island Mobile launched in the third quarter of 2022.
3. The average QPA for online virtual worlds was approximately 1.6 million for the year ended 31 December 2022, same with the year ended 31 December 2021.
4. The average quarterly ARQPA for online virtual worlds was approximately RMB151.9 for the year ended 31 December 2022, representing an increase of approximately 8.5% compared with the year ended 31 December 2021. The increase was primarily due to the good performance of Aobi Island Mobile debuted.

OVERALL BUSINESS AND FINANCIAL PERFORMANCE

The following table sets forth our consolidated income statement for the years ended 31 December 2022 and 2021, respectively:

	For the year ended			
	31 December 2022 RMB'000	% of Revenue	31 December 2021 RMB'000	% of Revenue
Revenue	938,759	100.0	883,908	100.0
Online entertainment business	937,849	99.9	882,594	99.9
Other businesses	910	0.1	1,314	0.1
Cost of revenue	(578,131)	(61.6)	(483,349)	(54.7)
Gross profit	360,628	38.4	400,559	45.3
Selling and marketing expenses	(81,800)	(8.7)	(105,127)	(11.9)
Administrative expenses	(89,924)	(9.6)	(91,458)	(10.3)
Research and development expenses	(230,021)	(24.5)	(173,296)	(19.6)
Net impairment losses on financial assets	(1,071)	(0.1)	(1,284)	(0.1)
Other income	3,734	0.4	2,845	0.3
Other gains — net	1,372	0.1	4,429	0.5
Loss on disposal of equity interest in an associate	—	—	(6,962)	(0.8)
Operating (loss)/profit	(37,082)	(4.0)	29,706	3.4
Finance income — net	39,717	4.2	24,743	2.8
Share of loss of an associate	—	—	(3,115)	(0.4)
Profit before income tax	2,635	0.3	51,334	5.8
Income tax credit/(expense)	7,704	0.8	(24,428)	(2.8)
Profit for the year	10,339	1.1	26,906	3.0

Management Discussion and Analysis

The following table sets forth our consolidated statement of comprehensive income for the years ended 31 December 2022 and 2021, respectively:

	For the year ended		For the year ended	
	31 December 2022 RMB'000	% of Revenue	31 December 2021 RMB'000	% of Revenue
Profit for the year	10,339	1.1	26,906	3.0
Other comprehensive income, net of tax	—	—	—	—
Total comprehensive income for the year	10,339	1.1	26,906	3.0
Other financial data				
Adjusted net profit ⁽¹⁾ (unaudited)	61,744	6.6	79,176	9.0
Adjusted EBITDA ⁽²⁾ (unaudited)	37,485	4.0	105,828	12.0

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 means adjusted net profit less finance income-net, plus income tax (credit)/expense, depreciation of property and equipment, right-of-use assets and amortization of intangible assets.

Revenue

Our revenue for the year ended 31 December 2022 was RMB938.8 million, representing a 6.2% increase from RMB883.9 million for the year ended 31 December 2021.

Online Business: Our online business revenue for the year ended 31 December 2022 was RMB937.8 million, a 6.3% increase from RMB882.6 million for the year ended 31 December 2021. The increase was primarily due to the good performance of Aobi Island Mobile debuted and partly offset by some of existing games declined as a result of life cycle.

Other Businesses: Revenue from other businesses for the year ended 31 December 2022 was RMB0.9 million, a 30.8% decrease from RMB1.3 million for the year ended 31 December 2021. The decrease was mainly due to the decrease in licensing services.

Cost of Revenue

Our cost of revenue for the year ended 31 December 2022 was RMB578.1 million, a 19.6% increase from RMB483.3 million for the year ended 31 December 2021.

Online Entertainment Business: Our online entertainment business cost for the year ended 31 December 2022 was RMB578.0 million, a 19.9% increase from RMB482.2 million for the year ended 31 December 2021. The increase was mainly driven by the increase of third-party revenue sharing.

Other Businesses: Cost of other businesses for the year ended 31 December 2022 was RMB0.1 million, a 90.9% decrease from RMB1.1 million for the year ended 31 December 2021. 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 2022 was RMB360.6 million, compared with RMB400.6 million for the year ended 31 December 2021. Gross profit margin was 38.4% for the year ended 31 December 2022, compared with 45.3% for the year ended 31 December 2021. The gross profit margin decrease was mainly due to the increase in the proportion of revenue from entrusted third parties mobile games with high revenue sharing.

Selling and Marketing Expenses

Our selling and marketing expenses for the year ended 31 December 2022 were RMB81.8 million, a 22.2% decrease from RMB105.1 million for the year ended 31 December 2021. This decrease was primarily due to the decrease in promoting and advertising expenses.

Administrative Expenses

Our administrative expenses for the year ended 31 December 2022 were RMB89.9 million, a 1.7% decrease from RMB91.5 million for the year ended 31 December 2021. This decrease was primarily due to the decrease of depreciation on right-of-use assets allocated to administrative expenses.

Research and Development Expenses

Our research and development expenses for the year ended 31 December 2022 were RMB230.0 million, a 32.7% increase from RMB173.3 million for the year ended 31 December 2021. This increase was primarily driven by the Group's strategy to enhance in-house game development capabilities and improve user experience through continuously investment in talent acquisition for the Group's research and development team.

Net Impairment Losses on Financial Assets

We recorded net impairment losses of financial assets of RMB1.1 million for the year ended 31 December 2022, compared with RMB1.3 million net impairment losses for the year ended 31 December 2021. The net impairment losses on financial assets mainly comprised impairment on trade and other receivables.

Management Discussion and Analysis

Other Income

The Company recognized RMB3.7 million in other income for the year ended 31 December 2022, representing an increase of 32.1% from RMB2.8 million for the year ended 31 December 2021. The other income was generated from our fulfillment of certain performance, conditions related to government grants.

Other Gains — net

The Company recognized net gain of RMB1.4 million primarily consisted of the interest income of structural deposits for the year ended 31 December 2022, compared with net gain of RMB4.4 million for the year ended 31 December 2021.

Loss on Disposal of Equity Interest in an Associate

There was no loss or gain on disposal of equity interest in an associate for the year ended 31 December 2022, compared with the disposal loss of RMB7.0 million for the year ended 31 December 2021, which was the result of disposing all of our equity interest of investment in Chengdu Constmotion Interactive Entertainment Network Technology Co., Ltd to a third party.

Operating (Loss)/Profit

As a result of the foregoing, our operating loss for the year ended 31 December 2022 was RMB37.1 million, compared with operating profit of RMB29.7 million for the year ended 31 December 2021.

Finance Income — net

We had net finance income of RMB39.7 million for the year ended 31 December 2022, compared with net finance income of RMB24.7 million for the year ended 31 December 2021. Net finance income for the year ended 31 December 2022 primarily consisted of interest income on term deposit and cash and bank balance, as well as exchange gains on cash and bank balance, which was partly offset by interest expenses on lease liabilities.

Share of Loss of an Associate

There was no share of loss of an associate for the year ended 31 December 2022, compared to share of loss of RMB3.1 million for the year ended 31 December 2021.

Profit before Income Tax

As a result of the foregoing, we had a profit of RMB2.6 million for the year ended 31 December 2022, compared with a profit of RMB51.3 million for the year ended 31 December 2021.

Income Tax Credit/(Expense)

Our income tax credit for the year ended 31 December 2022 was RMB7.7 million, representing a 131.6% fluctuation from income tax expense of RMB24.4 million for the year ended 31 December 2021. This change was primarily due to the recognition of deferred tax assets for tax loss of Guangzhou Tianti Network Technology Co., Ltd. during the year.

Profit for the Year

As a result of the foregoing, we had a profit of RMB10.3 million for the year ended 31 December 2022, compared with a profit of RMB26.9 million for the year ended 31 December 2021.

Non-IFRS Measure – Adjusted Net Profit/EBITDA

Our adjusted net profit for the year ended 31 December 2022 was RMB61.7 million, representing a 22.1% decrease from net profit of RMB79.2 million for the year ended 31 December 2021. Our adjusted EBITDA for the year ended 31 December 2022 was profit of RMB37.5 million, representing a 64.6% decrease from profit of RMB105.8 million for the year ended 31 December 2021.

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	
	2022	2021
	RMB'000	RMB'000
Profit for the year	10,339	26,906
Add:		
Share-based compensation expense	51,405	52,270
Adjusted net profit	61,744	79,176
Add:		
Depreciation and amortization	23,162	26,967
Finance income – net	(39,717)	(24,743)
Income tax (credit)/expense	(7,704)	24,428
Adjusted EBITDA	37,485	105,828

Management Discussion and Analysis

LIQUIDITY AND CAPITAL RESOURCES

In 2022, 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 2022 RMB'000	As of 31 December 2021 RMB'000
Total liabilities	358,183	311,702
Total assets	2,056,267	1,994,342
Gearing ratio ⁽¹⁾	17%	16%

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 2022, our cash and cash equivalents consisted of cash in bank and cash on hand, which amounted to RMB1,303.7 million, compared with RMB1,429.2 million as of 31 December 2021. We had short-term deposits of RMB110.0 million as of 31 December 2022, compared with RMB54.0 million as of 31 December 2021, representing bank deposits which we intend to hold for over three months but less than one year. We had long-term deposits of RMB95.0 million as of 31 December 2022, compared with RMB65.0 million as of 31 December 2021, representing bank deposits which we intend to hold for over one year but less than three years.

As of 31 December 2022, the Group had no restricted cash.

The effective interest rate per annum for cash in bank balances and deposits as of 31 December 2022 was 2.3%, the same as of 31 December 2021. Our policy is to place our cash in interestbearing 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 2022	31 December 2021
	RMB'000	RMB'000
RMB	1,364,918	1,427,957
US\$	77,203	82,215
HK\$	66,505	37,928
Others	85	90
	1,508,711	1,548,190

Bank Loans and Other Borrowings

The Group had no bank loans or other borrowings as of 31 December 2022.

Treasury Policies

As of 31 December 2022, the Group had conservative treasury policies in terms of cash and financial management. The Group does not use any financial instruments for hedging purposes.

Foreign Currency Risk

As of 31 December 2022, RMB143.8 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 consisted of payment of construction in progress and purchases of property and equipment, such as servers and computers, and intangible assets, such as computer software. For the year ended 31 December 2022, our total capital expenditures were RMB17.3 million, compared with RMB27.0 million for the year ended 31 December 2021. The following table sets out our expenditures for the periods indicated:

	For the year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Capital Expenditures		
– Payment of construction in progress and other long-term assets	11,185	14,353
– Purchase of property and equipment	3,940	9,542
– Purchase of intangible assets	2,198	3,069
Total	17,323	26,964

Contingent Liabilities

As of 31 December 2022, the Group did not have any material contingent liabilities, guarantees or litigation against it.

Charges on Assets

As of 31 December 2022, there were no charges on the Group's assets.

Material Acquisitions and Future Plans for Major Investment

As of 31 December 2022, the Group 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 2022, the Group had 1,050 full-time employees. The following table sets forth the number of full-time employees by function as of 31 December 2022:

	As of 31 December 2022	
	Number of Employees	% of Total
Operations	29	2.8
Operations for R&D	295	28.1
Development and research	581	55.3
Sales and marketing	82	7.8
General and administration	63	6.0
Total	1,050	100

In addition to salary, we also provide various incentives, including share-based awards, such as share options and RSUs granted pursuant to the share incentive schemes of the Company, and performance-based bonuses to better motivate our employees. As required by the PRC law, we contribute to housing funds and maintain mandatory social insurance plans for our employees, covering pension, medical, unemployment, work injury and maternity leave. We are required by the PRC law to make contributions to these social insurance plans at specified percentages of the compensation of each employee, up to a maximum amount as may be specified by the local government from time to time. Such social insurance plans include defined contribution retirement benefit plans organized by the relevant governmental authorities. Forfeited contributions by the Group to these plans may not be used by the Group to reduce the existing level of contributions. The total amount of contributions we made for employee social insurance plans for the year ended 31 December 2022 were approximately RMB74.1 million, compared with RMB69.8 million for the year ended 31 December 2021. We incurred staff costs of approximately RMB392.6 million and RMB367.1 million, for the years ended 31 December 2022 and 2021, representing 41.8% and 41.5% 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. There were no outstanding share options under the Existing Pre-IPO Share Option Scheme and outstanding RSUs under the Existing Pre-IPO RSU Scheme as of 31 December 2022. We will continue to grant RSUs to our employees to incentivize them.

Reference is made to the announcement of the Company dated 3 March 2023 (the “**Announcement**”). Unless otherwise specified, capitalised terms defined in the Announcement shall have the same meanings when used in this section. The Existing Pre-IPO RSU Scheme and the Existing Post-IPO RSU Scheme are valid and effective until 30 September 2023 and 1 October 2030 respectively, unless terminated. The Board considered that (i) the Existing Pre-IPO RSU Scheme is going to expire soon; and (ii) any amendments to the Existing Post-IPO RSU Scheme to comply with Chapter 17 of the Listing Rules will be costly

Management Discussion and Analysis

and unduly burdensome and such amendments will result in the Existing Post-IPO RSU Scheme expiring on or before 10 April 2024 under Chapter 17 of the Listing Rules. Accordingly, the Board resolved on 3 March 2023 to terminate the Existing RSU Schemes, effective upon the approval of the 2023 RSU Scheme by the Shareholders.

The Existing RSU Schemes shall remain in full force and effect to the extent necessary to give effect to the exercise of any awards granted prior to its termination or otherwise as may be required in accordance with the provisions of the Existing RSU Schemes. All awards granted prior to such termination and not vested on the date of termination shall remain valid and, upon the approval of the 2023 RSU Scheme by the Shareholders at the Company's forthcoming AGM to be held on Tuesday, 27 June 2023, such outstanding awards shall be governed by the rules of the 2023 RSU Scheme in lieu of the Existing RSU Schemes.

As at 31 December 2022, there were a total of 118,711,250 RSUs granted by the Company but not yet vested, lapsed or cancelled under the Existing Post-IPO RSU Scheme, representing approximately 4.21% of the issued share capital of the Company.

Please refer to the Announcement for further details.

Dividends

At the Company's annual general meeting held on 6 June 2022, Shareholders approved the Board-recommended special dividend of HK\$0.02 (equivalent to approximately RMB0.017) per share for the year ended 31 December 2021. The special dividend was paid to the Shareholders on 28 July 2022.

The Board is pleased to recommend the payment of a special dividend of HK\$0.015 (equivalent to approximately RMB0.013) per share for the year ended 31 December 2022 out of our share premium account, subject to the approval of the Shareholders at the forthcoming AGM. The proposed special dividend will be payable on Thursday, 20 July 2023 to the Shareholders of whose names appear on the Register of Members on Thursday, 13 July 2023.

CHANGES SINCE 31 DECEMBER 2022

There were no other significant changes in the Group's financial position or from the information disclosed under management discussion and analysis in this annual report for the year ended 31 December 2022.

Biographies of the Directors and Senior Management

DIRECTORS

Executive Directors

DAI Jian (戴堅), aged 55, 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 22 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 55, 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 22 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.

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 54, 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 22 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 57, 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 24 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 47, was appointed as our Independent Non-Executive Director on 18 March 2014.

Ms. LIU has over 19 years of experience in investment banking and corporate finance, including holding senior management positions at Phoenix New Media Limited (NYSE Stock Symbol: FENG), ChinaEdu Corp. and MainOne Information Technology Company Ltd. previously. She is currently an independent director of Luckin Coffee Inc. (OTC Symbol: LKNCY), and an independent non-executive director of XD Inc. (HKEX Stock Code: 2400) and Feiyu Technology International Company Limited (HKEX Stock Code: 1022).

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

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

WANG Qing (王慶), aged 54, was appointed as our Independent Non-Executive Director on 18 March 2014.

Dr. WANG has over 22 years of experience in investment banking and corporate finance. Dr. WANG is president and partner of Shanghai Chongyang Investment Management Co., Ltd, a privately managed fund in China. Before joining Chongyang Investment in April 2013, Dr. WANG was deputy head of the investment banking department at China International Capital Corporation (“CICC”) from June 2011 to April 2013. Dr. WANG joined CICC from Morgan Stanley, where he served as managing director and chief economist for Greater China in the research division in Hong Kong from May 2007 to June 2011. Prior to that, Dr. WANG spent 6 years, from June 1999 to October 2005, in Washington, D.C. as an economist with the International Monetary Fund.

Dr. WANG has been appointed as an independent director of China Continent Property & Casualty Insurance Co., Ltd (中國大地財產保險股份有限公司) since March 2019. In addition, he has been appointed as an independent director of Ant Bank (Hong Kong) Limited (螞蟻銀行(香港)有限公司) since May 2019. Dr. WANG has been appointed as an independent director of Bank of Taizhou Co., Ltd. since April 2022.

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

Mr. MA is the co-founder, chairman and chief executive officer of ATA Creativity Global (Stock Symbol: AACG), formerly known as ATA Inc. (Stock Symbol: ATAI), a professional services provider for testing, assessment and related services in China, and a public company listed on NASDAQ. Since July 2015, Mr. MA has been serving as the chairman of the board of directors of ATA Online (Beijing) Education Technology Co., Ltd.* (全美在線(北京)教育科技股份有限公司) whose shares were listed on the NEEQ since 21 December 2015 and were delisted since 11 October 2017.

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

SENIOR MANAGEMENT

DAI Jian (戴堅), aged 55, is our Chairman, Executive Director and Chief Executive Officer. Please refer to the section headed “— Executive Directors — DAI Jian” for his biography.

WANG Xiaodong (王曉東), aged 57, 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 47, 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 23 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 56, 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 14 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 39, 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 16 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 50, has been appointed as our Company Secretary since August 2018.

Ms. LAU is a director of the corporate services division of Tricor Services Limited, a global professional services provider specializing in integrated business, corporate and investor services. Ms. LAU has over 24 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 2022.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Group are developing and publishing mobile and PC games. Details of the principal activities of the Group are set out in note 14 to the section headed "Notes to the 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 2022.

BUSINESS REVIEW AND KEY FINANCIAL PERFORMANCE INDICATORS

A review of the business of the Group during the year ended 31 December 2022 (including particulars of important events affecting the Company that have occurred during the year ended 31 December 2022, an analysis of the Group's performance during the year ended 31 December 2022 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 2022 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\$0.015 (equivalent to approximately RMB0.013) per Share for the year ended 31 December 2022, subject to the approval of the Shareholders at the AGM to be held on Tuesday, 27 June 2023. The proposed special dividend is expected to be payable on Thursday, 20 July 2023 to the Shareholders whose names appear on the Register of Members as of Thursday, 13 July 2023.

DIVIDEND POLICY

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

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

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

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

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the upcoming AGM, the Register of Members will be closed from Wednesday, 21 June 2023 to Tuesday, 27 June 2023, both dates inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, unregistered holders of shares of the Company shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 20 June 2023. In addition, subject to the Shareholders' approval of the proposed special dividend at the AGM, the Register of Members will be closed from Tuesday, 11 July 2023 to Thursday, 13 July 2023, 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 Monday, 10 July 2023.

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 2021, unutilised proceeds from the abovementioned issuances amounted to RMB398.5 million. During the reporting period, a total of RMB0.023 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 2022, being RMB398.5 million, are intended to be applied in the manner consistent with the intended use as disclosed in the Prospectus in the coming financial year.

FINANCIAL SUMMARY

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

PROPERTY AND EQUIPMENT

Details of movements in the property and equipment of the Group during the year ended 31 December 2022 are set out in note 15 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 23 and 25 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 2022, the Company repurchased a total of 2,650,000 Shares on the Stock Exchange at an aggregate consideration (before expenses) of HK\$1,414,860. All the repurchased Shares were subsequently cancelled. Particulars of the repurchases during the year ended 31 December 2022 are as follows:

Month	Number of Shares repurchased	Purchase price per Share		Aggregate consideration (before expenses) (HK\$)
		Highest	Lowest	
		(HK\$)	(HK\$)	
July	2,650,000	0.55	0.52	1,414,860
Total	2,650,000			1,414,860

The Directors believe that the repurchases of Shares are in the best interests of the Company and its Shareholders and would lead to an enhancement of the earnings per Share. Save as disclosed above, neither the Company nor any member of the Group has purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2022.

RESERVES

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2022 are set out in note 24 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 2022, the Company had distributable reserves amounting to RMB492,629,000 (2021: RMB498,137,000).

CHARITABLE CONTRIBUTIONS

The Group had no charitable contributions during the year ended 31 December 2022.

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 2022, 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 81.8% of our total cash proceeds from these sales.

Directors' Report

The top source of cash proceeds from these sales for the year ended 31 December 2022 was our online payment channel and virtual prepaid cards and accounted for 44.3% 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 2022.

For the year ended 31 December 2022, charges from the five largest suppliers accounted for 66.6% of our cost of revenues.

The charges from the largest supplier accounted for 44.2% 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 2022.

For the year ended 31 December 2022, there was no material dispute between the Group and its suppliers and/or customers.

DIRECTORS

The Directors during the year ended 31 December 2022 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, Dr. Wang Qing and Mr. Ma Xiaofeng will retire by rotation at the forthcoming AGM and, being eligible, offer themselves for re-election.

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

CHANGES IN DIRECTORS' INFORMATION

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

Name of Director	Information
Ms. LIU Qianli	Ms. Liu has been appointed as an independent director of Luckin Coffee Inc. (OTC Symbol: LKNCY) since 20 May 2022.
Dr. WANG Qing	Dr. Wang has been appointed as an independent director of Bank of Taizhou Co., Ltd. since 27 April 2022.
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 38 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 2022.

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 2022.

DIRECTORS' EMOLUMENTS

Details of the remuneration of the Directors and those of the five highest paid individuals for the year ended 31 December 2022 are set out in note 9 and note 38 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 2022.

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 2022. 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 2022.

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 2022.

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

As at 31 December 2022, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Name	Position	Relevant company (including associated corporation)	Capacity/Nature of interest	Number of Shares/ underlying Shares held	Approximate percentage of shareholding ⁽⁹⁾
DAI Jian (戴堅) ⁽¹⁾	Chairman, Executive Director and Chief Executive Officer	The Company	Founder of a discretionary trust Interest of controlled corporation	687,944,180(L) ⁽⁶⁾	24.37%(L)
		The Company	Beneficial owner	10,000,000(L)	0.35%(L)
WU Lili (吳立立) ⁽²⁾	Executive Director	The Company	Founder of a discretionary trust Interest of controlled Corporation	365,596,180(L)	12.95%(L)
LI Chong (李冲) ⁽³⁾⁽⁴⁾	Executive Director	The Company	Founder of a discretionary trust Interest of controlled Corporation	114,816,360(L)	4.07%(L)
		The Company	Beneficial owner	15,000,000(L)	0.53%(L)
LIU Qianli (劉千里) ⁽⁵⁾	Independent Non-Executive Director	The Company	Beneficial owner	200,000(L)	0.01%(L)
WANG Qing (王慶) ⁽⁶⁾	Independent Non-Executive Director	The Company	Beneficial owner	200,000(L)	0.01%(L)
MA Xiaofeng (馬肖風) ⁽⁷⁾	Independent Non-Executive Director	The Company	Beneficial owner	200,000(L)	0.01%(L)

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., an independent third party and sole shareholder of DAE Holding Investments Limited, a trust holding company owns 100% of equity interest in Stmoritz Investment Limited. In addition, 10,000,000 RSUs were granted to Mr. DAI under the Pre-IPO RSU Scheme entitling him to receive 10,000,000 Shares and subject to vesting. As at 31 December 2022, all the RSUs granted to Mr. DAI were vested in accordance with the vesting schedule as specified under the relevant grant letter and the rules relating to the Pre-IPO RSU Scheme.
- (2) Mr. WU established WHZ Trust on 27 December 2013 for the benefit of himself and his family members, and acts as its settlor and protector. The trustee of WHZ Trust is TMF (Cayman) Ltd., an independent third party and sole shareholder of WHEZ Holding Ltd., a trust holding company owns 100% of equity interest in Bright Stream Holding Limited.
- (3) Mr. LI established The Zhen Family Trust on 27 December 2013 for the benefit of himself and his family members, and acts as its settlor and protector. The trustee of The Zhen Family Trust is TMF (Cayman) Ltd., an independent third party and sole shareholder of Golden Water Management Limited, a trust holding company owns 100% of equity interest in LNZ Holding Limited.
- (4) Mr. LI was interested in 15,000,000 RSUs granted to him under the Post-IPO RSU Scheme entitling him to receive 15,000,000 Shares subject to vesting. For details, please refer to the Company's announcements dated 12 April 2021 and 30 March 2022, the circulars dated 21 May 2021 and 27 April 2022 and the poll results announcements dated 25 June 2021 and 6 June 2022. As at 31 December 2022, 20% of the RSUs granted to Mr. LI on 12 April 2021 under the Post-IPO RSU Scheme were vested.
- (5) Ms. LIU was interested in 200,000 RSUs granted to her under the Pre-IPO RSU Scheme entitling her to receive 200,000 Shares subject to vesting. As at 31 December 2022, 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 2022, 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 2022, 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 2,822,844,000 Shares in issue as at 31 December 2022.

Save as disclosed above, as at 31 December 2022, 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 2022, the following persons have interests or short positions in the Shares or underlying Shares or debentures of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of Shareholder	Capacity/Nature of Interest	Number of Shares	Approximate percentage of shareholding in the total issued share capital of the Company ⁽⁸⁾
TMF (Cayman) Ltd. ⁽¹⁾	Trustee of trusts	1,193,824,720(L) ⁽⁷⁾	42.29%(L)
DAE Holding Investments Limited ⁽²⁾	Trust holding company	687,944,180(L)	24.37%(L)
Stmoritz Investment Limited ⁽²⁾	Registered owner	687,944,180(L)	24.37%(L)
DAI Jian(戴堅) ⁽²⁾⁽⁵⁾	Founder of a discretionary trust Interest of controlled corporation	687,944,180(L)	24.37%(L)
	Beneficial owner	10,000,000(L)	0.35%(L)
Bright Stream Holding Limited ⁽³⁾	Registered owner	365,596,180(L)	12.95%(L)
WHEZ Holding Ltd. ⁽³⁾	Trust holding company	365,596,180(L)	12.95%(L)
WU Lili(吳立立) ⁽³⁾	Founder of a discretionary trust Interest of controlled corporation	365,596,180(L)	12.95%(L)
THL H Limited ⁽⁴⁾	Registered owner	326,063,280(L)	11.55%(L)
Tencent Holdings Limited ⁽⁴⁾	Interest of controlled corporation	326,063,280(L)	11.55%(L)
The Core Trust Company Limited ⁽⁶⁾	Trustee of a trust	235,611,196(L)	8.35%(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), as at 31 December 2022, DAE Holding Investments Limited and TMF (Cayman) Ltd. are taken to be interested in 687,944,180 Shares held by Stmoritz Investment Limited (without taking into account any Shares to be issued upon exercise of any share options and/or any vesting of the RSUs under the Pre-IPO Share Option Scheme, Pre-IPO RSU Scheme and/or Post-IPO RSU Scheme) pursuant to Part XV of the SFO.
- (3) The entire share capital of Bright Stream Holding Limited is wholly-owned by WHEZ Holding Ltd. and ultimately owned by TMF (Cayman) Ltd. as the trustee of the WHZ Trust, which is a discretionary trust set up by Mr. WU on 27 December 2013 for the benefit of himself and his family members, and Mr. WU is a settlor and protector. Mr. WU (as founder of the WHZ Trust), as at 31 December 2022, 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 2022, 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 2,822,844,000 Shares in issue as at 31 December 2022.

Save as disclosed above, as at 31 December 2022, the Directors and the Chief Executive of the Company are not aware of any other person who had an interest or short position in the Shares or underlying Shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

SHARE INCENTIVE SCHEMES

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

Summaries of the terms of the Pre-IPO RSU Scheme and the Post-IPO RSU Scheme have been disclosed in the sections headed, “Statutory and General Information — Pre-IPO RSU Scheme” and “Statutory and General Information — Post-IPO RSU Scheme” in Appendix IV to the Prospectus, the annual reports of the Company of the past nine years, the circular of the Company dated 24 April 2015 and the supplementary circular of the Company dated 14 May 2015 and the circular of the Company dated 26 November 2020.

1) Pre-IPO RSU Scheme

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

Unless otherwise duly approved by the Shareholders, the total number of Shares underlying RSUs under the Pre-IPO RSU Scheme shall not exceed 188,733,600 Shares (excluding Shares underlying RSUs that have lapsed or been cancelled in accordance with this Pre-IPO RSU Scheme). There is no requirement regarding the maximum entitlement of each participant under the Pre-IPO RSU Scheme. The Board has sole discretion to determine the vesting period and vesting criteria (if any) for any grant of RSUs under the Pre-IPO RSU Scheme, which may also be adjust and re-determined by the Board from time to time. The grantee(s) shall not be required to bear or pay any price or fee for the grant of RSU under the Pre-IPO RSU Scheme. The Pre-IPO RSU Scheme is valid and effective until 30 September 2023.

No more RSUs will be granted after the Listing under the Pre-IPO RSU Scheme. As at 31 December 2022, 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 2022, IPO RSU Nominee and the Pre-IPO RSU Nominee holds 75,015,620 Shares and the New RSU Nominee hold 22,802,000 Shares respectively, underlying the RSUs granted under the Pre-IPO RSU Scheme for the benefit of eligible participants pursuant to the Pre-IPO RSU Scheme.

2) Post-IPO RSU Scheme

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

The maximum number of Shares which may be awarded under the Scheme may not exceed 2% of the issued share capital of the Company as of the date of approval of the refreshed scheme limit. The maximum number of Shares which may be awarded to any one grantee under the Post-IPO RSU Scheme may not exceed 2% of the issued share capital of the Company as of the date of approval of the refreshed scheme limit. The Board or the Remuneration Committee has the sole discretion to determine the vesting schedule and vesting criteria (if any) for any grant of RSU(s) to any grantee, which may also be adjusted and re-determined by the Board from time to time. The grantee(s) shall not be required to bear or pay any price or fee for the grant of RSU under the Post-IPO RSU Scheme. The Post-IPO RSU Scheme is valid and effective until 1 October 2030.

As at 31 December 2022, there were a total of 118,711,250 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 4.21% as at 31 December 2022. The number of Shares underlying RSUs available for grant under the Post-IPO RSU Scheme as at 31 December 2021 and 31 December 2022 are 15,343,880 and 38,813,880, respectively.

The Company appointed The Core Trust Company Limited as the trustee and Baiduo Investment Holding Limited, a company incorporated in the BVI and an independent third party, as the nominee to administer the Post-IPO RSU Scheme pursuant to its scheme rules. As at 31 December 2022, Baiduo Investment Holding Limited holds 137,793,576 Shares underlying the RSUs granted under the Post-IPO RSU Scheme for the benefit of eligible participants pursuant to the Post-IPO RSU Scheme. The number of Shares that may be issued in respect of the RSUs granted under the Post-IPO RSU scheme for the year of 2022, divided by the weighted average number of Shares for the year of 2022, is 0.63%.

Movements of the RSUs under the Post-IPO RSU Scheme during the year ended 31 December 2022

Name of Grantees	Nature	Number of Shares underlying the RSUs as		Date of grant	Vesting Schedule	Consideration (US\$)(note 11)	Vested during the year	Lapsed during the year	Number of Shares underlying the RSUs as at 31 December 2022	Approximate percentage of issued Shares of the Company ⁽⁹⁾	the exercise/ purchase price on which the RSU were exercised or vested during the year	the weighted average closing price of the shares immediately before the dates on which the RSU were exercised or vested
		at 31 December 2022	Granted during the year (note 10)									
Post-IPO RSU Scheme												
(a) Director												
Mr. LI Chong	RSUs	10,000,000	–	12 April 2021	Note 1	–	2,000,000	–	8,000,000	0.28%	HK\$0.00	HK\$0.65
	RSUs	–	5,000,000	30 March 2022	Note 2	–	–	–	5,000,000	0.18%	HK\$0.00	NA
	Sub-total	10,000,000	5,000,000			–	2,000,000	–	13,000,000	0.46%		
(b) Senior management												
Mr. WANG Xiaodong	RSUs	15,000,000	–	12 April 2021	Note 1	–	3,000,000	–	12,000,000	0.43%	HK\$0.00	HK\$0.65
	RSUs	–	10,000,000	30 March 2022	Note 2	–	–	–	10,000,000	0.35%	HK\$0.00	NA
	Sub-total	15,000,000	10,000,000			–	3,000,000	–	22,000,000	0.78%		
(c) other grantees												
35 employees	RSUs	44,000,000	–	2 April 2020	Note 3	–	19,100,000	735,000	24,165,000	0.86%	HK\$0.00	HK\$0.49
12 employees	RSUs	28,520,000	–	11 September 2020	Note 4	–	9,803,750	–	18,716,250	0.66%	HK\$0.00	HK\$0.57
39 employees	RSUs	18,900,000	–	11 June 2021	Note 5	–	3,780,000	880,000	14,240,000	0.50%	HK\$0.00	HK\$0.56
30 employees	RSUs	14,000,000	–	3 September 2021	Note 6	–	2,800,000	320,000	10,880,000	0.39%	HK\$0.00	HK\$0.65
18 employees	RSUs	–	15,300,000	12 May 2022	Note 7	–	–	1,200,000	14,100,000	0.50%	HK\$0.00	NA
4 employees	RSUs	–	1,610,000	9 December 2022	Note 8	–	–	–	1,610,000	0.06%	HK\$0.00	NA
	Sub-total	105,420,000	16,910,000			–	35,483,750	3,135,000	83,711,250	2.97%		
	Total	130,420,000	21,910,000			–	40,483,750	3,135,000	118,711,250	4.21%		

Directors' Report

Notes:

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

Further details of the Pre-IPO RSU Scheme and the Post-IPO RSU Scheme are set out in note 25 to the section headed “Notes to the Financial Statements” of this annual report and the Prospectus.

Termination of Existing RSU Schemes and Proposed Adoption of 2023 RSU Scheme

The Pre-IPO RSU Scheme and the Post-IPO RSU Scheme (collectively, the “**Existing RSU Schemes**”) are valid and effective until 30 September 2023 and 1 October 2030 (each, an “**Expiry Date**”), respectively, unless terminated. According to the terms of the Existing RSU Schemes, each may be terminated at any time prior to the respective Expiry Date by the Board provided that such termination shall not affect any subsisting rights of any grantee under that scheme, and in such event no further awards can be granted under each of the Existing RSU Schemes. The Board considered that (i) the Pre-IPO RSU Scheme is going to expire soon; and (ii) any amendments to the Post-IPO RSU Scheme to comply with Chapter 17 of the Listing Rules will be costly and unduly burdensome and such amendments will result in the Post-IPO RSU Scheme expiring on or before 10 April 2024 under Chapter 17 of the Listing Rules. Accordingly, the Board resolved on 3 March 2023 to terminate the Existing RSU Schemes, effective upon the approval of the 2023 RSU Scheme by the Shareholders at the forthcoming AGM to be held on 27 June 2023.

The Existing RSU Schemes shall remain in full force and effect to the extent necessary to give effect to the exercise of any awards granted prior to its termination or otherwise as may be required in accordance with the provisions of the Existing RSU Schemes. All awards granted prior to such termination and not vested on the date of termination shall remain valid and, upon the approval of the 2023 RSU Scheme by the Shareholders at the forthcoming AGM, such outstanding awards shall be governed by the rules of the 2023 RSU Scheme in lieu of the Existing RSU Schemes.

In view of the termination of the Existing RSU Schemes, the Board had proposed the adoption of the 2023 RSU Scheme to replace the Post-IPO RSU Scheme. The adoption of the 2023 RSU Scheme shall be subject to approval by the Shareholders at the forthcoming AGM. For details, please refer to the announcement of the Company dated 3 March 2023 and circular of the Company dated 27 April 2023.

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 2022.

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 2022 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 35 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 2022. 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 2022. 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 2022

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

During the year ended 31 December 2022, the Group entered into a number of continuing transactions with Tencent Group. A summary of such continuing transactions of the Group with Tencent Group with the respective aggregate transaction amounts during the reporting period is set out as follows:

	Amount (in RMB)
Royalty fees charged by Tencent arising from Shiwuyu agency agreement (<i>Note a</i>)	86,476,512
Royalty fees charged by Tencent arising from Aola Star Mobile cooperation agreement (<i>Note b</i>)	4,316,726
Royalty fees charged by Tencent arising from Legend of Aoqi Mobile cooperation agreement (<i>Note c</i>)	3,202,824
Provision of Tencent cloud service (<i>Note d</i>)	5,699,670
Provision of WeChat Pay service (<i>Note e</i>)	1,931,139

Notes:

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

Upon the approval by the Shareholders at the extraordinary general meeting of the Company dated 14 October 2022, the Renewed Shiwuyu Agency Agreement was further renewed by entering into a renewed exclusive agency agreement ("2022 Shiwuyu Agency Agreement") with Tencent Computer, which is for a term of one year commencing from 16 October 2022 and ending on 15 October 2023. Pursuant to the 2022 Shiwuyu Agency Agreement, (i) Guangzhou Tianti grants Tencent Computer the exclusive right to distribute and operate the mobile game "Shiwuyu" (「食物語」) as an exclusive agent in Mainland China, and Guangzhou Tianti provides the content of the mobile game and technical support of the running software; and (ii) Tencent Computer provides Guangzhou Tianti the game operating system, the server, the interface with operators and users, system maintenance and certain customer services for the distribution and operation of the mobile game "Shiwuyu" (「食物語」). The amount payable to Tencent Computer by Guangzhou Tianti will be calculated in the following manner:

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

Notes:

- (1) Gross profit received by Tencent Computer will be used as the basis of calculation for hosting of the game on Android, HTML5 and Windows Phone systems operated by the mobile game platform of Tencent, whereas net profit received by Tencent Computer will be used as the basis of calculation for hosting of the game on other systems/platforms. Such basis of calculation is similar to those of the other agency agreements pursuant to which the Group granted exclusive rights to other independent third parties to distribute and operate (i) "Shiwuyu" (「食物語」) in overseas markets; and (ii) other mobile games of the Group, such as Aobi Island: Dream Land (「奧比島：夢想國度」) and Zaowufaze II (「造物法則二：先鋒英雄」) in both the PRC and overseas markets (collectively, the "Comparable Transactions"). "Net profit" as the basis of calculation for hosting the game on the other systems takes into account of the cost payable to the third party channel providers in maintaining such channels or applications. This is different from hosting the game on Android, HTML5 and Windows Phone systems, which operates through channels or applications that are owned by Tencent Group, and gross profit is thus used as the calculation basis in such cases.
- (2) Percentage deducted is fixed based on the platform used to play the game. In particular: (i) 60% applies for hosting the game on iOS system; and (ii) 70% applies for hosting the game on Android, HTML5 and Windows Phone systems. Such revenue sharing percentages are no more favourable than those of the Comparable Transactions which range from 72% to 81%. The revenue sharing percentage for hosting the game on iOS system is lower than that on Android, HTML5 and Windows Phone systems. This is primarily attributable to the greater difficulty for Tencent Group to distribute games in the latter systems which are generally more complex in terms of the number and variety of distribution channels or applications, and thus a higher revenue sharing percentage to Tencent Group had been set to compensate such efforts.

The proposed annual cap of the 2022 Shiwuyu Agency Agreement for the period from 16 October 2022 to 15 October 2023 is RMB80,000,000. The continuing connected transaction under the 2022 Shiwuyu Agency Agreement did not exceed the disclosed annual cap as at 31 December 2022. The royalty fees charged by Tencent arising from the Renewed Shiwuyu Agency Agreement and the 2022 Shiwuyu Agency Agreement for the period from 16 October 2021 to 15 October 2022 and from 16 October 2022 to 31 December 2022 were RMB89,816,635 and RMB3,769,418, respectively. Further details of the 2022 Shiwuyu Agency Agreement are set out in the announcements of the Company dated 15 October 2021, 26 November 2021, 17 February 2022, 1 April 2022, 2 September 2022 and 14 October 2022 and the circulars of the Company dated 14 March 2022 and 23 September 2022, respectively.

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

On 23 February 2022, the Renewed Aola Star Mobile Cooperation Agreement was further renewed by entering into a renewed online game cooperation access agreement ("2022 Aola Star Mobile Cooperation Agreement") with Tencent Computer, which is for a term of one year commencing from 1 March 2022 and ending on 28 February 2023. Pursuant to the 2022 Aola Star Mobile Cooperation Agreement, Guangzhou Tianti releases and operates the mobile game "Aola Star Mobile" (「奧拉星手遊」) on Tencent's mobile game platform, Application Treasure. The amount payable to Tencent Computer by Guangzhou Tianti will be calculated in the following manner:

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

Directors' Report

Notes:

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

B = A × 75%

The proposed annual cap of the 2022 Aola Star Mobile Cooperation Agreement for the period from 1 March 2022 to 28 February 2023 is RMB10,000,000. The continuing connected transaction under the 2022 Aola Star Mobile Cooperation Agreement did not exceed the disclosed annual cap as at 31 December 2022. The royalty fees charged by Tencent arising from the Renewed Aola Star Mobile Cooperation Agreement and the 2022 Aola Star Mobile Cooperation Agreement for the period from 1 March 2021 to 28 February 2022 and from 1 March 2022 to 31 December 2022 were RMB8,000,000 and RMB3,383,252, respectively. Further details of the 2022 Aola Star Mobile Cooperation Agreement are set out in the announcements of the Company dated 9 March 2021, 1 April 2021 and 23 February 2022, respectively.

- (c) On 1 April 2021, Guangzhou Tianti and Tencent Computer (a subsidiary and hence an associate (as defined under Chapter 14A of the Listing Rules) of Tencent) entered into the continuing transaction under a mobile online game cooperation access agreement in relation to the mobile game "Legend of Aoqi Mobile" (「奧奇傳說手遊」) ("Legend of Aoqi Mobile Cooperation Agreement") in Mainland China. On 30 March 2022, Guangzhou Tianti renewed the continuing connected transaction under the Legend of Aoqi Mobile Cooperation Agreement by entering into a renewed mobile online game cooperation access agreement ("Renewed Legend of Aoqi Mobile Cooperation Agreement") with Tencent Computer, which is for a term of one year commencing from 16 February 2022 and ending on 15 February 2023. Pursuant to the Renewed Legend of Aoqi Mobile Cooperation Agreement, Guangzhou Tianti releases and operates the mobile game "Legend of Aoqi Mobile" (「奧奇傳說手遊」) on Tencent's mobile game platform, Application Treasure. The amount payable to Tencent Computer by Guangzhou Tianti will be calculated in the following manner:

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

Notes:

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

B = A × 75%

The proposed annual cap of the Renewed Legend of Aoqi Mobile Cooperation Agreement for the period from 16 February 2022 to 15 February 2023 is RMB6,000,000. The continuing connected transaction under the Renewed Legend of Aoqi Mobile Cooperation Agreement did not exceed the disclosed annual cap as at 31 December 2022. The royalty fees charged by Tencent arising from the Renewed Legend of Aoqi Mobile Cooperation Agreement and the 2022 Legend of Aoqi Mobile Cooperation Agreement for the period from 1 April 2021 to 31 March 2022 and from 16 February 2022 to 31 December 2022 were RMB9,400,000 and RMB2,725,820, respectively. Further details of the Legend of Aoqi Mobile Cooperation Agreement are set out in the announcements of the Company dated 1 April 2021 and 30 March 2022, respectively.

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

On 22 July 2022, the 2021 Tencent Cloud Service Agreement was further renewed by entering into a renewed Tencent cloud service agreement ("2022 Tencent Cloud Service Agreement"), which is for a term of one year commencing from 25 July 2022 and ending on 24 July 2023. Pursuant to the 2022 Tencent Cloud Service Agreement, Guangzhou Baitian purchases and uses certain Tencent cloud services provided by Tencent Cloud, including system services composed of various products and services such as computing and network, storage and content delivery network, cloud database, cloud security, monitoring and management, domain name service, mobile and communication, video service, big data and artificial intelligence. The service fee payable by Guangzhou Baitian to Tencent Cloud by its customers for each service provided is denominated in RMB and calculated according to the standard service charges published on the official website of Tencent Cloud (www.qcloud.com) (the "Tencent Cloud Published Rates") subject to a negotiable discount of approximately between 15% and 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 2022 Tencent Cloud Service Agreement for the period from 25 July 2022 to 24 July 2023 is RMB9,000,000. The continuing connected transaction under the 2022 Tencent Cloud Service Agreement did not exceed the disclosed annual cap as at 31 December 2022. The service fees (tax-inclusive) for the provision of Tencent cloud services arising from the 2021 Tencent Cloud Service Agreement and the 2022 Tencent Cloud Service Agreement for the period from 25 July 2021 to 24 July 2022 and from 25 July 2022 to 31 December 2022 were RMB6,200,627 and RMB2,413,074, respectively. Further details of the 2022 Tencent Cloud Service Agreement are set out in the announcements of the Company dated 21 July 2021 and 22 July 2022, respectively.

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

For the year ended 31 December 2022, (i) Guangzhou Baitian further renewed and entered into continuing connected transaction under the renewed WeChat Pay user service agreement (“**2022 Guangzhou Baitian – WeChat Pay Service Agreement**”) with Tenpay on 23 February 2022 for a term of one year commencing from 24 February 2022 to 23 February 2023; and (ii) Guangzhou Tianti further renewed and entered into continuing connected transaction under the renewed WeChat Pay user service agreement (“**2022 Guangzhou Tianti – WeChat Pay Service Agreement**”, together with the 2022 Guangzhou Baitian – WeChat Pay Service Agreement, “**2022 WeChat Pay Service Agreements**”) with Tenpay on 28 June 2022 for a term of one year commencing from 29 June 2022 to 28 June 2023, pursuant to which Tenpay provides WeChat Pay Services to Guangzhou Baitian and Guangzhou Tianti, respectively. 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 2022 WeChat Pay Service Agreements is RMB3,500,000. The continuing connected transactions under the 2022 WeChat Pay Service Agreements did not exceed the disclosed annual cap as at 31 December 2022. The service fees (tax-inclusive) of Guangzhou Baitian for the provision of WeChat Pay service arising from the Renewed Guangzhou Baitian - WeChat Pay Service Agreement and the 2022 Guangzhou Baitian - WeChat Pay Service Agreement for the period from 24 February 2021 to 23 February 2022 and from 24 February 2022 to 31 December 2022 were RMB1,550,000 and RMB1,334,957, respectively. The service fees (tax-inclusive) of Guangzhou Tianti for the provision of WeChat Pay service arising from the Renewed Guangzhou Tianti - WeChat Pay Service Agreement and the 2022 Guangzhou Tianti - WeChat Pay Service Agreement for the period from 29 June 2021 to 28 June 2022 and from 29 June 2022 to 31 December 2022 were RMB371,000 and RMB142,177, respectively. Further details of the 2022 WeChat Pay Service Agreements are set out in the announcements of the Company dated 15 December 2021, 23 February 2022 and 28 June 2022, respectively.

The transactions contemplated under the 2022 Shiwuyu Agency Agreement, the 2022 Aola Star Mobile Cooperation Agreement, the Renewed Legend of Aoji Mobile Cooperation Agreement, the 2022 Tencent Cloud Service Agreement and the 2022 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, except for the 2022 Shiwuyu Agency Agreement which was approved by the independent Shareholders on 14 October 2022. The independent non-executive Directors have reviewed the Tencent Continuing Connected Transactions with Tencent Group and confirmed that these transactions were entered into:

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

Pursuant to Rule 14A.56 of the Listing Rules, the Board engaged the Company’s external auditor, PricewaterhouseCoopers (“**PwC**”), to report on the Group’s 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 entered into, in all material respects, in accordance with the relevant agreements governing such transactions.
- (3) with respect to the aggregate amount of each of the continuing connected transactions other than those transactions with Guangzhou Baitian Group under the contractual arrangements, have exceeded the annual cap as set by the Company.
- (4) with respect of the disclosed continuing connected transactions with Guangzhou Baitian Group under the contractual arrangements, dividends or other distributions have been made by Guangzhou Baitian to the holders of the equity interests of Guangzhou Baitian which are not otherwise subsequently assigned or transferred to the Group.

Directors' Report

Contractual Arrangements

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

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 2022, the following entity was controlled by the Group through the Contractual Arrangements:

Name of the PRC Operating Entities	Kind of legal entity/place of establishment and operation	Registered owners	Business activities
As at 31 December 2022			
Guangzhou Baitian Information Technology Ltd.* (廣州百田信息科技有限公司)	Limited liability company/ the PRC	46.92% by Mr. DAI Jian 28.37% by Mr. WU Lili 12.90% by Mr. LI Chong 7.08% by Mr. CHEN Ziming 4.73% by Mr. WANG Xiaodong	Operating the virtual worlds and e-learning products of the Group

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

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

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

None of Guangzhou Tianti, Xiaoyunxiong nor Baitian Culture is a party to any of the Contractual Arrangements. For details, please see note 14 to the section headed "Notes to the Financial Statements" of this annual report.

3) Revenue and Assets subject to the Contractual Arrangements

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

	Year ended 31 December 2022 RMB'000	Year ended 31 December 2021 RMB'000
Revenue	356,664	374,106
Profit for the year	8,292	66,173

	As at 31 December 2022 RMB'000	As at 31 December 2021 RMB'000
Total assets	1,584,292	1,622,953

For the year ended 31 December 2022, the revenue and profit subject to the Contractual Arrangements amounted to approximately 38.0% (2021: 42.3%) and 80.2% (2021: 245.9%) of the revenue and profit for the year of the Group, respectively.

As at 31 December 2022, the total assets subject to the Contractual Arrangements amounted to approximately 77.0% (2021: 81.4%) of the total assets of the Group.

Directors' Report

Transactions carried out during the year ended 31 December 2022, which have been eliminated in the consolidated financial statements of the Group, are set out as follows:

- For the year ended 31 December 2022, the service fees provided by Guangzhou WFOE to Guangzhou Baitian pursuant to the Contractual Arrangements amounted to RMB4,660,194 (2021: RMB4,660,194).

4) Contractual Arrangements in place

For the year ended 31 December 2022, 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 2022, 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 2022.

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 2022.

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.

New Internet Publication Regulations

In addition, the Board noted that on 4 February 2016, as approved by the General Administration of Press and Publication (the “GAPP”), the Ministry of Industry and Information Technology issued the Regulations on Administration of Internet Publication Services (《網絡出版服務管理規定》) (the “**New Internet Publication Regulations**”) which came into force from 10 March 2016 and the Interim Regulations on Administration of Internet Publication (《互聯網出版管理暫行規定》) issued on 27 June 2002 was superseded. The New Internet Publication Regulations reiterate foreign enterprises are prohibited to invest in the Internet publications business preserved the license requirement for any company that engages in Internet publication activities which includes the publication of online games through Internet. Guangzhou Baitian, as an Internet content provider, holds a valid network cultural business permit issued by the Ministry of Culture and a valid internet publication license issued by the GAPP in relation to publication of all games currently operated by the Group through the Internet. The Group complied with the New Internet Publication Regulations in all material respects during the year ended 31 December 2022.

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

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

Directors' Report

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

As at 31 December 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, 6 February 2016 and 29 March 2022. Despite the lack of clear guidance or interpretation on the Qualification Requirements, the Group has been gradually building up its track record of overseas business operations to comply with the Qualification Requirements. Details of the extent to which the Contractual Arrangements relating to requirements other than the foreign ownership restriction are set out in section headed “Other Information — Requirements related to Contractual Arrangements (other than Relevant Foreign Ownership Restrictions)” in the 2015 Interim Report.

6) Unwinding of the Contractual Arrangements

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

Waiver from Strict Compliance with the Listing Rules

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

7) Directors' View

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

The independent non-executive Directors reviewed the Contractual Arrangements and confirmed that (i) the continuing connected transactions carried out during the year ended 31 December 2022 (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 2022, and (v) no dividends or other distributions have been made by Guangzhou Baitian to the relevant holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group.

8) Auditor's view

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

A copy of PwC's letter on the Continuing Connected Transactions of the Group for the year ended 31 December 2022 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 2020 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.

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.

Directors' Report

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 2022 are set out in note 35 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 2022.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year ended 31 December 2022, 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 2022

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 2022.

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 2022, 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 2022 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 for the year ended 31 December 2022.

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 2022, as far as the Directors are aware, the Group has complied with all relevant laws and regulations that have significant impact on the Group. For details of such laws and regulations, please refer to the section headed “Change in the Contractual Arrangements and/or Circumstances and Latest Regulatory Development in Using Contractual Arrangements” of this annual report.

Directors' Report

STAFF RELATIONSHIP AND HUMAN RESOURCES

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

WORKPLACE QUALITY

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

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

HEALTH AND SAFETY

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

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

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

REVIEW BY THE AUDIT COMMITTEE

The Audit Committee has reviewed the accounting principles and policies adopted by the Group and discussed the Group's auditing, internal controls and financial reporting matters with the management. The Audit Committee has also reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2022.

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 2022 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 2023

Corporate Governance Report

The Board of the Company is pleased to report to the Shareholders on the corporate governance of the Company for the year ended 31 December 2022 (the “**Review Period**”).

CORPORATE GOVERNANCE CULTURE

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

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

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

CORPORATE GOVERNANCE PRACTICES

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

Throughout the Review Period, the Company has applied the principles and complied with all the code provisions as set out in Part 2 of the Corporate Governance Code, save and except for code provision C.2.1 with details set out below.

Code provision C.2.1

Code provision C.2.1 of Part 2 of the Corporate Governance 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.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

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

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

BOARD OF DIRECTORS

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

The Company is headed by an effective Board which assumes responsibility for its leadership and control and be collectively responsibility for promoting the Company's success by directing and supervising the Company's affairs. Directors take decisions objectively in the best interests of the Company. The Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business and regularly reviews the contribution required from a Director to perform his responsibilities to the Company and whether the Director is spending sufficient time performing them that are commensurate with their role and the Board responsibilities. The Board includes a balanced composition of executive Directors and non-executive Directors (including independent non-executive Directors) so that there is a strong independent element on the Board, which can effectively exercise independent judgement.

Corporate Governance Report

The Board of the Company during the Review Period comprises the following Directors:

Executive Directors:

Mr. DAI Jian (*Chairman of the Board, Chief Executive Officer and Chairman of Nomination Committee*)

Mr. WU Lili (*Member of Remuneration Committee*)

Mr. LI Chong

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 is set out in the section headed “Biographies of the Directors and Senior Management” of this annual report.

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

Independent Non-executive Directors

During the Review Period, the Board at all times met the requirements of the Listing Rules 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.

Pursuant to Code Provision B.2.4(b) of Part 2 of the Corporate Governance Code, where all the independent non-executive directors of an issuer have served more than nine years on the board, the issuer should appoint a new independent non-executive director on the board at the forthcoming annual general meeting. Since all the independent non-executive Directors have served more than nine years on the Board, the Board proposed to nominate and appoint an additional independent non-executive Director. The proposed appointment of the independent non-executive Director shall be subject to the Shareholders’ approval at the forthcoming AGM to be held on 27 June 2023.

Appointment and Re-election of Directors

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

Code provision B.2.2 of Part 2 of the Corporate Governance Code stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. 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.

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

Board Independence Evaluation

Code Provision B.1.4 of Part 2 of the Corporate Governance Code stipulates that the Company should establish mechanism(s) (the “**Mechanism**”) to ensure that independent views and input are available to the Board. In connection with the Mechanism, the Company has adopted the following new or revised policies (collectively, the “**Board Independence Evaluation Policies**”) to satisfy Code Provision B.1.4 of Part 2 of the Corporate Governance Code, which took effect on 1 January 2022:-

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

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

During the Review Period, Board independence evaluations have been conducted with reference to the measures and procedures in the Mechanism and the evaluation results were satisfactory.

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.

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

Corporate Governance Report

All Directors, including independent non-executive Directors, shall bring a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

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

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his 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 Code Provision C.1.4 of Part 2 of the Corporate Governance Code with regards to continuous professional development, directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally-facilitated briefings for Directors will be arranged and reading material on relevant topics will be issued to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

Corporate Governance Report

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

Directors	Types of Training
Executive Directors	
Mr. DAI Jian	C
Mr. WU Lili	C
Mr. LI Chong	C
Mr. WANG Xiaodong (<i>resigned on 26 January 2022</i>)	C
Independent Non-Executive Directors	
Ms. LIU Qianli	B, C
Dr. WANG Qing	B, C
Mr. MA Xiaofeng	A, C

Note:

Types of Training

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

Corporate Governance Report

BOARD COMMITTEES

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

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

Audit Committee

The Company established the Audit Committee on 19 March 2014 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph D.3 of Part 2 of the 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, monitoring the integrity of the Company's financial statements and interim and annual reports, overseeing the audit process and performing other duties and responsibilities as assigned by the Board.

During the Review Period, the Audit Committee met with senior management of the Group to review interim and annual financial results and reports and other financial, internal control, corporate governance and risk management matters of the Group. It received, considered and discussed the reports and presentations of the senior management, the Group's internal audit department and external auditor, to ensure that the Group's consolidated interim and annual financial statements were prepared in accordance with International Accounting Standard (IAS) and International Financial Reporting Standards (IFRSs) respectively and comply with the applicable disclosure requirements of the Companies Ordinance and the Listing Rules, 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.

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.

Remuneration Committee

The Company established the Remuneration Committee on 19 March 2014 with written terms of reference in compliance with paragraph E.1 of Part 2 of the Corporate Governance Code. The Remuneration Committee comprises three members, namely Dr. WANG Qing (as Chairman), Mr. MA Xiaofeng and Mr. WU Lili. The primary duties of the Remuneration Committee include, but not limited to, the following (i) making recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedures for developing policy on such remuneration; (ii) determining the specific remuneration package of all directors and senior management; and (iii) reviewing and approving performance based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

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

Details of the remuneration of each Director and members of senior management by band of the Company for the year ended 31 December 2022 are set out in notes 9 and 38 to the Consolidated Financial Statements contained in this annual report.

Directors and Senior Management Remuneration Policy

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

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

Nomination Committee

The Company established the Nomination Committee on 19 March 2014 with written terms of reference in compliance with paragraph B.3 of Part 2 of the Corporate Governance Code. The Nomination Committee comprises three members namely, Mr. DAI Jian (as Chairman), Mr. MA Xiaofeng and Ms. LIU Qianli. The primary functions of the Nomination Committee include, without limitation, reviewing the structure, size and composition of the Board, reviewing the Board Diversity Policy and the Director Nomination Policy, assessing the independence of independent non-executive Directors and making recommendations to the Board on matters relating to the appointment of Directors.

Corporate Governance Report

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

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

Director Nomination Policy

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

The Company has adopted a revised Director Nomination Policy which took effective on 1 January 2022, setting out the criteria and process in the nomination and appointment of directors of the Company and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and the Board continuity and appropriate leadership at the Board level. In identifying and selecting suitable candidates to become a member of the Board, the ultimate decision will be based on, 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 process set out in the Director Nomination Policy is as follows:

Appointment of New Director

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

- (v) For any person that is nominated by a shareholder for election as a Director at the general meeting of the Company, the Nomination Committee and/or the Board should evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.
- (vi) Where appropriate, the Nomination Committee and/or the Board should make recommendation to shareholders of the Company in respect of the proposed election of Director at the general meeting.
- (vii) In the selection process of an independent non-executive Director, the Nomination Committee and/or the Board should consider factors which may affect a candidate's time commitment to the Company, including:
 - directorship at another issuer undergoing a period of particularly increased activity, such as an acquisition or a takeover;
 - chairing an issuer's board and/or board committees;
 - membership of board committees;
 - acting as chief executive officer or full-time executive director for another issuer; and
 - being an independent non-executive director for multiple boards and taking up significant commitments at government or non-profit making bodies.

Re-election of Director at General Meeting

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

Corporate Governance Report

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

Director Selection Criteria

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

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

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

Board Diversity Policy

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

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

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

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

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

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

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

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

Corporate Governance Report

Gender Diversity

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

	Female	Male
	Percentage (number)	Percentage (number)
Board	16.67% (1)	83.33% (5)
Senior Management	33.33% (2)	66.67% (4)
Other employees	40.71% (425)	59.29% (619)
Overall workforce	40.67% (427)	59.33% (623)

The Board had targeted to achieve and had achieved to have at least 10% (1) female Director, 33.33% (2) female senior management and 40.67% (427) female employees of the Group and considers that the above current gender diversity is satisfactory.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision A.2.1 of Part 2 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, the Board committee meetings and the general meetings of the Company held during the Review Period is set out in the table below:

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

Note:

1. Mr. WANG Xiaodong resigned as an executive Director with effect from 26 January 2022.

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.

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

BOARD MEETINGS

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

RISK MANAGEMENT AND INTERNAL CONTROLS

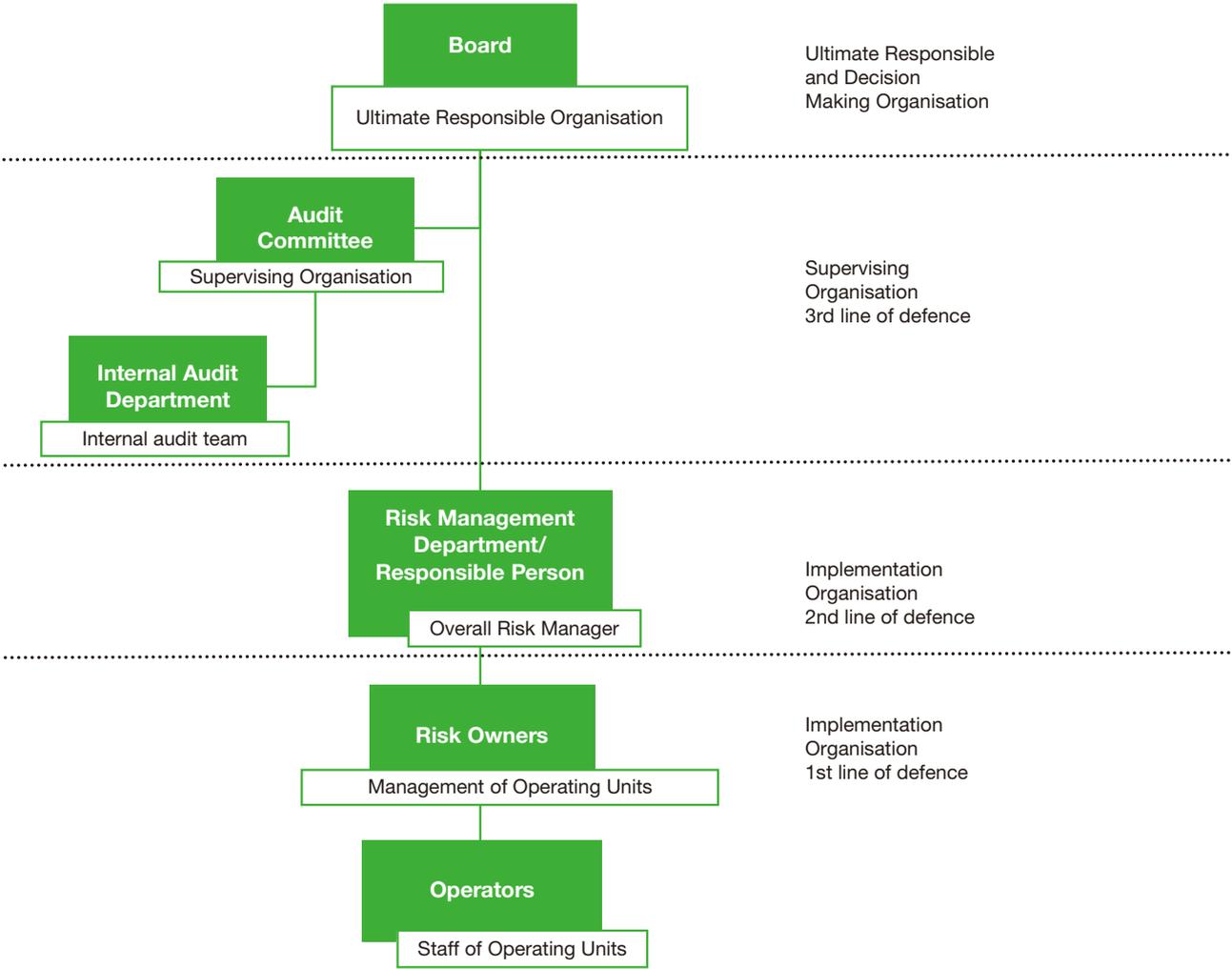
The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against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

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

The Audit Committee and the Internal Audit Department established under the supervision of the Audit Committee assist 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



Corporate Governance Report

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

Features

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

Process

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

The management has confirmed to the Board and the Audit Committee on the effectiveness of the risk management (including ESG risks) and internal control systems for the year ended 31 December 2022.

The Board, as supported by the Audit Committee as well as the management report and the internal audit findings, reviewed the risk management (including ESG risks) and internal control systems, including the financial, operational and compliance controls, for the year ended 31 December 2022, and considered that such systems are effective and adequate. The annual review also covered, among other things, the financial reporting and internal audit function, staff qualifications and experiences, adequacy of relevant resources, training programmes, budget of the Company's accounting, internal audit, financial reporting functions, as well as those relating to the Company's ESG performance and reporting.

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

Anti-Fraud, Anti-Corruption and Whistleblowing Policy

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

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

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

Disclosure of Inside Information

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

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

Corporate Governance Report

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2022.

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 D.1.1 Code of Part 2 of the Corporate Governance 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 in respect of audit services and non-audit services for the Review Period is set out below:

Service Category	Fees Paid/Payable RMB'000
Audit Services	3,858
Non-audit Services	
– Professional service on ESG reporting	136
– Others	119
Total	4,113

COMPANY SECRETARY

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

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

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

SHAREHOLDERS' RIGHTS

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

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

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

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

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

Corporate Governance Report

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

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

Putting Forward Enquiries to the Board

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

Contact Details

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

Address: (Head Office) 34 Floor, Goldchi Building, 120 Huangpu W Ave, Tianhe, Guangzhou, Guangdong,
China 510623
or
(Hong Kong Share Registrar) the office of Tricor Investor Services Limited at 17/F, Far East Finance Centre,
16 Harcourt Road, Hong Kong
(For the attention of the Company Secretary)

Fax: (852) 2117 0869

Email: Baioo@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 AGM held on 6 June 2022, the Directors (or their delegates as appropriate) are available to meet Shareholders and answer their enquires.

Shareholders' Communication Policy

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

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

(i) Corporate Communication

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

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

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

(iii) Corporate Website

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

Corporate Governance Report

(iv) Shareholders' Meetings

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

(v) Shareholders' Enquiries

Enquiries about Shareholdings

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

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

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

Address: (Head Office) 34th Floor, Goldchi Building 120 Huangpu W Ave, Tianhe Guangzhou, Guangdong China 510623; or

(Hong Kong Share Registrar) the office of Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.

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

Other Investor Relations Communication Platforms

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

CHANGE IN CONSTITUTIONAL DOCUMENTS

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

The Company proposed to amend the existing Memorandum and Articles of Association by way of adoption of the new Memorandum and Articles of Association in substitution for and to the exclusion of the existing Memorandum and Articles of Association in their entirety. The proposed amendments and the adoption of the new Memorandum and Articles of Association shall be subject to the passing of a special resolution by Shareholders at the forthcoming AGM to be held on or about 27 June 2023.

2022 Environmental, Social and Governance Report

I. ABOUT THE REPORT

1. Report summary

This report is the seventh 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 2022. 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 2022 to 31 December 2022, 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 2022 annual financial report of the Group.

3. Standards for preparing the Report

The Report is prepared in strict compliance with the “Environmental, Social and Governance Reporting Guide” (the “**ESG Reporting Guide**”) issued by The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). The last part of the Report contains detailed information about the index of the ESG Reporting Guide, which will help readers to find and retrieve relevant information more efficiently. In accordance with the four principles of materiality, quantitative, balance and consistency, the Report ensures to give a true and accurate view of information and strives to fully reflect the ESG management and achievements of the Group.

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

2022 Environmental, Social and Governance Report

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

4. Sources of the Report

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

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

1. Managing Sustainable Development

During the Year, the Group continued to focus on the three niche game genres of female-oriented games, pet battle games, and “nijigen” games and 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 controlled product quality, attached importance to customer service, and strove to create a green, comfortable and healthy network environment. By creating a positive IP image in game products, linking with intangible cultural heritage projects and traditional Chinese culture, the Group deeply integrated entertainment, culture and education, and imperceptibly transmitted positive values to users and established cultural confidence.

At the same time, the Group deeply recognizes the importance of fulfilling corporate environmental and social responsibilities. The Group attaches great importance to the health and development of employees by providing diversified welfare facilities and 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, develop and review environmental objectives and measures and strive to reduce greenhouse gas emissions and waste; we actively participate in social welfare and contribute to the sustainable development of the community.

In the future, the Group will continue to attach importance to the development and operation of various online content, continue to develop a series of creative and attractive products through the IP super-evolution strategy to display stories with humanistic feelings, output healthy and upward values, build a game culture brand that is popular with generation Z users, and strive to develop into a leading Internet content and service provider in China.

2022 Environmental, Social and Governance Report

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 ESG 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 ESG Management Committee.



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

The Group formulated and issued the Terms of Reference of the ESG Management Committee to further optimize the personnel composition, division of responsibilities and reporting procedures of the ESG 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 ESG Management Committee to coordinate and manage ESG issues in accordance with its terms of reference.

2022 Environmental, Social and Governance Report

ESG Management Committee

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

All function centers

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

2. Internal Control

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

Stakeholders	Expectation and Proposition	Communication and Response
Investors and shareholders	Business growth	Improvement in profitability
	Scientific governance	Creation of long-term earnings
	Compliance operations	Strengthened risk management and control
	Information disclosure	Regular information disclosure
Government and regulatory authorities	Promoting social employment	Participation in the regional common construction
	Compliance with national policies	Regulatory compliance in business operations
	Fulfilling tax payment obligations	Timely and proactive tax payment
	Strengthening the construction of clean governance	Cooperation in government's supervision and examination
Customers	Customers' demand	Improvement of customer communication mechanism
	Pursuit of quality	Enhancement of product and service quality
	Privacy safety	Strengthening of risk management and control
	Business integrity	Optimization of internal control system

2022 Environmental, Social and Governance Report

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

2022 Environmental, Social and Governance Report

Case Sharing: Communications with investors in 2022

During the Year, the Group held 60 communication activities for investors, and actively participated in online strategy meetings of several securities companies. Through network, video conference and other means, the Group fully showed the business trends and strategic planning of the Group to investors, and answered investors' questions, so that investors could understand the Group's business more carefully and comprehensively, and obtained the active participation and feedback of investors.

	兴证海外TMT 百奥家庭互动经营近况交流 - 2022年中期投... 兴业证券经济与金融研... 2022-07-05 15:00 22次浏览		方正传媒 百奥家庭互动 - 迎风踏浪 - 2022年秋季策略会 方正证券研究所 2022-09-08 15:30 12次浏览
	安信港股 百奥家庭互动 - 2022年中期策略会 安信证券 2022-06-29 15:30 21次浏览		银河传媒互联网 百奥家庭互动 - 2022年中期投资策略报告会 银河证券研究所 2022-07-14 14:00 46次浏览
	申万宏源互联网传媒 百奥家庭互动交流会: 《奥比岛... 申万宏源证券研究所 2022-06-24 10:00 59次浏览		信达传媒互联网 & 海外 百奥家庭互动 (2100.HK) - ... 信达证券研发中心 2022-07-13 16:00 48次浏览
	国金娱乐传媒 百奥家庭互动 - 2022年掘金夏秋·上市... 国金证券研究所 2022-06-23 16:30 85次浏览		天风传媒互联网 百奥家庭互动 - 2022年中期策略会 天风证券研究所 2022-07-08 15:00 46次浏览
	华鑫证券 百奥家庭互动近期进展交流 华鑫证券研究所 2022-06-22 15:30 119次浏览		国君传媒 百奥家庭互动更新 - 重点新游《奥比岛》手游即将... 国泰君安证券研究所 2022-07-06 15:30 48次浏览
	东北传媒互联网 百奥家庭互动 - 2022年春季策略会 东北证券研究所 2022-06-17 16:00 15次浏览		德邦传媒 百奥家庭互动 - 2022年中期上市公司交流峰会 德邦证券研究所 2022-07-06 13:30 47次浏览

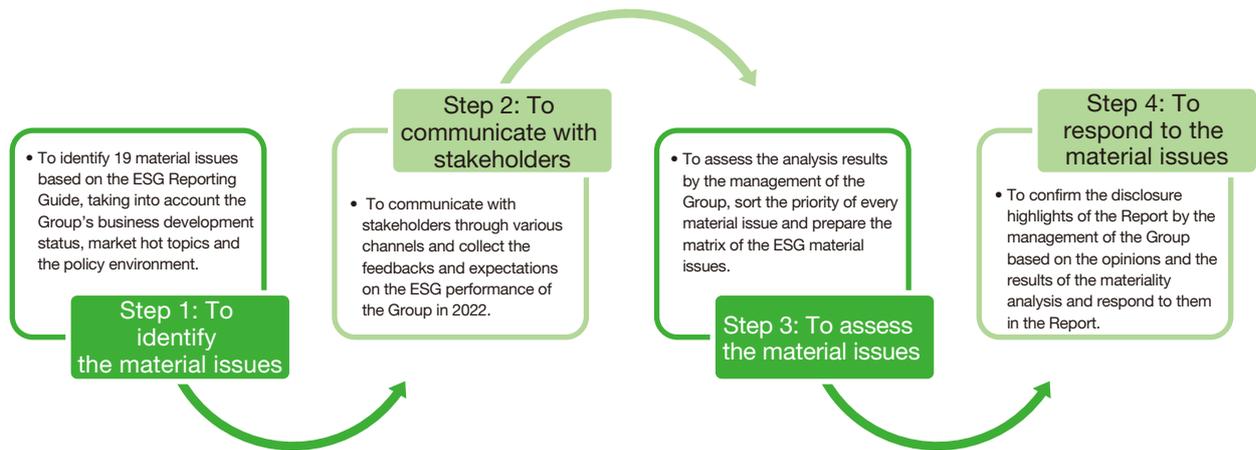
Online communications with certain investors of the Group

2022 Environmental, Social and Governance Report

2. Materiality Assessment of ESG Issues in 2022

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

In 2022, the steps of materiality assessment of the Group's issues are as follows:



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



2022 Environmental, Social and Governance Report

The ranking of the 2022 material issues indicates that the issues that are most concerned among stakeholders are still centred on the aspects including a green and healthy internet environment, users' information and privacy protection and users' needs and experience. The Group has fully respected the opinions of both internal and external stakeholders and proactively responded to the propositions of all parties concerned.

During the Year, the Group strictly abided by the relevant laws and regulations such as the Law of the People's Republic of China on Protection of Minors and the Personal Information Protection Law of the People's Republic of China, strengthened the review of the collection of personal information and the time limit of minors' games, guided users to access the Internet healthily through a series of measures such as anti-addiction measures, parental supervision projects, information content review and monitoring, and made efforts to create a green, positive and civilized network environment. At the same time, the Group strictly complied with the Cybersecurity Law of the People's Republic of China and other relevant laws and regulations, attached great importance to the protection of user information and privacy, formulated the Measures for the Administration of Filing of Network Accounts, uniformly registered and managed the Company's social network accounts, and formulated the workflow of account opening and change to ensure the orderly management of information and data security. In addition, the Group fully listened to the voice of customers, actively carried out market research, understood user needs, and improved service quality by optimizing customer service assessment indicators, strengthening performance assessment and supervision.

During the Year, the Group continued to strictly implement the Guidelines for the Legal Affairs of BAIOO, clarified the procedures and responsibilities for the application, management and infringement of intellectual property rights, and continued to improve the protection of intellectual property rights. The Group also strengthened the management of past contracts, identified potential risks such as illegal signing and abnormal performance, and effectively protected the legitimate rights and interests of the Group.

The Group fully understand that communications with stakeholders are a driver of its sustainable development. In the future, the Group will continue to improve our communication mechanism, listen to the voice of all 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 2022, the Group will take a sustained effort in the three niche game genres of female-oriented games, pet battle games, and “nijigen” games, maintain its focus on the development and operation of various online content. In addition, the Group will develop a series of creative and attractive products through strict product quality management and IP super-evolution strategy, and provide young users with different IP upgrade experiences and services while creating a green and healthy network environment, so as to build a brand of game culture that is popular among Z generation users and become a joy-making platform for the youth.

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 and other related laws and regulations. In addition, pursuant to the Personal Information Protection Law of the People’s Republic of China, the Notice on Further Strict Management to Effectively Prevent Minors from Indulging in Online Games issued by the National Press and Publication Administration and other regulations, the Group has made continuous efforts to improve its internal systems and optimize its network management mechanism of game products, and has guided users to surf the Internet healthily through a series of measures such as anti-addiction system, parent monitoring project, information content audit and monitoring for creating a green, positive and civilized network environment.

2022 Environmental, Social and Governance Report

1) Anti-addiction system for juveniles

The Group actively implemented the real-name registration system for online game user accounts, connected all the games published and operated by the Group to the “national online game anti-addiction real-name authentication system”, and set the limit on the duration of minors’ games and the amount of recharging, set the age-appropriate prompt for the game download and registration login interface, and turned off the tourist experience mode. The Group also strengthened the monitoring and maintenance of daily operations to ensure the effective operation of anti-addiction measures. The protection of minors of the Group was continuously recognized by all stakeholders. In 2022, the Group was awarded the “seedling protection” (護苗) workstation plaque by the Guangzhou Municipal Office of “Combating Pornography and Cracking Down on Illegal Practices”. At the same time, the Group participated in the development of the group standard of the “Juvenile Network Protection Management System”, developed the community of industry responsibility, promoted the majority of Internet enterprises to continuously standardize and improve the network protection of minors, refined the network protection of minors into daily management, and built a clear and healthy network growth environment for children. The Group’s anti-addiction measures for minors mainly include:

Strict implementation of the real name registration system and login requirements

- The Group strictly abides by the requirements under the Notice on Further Strict Management to Effectively Prevent Minors from Indulging in Online Games, deactivates the tourist experience mode, strictly implements the real name registration system and login requirements of online game user accounts.

Strict restriction of the time for providing online game services to minors

- The Group strictly limits the time for providing online game services to minors, and only provides services to minors from 20:00 to 21:00 every day on Friday, Saturday, Sunday and legal holidays, so as to guide the minors in allocation of after-class time in a more reasonable manner.

Regulation of paid services to minors

The Group regulates the 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 through actively implementing the policy spirit of the Leading Group of the State Council for the Protection of Minors and fully responding to the call 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, the Group will provide the account guardianship service and offer guardianship solutions, such as the login details of the persons under guardianship, suspension or termination of accounts of the persons under guardianship, provide technical support for guardians to help parents guide their minor children to surf the Internet healthily and actively to avoid internet addiction.

3) Review and monitoring of contents and information

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

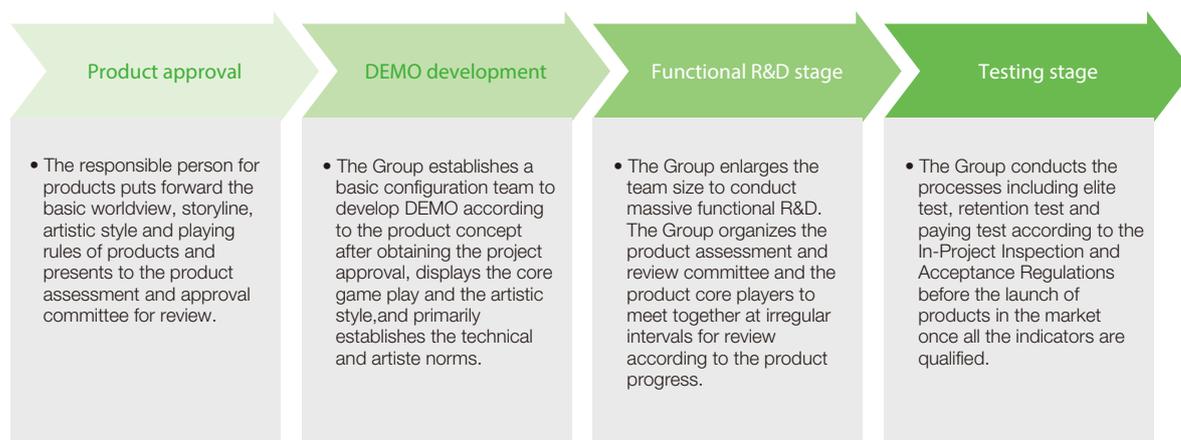
Sensitive word screening system:	The Group has developed a powerful filtering system of sensitive word and regularly updated and maintained the sensitive word library. All information published by users shall be filtered by sensitive thesaurus, and it is prohibited to publish seriously sensitive words.
Netease's shield:	The Group adopts the industry-leading network security protection system Netease's shield. Relying on Netease's rich security experience and the accumulation of artificial intelligence, the Group intelligently filters the information released by users to ensure content security, business security and mobile security.
Review by customer service:	Through the filtering system of sensitive word and the column content of Netease's shield, the game community can be accessed only after the strict review by customer service. If any violation is found, the customer service will promptly ban or freeze the account to ensure the harmony and health of the online community.
User report:	The Group provides convenient channels for users to report violations, and immediately enable them offline when they are found. For accounts with violations, customer service will quickly deal with them according to the violations.

2. Project quality management

The Group always believed that unique R&D innovation and product quality are the foundation for the sustainable development of enterprises. During the Year, the Group continued to adhere to the strict product R&D process and quality control mechanism, and product R&D management and quality acceptance requirements by optimizing the formulation of compatibility test standards, version submission test standards, R&D quality standards, and the introduction of code quality testing tools. In combination with the Group's product quality control platform and big data analysis system, the Group realized the "double improvement" of R&D quality and efficiency.

1) Product quality control mechanism

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



The Group's Product 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, the project teams cannot proceed to the next stage, so as to provide assurance of the product quality throughout its full process.

2022 Environmental, Social and Governance Report

During the Year, in order to further strengthen product quality control, the Group focused on the optimization of product R&D management and product quality acceptance, mainly including:

- In terms of product R&D management,
 - ✓ To formulate R&D quality standards such as submission completion, BUG rate, rework rate, and further quantify the assessment requirements of R&D personnel;
 - ✓ To introduce Sonar code quality monitoring tool, whose code inspection function can detect 70% of low-quality code statically, effectively improve the quality of R&D and reduce potential code risk;
 - ✓ With respect to different business modules, the R&D efficiency standards are strictly set, and the R&D tasks of functional modules are disassembled and subdivided.
- In terms of product quality acceptance,
 - ✓ To increase configuration check tools and error check links, strengthen the acceptance mode related to product configuration, and improve the quality of product configuration functions;
 - ✓ To formulate compatibility test standards and version submission test standards, and the version quality has been effectively improved.

During the Year, through the above product R&D and quality management measures, the overall product R&D quality of the Group has been improved by more than 10%, and the R&D efficiency of more than half of the functional modules has been improved by over 15%, realizing the “double improvement” of R&D quality and efficiency.

2) Product quality control platform

The product quality control is inseparable from the effective support of the underlying platform system. The Group continues to regulate the workflow through the coordination of a total 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, in order to enhance the support for the quality, R&D and operation efficiency 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, thereby carrying out more comprehensive and efficient product quality analysis and control.

3. Positive Culture Transmission

For the dissemination of the vision of “Fun Entertainment, Healthy Interaction and Joyful Companion”, the Group demonstrated humane sentiments and created positive values and launched innovative linkage products through linkage with traditional Chinese culture by sharing positive values to users imperceptibly and building cultural confidence.

1) Legend of Aoqi: to transmit the partnership and team spirit and maintain justice and ecological order

Legend of Aoqi is a pet feeding for battle game themed with alien world exploration, spirit collection and multi-spirit battle as the core. In the gameplay, in order to maintain the ecological balance of the Aoqi world, users incarnate as a spirit trainer, and take risks in the magic world of Aoqi with the spirit partners to protect the reproduction of the spirits and fight against the evil shadow army 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 experiencing justice and ecological order in a healthy way.



Promotional poster of “Legend of Aoqi”

2022 Environmental, Social and Governance Report

Case sharing: Intangible cultural heritage links with China-Chic to lead users to appreciate the charm of Cantonese opera

During the Year, the Group launched the intangible cultural heritage linked game version “Cantonese Charm” (粵韻芳華) of “Legend of Aoqi” X “China-Chic Cantonese Product” (國潮粵品), and led players to visit the Cantonese Opera House and Lantern House with lingering Cantonese Charm in the game to experience the culture of Cantonese Opera. At the same time, the Group specially invited Guangdong pop singer Huang Yu and Guangdong Opera Theater Dao Ma Dan Gong Jieying to sing the MV of the theme song “Guangdong Rhyme Book Liunian” (粵韻書流年), which is the version of the linked game, to let more users appreciate the charm of intangible cultural heritage and traditional art through the integration of Cantonese opera culture and pop music. In addition, the Group launched the intangible cultural heritage linkage program “China-Chic Cantonese Product”, the first cultural and creative variety show in the Greater Bay Area of Guangdong, Hong Kong and Macao on the Pearl River Channel of Guangdong Radio and Television Station, so that the majority of players and viewers can feel the spark collision between games and intangible cultural heritage in the program.



Promotional poster of the game version of “Legend of Aoqi” and Cantonese opera culture

2022 Environmental, Social and Governance Report

Case sharing: Innovative presentation of intangible cultural heritage art and realization of cross-dimensional crossing of colored lantern culture

During the Year, with the strong support of Guangdong Provincial Arts and Crafts Museum, the Group invited teacher Huang Hongyu, the municipal representative inheritor of the national intangible cultural heritage project “Foshan Colored Lanterns” (佛山彩燈), to carry out cultural cross-border linkage, restore and present six representative colored-lights in the “Legend of Aoqi”, so that the majority of users can experience the design aesthetics of colored lights in the game.



The “Legend of Aoqi” linked with the public welfare culture of Foshan colored lanterns

At the same time, on the Mid-Autumn Festival in 2022, the “Legend of Aoqi” invited Mr. Huang Hongyu to make a colorful lamp about 4 meters high, based on the design and production of the popular fairy named Xiao Nuo. Colored lanterns were exhibited in Guangzhou Gongmei Port Park for three months, attracting a large number of players and citizens to visit and punch in. The online and offline linkage between the “Legend of Aoqi” and the traditional Mid-Autumn Festival lanterns has realized the positive dissemination of the Group’s concept of “Fun Entertainment, Healthy Interaction and Joyful Companion”.



Popular fairy named Xiao Nuo of the “Legend of Aoqi”

2022 Environmental, Social and Governance Report

2) Aola Star: to convey the spirit of exploration and adventure and a tenacious will

As an important flagship product of the Group, Aola Star is committed to providing children with healthy and green internet services. In the gameplay, players need to collect various magic pets when exploring the vast universe and the world of stars 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 fully utilize their imagination in the virtual world and bravely explore the unknown world and 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.



“Aola Star”

Case sharing: Infinite and endless beginning for opening the prologue of the “Aola Star” Carnival

During the Year, the Group’s “Aola Star” team, in conjunction with Guangdong Lingnan Folk Arts and Crafts Research Institute, invited Li Hui, the personal disciple of the fifth generation of Yang’s Taijiquan, a national intangible cultural heritage project, to carry out cross-border linkage. Knowledge and science popularization activities are set up in the game to help players understand the history, characteristics and cultural significance of Chinese traditional culture Taijiquan. At the same time, the team launched the “Tai Chi Linkage Publicity Film”, in which Li Hui and the avatar of the role of “Aola Star”, the original and infinite, together performed Tai Chi in different corners of the mountains and cities, making the traditional culture collide with the aesthetic design concept in the game, further making the players feel the beauty of Tai Chi and deepen their understanding and love of traditional Chinese culture.



Posters and promotional films of “Aola Star” linked with Tai Chi culture

3) Shiwuyu": to inherit Chinese food and spread food culture

"Shiwuyu" is a role play game primarily designed for female that impersonates traditional Chinese cuisine. 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 new and interesting design of "Shiwuyu" integrates Chinese food culture and humanistic feelings into the products improves users' understanding and love of Chinese traditional food. During the Year, "Shiwuyu" launched "World Hidden Front•Screen Stars" (俗世藏鋒•幕映群星) and the new theme game version "Haiyan Pearl" (海晏明珠) during the third anniversary and meticulously created a series of online and offline exciting activities for users in the form of intangible cultural heritage project linkage, cooperation with different brands, and constantly forged a strong product vitality, further stimulating users' sense of identity and pride in Chinese food culture.



Promotional poster of "Shiwuyu"

Case sharing: Delicious food, enjoying at the Yu Garden, and showing local food vividly

During the Year, "Shiwuyu" together with Yu Garden Shopping Mall and Yu Garden Cultural Food Group, launched an online and offline joint activity of "Delicious Food, Enjoying at the Yu Garden", which vividly demonstrated Shanghai culture and local traditional food. In the game, players can get corresponding rewards by learning the cultural knowledge of Yu Garden to fully experience the unique cultural charm of Shanghai; People and users can enjoy the local traditional food style and flavor through several food stores, including non-time-honored brands. "Shiwuyu" empowers traditional food and culture with the cooperation of different brands.

2022 Environmental, Social and Governance Report



Activity of delicious food and enjoying at the Yu Garden of “Shiwuyu”

Case sharing: Intangible cultural heritage linkage, colorful lights, and exploration of traditional Chinese culture

During the Year, “Shiwuyu” and the national intangible cultural heritage project “Foshan Colored Lantern” jointly created the intangible cultural content of the fish-scale colored lantern. Through the innovative interpretation of cultural documentaries and games, the ancient lantern with thousands of fish-scale was enabled to emit new charm, and bring a new experience for users to explore the profound Chinese culture. Since its launch three years ago, “Shiwuyu” has recognized and carried forward many traditional Chinese culture and traditional intangible cultural heritage skills with users. From “Farewell My Concubine•Taste Beijing Opera” (霸王別姬•尋味京劇), “Lin Lang’s ingenuity, pass on from generation to generation•Protect and inherit Chinese cultural relics” (琳琅匠心·一味相傳•守護傳承中華文物), “Poems and paintings in Zhejiang•Hundreds of counties and thousands of bowls” (詩畫浙江•百縣千碗) to “Explore Yongchun” (探尋咏春), “Shiwuyu” has launched a number of game contents linked with historical and cultural and intangible cultural heritage, so that Chinese traditional culture can be passed on, flowing and shining among the new generation of young people.



“Shiwuyu” linked with fish-scale colored lantern intangible cultural heritage

4. Exchange and Cooperation and Industry Recognition

The Group always adheres to the harmonious symbiosis between enterprises and industries and eyes on the development trend of the industry, and actively participates in industry exchange activities. The Group also creates a green and civilized network ecology, spreads positive energy and promotes the healthy development of the industry.

- **Case sharing: BAIOO won the Most Influential Enterprise for 2021 in the Golden Diamond List**

In January 2022, the Group won the Most Influential Enterprise for 2021 in the Golden Diamond List. The Gold Diamond List selection event, sponsored by the Guangdong Entertainment & Game Industry Association, has been held for six times and aims to commend advanced units and excellent products in the game industry. It has been widely praised and recognized in terms of organizational scale, professionalism, impartiality and authority, and is one of the most authoritative awards in the industry. This award reflects the recognition of the Group by colleagues in the industry and all sectors of society.



Photo of the Most Influential Enterprise for 2021 in the Golden Diamond List

2022 Environmental, Social and Governance Report

- **Case sharing: “Legend of Aoqi” and “Aobi Island” of BAIIO won three awards, including the Blackstone Award**

In January 2022, Guangzhou Tianti Internet Technology Limited, a subsidiary of the Group, won the “Hard Core Annual Excellent Cooperative Company” at the 7th Hardcore Alliance Blackstone Award, and the mobile games “Aobi Island” and “Legend of Aoqi” won the “Most Anticipated Game of Hardcore Alliance of the Year” and “Hardcore Superstar Game” respectively. The Blackstone Award is hosted by the Hardcore Alliance. As an annual event in the game industry, the Blackstone Award ceremony attracts more than 100 high-quality mobile games from all over the country to participate in the competition. It is one of the most influential awards in the game industry.



Photo of the “Blackstone Award”

2022 Environmental, Social and Governance Report

- **Case sharing: “Aobi Island: Dream Land” of BAIIO won the Best Anticipated Game for 2022 at the Gold Tea Awards”**

In January 2022, the Group’s mobile game “Aobi Island: Dream Land” won the Best Anticipated Game for 2022 at the “Golden Tea Award Ceremony”. The “Golden Tea Award Ceremony” is one of the grand events of the game industry every year, with more than 900 manufacturers present at the scene. This award is the industry’s recognition of the Group’s R&D and distribution capabilities, and also represents the expectations of players and the industry for the Group to create high-quality games and provide high-quality services in the subdivided fields.



Photo of the “Gold Tea Awards”

- **Case sharing: Overseas operation experience sharing of female-oriented games**

In August 2022, the Group was invited to participate in the online live broadcast salon of “TUOLUO sailing — Overseas Operation of Female-oriented Games” held by YOUXITUOLUO.COM. YOUXITUOLUO.COM is a platform that focuses on in-depth reporting of the game industry, monitoring mobile game dynamics, and in-depth mining of industry information. The overseas distribution team of the Group shared the theme of “Love on the Blade: Discussion on Overseas Operation of Female-oriented Games” at this live broadcast salon, shared with the participants the ideas and strategies of overseas distribution and operation of female-oriented games with women’s needs as the design core, and showed the experience and practices of the Group in breaking through cultural barriers and showing the charm of the East to the world in domestic games for the industry.



Online live salon of “TUOLUO sailing — Overseas Operation of Female-oriented Games”

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 2022, the Group changed the handling of intellectual property infringement from the original mode of "led by each business department and guided by the legal affairs department" to the mode of "led by the legal affairs department and coordinated by the business departments", effectively improving the quality and efficiency of right protection. After receiving clues of material infringement and dismantling, the legal affairs department quickly understood the facts of infringement, collected evidence of infringement, communicated with various departments to determine solutions, claimed rights to the infringer in time, and handled the case with the help of various platforms, external service providers, government rights protection agencies and other forces. The effectiveness of right protection was significantly improved compared with previous years. At the same time, all online games and website pages of the Group were equipped with infringement reporting channels to encourage users and players to provide infringement clues and fully protect the legitimate rights and interests of the Group. In addition, the Group continued to improve its internal systems and processes, update the intellectual property confidentiality agreement, and increase its internal publicity on the legal and effective use of trademarks and the original design of trademarks, so that all business departments could fully understand the importance of intellectual property, and further enhance the awareness of intellectual property of all employees.

As of 31 December 2022, the Group had possessed 2 patents for invention, 618 certificates for registration of copyrights of works, 93 certificates for registration of copyrights of software, 1,021 registered mainland trademarks and 55 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 internal policies and guidelines including the "Machine Room Patrol Inspection System", the "Remote Access System", the "Cloud Management System", the "Customer Information Safety and Privacy Protection System", to continuously improve the information safety and management system and protect user information and privacy. During the Year, the Group formulated the Management Measures for the Filing of Network Accounts, which uniformly registered and managed the Company's social network accounts, and formulated the workflow of account opening and change to ensure the orderly management of information and data security.

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 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.

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.

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's sense of confidentiality so as to prevent the customer information from being maliciously stolen.

2022 Environmental, Social and Governance Report

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

- **Firewall system and online behavior control system:** Iterative update of firewall and online behavior control system versions are regularly carried out to ensure the security and anti-killing capability of the backbone network.
- **Data disaster recovery system and emergency drill:** Data validation of data disaster recovery system are regularly carried out to establish offline data backup, and ensure the availability and integrity of backup data, and conduct data recovery emergency drill and result analysis every month.
- **Security vulnerability library:** The Group realizes the automatic sorting of current security vulnerabilities, timely sorting out the security vulnerability library, and timely notify the project team to upgrade and repair components if major security vulnerabilities are found.
- **Mobile phone number authorization function:** It is clearly stipulated that the relevant SMS can be sent to the user only after being authorized and accepted by the user.
- **Improvement of the Privacy Agreement:** According to the latest regulations of relevant national departments on the privacy protection of mobile APP, the Group improves the product-related Privacy Agreement and the accuracy of information collected in the privacy agreement.
- **APP permission application detection tool:** During the Year, the Group developed its own APP permission application detection tool, which will automatically scan during mobile game operation to ensure the legitimate and compliant use of user information.

7. Listen to the Voice of Users

User feedback and complaint suggestions are crucial to the sustainable development of the Group's business. The Group has formulated internal regulations such as the Business Process and Workflow Regulation of the Customer Service Center, and optimized and updated the Customer Representative Assessment and Performance Management System during the Year, established and improved the service working mechanism, and strengthened the assessment and supervision of customer service performance. At the same time, during the Year, the Group optimized the monthly and quarterly service quality and workload and other assessment indicators to further play the long-term incentive role of the assessment mechanism and effectively improve the service quality.

2022 Environmental, Social and Governance Report

1) User satisfaction survey

The Group's customer service provides 365-day online services from 08:00 a.m. to 22:00 p.m. every day to meet customers' needs in time. During the Year, we have optimized the assessment indicators and training contents of the customer service, and adopted a series of specific measures below to improve our customer satisfaction:



2022 Environmental, Social and Governance Report

- **Case sharing: Training on “improvement of work quality” organized by the customer service center**

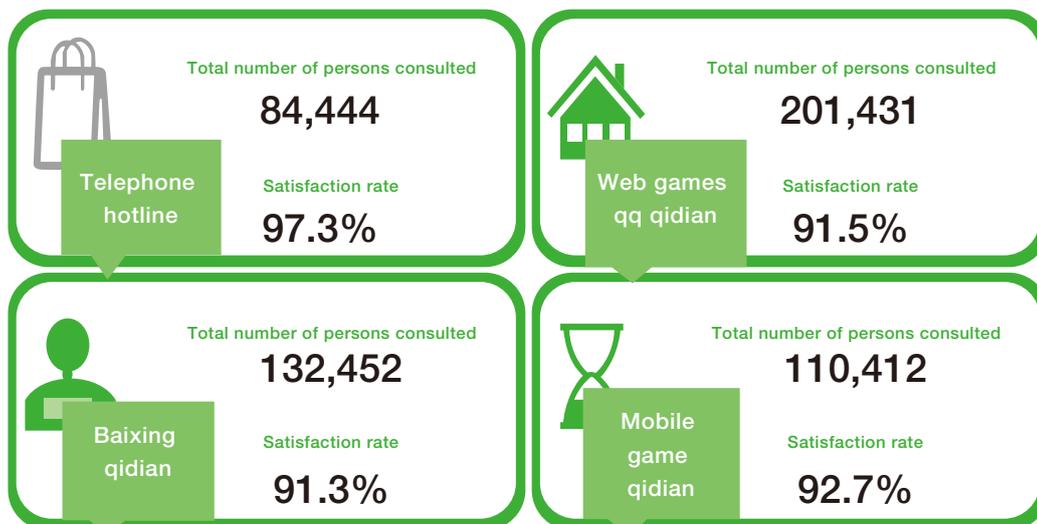
On 23 October 2022, the Group provided training on the “improvement of work quality” for customer service representatives, including case analysis, service specifications, guidelines for handling common problems, professional service scripts, etc. During the training, the customer service representatives actively participated in the interaction, shared the skills and experience of dealing with problems and communicating with customers, effectively improved the proficiency of the customer service representatives’ business knowledge and operating skills, and the overall effect of the training was good.



Training on the “improvement of work quality”

2) User satisfaction survey

The Group attaches great importance to users’ feedback and suggestions. In 2022, the Group’s customer service center continued to conduct user satisfaction survey through four channels, namely, telephone hotline, web games qq qidian, baixing qidian, mobile game qidian. The results of the satisfaction survey slightly higher over those in last year, with the details are as follows:



3) Handling of users' complaints

Users can comment on and make a complaint about the services of the customer service by ways of the telephone hotline, email, the in-community user feedback platform, fax, post 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 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 7,690 complaints, and the customer complaint resolving rate reached 100%.

4) 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

- 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.

- **Case sharing: Survey on customer demand of the mobile game "Aobi Island: Dream Land"**

During the Year, the Group's mobile game "Aobi Island: Dream Land" carried out user demand research in the form of questionnaires for many times, with the frequency of two to four times a month, and collected more than 500 survey opinions. The Group carried out statistical analysis of the survey results and outputs the survey report, prioritized the project according to the number of feedback and the feasibility, optimized the project in a timely manner, and finally regularly informed the solution through official channels such as microblog to fully respond to user needs.

V. EMPLOYMENT MANAGEMENT

Talents are the valuable assets 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 for achieving a win-win situation on 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 fair, justice and indiscriminate, and continues to optimize the management measures regarding recruitment, performance assessment, remuneration and benefits, etc., so as to prompt the joint development of the staff and the Group.

1) Staff Recruitment Management

The Group continues to implement internal policies including the Employee Handbook and the Administration Measures on Recruitment to standardize the employee recruitment process and improve the talent selection mechanism. The Group adheres to the principles of open recruitment, fair competition, recruitment on merits, staffing management, so as to ensure that recruitment operations are not affected by factors such as nationality, ethnicity, marital status, age, gender and religious belief.

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. During the Year, campus recruitment project is divided into seven links: online application and delivery of resume, air briefing, online written examination, video interview, offer distribution, tripartite agreement signing and induction arrangement. Through the air briefing, students can fully understand the group environment and feel the innovative, passionate, active and open corporate culture of the Group.

2022 Environmental, Social and Governance Report

As of 31 December 2022, the Group had a total of 1,077 employees.

	Type of employees	Number of employees in 2022
By gender	Male	631
	Female	446
By type	Full-time	1,050
	Internship	27
By age group	Under 30	678
	30–50	392
	Above 50	7
By geographical region	Mainland China	1076
	Overseas regions and Hong Kong, Macao and Taiwan	1
Total		1,077

During the Year, the turnover rate of male employees of the Group was 28.21% and that of female employees was 37.67%. The turnover rate of employees under 30 was 39.82%, the turnover rate of employees aged 30–50 was 19.13%, and the turnover rate of employees over the age of 50 was 14.29%; the turnover rate of employees in Mainland China was 32.16%, and there are no staff turnover in overseas and Hong Kong, Macao and Taiwan.

- **Case sharing: BAI00's 2023 on-campus recruitment events**

On 24 July 2022, the Group officially launched the 2023 campus recruitment project to recruit a number of talents focusing on technology development, game planning, game art and audio design. This campus recruitment project will invite guests to introduce the company profile, core products, job responsibilities and school recruitment process in the form of online live air briefing, so that students can more clearly understand the latest project situation, salary and benefits and recruitment positions of the Group. The live broadcast of the online briefing was synchronized to Bilibili, and the cumulative broadcast volume exceeded 6,000 person-times.



BAI00 2023 Autumn Recruitment Online Conference

2022 Environmental, Social and Governance Report

2) Remuneration and Benefits and Performance Assessment

The Group has formulated and consistently implemented the “BAIOO’s Staff Remuneration Management System” and has established a multi-layer remuneration system of “fixed salary + floating wage + 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.

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. In addition, during the Year, the Group set up a full attendance bonus to improve employees’ enthusiasm for work, issued a full attendance bonus to employees who met the conditions for full attendance on all working days of the whole month, and imposed a certain penalty on employees who were late for more than 90 minutes.

3) Younger Teams and Orderly Management

The Group comprises of younger teams with a relaxed and open atmosphere. At the same time, the Group leads a harmonious development by establishing and carrying forward a corporate culture of “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 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》)**

In 2015, the Group founded a bimonthly publication “BAIOO@YOU”, which is the largest internal media of Baioo. Since its publication 7 years ago, BAIOO@YOU has shouldered the dual mission of internal cultural communication and external brand building. It adheres to the original intention of being employee-oriented and voicing for employees, and uses the most fashionable and friendly way to convey the dynamics of the Group, express the voice of the Group and show the expectations of employees. As of December 2022, BAIOO@YOU has published 56 issues of journals, actively spreading BAIOO’s corporate culture, fully displaying BAIOO’s cultural style, and has become an important bridge and link between the Group and its employees.



The covers (in part) of “BAIOO@YOU” Journals in 2022

2022 Environmental, Social and Governance Report

4) Talent Reassessment

In order to further understand the Group's human resources and carry out future planning in a more clearly and efficient manner, the Group had conducted an annual talent reassessment from the following 4 aspects in the second and third quarter of 2022 to explore high potential talents at all levels and to promote the realization of the Group's values and objectives.

Target Assignment	Talent Reassessment	Comparative Analysis	Conclusion Output
<ul style="list-style-type: none">clarify and allocate the annual targets to departments and studios, and analyze and evaluate the convergence between departmental targets and the Group's annual targets.	<ul style="list-style-type: none">Evaluate and analyze the integrity and health of the talent team for timely adjustments, including the establishment, incumbency and the successor reserve of key positions etc.	<ul style="list-style-type: none">Compare and analyze the data from departments and studios of previous years and this year for talent reassessment report.	<ul style="list-style-type: none">Summarize the results of talent reassessment for future talent development strategy and personnel promotion and training.

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 implemented and improved relevant measures to ensure the health and safety of employees, and helped employees embrace a good mentality through a series of measures such as pandemic prevention support, occupational disease protection, female employee care, employee activities and fire drills, and was committing to create a healthy, safe, comfortable and free work environment for the staff to improve work happiness. In the past three years including the reporting year, there was no work-related fatalities occurrence. In the reporting period, there was zero lost day due to work injury.

1) Combat against the COVID-19

The Group pays attention to the impact of the COVID-19 on its employees and daily operations, and actively takes measures to ensure the health and life safety of employees. In 2022, in the context of the COVID-19, the Group implemented the following measures to ensure the health of employees and the continuity of business operations:

- The Group pushed 50 pandemic prevention related notices or management measures through various channels, reminded employees on personal protection, and cooperated with the government to carry out nucleic acid detection for all employees;
- The Group organized 24 on-site nucleic acid testing in the office, and reimbursed the nucleic acid testing expenses for the employees with needs;

2022 Environmental, Social and Governance Report

- Food preparation and washing area for employees temporarily were sealed in the Company headquarters due to the pandemic;
- The Group sent materials to isolate employees, and office computers and other supplies to employees who work at home.



*Prepare food for employees affected by temporary closure,
and send office computers for home office employees*

- ***Case sharing: Distribution of anti-pandemic materials to build a warm heart barrier***

In December 2022, due to the adjustment of the national COVID-19 prevention and control policy, the number of social infection cases increased, and the Group's employees began to experience fever, fatigue and other symptoms. In order to quickly respond to the sudden changes in the pandemic situation, the Group quickly arranged personnel strength and financial support to purchase antigen detection boxes, antipyretic drugs, thermometers and disinfection alcohol from multiple channels, and distributed relevant anti-pandemic supplies to each employee to reduce the risk of infection, build a warm heart barrier for the health of employees, and fully guarantee the work and life safety of employees.

2) Occupational Disease Prevention and Fitness Facilities

Our businesses do not involve any occupational hazards of high dangerousness or risks, but AED emergency equipment for cardiopulmonary resuscitation is installed in the office to cope with emergencies. 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. The Group also provided employees with annual physical examination and additional commercial insurance.

2022 Environmental, Social and Governance Report

In addition, the Group provided a variety of welfare facilities to meet the physical and mental health needs of employees, including the purchase of multi-functional massage chairs and the setting of exclusive preferential prices, which can be used by employees after work to alleviate muscle strain. We have also hired external teachers to provide various courses such as yoga, fitness training, and kickboxing at free gyms and yoga rooms at each weeknight. We encourage employees to actively participate in physical exercise and balance physical and mental health after work by building a cat room, a library and a manual cabinet to alleviate the psychological pressure of employees and stimulate creative inspiration.



“Lulala cat house” and manual cabinet of the Group

The Group has built spacious, bright, exquisite restaurants and café to provide the staff with catering service and has taken rigorous food safety measures with allergy warning labels used in the restaurants. During the Year, the Group optimized and upgraded the management of the staff restaurant, and launched the “online order + call for meal” mode. After placing an order online, the staff can directly go to the food counter to pick up the meal, reducing the queuing time and improving the staff’s dining experience; At the same time, we further expanded the variety of dishes, continued to introduce special meals and limited meals for festivals and seasons, and improved the “happiness on the tongue” of employees. In addition, the Group optimized the feedback mechanism of restaurant suggestions, and launched the “restaurant suggestion box” function, the “online star evaluation of dishes” function and the online complaint channel on the enterprise’s WeChat mobile terminal. Employees can submit complaints and claims for wrong or problem dishes, and the supplier will communicate and follow up with them.



Dining counter and special food in the canteen

- **Case sharing: “National Tooth Day” special oral health activity**

During the “National Teeth Day” on 20 September 2022, the Group cooperated with third-party organizations to provide special oral health activities for employees. During the activity, the specialist carried out a comprehensive dental examination and answer questions for the staff, and put forward professional solutions after the examination, in order to popularize the knowledge of tooth care to the staff, and enhance the staff’s oral health concept and self-oral health knowledge.



Site of special oral health activities

2022 Environmental, Social and Governance Report

3) Care for Females

The Group attaches importance to the special needs of female employees, provides facilities and benefits for female employees such as convenient washrooms, nursery rooms, “channel for mothers-to-be”, so as to facilitate female employees to improve their adaptability and tolerance to the work environment, supports all female employees to show their outstanding charm with excellent work performance, enhances their sense of belonging, improves the temperature of the enterprise, and promotes the healthy and long-term development of the enterprise.

Convenient toilets and Physiological Care

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

Nursery

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

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

- 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.



“Channel for Mothers-to-be” in restaurants and nursery of the Group

2022 Environmental, Social and Governance Report

4) Staff Activities and Humanistic Care

The Group is an advocate of work-life balance and hold various leisure festival activities for the employees regularly through our established trade union committee. In 2022, we organized and held various staff activities, such as clubs for employees, holding activities on the Goddess Festival, online annual meeting, Dragon Boat Festival, Mid-Autumn Festival and programmer's day, so that they can continuously stimulate their potential, build a more cohesive and energetic team, and strive for mutual development of the Group and employees together while promoting employees to relieve their work pressure.

- **Case sharing: Warm Mother's Day, caring for female employees**

During Mother's Day on 8 May 2022, the Group sent greeting cards and holiday gifts to female employees who have become mothers with the theme of "love in all round". This activity carried forward the traditional virtue of loving mother and filial piety, created a harmonious working atmosphere of "thanksgiving for maternal love and advocating virtue", so that the busy "BAIOO mothers" can feel the greetings and concerns from the Group, turning warmth into work motivation, and put into work with a fuller spirit and a more positive attitude.



2022 Mother's Day activities

2022 Environmental, Social and Governance Report

- **Case sharing: Activities and gift boxes on the Dragon Boat Festival and Mid-Autumn Festival**

During the Dragon Boat Festival on 3 June 2022, the Group prepared the Dragon Boat Festival special gift box for all employees, and organized employees to participate in making traditional Chinese rice-pudding, so that employees can experience the meaning of traditional festivals in the thick aroma of traditional Chinese rice-pudding, and inherit traditional Chinese festivals.



Special gift box and staff activities on the Dragon Boat Festival of 2022

During the Mid-Autumn Festival on 10 September 2022, the Group prepared a special Mid-Autumn customized gift box for all employees to send holiday blessings to employees, which is named “Happy Moon Unlimited”, which means that every employee can feel endless beauty and joy in the gift box.



Customized gift box and staff activities on the Mid-Autumn Festival of 2022

2022 Environmental, Social and Governance Report

- **Case sharing: Coffee experience class**

In July 2022, the Group organized a new coffee experience class for employees to better understand the coffee related knowledge, experience the coffee drink production process and unlock the new experience of summer fun.



Experiment of the process of making coffee

- **Case sharing: Programmer's day**

During the Programmer's day on 24 October 2022, the Group invited hundreds of programmers and give them a heartfelt gift. It also organized and carried out a variety of breakthrough games and interesting raffle, so that programmers can exercise their body and brain while improving their sense of happiness at work.



2022 Programmer's day

2022 Environmental, Social and Governance Report

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.

On 17 June 2022, the Group organized employees to participate in the fire drill, so that employees can learn the basic knowledge of fire-fighting and escape skills, and be familiar with the use of fire-fighting equipment, which effectively enhanced the emergency response and protection ability of employees in emergencies.



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 and motivation of staff members.

2022 Environmental, Social and Governance Report

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" to make customized training programs for employees at different career stages and functions, and developed a diversified training system covering new employee training programs, management post training programs, professional skills training programs and online learning platforms to continuously provide value-added opportunities for employees. The human resources department of the Group is responsible for coordinating the preparation of monthly and annual training plans, training courses and training materials of each department, and understanding the training of each department. In addition, the Group has developed an in-service education promotion system to encourage employees to share excellent learning resources and enhance their self-development ability through independent learning. Employees can apply to the Group for financial subsidies, participate in external courses, industry forums and apply for professional qualifications related to their own job development, and continue to stimulate employees' enthusiasm for continuous learning and self-improvement.

Training program for new staff

- Training program for new staff is oriented to social recruitment and on-campus recruitment
- Social recruitment training involves basic personnel processes, basic introduction to new staff of the Company (online) and other courses
- On-campus recruitment is for a term of one year, consisting of intensive training teaching, outdoor development of training program, group creativity competition, one-to-one mentoring and teaching, and a three-month professional course
- This program helps new staff to fast join in the team and have a specific personal development direction

Management position training program

- During the Year, management position training program are mainly divided into two categories: system and workflow training and management knowledge and skills training
- system and workflow training is mainly carried out for newly promoted management positions, explaining the functional system and office process; management knowledge and skills training is oriented to key management positions or reserve management positions, and is carried out by external suppliers
- This program helps relevant positions fast learn and master management ability

Professional skill training program

- Professional skill training programs are divided into two categories: in-house and external trainers
- The content covers five categories: distribution, product, technology, art and function, and is open to all staff of the Group
- External trainers are regularly invited to conduct skills training, with this training year focusing on distribution data analysis, buying traffic analysis and technical front-end development; The in-house trainer program runs twice a week
- This program has effectively improved the professional competence and the working efficiency of the staff

Online learning platform

- BAIOO Online learning platform "Wiki" is dedicated to sharing valuable training documents and audio materials to our staff
- More than 800 training and learning resources are now available, with unlimited access to all training courses for all staff and quarterly promotion of updated training and learning resources
- This learning platform meets the learning needs of staff to gain new knowledge by reviewing and consolidating the original knowledge structure, and improves learning efficiency

BAIOO Diversified Training System

• **Case sharing: training program for BAIOO management position in 2022**

During the Year, the Group carried out a management post training project, including trainings on system process training as well as management knowledge and skills. The training objects include new management posts, key management posts and reserve management posts. The project is conducted in the form of online self-study and offline unified training, supplemented by homework, examination and other assessments. The project curriculum covers the process system, leadership principles, management tasks, leadership relationships, and guidance performance of each functional department, and includes case study and analysis, solution discussion, etc. The training on management knowledge and skills is carried out by external suppliers hired by the Group for 5 months, including 9 courses such as professional management knowledge lectures and industry case studies. The management post training project helps the trainees to be familiar with the management process system in the work, deeply understand the role of the management post, improve the basic management skills, and better solve the management problems in the actual work.

2022 Environmental, Social and Governance Report



Site of training program for management position in 2022

- **Case sharing: 2022 on-campus training program for fresh graduates**

This year, the Group carried out a training program for fresh graduates. The training consists of intensive training (teaching + outdoor quality development + creative contest), tutor guidance and professional offline courses and other parts. The intensive training course invited senior executives of the Company, business leaders, senior students for on-campus training program, and HR representatives to share. Focusing on the training content of the Internet game industry overview, company introduction, studio introduction, BAIIO's growth experience, career development path, DISC workplace communication skills, a total of 57 courses covering distribution, products, technology, art and other positions were set up. Through the training program, the school recruits can quickly understand the Company's business and the current situation of the Internet game industry, and improve their ability in target management, resource control, risk management, solidarity and cooperation. The training project was highly recognized by the trainees and instructors, with an average satisfaction of 99%.



2022 on-campus training program for fresh graduates

2022 Environmental, Social and Governance Report

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 assessment. The internal trainer system serves as an important mechanism for the exchange of experience and technology among employees within the Group, and also a vital platform for employees to show themselves and discover the “other aspect”. The Group provides support for internal trainers and regularly provides training courses for internal trainers, such as courseware development and teaching skills, to improve the teaching ability of internal trainers.

In 2022, the Group improved the remuneration of trainers, optimized the rating criteria of instructors, divided them into junior, intermediate and senior instructors based on the three criteria of teaching hours, course satisfaction and number of participants, increased the incentive level of trainers, and continued to give full play to the vitality and potential of the internal trainer mechanism. At present, the Group’s internal trainer team has reached 78.

In 2022, the Group conducted 3,338.25-hour trainings for a total of 542 trainees.

	2022	Percentage of the trained employees	Per capita training hours
By gender	Male	64.94%	3.94
	Female	35.06%	1.92
By position rank	Middle and senior management	1.29%	1.11
	First-line management	11.07%	5.47
	General staff	87.64%	2.86

During this year, the Group continued to actively organize managers and staff to participate in external on-the-job education and training to further broaden their work horizons and enhance their professional skills and management capabilities. This year, the Group has invested a total of RMB406,600 in external on-the-job education and training.

2022 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 providing employees with the opportunity to speak freely, establishing diversified communication and complaint channels, and protects the immediate interests of the staff.

1) Staff Satisfaction and Complaints

The Group attaches importance to the voice and suggestions from employees, establishes the following channels to timely understand the opinions and feedback of employees, and actively follow up and implement them:

- 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 to improve efficiency;
- To conduct face-to-face interviews at the critical stages of work career 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. It is strictly prohibited to employ child labor. Any child worker who is discovered to be mistakenly employed will be immediately removed from the workplace and sent to a hospital for a medical examination. The child worker will be escorted to a guardian where possible. The Group will also report the case to the local labour administration department as required by the regulations. If it is found that the management personnel intentionally assist the applicants to conceal their true identity and age and use false identity certificates to enter the Company, the Company will seriously deal with it according to the system; 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 OPERATIONS AND ANTI-CORRUPTION

The Group adheres to legal and compliant operation, continues to improve the anti-corruption mechanism, urges all employees to abide by laws and disciplines, and works with integrity, strengthens the standardized management and operation of the Company, creates an honest and trustworthy, clean and upright business environment, and ensures the stable development of the Company in terms of compliance management.

1. Compliance in Operations

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

- **Case sharing: Strengthened contract management and sound implementation of legal affairs**

During the Year, the Group continued to strengthen contract management and legal affairs, and effectively support the legal compliance of the Group's business. Led by the legal affairs department, the Group has reorganized all contracts since November 2015, strengthened the management of past contracts to identify potential risks such as illegal signing and abnormal performance, and provided a reference for subsequent contract signing, performance requirements, and cooperation progress. At the same time, the Contract Business Conditions List is prepared for different business types to effectively standardize business terms and improve the efficiency of contract review. In addition, the Group's legal affairs department continued to improve various business contract templates, contract review workflow, user agreements and privacy agreements, strengthen intellectual property management, and optimize various legal processes.

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. During the Year, the Group optimized and updated the internal systems such as the Anti-Fraud, Anti-Corruption and Report Management System to clarify the specific requirements of anti-corruption, anti-bribery and anti-money laundering work in prevention, control and feedback. The Group has established sound internal control measures and resolutely opposed any form of corruption, extortion, bribery, money laundering, unfair competition and other illegal acts. At the same time, the Group has set up e-mail, reporting telephone, anonymous mail and other channels to receive

2022 Environmental, Social and Governance Report

reporting information and publicize it on the internal and external networks; For the reported information received, the Group has formulated clear handling procedures, reward and punishment plans and remedial measures, strictly standardized the operation of internal rights of the company, and zero tolerance for corruption.

During the Year, the Group specified the whistleblower protection mechanism, and those who divulge the whistleblower's information, retaliate against the whistleblower, or make false or malicious accusations against the whistleblower will be considered as serious violations of the company's rules and regulations, and will be dismissed and terminated from the labor contract; Those who violate the law shall be transferred to the judicial organ for handling according to law. In addition, the party branch of the Group regularly organizes special lectures on anti-corruption training for all employees (including the directors of the Group), issues practical guidelines on anti-corruption, provides assistance to employees, and strengthens the awareness of integrity and professional integrity of all employees.

During the Year, the Group organized a total of 1,076 directors and employees to participate in anti-corruption related training for a total of 540 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 departments***

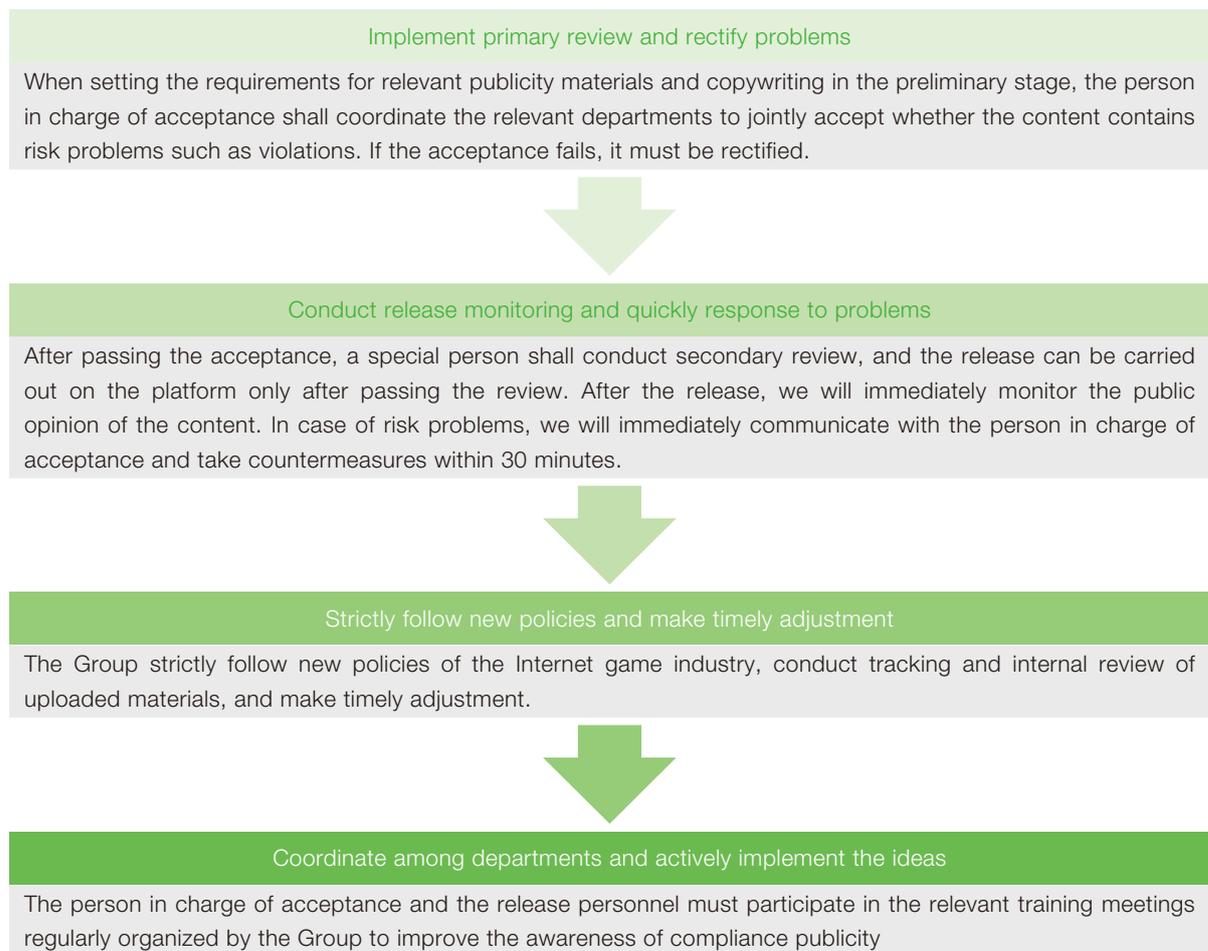
In December 2022, the Group carried out anti-corruption training for all directors and employees, introduced the practical guidelines of listed companies' anti-corruption system, the ESG Guidelines of the Stock Exchange and relevant anti-corruption guidelines to employees, covering the anti-corruption system and policies, the identification and evaluation of corruption risks, and the anti-corruption monitoring measures, and continuously strengthened employees' anti-corruption awareness and strictly complied with the provisions of the Prevention of Bribery Ordinance.



Anti-corruption training site

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:



At the same time, the Group has formulated and implemented the Administrative Measures for Filing Online Accounts to uniformly register and manage the official online accounts of companies that publish information to the outside world, such as websites, official account, online stores and Tiktok, and to clarify the procedures for account opening, administrator changes and other matters, and regulate the use of accounts.

2022 Environmental, Social and Governance Report

In addition, the legal affairs department of the Group will inspect the content released by each account irregularly, and delete the bad content in time if found. The Group also strengthens the review of text, pictures, receiving authorization and other aspects of external advertising messages, continues to improve the construction of content review mechanism, and ensures the legal compliance of personal information protection and online and offline advertising activities.

VII. GIVING BACK TO THE SOCIETY

Upholding the concept of sharing development achievements, the Group actively fulfilled its social responsibilities, and continued to transmit warmth and promote the construction of a harmonious society by carrying out public welfare activities such as caring for the elderly, planting trees for public welfare, and offering love to children. During the Year, the Group has established the “BAIOO Public Welfare” and organized 5 social welfare activities with 237 volunteers participated, which benefited a total of 787 people and donated RMB156,529.33.

Case sharing: “Send blessings in the Spring Festival” activity

On 21 January 2022, a total of 12 volunteers and members of the party branch of the “BAIOO Public Welfare” went to Suzhuang Community, Xinghua Street, Tianhe District, Guangzhou to carry out the activity of “Send blessings in the Spring Festival”, visit the elderly in the community who are inconvenient to travel, write blessings with the elderly, make flowers for immortality, paste blessings and couplets for the courtyard where the elderly live, and send living materials and New Year gift packages, enabling the elderly have a warming Spring Festival.



Site of “Send blessings in the Spring Festival” activity

2022 Environmental, Social and Governance Report

Case sharing: Public welfare tree planting activity with the theme of “travel towards spring, plant for green”

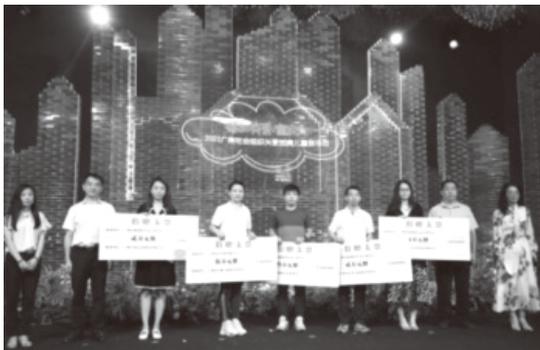
During the Arbor Day on 12 March 2022, the volunteers of the “BAIOO Public Welfare” and the party members of the party branch went to Guangzhou Nansha Wetland Park to carry out the public welfare tree planting activity with the theme of “travel towards spring, plant for green”. Volunteers and members of the party branch worked together to inject green and plant hope in Nansha Wetland to make the sky bluer, the mountains greener, the water clearer and the ecological environment better, and practice the concept of “lucid waters and lush mountains are invaluable assets” with practical actions.



Site of tree planting activity

Case sharing: Dedication of love to children in distress

During the International Children’s Day on 1 June 2022, the “BAIOO Public Welfare” donated RMB20,000 to the Care Center for Children in Distress of the Guangzhou Federation of Social Organizations (廣州市社會組織聯合會困境兒童關愛中心), and received a certificate of gratitude. The donation is used to purchase micro-wishful gifts to help 40 children in difficulties in all districts of Guangzhou to realize their small wishes, send festival blessings to children in difficulties, and improve the home learning environment.



Donation activity site and certificate of gratitude

2022 Environmental, Social and Governance Report

Case sharing: “99 Public Welfare Day” activity

On 9 September 2022, the “BAIOO Public Welfare” actively participated in the “99 Public Welfare Day” activity, and donated RMB100,000 to Xiyong Primary School in Yangjiao Town, Maoming City and Dapo Primary School in Nawu Town, Huazhou City to purchase kitchen appliances and equipment, built the “Happy Kitchen” in rural schools, and donated RMB20,000 as the financial aid for 20 special poor students in these two primary schools. As such, the Group has received many letters of gratitude from the school and students. During the Year, the “Happy Kitchen” donated by the Group has been put into use. Students can have a steaming lunch in a bright, clean and sanitary canteen, providing a small contribution to their healthy growth.



“Happy Kitchen” and gratitude letter

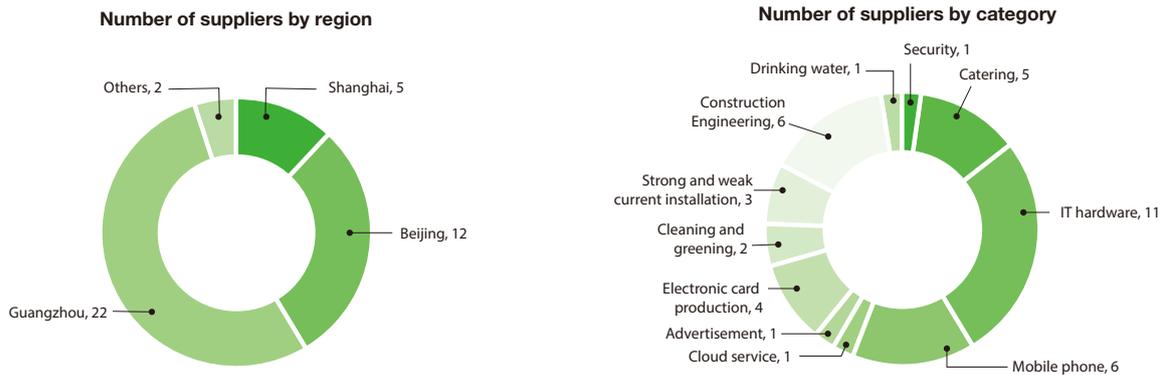
At the same time, 205 employees of the Group participated in the “Donate Together” project on the “99 Public Welfare Day”, and donated RMB14,574.6 of grants to students from poor families in Guangdong. This donation fully reflects the social responsibility of the Group and its employees, and appeals to more caring people from all walks of life to pay attention to public welfare.



Site of “99 Public Welfare Day” activity

VIII. RESPONSIBILITY OF THE SUPPLY CHAIN

Adhering to the concept of “win-win cooperation and sunshine procurement”, the Group attaches great importance to the management of suppliers, formulates and implements internal systems such as the “Commerce Management System”, the “Supplier Selection Management System”, to standardize the selection, evaluation and management of suppliers, and incorporates the supplier’s code of conduct into the “Commerce Management System”, clarifying the environmental management, labor rights, equality and anti-discrimination of suppliers anti-corruption and other contents of the requirements and assessment process. The Group gives priority to the selection of products and suppliers that are conducive to the sustainable development of society and the environment, and urges suppliers to jointly promote the development of green supply chain. In 2022, the Group has 41 suppliers, which are divided as follows:



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. When selecting restaurant suppliers, the Group focuses on the source and quality of food, the distribution sites, service experience and other relevant information to ensure the quality and safety of food and service quality.

2022 Environmental, Social and Governance Report

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 the assessment team will score by weight for different indicators. The assessment results of the supplies are divided into three levels: the highest level is A-level, to whom we will give priority in future procurement deals, and increase the supply ration if necessary; the intermediate level is B-level, with whom we can maintain normal transactions and keep the supply ratio; the lowest-level is C-level, with whom we will terminate the partnership and replace them with new suppliers. The results of the assessment of suppliers are 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;

2022 Environmental, Social and Governance Report

- **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 promotes the concept of green and low carbon in its procurement activities, taking full account of environmental protection, resource conservation, safety and health, recycling and low carbon and recycling promotion. The decoration materials and office equipment in the office area of the Group are the first choice of energy-saving and environmental protection products, such as LED lamps, split air conditioners, computers with national energy-saving certification marks, etc.

4. Supplier Communication and Management

The Group attaches great importance to the continuous communication and exchange with suppliers to establish a healthy information communication channel with suppliers on the basis of mutual trust and cooperation to ensure that the demands of both parties are responded in a timely manner, and strive to build a cooperative relationship featuring 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 developed a series of daily management monitoring measures as follows:

- During the Year, a quarterly sampling mechanism for on-site dishes and tableware was formulated, and one dish and two tableware were randomly selected and sent to a third party for testing to further ensure food safety;
- The Group conducts spot checks at the suppliers' "central kitchens" on an ad hoc basis every month, which includes warehouse inventory, food preservation and production process, environmental sanitation, etc., and maintain the records of the checks;
- The Group regularly organizes 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;

2022 Environmental, Social and Governance Report

- 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 effectiveness of the food supply. Meanwhile, the dressing and the health certificates of the canteen staff will be checked regularly;
- During the Year, for the complaints against the suppliers in the supply process, on the basis of implementation of the punishment mechanism in accordance with the contract terms in previous years, the compensation terms and coverage were further clarified, effectively reducing the frequency of meal complaints and improving the service quality.

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

- The administration department strictly supervised and managed the environmental sanitation of the coffee shop, and required the supplier to clean and disinfect the bar before and after business every day;
- The requirements for meal time were specified to ensure that the service quality meets the standards, and uniformly used the WeChat mini program to order meals online and pick up meals without contact to ensure the safety of meals;
- The management of products in and out of storage was strengthened to keep the inventory within a reasonable range. When bottled drinks are sold, the remaining shelf life shall not be less than one third of the effective shelf life of the products.

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

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

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 Office 5S Management Regulations, the Fixed Asset Management System and other policies on environmental protection, carries out a series of measures such as energy conservation and emission reduction, waste classification, etc. to improve the efficiency of energy and resource utilization, assesses the risk of climate change, and strives to reduce the possible

2022 Environmental, Social and Governance Report

impact of their own business activities on the environment. At the same time, environmental publicity and training are carried out for employees and users to share the important mission of green 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", identifies energy consumption and emission points of operation management, optimizes green operation measures, and jointly creates a green energy-saving office environment with all employees, so as to realize the organic combination of environmental and economic benefits.

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 many ways including energy conservation, emission reduction, and water conservation.

Energy conservation and emission reduction

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

The Group's measures on the management goal include:

- Employees are encouraged to choose public transport mode, green travel and reduce personal carbon footprint;
- The office shall be equipped with LED lamps, and the electric lamps shall be turned off during lunch break, and the energy-saving and environmental protection signs shall be posted. The electric lamps in the meeting room, training room and other public areas shall be turned on and off at the same time; Arrange personnel to patrol and turn off the power supply after work and before holidays;
- The Group promotes the behavior of green supplies and encourages and advocates the selection of reusable office stationery; Electronic office equipment shall be products with energy-saving certification marks, and the maintenance for failure shall adopt the mode of repair or replacement of parts to reduce the waste of resources newly purchased;
- The air conditioning temperature shall not be too low, the room temperature shall be kept at 26°C, and the temperature difference shall not exceed 1°C; Fresh air systems are installed on all floors of the Group to lead the outdoor air into the room after purification and discharge the indoor air out of the room after purification. While maintaining the air circulation of the office and ensuring the health of employees, they will not cause any pollution to the external environment;

2022 Environmental, Social and Governance Report

- The Group shall gradually reduce the use of traditional data centers, give priority to cloud data centers, flexibly increase and decrease each machine on a daily basis, significantly improve resource utilization, and reduce energy consumption and carbon emissions.

This year, the key achievements of the Group in promoting the realization of energy saving and emission reduction targets are, that all physical computer rooms of online services previously operated and maintained have been decommissioned and all service contents have been migrated to the cloud-based platform to further improve energy efficiency management.

Conservation of water resources

The Group's objectives: 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 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 and cleaners' awareness of water conservation. During the reporting period, the Group had no water pressure in business operation and no difficulty in sourcing suitable water.

This year, the key achievements of the Group in facilitating the accomplishment of water conservation targets are, employees' awareness of water conservation has been enhanced and water efficiency has seen further improvement.

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

Waste classification and recycling

The Group's objectives: 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's specific measures for realizing this management include:

- Garbage classification is advocated to set up special garbage bins for recyclable garbage, other garbage, kitchen waste, harmful garbage, and waste masks, and the cleaning personnel will pack and transport the classified garbage to the centralized treatment point, and then the property management company will handle it uniformly;

2022 Environmental, Social and Governance Report

- Garbage recycling is promoted to separate and store the paper, plastic, glass, metal and electrical appliances with recycling value in office garbage separately, and submit them to the waste recycling agency for comprehensive utilization;
- Hazardous waste is sent to the community centralized collection site for professional treatment according to the regulations. For the waste ink cartridges, toner cartridges and instruments and equipment that cannot be reused, the Group will arrange relevant personnel to collect them uniformly and regularly submit them to the supplier for treatment;
- The “green printing” policy is strictly implemented to set the monthly use limit of printing/copying paper for employees, and the administrator of the printing and copying machine regularly monitors the background data, supervises the use of office paper, advocates the reuse of printing paper, recycles daily single-sided paper documents that do not involve confidentiality as secondary paper, and sets up a special secondary environmental protection paper storage cabinet in the printing area.

This year, the key achievements of the Group in propelling the fulfillment of waste reduction targets is that office paper consumption per capita has been decreased by 3.16% compared to the previous year.

2. Education on environmental protection for the Youth

The Group believes that games are a carrier that can accommodate a variety of entertainment and cultural content, which have rich entertainment attributes and a more immersive sense of experience. Games play an important role in information dissemination, knowledge education, concept awareness, and other aspects and serve as a potential publicity channel to enhance public awareness of environmental protection and promote sustainable consumption behavior. 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, one of the flagship products 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.

3. Tackle climate change

With the impact of climate change stands out in the world, it has become the development consensus of countries and enterprises to establish a risk management system for climate change and take adapted and mitigation measures on climate change. The ESG 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.

2022 Environmental, Social and Governance Report

During the Year, the Group took the initiative to identify and analyze the transformation risks and physical risks related to climate change, and developed climate risk response measures to comprehensively improve the Group's adaptability to climate change, with reference to the proposed framework of TCFD (Task Force on Climate-Related Financial Disclosures) for the first time. The climate change risks currently identified are as follows:

Transition risks

Transition risks refers to the economic or financial risk caused by the change of climate change policies, market sentiment and consumer preferences that affect the valuation of enterprises and assets in the process of social transformation to sustainable development.

Risk type	Risk description	Response measures
Policies, regulations and laws	In the context of national carbon peak and carbon neutral targets, regulatory requirements such as carbon emission report and information disclosure, and expansion of carbon trading scope may be generated in the future	Continue to pay attention to the development of national laws and regulations related to climate change Continue to promote energy conservation and consumption reduction measures to reduce greenhouse gas emissions
Market	The market's awareness of climate change has been strengthened, and customer behavior preferences have changed, which will be more inclined to buy products and services with green environmental protection attributes	Real-time tracking of customer behavior preferences, and timely increasing efforts to develop green environmental protection products
	Rising costs of power and other energy procurement	Reduce unnecessary energy consumption and further optimize green environmental protection access standards for suppliers including data centers
Reputation	Poor and negative news on environmental protection and climate change may affect the reputation of the Group	Strengthen brand building, actively undertake and disclose green environmental protection and climate change response measures and achievements

2022 Environmental, Social and Governance Report

Physical risks

Physical risks are risks caused by the physical impacts of climate change, mainly including various climate-related natural disasters, extreme weather and long-term environmental impacts.

Risk type	Risk description	Response measures
Acute risk	Daily operation is interrupted due to power failure and water failure caused by natural disasters such as typhoon, flood, drought or extreme weather	Deactivate the original online service physical machine room for operation and maintenance, and migrate all relevant service contents to the cloud platform
Chronic risk	Regional climate change caused by rising average temperature and sea level, and office and data infrastructure may be damaged	Regularly carry out data validation of data disaster recovery system, establish offline data backup, and ensure the availability and integrity of backup data Conduct data recovery emergency drill and result analysis every month

In addition, in order to cope with the impact brought about by risks of climate change, the Group has formulated and implemented the Office 5S Management Regulations to practice the publicity for green office, and encourages employees to reduce unnecessary travel arrangements, advocates green travel for employees, and strives to control the carbon emissions generated in the operation of the Group itself. At the same time, relying on the characteristics of its products, the Group integrates related elements such as green and environmental protome, thus imperceptibly improving players' awareness of energy conservation and emission reduction, and promoting the reduction of carbon emissions in the value chain.

2022 Environmental, Social and Governance Report

4. Key Environmental Performance Data for 2022

ESG Key performance indicators	Unit	Consumption/Emission
NOx	Kg	1.31
SOx	Kg	0.02
Particulate matter	Kg	0.10
Greenhouse gas emissions (Scope I)	Tonne	4.33
Greenhouse gas emissions (Scope II)	Tonne	1,613.82
Total greenhouse gas emissions (Scopes I + II)	Tonne	1,618.15
Total hazardous wastes	Tonne	3.30
Total non-hazardous wastes	Tonne	9.49
Gasoline consumption	'000 kWh	14.44
Electricity consumption	'000 kWh	2,006.74
Direct energy consumption	'000 kWh	14.44
Indirect energy consumption	'000 kWh	2,006.74
Total energy consumption	'000 kWh	2,021.18
Energy consumption intensity	'000 kWh/person	1.88
Office paper consumption	Tonne	0.31
Water consumption	m ³	809.00
Water consumption intensity	m ³ /person	0.75

Notes of the environmental data for 2022:

- The collection time of environmental data in 2022 covers from 1 January 2022 to 31 December 2022; the scope of collection includes the Group's office building in Guangzhou, official vehicles and machine room used by administrative office system.
- Emissions in 2022 are generated from the gasoline consumption of the Group's official vehicles.
- The main source of Greenhouse gas emissions (Scope I) is the above-mentioned consumption of gasoline; Greenhouse gas emissions (Scope II) come from the purchased electricity. The relevant emission factors are referenced from the Reporting Guidance on Environmental KPIs of the Stock Exchange, the greenhouse gas emission coefficient of purchased electricity refers to the Ministry of Ecology and Environment's "China Regional Grid Baseline Emission Factor for Emission Reduction Project for 2017".
- The types of energy consumed by the Group in 2022 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.

2022 Environmental, Social and Governance Report

- 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 2022

As of 31 December 2022, the major honors and awards obtained by the Group are as follows:

No.	Award	Presented by	Award Date
1	The Most Influential Enterprise for 2021 in the Golden Diamond List	Guangdong Entertainment & Game Industry Association	5 January 2022
2	The 6th Golden Hong Kong Stock "Best Medium and Small Market Value Company" Award	www.zhitongcaijing.com (智通財經), www.10jqka.com.cn (同花順財經)	11 January 2022
3	Excellent Cooperation Company of the Hardcore Year of the Seventh Blackstone Award	Hardcore Alliance	24 January 2022
4	The Most Anticipated Game of the Hardcore of the Seventh Blackstone Award		
5	The Super Star Game of the Hardcore of the Seventh Blackstone Award		
6	Outstanding Enterprise Award	Guangzhou Game Industry Association	March 2022
7	Achievement Award		
8	Collection of 2022 Guangzhou Network Civilization Publicity Season Series Activities: Network Positive Energy Graphic Works	Guangzhou Municipal Committee Network Information Office, Guangzhou Institute of Internet Communication	25 October 2022
9	Collection of 2022 Guangzhou Network Civilization Publicity Season Series Activities: Network Positive Energy Audio and Video Works		
10	Self-discipline Contribution and Public Welfare Award of China's Internet Industry from 2021 to 2022	Internet Society of China	11 November 2022

2022 Environmental, Social and Governance Report

No.	Award	Presented by	Award Date
11	Top 20 Internet enterprises in Guangzhou	Internet Society of Guangzhou	6 December 2022
12	The Popular IP Game Award of the 7th Golden Gyroscope Award in 2022	TUOLUO TECH	12 December 2022
13	The Best Leisure Game at the Tenth Gold Tea Awards in 2022	Game Teahouse	12 December 2022
14	The “Best Capital Market Communication Award”	RoadShow China	22 December 2022
15	The 9th Golden Mouth Award in 2022 Excellent Game Product in 2022	Game Daily	26 December 2022
16	The Most Influential Online Game Enterprise for 2022 in the Golden Diamond List	Guangdong Game Industry Association	16 February 2023
17	The Most Popular Online Game Enterprise for 2022 in the Golden Diamond List	Guangdong Game Industry Association	16 February 2023

XI. INDUSTRY ASSOCIATIONS PARTICIPATED BY THE GROUP

As of 31 December 2022, 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	Vice President
12	Guangzhou Internet Culture Association	Director
13	Guangdong Provincial Internet Federation	Member
14	Guangdong Provincial Youth Network Association	Member
15	Guangzhou Internet Society	Member

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

	ESG Indicators	Status of Disclosure	Corresponding Section
A1 General disclosure	Policies on emissions of exhaust gas and greenhouse gas, discharges into water and land, and generation of hazardous and non-hazardous waste, and information on compliance with relevant laws and regulations that have a significant impact on the issuer.	Disclosed	IX. Environmental responsibility
A1.1	The types of emissions and respective emissions data.	Disclosed	IX. Environmental responsibility
A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Disclosed	IX. Environmental responsibility
A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Disclosed	IX. Environmental responsibility
A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	Disclosed	IX. Environmental responsibility
A1.5	Description of emissions target(s) set and steps taken to achieve them.	Disclosed	IX. Environmental responsibility
A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them.	Disclosed	IX. Environmental responsibility
A2 General disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Disclosed	IX. Environmental responsibility
A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	Disclosed	IX. Environmental responsibility
A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Disclosed	IX. Environmental responsibility
A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	Disclosed	IX. Environmental responsibility
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.	Disclosed	IX. Environmental responsibility

2022 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
B3 General disclosure	Policies on improving employees' knowledge and skills or discharging duties at work. Description of training activities.	Disclosed	V. Employment management

2022 Environmental, Social and Governance Report

	ESG Indicators	Status of Disclosure	Corresponding Section
B3.1	The percentage of employees trained by gender and employee category (e.g., senior management, middle management).	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
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's operations do not involve product recalls
B6.2	The number of products and services related complaints received and how they are dealt with.	Disclosed	IV. Product responsibility

2022 Environmental, Social and Governance Report

ESG Indicators		Status of Disclosure	Corresponding Section
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 operations and anti-corruption
B7.1	Number of conducted legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Disclosed	VI. Compliance operations and anti-corruption
B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Disclosed	VI. Compliance operations and anti-corruption
B7.3	Description of anti-corruption training provided to directors and staff.	Disclosed	VI. Compliance operations and anti-corruption
B8 General disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Disclosed	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	Compliance with Regulations and Rules	Internal Policies
A1 Emissions	Environmental Protection Law of the People's Republic of China	Office 5S Management Regulations
	Noise Pollution Prevention and Control Law of the People's Republic of China	
	Atmospheric Pollution Prevention and Control Law of the People's Republic of China	
	Water Pollution Prevention and Control Law of the People's Republic of China	
	Law of the People's Republic of China on the Prevention and Control of Environment Pollution Caused by Solid Wastes	
	Directory of National Hazardous Wastes	
A2 Use of Resources	Hazardous Wastes Management Plan and Ledgers Management and Preparation Technical Guidelines	Office 5S Management Regulations
	Circular Economy Promotion Law of the People's Republic of China	
	Energy Conservation Law of the People's Republic of China	
	Environmental Protection Law of the People's Republic of China	

2022 Environmental, Social and Governance Report

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

2022 Environmental, Social and Governance Report

ESG Indicators	Compliance with Regulations and Rules	Internal Policies
B2 Health and Safety	Labor Law of the People's Republic of China	Office 5S Management Regulations
	Law of the People's Republic of China on Prevention and Control of Occupational Diseases	Conference Room Management System
	Production Safety Law of the People's Republic of China	Regulations on Management of Staff Restaurant
	Law of the People's Republic of China on Fire Prevention	Regulations on Management of Staff Café
	Regulations on the Safety Administration of Hazardous Chemicals	Regulations on Management of Fitness Room
	Emergency Response Law of the People's Republic of China	Regulations on Management of Identification Cards
	Interim Regulations on Investigation and Administration of Hidden Danger in Production Safety	Regulations on Management of Keys
	Regulation of Insurance for Labor Injury	System of Prohibition of Discrimination and Sexual Harassment
	Provisions on the Supervision and Management of Occupational Health at Work Sites	Employees' Handbook
B3 Development and Training	Occupational Disease Classification and Catalog	
	—	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

2022 Environmental, Social and Governance Report

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

2022 Environmental, Social and Governance Report

ESG Indicators	Compliance with Regulations and Rules	Internal Policies	
B6 Product Responsibility	Personal Information Protection Law of the People's Republic of China	User Information Security and Privacy Protection System	
	Data Security Law of the People's Republic of China	Machine Room Patrol Inspection System	
	Measures for the Supervision and Administration of Online Trading	Remote Access System	
	Copyright Law of the People's Republic of China	Cloud Management System	
	Regulation for the Implementation of the Copyright Law of the People's Republic of China	Regulations on Product and Technical Review Process	
	Patent Law of the People's Republic of China	Regulations on Product Launch and Publishing Process	
	Trademark Law of the People's Republic of China		
	Civil Code of the People's Republic of China		

2022 Environmental, Social and Governance Report

ESG Indicators	Compliance with Regulations and Rules	Internal Policies
	Advertising Law of the People's Republic of China	SDK Access Guidelines
	Anti-unfair Competition Law of the People's Republic of China	Functional Backstage Access Guidelines
	Law of the People's Republic of China on Protection of Minors	Elimination and Removal Process
	Provisions on the Administration of Online Publishing Services	Emergency Treatment Procedures Process
	Interim Provisions on the Administration of Internet Culture	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

2022 Environmental, Social and Governance Report

ESG Indicators	Compliance with Regulations and Rules	Internal Policies
	Provisions on the Administration of the Use of Chinese Characters in Publications	Process Requirements of Material Production
	Regulation on the Administration of Publication	Process for Handling Operation Accidents
	Provisions on the Administration of Publication of Audio and Video Recordings	Specification for Internal Test and Acceptance of Project
	Administrative Provisions on the Publishing of Electronic Publications	Information Disclosure System Relevant Standards for Cloud Testing
	Notice on Further Regulating the Use of Characters in Publications	Standards Related to Cloud Testing
	Notice on Publishing “Health Game Advice” in Game Publications	Guidelines for Legal Affairs of BAIOO
	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	Regulations of BAIOO on Management for Use of VPN System and Internet Baitian Game Licensing and Service Agreement Baitian Game Privacy Policy Guidance on Advertising Compliance with Laws and Regulations

2022 Environmental, Social and Governance Report

ESG Indicators	Compliance with Regulations and Rules	Internal Policies
	Notice on Protecting the Physical and Mental Health of Minors and Implementing the Online Games Anti-addiction System	Tianti Game Licensing and Service Agreement Tianti Game Privacy Policy
	Notice on Starting the Work of Online Games Anti-addiction Real-name Authentication	Guidance on Tianti Game Children Privacy Protection Guidance on Baitian Game Children Privacy Protection
	Notice on Further Carrying Out the Work of Online Games Anti-addiction Real-name Authentication	Business Process and Workflow Regulation of the Customer Service Center
	Notice of the General Office of the General Administration of Press, Publication, Radio, Film and Television on the Administration of Mobile Game Publishing Services	Online Account Filling and Management Measures Editing Responsibility System Publishing Reward and Penalty System
	Opinions on Strengthening the Protection of Minors through Standardizing Live Streaming Reward	Content Three-Review Responsibility System Three Proofreading System
	Notice of Strengthening of the Administration of Game Living Streaming Disseminated through Online Audio-visual Programs Platforms	
	Provisions on the Administration of Information Services of Mobile Internet Apps	
	Provisions on the Administration of Internet Pop-up Information Push Services	
	Basic Requirements for Collection of Personal Information by Information Security Technology Mobile Internet Apps	
	Provisions on the Administration of Internet Users' Account Information	
	Provisions on Ecological Governance of Network Information Content	

2022 Environmental, Social and Governance Report

ESG Indicators	Compliance with Regulations and Rules	Internal Policies
B7 Anti-corruption	Interim Provisions on Banning Commercial Bribery	Anti-fraud and Reporting Corruption Management System
	Anti-money Laundering Law of the People's Republic of China	Conflict of Interests Management System
	Anti-unfair Competition Law of the People's Republic of China	Code of Ethics and Business Conduct System
	Anti-monopoly Law of the People's Republic of China	Inside Information Disclosure Management System
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 171 to 252, comprise:

- the consolidated balance sheet as at 31 December 2022;
- 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 2022, 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.

PricewaterhouseCoopers, 22/F, Prince’s Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

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 worlds of online entertainment business

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Revenue recognition — provision of virtual items in online virtual worlds of online entertainment business</p> <p>Refer to notes 2.17(a), 4.1(a), and 5 to the consolidated financial statements.</p> <ul style="list-style-type: none">• Revenue from online virtual worlds of online entertainment business for the year ended 31 December 2022 amounted to RMB937,849,000, representing 99.9% of the Group's total revenue. Out of the total revenue from online virtual worlds, an amount of RMB897,698,000 is related to the provision of consumable and durable virtual items.• Consumable virtual items represent items that will be extinguished shortly after consumption by a specific player action. Therefore, revenue from consumable items is recognized when the items are consumed.	<p>Our procedures, carried out on a sample basis, in relation to management's revenue recognition of provision of virtual items in online virtual worlds included:</p> <ul style="list-style-type: none">• Understood 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;• Tested the classification of consumable and durable virtual items by comparing to the features of the corresponding virtual items in revenue recognition;

Independent Auditor’s Report

Key Audit Matter	How our audit addressed the Key Audit Matter
<ul style="list-style-type: none"> • Durable virtual items represent items that are accessible and available to a player over an extended period of time, and the relating revenue is deferred and recognized in contract liabilities and amortized over the life of the durable items. • The Group has used paying players’ relationship with the Group on an individual online virtual world basis (“Player Relationship Period”), as the best estimate, to approximate the period during which paying players use, and thus the life of, durable virtual items. Revenue from durable virtual items of a specific virtual world is recognized on a time-proportion basis over the Player Relationship Period of that virtual world. <p>The determination of Player Relationship Period for relevant online virtual worlds are subject to high degree of judgements and estimates. It is made taking into account all known and relevant information available to the Group at the time of assessment and the inherent risk in relation to the assessment is considered relatively higher due to significant judgements and assumptions used. Given the significant transaction of revenue from online virtual worlds and the involvement of critical accounting estimates, the assessment of Player Relationship Period is considered a key audit matter.</p>	<ul style="list-style-type: none"> • Evaluated and challenged the considerations made by management in determining the underlying assumptions for expected Player Relationship Period by comparing to historical patterns and market practice; and assessed the inherent risk of material misstatement by considering the degree of estimation judgement and other inherent risk factors; • Tested, with the involvement of our information technology specialist, the integrity of the data generated from the Group’s information system, and recalculated the Player Relationship Period based on those data; and • Recalculated the revenue recognition of provision of durable items generated directly from the Group’s information system based on the respective Player Relationship Period. <p>Based on the above, we found that the judgement and estimates applied by management were supportable by the evidence we obtained and procedures performed.</p>

Other Information

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

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

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

Independent Auditor's Report

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

Responsibilities of Directors and Audit Committee for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with 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 2023

Consolidated Income Statement

	Note	Year ended 31 December	
		2022	2021
		RMB'000	RMB'000
Revenue	5	938,759	883,908
Cost of revenue	6	(578,131)	(483,349)
Gross profit		360,628	400,559
Selling and marketing expenses	6	(81,800)	(105,127)
Administrative expenses	6	(89,924)	(91,458)
Research and development expenses	6	(230,021)	(173,296)
Net impairment losses on financial assets	3.1(b)	(1,071)	(1,284)
Other income	7	3,734	2,845
Other gains — net	8	1,372	4,429
Loss on disposal of equity interest in an associate		—	(6,962)
Operating (loss)/profit		(37,082)	29,706
Finance income	10	43,343	33,251
Finance costs	10	(3,626)	(8,508)
Finance income — net	10	39,717	24,743
Share of loss of an associate		—	(3,115)
Profit before income tax		2,635	51,334
Income tax credit/(expense)	11	7,704	(24,428)
Profit for the year		10,339	26,906
Attributable to:			
— Shareholders of the Company		10,167	26,435
— Non-controlling interests		172	471
		10,339	26,906

Consolidated Income Statement (Continued)

	Note	Year ended 31 December	
		2022	2021
		RMB	RMB
Earnings per share for profit attributable to shareholders of the Company	12		
Basic earnings per share		0.0039	0.0101
Diluted earnings per share		0.0038	0.0099

The notes on pages 179 to 252 are integral parts of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Profit for the year	10,339	26,906
Other comprehensive income	—	—
Total comprehensive income for the year	10,339	26,906
Attributable to:		
— Shareholders of the Company	10,167	26,435
— Non-controlling interests	172	471
	10,339	26,906

The notes on pages 179 to 252 are integral parts of these consolidated financial statements.

Consolidated Balance Sheet

	Note	As at 31 December	
		2022	2021
		RMB'000	RMB'000
ASSETS			
Non-current assets			
Property and equipment	15	71,816	25,399
Right-of-use assets	16	276,304	294,558
Intangible assets	17	2,820	2,542
Prepayments and other receivables	20	4,090	18,251
Long-term bank deposits	22	95,000	65,000
Deferred tax assets	30	21,679	11,670
Financial assets at fair value through profit or loss	21	5,000	5,000
		476,709	422,420
Current assets			
Inventories		207	—
Contract costs	27	71,633	41,203
Trade receivables	19	71,807	29,153
Prepayments and other receivables	20	22,200	18,376
Short-term bank deposits	22	110,000	54,000
Cash and cash equivalents (excluding bank overdrafts)	22	1,303,711	1,429,190
		1,579,558	1,571,922
Total assets		2,056,267	1,994,342
EQUITY			
Share capital	23	8	8
Share premium	23	1,099,859	1,106,699
Reserves	24	75,034	62,911
Retained earnings	26	515,993	506,004
Capital and reserves attributable to Shareholders of the Company		1,690,894	1,675,622
Non-controlling interests		7,190	7,018
Total equity		1,698,084	1,682,640

Consolidated Balance Sheet (Continued)

	Note	As at 31 December	
		2022	2021
		RMB'000	RMB'000
LIABILITIES			
Non-current liabilities			
Contract liabilities	27	15,426	10,442
Lease liabilities	16	37,148	52,828
		52,574	63,270
Current liabilities			
Trade payables	28	8,199	7,094
Other payables and accruals	29	93,498	64,545
Advances from distributors	32	25,342	32,998
Contract liabilities	27	159,684	117,010
Income tax liabilities		52	8,854
Lease liabilities	16	18,828	17,931
Bank overdrafts		6	—
		305,609	248,432
Total liabilities		358,183	311,702
Total equity and liabilities		2,056,267	1,994,342

The notes on pages 179 to 252 are integral parts of these consolidated financial statements.

These consolidated financial statements on pages 171 to 252 were approved by the Board of Directors of the Company (the "Board") on 29 March 2023 and were signed on its behalf.

.....
Li Chong

.....
Wu Lili

Consolidated Statement of Changes in Equity

	Attributable to shareholders of the Company							Non-controlling interests	Total equity
	Note	Share capital	Share premium	Reserves	Retained earnings	Treasury shares	Subtotal		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
Balance at 1 January 2021		8	1,222,644	26,374	479,686	(930)	1,727,782	6,547	1,734,329
Comprehensive income									
Profit for the year		–	–	–	26,435	–	26,435	471	26,906
Total comprehensive income		–	–	–	26,435	–	26,435	471	26,906
Transactions with owners, recognized directly in equity									
RSU Scheme:									
– Value of employee services	24	–	–	52,270	–	–	52,270	–	52,270
– Vesting of RSUs	24	–	15,850	(15,850)	–	–	–	–	–
Special final dividend of 2020	23	–	(130,865)	–	–	–	(130,865)	–	(130,865)
Cancellation of shares	23	–	(930)	–	–	930	–	–	–
Profit appropriations to statutory reserves	24	–	–	117	(117)	–	–	–	–
Total transactions with owners, recognized directly in equity		–	(115,945)	36,537	(117)	930	(78,595)	–	(78,595)
Balance at 31 December 2021		8	1,106,699	62,911	506,004	–	1,675,622	7,018	1,682,640

Consolidated Statement of Changes in Equity (Continued)

	Attributable to shareholders of the Company						
	Note	Share	Share	Reserves	Retained	Subtotal	Non-
		capital	premium		earnings		controlling
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	Total equity RMB'000
Balance at 1 January 2022	8	1,106,699	62,911	506,004	1,675,622	7,018	1,682,640
Comprehensive income							
Profit for the year		–	–	–	10,167	10,167	172
Total comprehensive income		–	–	–	10,167	10,167	172
Transactions with owners, recognized directly in equity							
RSU Scheme:							
– Value of employee services	24	–	–	51,405	–	51,405	–
– Vesting of RSUs	24	–	39,460	(39,460)	–	–	–
Special final dividend of 2021	23	–	(45,087)	–	–	(45,087)	–
Cancellation of shares	23	–	(1,213)	–	–	(1,213)	–
Profit appropriations to statutory reserves	24	–	–	178	(178)	–	–
Total transactions with owners, recognized directly in equity		–	(6,840)	12,123	(178)	5,105	–
Balance at 31 December 2022	8	1,099,859	75,034	515,993	1,690,894	7,190	1,698,084

The notes on pages 179 to 252 are integral parts of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Note	Year ended 31 December	
		2022	2021
		RMB'000	RMB'000
Cash flows from operating activities			
Cash generated from operations	33	11,591	126,391
Interest received from cash and cash equivalents		29,683	28,535
Income tax paid		(11,107)	(36,364)
Net cash generated from operating activities		30,167	118,562
Cash flows from investing activities			
Disposal of equity of an associate		—	150
Purchase of property and equipment, intangible assets and land use right		(17,323)	(26,964)
Proceeds from disposals of fixed assets		66	63
Interest received from term bank deposits and financial assets at fair value through profit or loss		2,666	8,753
Payments for investment in an associate		—	(6,000)
Investment in term bank deposits		(140,000)	(849,000)
Investment in financial assets at fair value through profit or loss		(50,000)	(345,000)
Maturity of term bank deposits		54,000	959,631
Maturity of financial assets at fair value through profit or loss		50,000	340,000
Net cash (used in)/generate from investing activities		(100,591)	81,633
Cash flows from financing activities			
Repurchase of ordinary shares		(1,213)	—
Principal elements of lease payments		(14,783)	(13,597)
Interest elements of lease payments		(3,626)	(4,494)
Dividend paid to the Company's shareholders		(45,087)	(130,865)
Net cash used in financing activities		(64,709)	(148,956)
Net (decrease)/increase in cash and cash equivalents		(135,133)	51,239
Cash and cash equivalents at beginning of the year		1,429,190	1,381,965
Foreign exchange gain/(loss) on cash and cash equivalents		9,648	(4,014)
Cash and cash equivalents at end of the year		1,303,705	1,429,190
Cash and cash equivalents comprises:			
Cash and bank balances	22	1,303,711	1,429,190
Bank overdrafts		(6)	—
Cash and cash equivalents at end of the year		1,303,705	1,429,190

The notes on pages 179 to 252 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 2023.

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 or annual improvements to standards and for the first time for its annual reporting period:

		Effective for annual periods beginning on or after
IFRS 3 (Amendment)	Reference to the Conceptual Framework	1 January 2022
International Accounting Standards (“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

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

		Effective for annual periods beginning on or after
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 loss of an associate" 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.

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.

Notes to the Financial Statements

2 Summary of significant accounting policies (continued)

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.

2.14 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.

2 Summary of significant accounting policies (continued)

2.14 Current and deferred income tax (continued)

(b) Deferred income tax

Inside basis differences

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

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

Outside basis differences

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

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

(c) Offsetting

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

Notes to the Financial Statements

2 Summary of significant accounting policies (continued)

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.

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.

2 Summary of significant accounting policies (continued)

2.16 Share-based payments (continued)

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

(a) Revenue from operation of online virtual worlds of online entertainment business

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

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

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 of online entertainment business (continued)*

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.
- 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.

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*

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

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

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

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

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

Notes to the Financial Statements

2 Summary of significant accounting policies (continued)

2.17 Revenue (continued)

Other businesses

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

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

Contract costs and contract liabilities

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

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

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.

2.19 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 Summary of significant accounting policies (continued)

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.

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.

Notes to the Financial Statements

2 Summary of significant accounting policies (continued)

2.21 Leases (continued)

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.

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.

2 Summary of significant accounting policies (continued)

2.21 Leases (continued)

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option. Low-value assets comprise electronic equipment and small items of office furniture.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term (Note 16). 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 2022 would have been approximately lower/higher by RMB1,245,000 (2021: approximately lower/higher by RMB1,120,000).

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

(ii) Interest rate risk

For the years ended 31 December 2022 and 2021, 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 2022, 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 2022 and 2021 was as follows:

	Trade receivables	Loss allowance	Net carrying Amount
31 December 2022			
Customers with specific credit risks or credit ratings	66,961	(214)	66,747
Customers grouped based on similar credit risk	5,174	(114)	5,060
	72,135	(328)	71,807

	Trade receivables	Loss allowance	Net carrying Amount
31 December 2021			
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
	29,526	(373)	29,153

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 2022 and 2021 was determined as follows for trade receivables from customers which have been grouped based on similar credit risk characteristics:

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

	Current	More than 30 days past due	More than 60 days past due	More than 90 days past due	More than 180 days past due	Total
31 December 2021						
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
Loss allowance	5	2	1	1	140	149

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 2022 and 2021 reconcile to the opening loss allowances as follows:

	2022 RMB'000	2021 RMB'000
Opening loss allowance at 1 January	(373)	(1,066)
Reversal in loss allowance recognised in profit or loss during the year	45	592
Receivables written off during the year as uncollectible	—	101
Closing loss allowance at 31 December	(328)	(373)

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 2022 and 2021 reconcile to the opening loss allowances as follows:

	2022 RMB'000	2021 RMB'000
Opening loss allowance at 1 January	(4,205)	(2,329)
Increase in loss allowance recognised in profit or loss during the year	(1,116)	(1,876)
Closing loss allowance at 31 December	(5,321)	(4,205)

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

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

	2022 RMB'000	2021 RMB'000
Reversal in loss allowance on trade receivables	45	592
Increase in loss allowance of other receivables	(1,116)	(1,876)
Net impairment losses on financial assets	(1,071)	(1,284)

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
At 31 December 2022						
Trade payables	8,199	—	—	—	8,199	8,199
Other payables and accruals (excluding other tax liabilities and staff costs and welfare accruals)	30,544	—	—	—	30,544	30,544
Lease liabilities	19,331	20,298	21,312	—	60,941	55,976
Bank overdraft	6	—	—	—	6	6
	58,080	20,298	21,312	—	99,690	94,725
At 31 December 2021						
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
	33,740	19,331	41,611	—	94,682	86,089

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	
	2022	2021
	RMB'000	RMB'000
Total liabilities	358,183	311,702
Total assets	2,056,267	1,994,342
Gearing ratio	17%	16%

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 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.

- (b) Fair value of financial assets at fair value through profit or loss (Note 21)

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

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

As at 31 December 2021, the Fund was financial instruments in level 2 because the net assets of the Fund at year end comprised cash at bank only.

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

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

Structure deposits

The Group invested in short-term structural deposits that contained derivatives which are financial instruments in level 3. As these structural deposits were not traded in an active market, their fair values have been determined using various applicable valuation techniques, including comparable transactions approaches, equity allocation model and other option pricing models, etc.

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

4 Critical accounting estimates and judgements

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

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

4.1 Critical accounting estimates and assumptions

(a) Estimates of Player Relationship Period for online business

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

(b) Current income tax and deferred income tax

Significant judgement is required in determining the provision for income tax, including the amount of the provision for taxations, the timing of payments of the related taxations, and the tax rates that would be applicable when related tax losses and temporary differences that give rise to deferred income tax are recycled for those group entities currently entitling preferential tax rates. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional tax will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax assets and liabilities in the period in which such determination is made.

Notes to the Financial Statements

4 Critical accounting estimates and judgements (continued)

4.1 Critical accounting estimates and assumptions (continued)

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

Deferred income tax is provided on temporary differences arising on distributions of retained earnings by subsidiaries, except for deferred tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Specifically, for the potential timing differences arising from the distribution of retained earnings of the Company's subsidiaries in the mainland China to the Company, management has assessed the availability of distributable revenues (see Note 11(e)) and funds held by the Company and concluded that those subsidiaries are unlikely to be required to distribute their retained earnings in the foreseeable future. As a result, no deferred tax liability on PRC withholding tax ("WHT") has been provided as at 31 December 2022 and 2021.

4.2 Critical judgements in applying the Group's accounting policies

Subsidiaries arising from contractual arrangements

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

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

- exercise effective financial and operational control over Guangzhou Baitian;
- exercise equity holders' voting rights over Guangzhou Baitian;
- receive substantially all of the economic interest and returns generated by Guangzhou Baitian in consideration for the business support, technical and consulting services provided by Guangzhou WFOE, at Guangzhou WFOE's discretion;
- obtain an irrevocable and exclusive right to purchase the entire equity interest in Guangzhou Baitian from the equity holders;
- obtain a pledge over the entire equity interest in Guangzhou Baitian from its equity holders as collateral security for all of Guangzhou Baitian's payments due to Guangzhou WFOE and to secure performance of Guangzhou Baitian's obligations under the Contractual Arrangements, respectively.

4 Critical accounting estimates and judgements (continued)

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

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 sales of peripheral products and other services.

The CODM assesses the performance of the operating segments mainly based on segment revenue and gross profit of each operating segment. The selling and marketing expenses, administrative expenses, research and development expenses, net impairment losses on financial assets, other income, other gains — net, finance income — net, and income tax credit/(expense) are not included in the measure of the segments' performance.

Notes to the Financial Statements

5 Segment information (continued)

There were no material inter-segment sales during years ended 31 December 2022 and 2021, 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.

The segment information provided to the Group's CODM for the reportable segments for the years ended 31 December 2022 and 2021 are as follows:

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

	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

Notes to the Financial Statements

5 Segment information (continued)

Out of revenue from online entertainment business, RMB897,698,000 is related to the provision of consumable and durable virtual items for the year ended 31 December 2022. (2021 RMB839,276,000)

Other profit and loss disclosures:

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

	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

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 2022 and 2021, the geographical information on the total revenue is as follows:

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Revenue		
— Mainland China	878,277	791,813
— Outside Mainland China	60,482	92,095
Total	938,759	883,908

Notes to the Financial Statements

5 Segment information (continued)

Revenue of the Group is mainly derived from online virtual worlds of online entertainment business operations and the Group depends on the success of a limited number of online virtual worlds to generate revenue. As summarized in the table below, the online virtual worlds contributing more than 10.0% of the Group's total revenue account for 76.5% and 93.2% of the total revenue for the years ended 31 December 2022 and 2021, 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	
	2022	2021
Aobi Island Mobile	40.3%	**
Shiwuyu	15.4%	24.2%
Legend of Aoqi	10.6%	13.0%
Legend of Aoqi Mobile	10.2%	23.9%
Aola Star Mobile	*	21.9%
Aola Star	*	10.2%

*: Game revenue is less than 10% of total revenue.

**: Game has not launched in the particular period.

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 2022 (2021: same).

The games were distributed to individual game players through own web-based platform, and Third Party Platforms including Company A and Group B. The revenue generated through Company A and Group B accounted for 40.3% (2021: nil) and 15.0% (2021: 19.3%) of the Group's revenue for the year ended 31 December 2022, respectively. Besides those, no revenue through a single company or group exceeded 10% or more of the Group's revenue for the reporting period.

As at 31 December 2022, the total non-current assets, other than financial assets and deferred tax assets, located in Mainland China and Hong Kong were RMB350,878,000 (31 December 2021: RMB336,295,000) and RMB239,000 (31 December 2021: RMB557,000), respectively.

Notes to the Financial Statements

6 Expenses by nature

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Distribution costs and payment handling fees	432,752	314,215
Employee benefit expenses (Note 9)	392,562	367,071
Promotion and advertising expenses	51,790	76,254
Content expenses	38,867	21,298
Depreciation of right-of-use assets (Note 16)	14,135	18,746
Professional fees	11,621	8,242
Bandwidth and server custody fees	9,386	13,409
Depreciation of property and equipment and amortization of intangible assets (Notes 15 and 17)	9,027	8,221
Utilities and office expenses	7,118	8,300
Auditor's remuneration	4,113	4,109
— Audit services	3,858	3,800
— Non-audit services	255	309
Travelling and entertainment expenses	1,952	3,254
Operating lease rentals	4	8
Others	6,549	10,103
Total cost of revenue, selling and marketing expenses, administrative expenses and research and development expenses	979,876	853,230

7 Other income

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Government grants (Note (a))	1,885	1,376
Others	1,849	1,469
	3,734	2,845

Notes to the Financial Statements

7 Other income (continued)

(a) Deferral and presentation of government grants

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 relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and they are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

8 Other gains — net

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Interest income of financial assets at fair value through profit or loss (Note 21)	325	1,738
Gain on disposal of right-of-use assets	—	589
Gains on disposals of fixed assets	66	64
Donation	(260)	(132)
Foreign exchange losses	(248)	(138)
Others	1,489	2,308
	1,372	4,429

9 Employee benefit expenses

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Wages, salaries and discretionary bonuses	267,044	245,028
Pension costs — defined contribution plans (Note (a))	27,004	21,806
Other social security costs, housing benefits and other employee benefits	47,109	47,967
Share-based compensation expenses	51,405	52,270
	392,562	367,071

9 Employee benefit expenses (continued)

(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 2022, the Group contributes funds which are calculated on a fixed percentage of 14% (2021: 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.

(b) Five highest paid individuals

The five individuals whose emoluments were highest in the Group for the year include one (2021: two) directors whose emoluments are reflected in the analysis shown in Note 38. The emoluments paid and payable to the remaining four (2021: three) individuals during the year are as follows:

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Wages and salaries	5,411	2,840
Discretionary bonuses	2,740	2,285
Pension costs — defined contribution plans	168	84
Other social security costs, housing benefits and other employee benefits	238	123
Share-based compensation expenses	23,713	11,855
	32,270	17,187

Notes to the Financial Statements

9 Employee benefit expenses (continued)

(b) Five highest paid individuals (continued)

The emoluments fell within the following band:

	Year ended 31 December	
	2022	2021
	No. of individuals	
HK\$13,000,000 to HK\$13,500,000	1	—
HK\$10,500,000 to HK\$11,000,000	1	—
HK\$9,500,000 to HK\$10,000,000	—	1
HK\$7,500,000 to HK\$8,000,000	1	—
HK\$5,500,000 to HK\$6,000,000	1	—
HK\$5,000,000 to HK\$5,500,000	—	2

10 Finance income — net

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Finance income:		
— Interest income from bank deposits	33,695	33,251
— Net foreign exchange gain (Note 13)	9,648	—
	43,343	33,251
Finance costs:		
— Interest charge for lease liabilities (Note 16)	(3,626)	(4,494)
— Net foreign exchange loss (Note 13)	—	(4,014)
	(3,626)	(8,508)
Finance income — net	39,717	24,743

Notes to the Financial Statements

11 Income tax credit/(expense)

The income tax credit/(expense) of the Group for the years ended 31 December 2022 and 2021 is analyzed as follows:

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Current income tax credit/(expense):		
— Current year	84	(10,795)
— Under-provision in prior year	(2,389)	(20,597)
Deferred income tax credit	10,009	6,964
	7,704	(24,428)

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	
	2022	2021
	RMB'000	RMB'000
Profit before income tax	2,635	51,334
Tax calculated at income tax rates applicable to profits of the consolidated entities in their respective jurisdictions	(1,574)	(7,850)
Tax effects of:		
Tax losses and temporary differences for which no deferred tax asset was recognized (Note (a))	(5,375)	(9,907)
Super deduction for research and development expenses (Note (b))	23,857	15,784
Expense not deductible for income tax purposes	(10,687)	(8,705)
Others	1,483	(13,750)
	7,704	(24,428)

Notes to the Financial Statements

11 Income tax credit/(expense) (continued)

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

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Tax losses	67,078	16,720
Temporary differences	45,418	48,855
	112,496	65,575
Potential tax benefit	17,551	9,908

Deferred tax assets relating to certain tax losses and temporary differences are recognized as management considers it is probable that future taxable profit will be available against which the tax losses or temporary difference can be utilized (Note4.1(b)). Thus, the Group did not recognize deferred tax assets of RMB17,551,000 and RMB9,908,000 in respect of accumulated tax losses and temporary differences amounting to RMB112,496,000 for the year ended 31 December 2022 (2021: RMB65,575,000).

Most of the tax losses of subsidiaries in mainland China will expire after 2025; while the tax losses of the Company and its subsidiaries outside of mainland China have no expire date.

(b) PRC corporate income tax

Guangzhou Baitian

Guangzhou Baitian was qualified as “High and New Technology Enterprise” in 2022 and was entitled to a preferential income tax rate of 15% on its estimated assessable profits for the year ended 31 December 2022 (2021: same).

Guangzhou Tianti

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

Guangzhou Tianti was accredited as a “software enterprise” under the relevant PRC Laws and regulations and enjoyed the preferential tax rate 12.5% for software enterprise for the year ended 31 December 2021.

11 Income tax credit/(expense) (continued)

(b) PRC corporate income tax (continued)

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

Guangzhou WFOE and Xiaoyunxiong was qualified as “Small Low-Profit Enterprise” in 2022 and 2021, and the provision for income tax was calculated in accordance with the two-tiered tax rates regime.

Under the two-tiered tax rates regime, the first RMB1 million of profits of qualifying corporations were taxed at 2.5% and profits above RMB1 million but within RMB3 million were taxed at 10% for the year ended 31 December 2021.

In 2022, the State Tax Bureau of the PRC issued the Public Notice [2022] No.13 with respect to the change of preferential tax rate for the profits for Small Low-Profit Enterprise under the two-tiered tax rate regime. The tax rate of first RMB1 million of profits is 2.5% while profits above RMB1 million but within RMB3 million reduces from 10% to 5%, effective from 2022 to 2024.

Other Subsidiaries

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

Super Deduction

According to a policy promulgated by the State Tax Bureau of the PRC that was effective from 2018 onwards, enterprises engaging in research and development activities are entitled to claim 175% of their research and development (“R&D”) expenses incurred as tax deductible expenses in determining tax assessable profits (“Super Deduction”). Certain qualified subsidiaries of the Group have claimed such Super Deduction in ascertaining its tax assessable profits/(losses) for the years ended 31 December 2022 and 2021. Furthermore, based on Public Notice [2022] No.28 issued by the State Tax Bureau of the PRC on 22 September 2022, the enterprises originally eligible for additional 75% deduction of eligible R&D expenses can further enjoy an increased super deduction ratio of 100% from 1 October 2022 to 31 December 2022 (i.e. the fourth quarter of 2022), certain qualified subsidiaries of the Group have claimed such additional super deduction in the fourth quarter of 2022.

(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 2022 are calculated in accordance with the two-tiered profits tax rates regime (2021: 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%.

Notes to the Financial Statements

11 Income tax (credit)/expense (continued)

(e) PRC withholding tax (“WHT”)

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

As at 31 December 2022, no deferred tax liability had been provided for in respect of the PRC withholding tax that would be payable on the unremitted earnings of approximately RMB1,227,247,000 (2021: RMB1,216,360,000). Such earnings are expected to be retained by the subsidiaries in mainland China and not to be remitted to a foreign investor in the foreseeable future based on management’s estimation of overseas funding requirements.

12 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	
	2022	2021
Profit attributable to shareholders of the Company (RMB'000)	10,167	26,435
Weighted average number of ordinary shares in issue less treasury shares and shares held for RSU Scheme	2,639,811,550	2,616,222,720
Basic earnings per share (in RMB/share)	0.0039	0.0101

(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 2022, the Company had potential ordinary shares, the RSUs (2021: potential ordinary shares, the RSUs), which had to be considered for calculating diluted earnings per share. A calculation is done to determine the number of shares that could have been issued at fair value (determined as the average market price per share for the year) based on the assumed exercise price of the unvested RSUs. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the RSUs are vested. The difference is added to the denominator as the number of shares issued for no consideration.

12 Earnings per share (continued)

(b) Diluted (continued)

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

	Year ended 31 December	
	2022	2021
Earnings		
Profit attributable to shareholders of the Company and profit used to determine diluted earnings per share (RMB'000)	10,167	26,435
Weighted average number of ordinary shares		
Weighted average number of ordinary shares in issue less treasury shares and shares held for RSU Scheme	2,639,811,550	2,616,222,720
Adjustments for:		
— RSUs	56,383,994	62,166,798
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	2,696,195,544	2,678,389,518
Diluted earnings per share (in RMB/share)	0.0038	0.0099

13 Net foreign exchange gain/(loss)

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

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Finance income/(loss) — net (Note 10)	9,648	(4,014)
Other losses — net (Note 8)	(248)	(138)
	9,400	(4,152)

Notes to the Financial Statements

14 Subsidiaries

The following is a list of the principal subsidiaries as at 31 December 2022:

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
			2022	2021	2022	2021	
Directly held by the Company							
Baitian Technology Limited ("Baitian Hong Kong")	Hong Kong, Limited liability company	HK\$10,000	100%	100%	—	—	Online interactive entertainment, Hong Kong
Baioo Technology Limited ("Baitian BVI")	British Virgin Islands, Limited liability company	US\$50,000	100%	100%	—	—	Investment holding, British Virgin Islands
Bababaobei Commerce Limited ("BCL")	British Virgin Islands, Limited liability company	US\$50,000	92.5%	92.5%	7.5%	7.5%	Investment holding, British Virgin Islands
Madfun Game Limited	Hong Kong, Limited liability company	HK\$10,000	100%	100%	—	—	Online interactive entertainment, Hong Kong
Indirectly held by the Company							
廣州百田信息科技有限公司 ("Guangzhou Baitian")	The PRC, Limited liability company	RMB10,010,000	100%	100%	—	—	Online interactive entertainment, the PRC
百多(廣州)信息科技有限公司 ("Guangzhou WFOE")	The PRC, Limited liability company	US\$500,000	100%	100%	—	—	Research and development of computer software, the PRC
廣州天梯網絡科技有限公司 ("Guangzhou Tianti")	The PRC, Limited liability company	RMB2,000,000	100%	100%	—	—	Software and information technology services, the PRC
廣州小雲熊家庭互動教育有限公司 ("Xiaoyunxiong")	The PRC, Limited liability company	RMB20,000,000	100%	100%	—	—	Education service for children, the PRC
廣州百田文化發展有限公司 ("Baitian Culture")	The PRC, Limited liability company	RMB450,000,000	100%	100%	—	—	Culture and art service, the PRC

(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 2022 amounting to RMB1,215,639,000 (2021: RMB1,243,518,000) are held in Mainland China and are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the country, other than through normal dividends.

Notes to the Financial Statements

15 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
At 1 January 2021						
Cost	11,967	7,510	633	34,516	—	54,626
Accumulated depreciation	(11,739)	(5,092)	(602)	(13,774)	—	(31,207)
Impairment	(15)	(144)	—	(1,623)	—	(1,782)
Net book amount	213	2,274	31	19,119	—	21,637
Year ended 31 December 2021						
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
At 31 December 2021						
Cost	12,474	11,012	1,822	33,005	2,774	61,087
Accumulated depreciation	(11,943)	(5,990)	(721)	(17,034)	—	(35,688)
Net book amount	531	5,022	1,101	15,971	2,774	25,399
Year ended 31 December 2022						
Opening net book amount	531	5,022	1,101	15,971	2,774	25,399
Additions	47	2,672	1,222	—	49,583	53,524
Depreciation charge	(233)	(2,627)	(307)	(3,940)	—	(7,107)
Closing net book amount	345	5,067	2,016	12,031	52,357	71,816
At 31 December 2022						
Cost	12,131	12,727	3,041	33,004	52,357	113,260
Accumulated depreciation	(11,786)	(7,660)	(1,025)	(20,973)	—	(41,444)
Net book amount	345	5,067	2,016	12,031	52,357	71,816

Notes to the Financial Statements

15 Property and equipment (continued)

- (a) As at 31 December 2022, construction in progress mainly comprised office buildings under construction located in the PRC.
- (b) Depreciation charge was included in the following categories in the consolidated income statement:

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Cost of revenue	1,800	2,049
Administrative expenses	1,376	623
Research and development expenses	3,652	2,640
Selling and marketing expenses	279	467
	7,107	5,779

16 Leases

- (a) Amounts recognised in the balance sheet

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Right-of-use assets		
Land use right	236,369	241,311
Office	39,935	53,247
	276,304	294,558
Lease liabilities		
Current	18,828	17,931
Non-current	37,148	52,828
	55,976	70,759

No right-of-use assets was disposed during the year ended 31 December 2022 (2021: RMB3,159,000).

16 Leases (continued)

(b) Amounts recognised in the income statement

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Depreciation charge of right-of-use assets		
Land use right	(4,942)	(4,942)
Office	(13,312)	(13,804)
	(18,254)	(18,746)
Interest expense (included in finance cost)	(3,626)	(4,494)
Expense relating to short-term leases (included in cost of revenue and administrative expenses)	(4)	(8)

The total cash outflow for leases in 2022 was approximately RMB18,413,000 (2021: RMB18,099,000).

During the year ended December 31, 2022, the depreciation of RMB823,000 (2021: 4,942,000) from land use right was charged as profit or loss and RMB4,119,000 (2021: nil) was recognized in construction in progress.

(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

17 Intangible assets

	Licenses RMB'000	Software RMB'000	Total RMB'000
At 1 January 2021			
Cost	3,798	3,540	7,338
Accumulated amortization	(2,857)	(2,566)	(5,423)
Net book amount	941	974	1,915
Year ended 31 December 2021			
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
At 31 December 2021			
Cost	2,913	6,590	9,503
Accumulated amortization	(2,913)	(4,048)	(6,961)
Net book amount	—	2,542	2,542
Year ended 31 December 2022			
Opening net book amount	—	2,542	2,542
Additions	—	2,198	2,198
Amortization charge	—	(1,920)	(1,920)
Closing net book amount	—	2,820	2,820
At 31 December 2022			
Cost	—	6,685	6,685
Accumulated amortization	—	(3,865)	(3,865)
Net book amount	—	2,820	2,820

Notes to the Financial Statements

17 Intangible assets (continued)

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

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Cost of revenue	505	1,164
Administrative expenses	532	438
Research and development expenses	359	185
Selling and marketing expenses	524	655
	1,920	2,442

Notes to the Financial Statements

18 Financial instruments by category

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Assets as per consolidated balance sheet		
Financial assets at amortized cost:		
– Trade receivables (Note 19)	71,807	29,153
– Other receivables (excluding prepayments) (Note 20)	25,107	17,617
– Short-term bank deposits (Note 22)	110,000	54,000
– Long-term bank deposits (Note 22)	95,000	65,000
– Cash and cash equivalents (Note 22)	1,303,711	1,429,190
	1,605,625	1,594,960
Assets at fair value through the profit or loss:		
– Financial assets at fair value through profit or loss (Note 21)	5,000	5,000
	1,610,625	1,599,960
Liabilities as per consolidated balance sheet		
Financial liabilities at amortized cost:		
– Trade payables (Note 28)	8,199	7,094
– Other payables and accruals (excluding other tax liabilities and staff costs and welfare accruals) (Note 29)	30,544	8,236
– Bank overdrafts	6	–
– Lease liabilities (Note 16(a))	55,976	70,759
	94,725	86,089

Notes to the Financial Statements

19 Trade receivables

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Receivables from third parties	72,135	29,526
Less: allowance for impairment	(328)	(373)
	71,807	29,153

- (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	
	2022	2021
	RMB'000	RMB'000
0–30 days	62,931	16,894
31–60 days	6,056	3,023
61–90 days	3,006	760
91–180 days	40	8,709
181–365 days	73	109
Over 365 days	29	31
	72,135	29,526

- (b) The Group applies the simplified approach to provide for ECL prescribed by IFRS 9. For the year ended 31 December 2022, reversal in impairment RMB45,000 was made for the gross amounts of trade receivables (2021: reversal in impairment RMB592,000) (Note 3.1(b)).
- (c) As at 31 December 2022, trade receivables were mainly denominated in RMB and their fair value approximated their carrying amounts (2021: same).
- (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 Company A and Group B accounted for 64.9% (2021: nil) and 12.6% (2021: 35.0%) of the Group's trade receivables as at 31 December 2022, respectively.

Notes to the Financial Statements

20 Prepayments and other receivables

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Included in non-current assets		
Rental and other deposits	3,913	3,898
Prepayments for construction in progress	81	13,798
Prepayments for game licences	—	383
Prepayments for others	96	172
	4,090	18,251
Included in current assets		
Interests receivable	2,930	1,259
Prepayments	2,222	6,544
Receivables from third parties	918	918
Others	22,667	15,747
	28,737	24,468
Less: allowance for impairment of other receivables	(5,321)	(4,205)
Less: allowance for impairment of prepayments	(1,216)	(1,887)
	22,200	18,376
	26,290	36,627

As at 31 December 2022, other receivables were mainly dominated in RMB (2021: the same).

The maximum exposure to credit risk at each of the reporting dates is the carrying amount of each class of other receivables mentioned above. The Group does not hold any collateral as security.

Notes to the Financial Statements

21 Financial assets at fair value through profit or loss

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
At 1 January	5,000	—
Investment in the Fund	—	5,000
Investment in structural deposits	50,000	340,000
Gains recognized in profit or loss (Note 8)	325	1,738
Maturity of structural deposits	(50,325)	(341,738)
At 31 December	5,000	5,000
Unrealized gains recognized in profit or loss for the year	—	—

As at 31 December 2022, the balance comprised the Group's investment in the Fund amounting to RMB5,000,000 (2021: same), carrying at fair value within a fair value hierarchy level 3 (2021: level 2) (Note 3.3).

22 Cash and cash equivalents and term bank deposits

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Short-term bank deposits (Note (a))	110,000	54,000
Long-term bank deposits (Note (b))	95,000	65,000
Cash and cash equivalents		
— Cash at banks and on hand (Note (c))	1,303,711	1,429,190
	1,508,711	1,548,190
Maximum exposure to credit risk (Note (e))	1,508,622	1,548,106

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

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

(c) All cash at bank balances as at 31 December 2022 and 2021 were demand deposits in nature.

Notes to the Financial Statements

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

- (d) The effective interest rate per annum for all bank balances and term deposits as at 31 December 2022 was approximately 2.33% (2021: 2.27%).
- (e) As at 31 December 2022, substantially all the Group's bank deposits included in cash and bank balances were deposited with major financial institutions incorporated in the PRC, which has a minimum external credit rating of "A". There has been no recent history of default in relation to these financial institutions.

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

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
RMB	1,364,918	1,427,957
US\$	77,203	82,215
HK\$	66,505	37,928
Others	85	90
	1,508,711	1,548,190

Notes to the Financial Statements

23 Share capital and share premium

As at 31 December 2022 and 2021, 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 2022, the total number of ordinary shares of the Company was 2,822,844,000 (2021: 2,771,194,000) shares which included 167,770,438 (2021: 149,606,480) 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:						
As at 1 January 2021	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 31)	–	–	–	(130,865)	–	(130,865)
Cancellation of treasury shares	(1,200,000)	–	–	(930)	930	–
As at 31 December 2021	2,771,194,000	2	8	1,106,699	–	1,106,707

	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:						
As at 1 January 2022	2,771,194,000	2	8	1,106,699	–	1,106,707
RSU Scheme:						
– Issuance of shares held for RSUs Scheme	54,300,000	–	–	–	–	–
– Vesting of RSUs	–	–	–	39,460	–	39,460
2021 special final dividend payable to equity holders of the Company (Note 31)	–	–	–	(45,087)	–	(45,087)
Cancellation of ordinary shares	(2,650,000)	–	–	(1,213)	–	(1,213)
As at 31 December 2022	2,822,844,000	2	8	1,099,859	–	1,099,867

Notes to the Financial Statements

24 Reserves

	Other reserves RMB'000 (Note(a))	Statutory reserves RMB'000 (Note(b))	Share-based compensation reserve RMB'000 (Note 25)	Total RMB'000
As at 1 January 2021	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
As at 31 December 2021	2,069	6,483	54,359	62,911
As at 1 January 2022	2,069	6,483	54,359	62,911
RSU Scheme:				
– Value of employee services	–	–	51,405	51,405
– Vesting of RSUs	–	–	(39,460)	(39,460)
Profit appropriations to statutory reserves	–	178	–	178
As at 31 December 2022	2,069	6,661	66,304	75,034

(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.

25 Share-based payments

(a) RSU Schemes

On 18 March 2014, the Board of the Company resolved and conditionally adopted the Post-IPO RSU Scheme, which took effect on 10 April 2014, pursuant to which, the total number of shares underlying the RSUs that may be granted under the Post-IPO RSU Scheme was 2% of the total number of shares in issue on the listing date of 10 April 2014 which is subject to annual refreshment by shareholder approval.

The Post-IPO RSU Scheme is the share-based incentive scheme that the Company has in place to motivate its employees after its listing.

On 19 June 2015, at the annual general meeting of the Company, the shareholders approved an amendment to the Post-IPO RSU Scheme to increase the limit from 2% of the number of shares of the Company in issue on 10 April 2014 to 4% of the Company's issued share capital as of the approval date.

On 10 July 2015, the Company granted RSUs representing an aggregate of 95,780,000 shares to certain grantees pursuant to the Post-IPO RSU Scheme. Each RSU is conditional on the grantee completing one to four years' service and can be converted into one ordinary share upon vesting.

On 10 November 2017, the Company granted RSUs representing an aggregate of 6,100,000 shares to 6 grantees, pursuant to the Post-IPO RSU Scheme. Each RSU is conditional on the grantee completing one to four years' service and can be converted into one ordinary share upon vesting.

On 2 April 2020, the Company granted RSUs representing an aggregate of 55,700,000 shares to 38 grantees pursuant to the Post-IPO RSU Scheme. Each RSU is conditional on the grantee completing one to four years' service and can be converted into one ordinary share upon vesting.

On 11 September 2020, the Company granted RSUs representing an aggregate of 35,650,000 shares to 12 grantees pursuant to the Post-IPO RSU Scheme. Each RSU is conditional on the grantee completing one to four years' service and can be converted into one ordinary share upon vesting.

On 11 June 2021, the Company granted RSUs representing an aggregate of 19,000,000 shares to 42 grantees pursuant to the Post-IPO RSU Scheme. Each RSU is conditional on the grantee completing one to four years' service and can be converted into one ordinary share upon vesting.

On 25 June 2021, 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

25 Share-based payments (continued)

(a) RSU Schemes (continued)

On 3 September 2021, the Company granted RSUs representing an aggregate of 14,000,000 shares to 30 grantees pursuant to the Post-IPO RSU Scheme. Each RSU is conditional on the grantee completing one to four years' service and can be converted into one ordinary share upon vesting.

On 12 May 2022, the Company granted RSUs representing an aggregate of 15,300,000 shares to 18 grantees pursuant to the Post-IPO RSU Scheme. Each RSU is conditional on the grantee completing one to four years' service and can be converted into one ordinary share upon vesting.

On 6 June 2022, the Company granted RSUs representing an aggregate of 15,000,000 shares to 2 grantees pursuant to the Post-IPO RSU Scheme. Each RSU is conditional on the grantee completing one to four years' service and can be converted into one ordinary share upon vesting.

On 9 December 2022, the Company granted RSUs representing an aggregate of 1,610,000 shares to 4 grantees pursuant to the Post-IPO RSU Scheme. Each RSU is conditional on the grantee completing one to four years' service and can be converted into one ordinary share upon vesting.

Movements in the number of RSUs outstanding are as follows:

	Number of RSUs
As at 1 January 2021	90,980,000
Granted	58,000,000
Forfeited	(340,000)
Vested	(18,220,000)
As at 31 December 2021	130,420,000
As at 1 January 2022	130,420,000
Granted	31,910,000
Forfeited	(3,135,000)
Vested	(40,483,750)
As at 31 December 2022	118,711,250

25 Share-based payments (continued)

(a) RSU Schemes (continued)

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

The weighted average fair value of RSUs granted during the year ended 31 December 2022 was HK\$0.45 per share (equivalent to approximately RMB0.39 per share) (2021: HK\$1.50 per share (equivalent to approximately RMB1.24 per share)).

26 Retained earnings

	Retained earnings RMB'000
As at 1 January 2021	479,686
Profit for the year	26,435
Profit appropriations to statutory reserves	(117)
As at 31 December 2021	506,004
As at 1 January 2022	506,004
Profit for the year	10,167
Profit appropriations to statutory reserves	(178)
As at 31 December 2022	515,993

Notes to the Financial Statements

27 Contract costs and contract liabilities

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

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Current contract costs relating to online virtual worlds	71,633	41,203
Non-current contract liabilities		
– Memberships	677	995
– Online virtual worlds (Note (a))	14,749	9,447
Total non-current contract liabilities	15,426	10,442
Current contract liabilities		
– Advances from customers	11,046	9,953
– Memberships	9,808	10,931
– Online virtual worlds (Note (a))	138,830	96,126
Total current contract liabilities	159,684	117,010

- (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 provision of durable virtual items, amounting to RMB727,526,000, was recognized during the year ended 31 December 2022 (2021: RMB650,582,000).

Notes to the Financial Statements

27 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	
	2022	2021
	RMB'000	RMB'000
Revenue recognized that was included in the contract liability balance at the beginning of the year		
– Advances from customers	9,953	9,579
– Memberships	10,931	10,858
– Online virtual worlds	96,126	101,482
	117,010	121,919

Unsatisfied contract liabilities as at 31 December 2022 related to memberships and online virtual worlds are expected to be recognized as revenue in 1 month to 4 years.

28 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	
	2022	2021
	RMB'000	RMB'000
0–30 days	7,220	6,316
31–60 days	308	174
61–180 days	569	70
181–365 days	42	1
Over 365 days	60	533
	8,199	7,094

(a) As at 31 December 2022 and 2021, the fair value of trade payables approximated their carrying amounts.

Notes to the Financial Statements

29 Other payables and accruals

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Staff costs and welfare accruals	57,482	53,527
Construction cost payable	24,956	1,328
Other tax liabilities (Note (a))	5,472	2,782
Professional service fees payable	4,464	4,158
Others	1,124	2,750
	93,498	64,545

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

(b) As at 31 December 2022 and 2021, the fair value of other payables and accruals approximated their carrying amounts.

30 Deferred income tax

(i) Deferred tax assets

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
The balance comprises temporary differences attributable to:		
Lease liabilities	63	89
Tax losses	15,033	7,329
Loss allowances for financial assets	433	600
Contract costs and contract liabilities	6,150	3,652
	21,679	11,670

Notes to the Financial Statements

30 Deferred income tax (continued)

(ii) Movement of deferred tax assets

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

Movements of deferred tax assets	Lease liabilities RMB'000	Tax losses RMB'000	Provisions RMB'000	Contract costs and contract liabilities RMB'000	Total RMB'000
As at 1 January 2021	1,587	—	160	2,959	4,706
(Charged)/credited					
— to profit or loss (Note 11)	(1,498)	7,329	440	693	6,964
As at 31 December 2021	89	7,329	600	3,652	11,670
As at 1 January 2022	89	7,329	600	3,652	11,670
(Charged)/credited					
— to profit or loss (Note 11)	(26)	7,704	(167)	2,498	10,009
As at 31 December 2022	63	15,033	433	6,150	21,679

31 Dividend

The dividends paid in 2022 and 2021 amounted RMB45,087,000 and RMB130,865,000 respectively. The Board of Directors of the Company proposed on 29 March 2023 a special dividend of HK\$0.015 (equivalent to approximately RMB0.013) per ordinary share, which will be debited to the share premium account, totalling approximately RMB35,575,000. Such dividend is to be approved by the shareholders at the annual general meeting to be held on 27 June 2023. These financial statements do not reflect this dividend payable as a liability as at 31 December 2022.

(a) Dividend paid to ordinary shares

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
Special final dividend of 2021 — HK\$0.02 (2020: HK\$0.06), equivalent to approximately RMB0.017 (2020: RMB0.05), per ordinary share	47,109	135,986
Less: dividend for shares held for the RSU Schemes	(2,022)	(5,121)
	45,087	130,865

Notes to the Financial Statements

31 Dividend (continued)

(b) Dividend not recognized as at 31 December 2022

	As at 31 December 2022
	RMB'000
Proposed special dividend of HK\$0.015, equivalent to approximately RMB0.013 per ordinary share	37,823
Less: dividend for shares held for the RSU Schemes	(2,248)
	35,575

32 Advance from distributors

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Advance for licensing fee	21,275	22,001
Advance for royalty fee	591	4,889
Others	3,476	6,108
	25,342	32,998

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

33 Cash flow information

(a) Cash generated from operations

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Profit after income tax	10,339	26,906
Adjustments for:		
– Income tax (credit)/expense (Note 11)	(7,704)	24,428
– Depreciation of property and equipment (Note 15)	7,107	5,779
– Depreciation of right-of-use assets (Note 16)	14,135	18,746
– Amortization of intangible assets (Note 17)	1,920	2,442
– Gains on disposals of property, plant and equipment (Note 8)	(66)	(64)
– Gain on disposal of right-of-use assets (Note 8)	–	(589)
– Share-based compensation expenses (Note 9)	51,405	52,270
– Finance income – net (Note 10)	(39,717)	(24,743)
– Share of losses of an associate	–	3,115
– Loss on disposal of equity interest in an associate	–	6,962
– Interest income of financial assets at fair value through profit or loss (Note 8)	(325)	(1,738)
– Net impairment losses on financial assets (Note 3.1)	1,071	1,284
– Foreign exchange losses on operating activities (Note 13)	248	138
Changes in working capital (excluding the currency translation differences on consolidation):		
– Trade receivables	(42,905)	21,914
– Prepayments and other receivables	(994)	(6,032)
– Inventory	(207)	–
– Trade payables	482	306
– Other payables and accruals	6,965	3,936
– Advances from distributors	(7,388)	(10,635)
– Contract costs	(30,433)	8,031
– Contract liabilities	47,658	(6,065)
Cash generated from operations	11,591	126,391

Notes to the Financial Statements

33 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	
	2022	2021
	RMB'000	RMB'000
Cash and cash equivalents (including bank overdraft)	1,303,705	1,429,190
Term bank deposits	205,000	119,000
Lease liabilities	(55,976)	(70,759)
Net cash	1,452,729	1,477,431
Cash, term bank deposits and liquid investments	1,508,705	1,548,190
Gross debt — fixed interest rates	(55,976)	(70,759)
Net cash	1,452,729	1,477,431

	Other assets		Liabilities from financing activities	
	Cash	Term bank deposits	Leases	Total
Net cash as at 1 January 2021	1,381,965	229,631	(88,104)	1,523,492
Cash flows	51,239	(110,631)	18,091	(41,301)
Accrued interest expense	—	—	(4,494)	(4,494)
Termination of lease	—	—	3,748	3,748
Foreign exchange adjustments	(4,014)	—	—	(4,014)
Net cash as at 31 December 2021	1,429,190	119,000	(70,759)	1,477,431
Cash flows	(135,133)	86,000	18,409	(30,724)
Accrued interest expense	—	—	(3,626)	(3,626)
Foreign exchange adjustments	9,648	—	—	9,648
Net cash as at 31 December 2022	1,303,705	205,000	(55,976)	1,452,729

34 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 16 for further information.

	As at 31 December	
	2022	2021
	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

(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	
	2022	2021
	RMB'000	RMB'000
Construction in progress	138,646	162,432

Notes to the Financial Statements

35 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) Key management personnel compensations paid or payable for employee services

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Wages, salaries and bonuses	10,300	10,470
Pension costs — defined contribution plans	285	300
Other social security costs, housing benefits and other employee benefits	405	401
Share-based compensation expense	24,981	17,929
	35,971	29,100

36 Contingencies

The Group did not have any material contingent liabilities as at 31 December 2022 and 2021.

Notes to the Financial Statements

37 Balance sheet and reserve movement of the Company

Balance sheet of the Company	Note	As at 31 December	
		2022	2021
		RMB'000	RMB'000
ASSETS			
Non-current assets			
Interests in subsidiaries		372,453	321,048
		372,453	321,048
Current assets			
Prepayments and other receivables		10,510	9,662
Amounts due from subsidiaries		22,885	21,823
Short-term bank deposits		50,000	54,000
Cash and cash equivalents		99,157	148,913
		182,552	234,398
Total assets		555,005	555,446
EQUITY			
Share capital		8	8
Share premium		1,099,859	1,106,699
Reserves	(a)	64,358	52,413
Accumulated losses	(a)	(671,596)	(660,983)
Total equity		492,629	498,137
LIABILITIES			
Current liabilities			
Other payables and accruals		2,544	2,149
Amounts due to subsidiaries		59,832	55,160
		62,376	57,309
Total liabilities		62,376	57,309
Total equity and liabilities		555,005	555,446

Notes to the Financial Statements

37 Balance sheet and reserve movement of the Company (continued)

(a) Reserve movement of the Company

	Other reserves RMB'000	Accumulated losses RMB'000
At 1 January 2021	15,993	(652,319)
Loss for the year	—	(8,664)
RSU Scheme:		
— Value of employee services	52,270	—
— Vesting of RSUs	(15,850)	—
At 31 December 2021	52,413	(660,983)
At 1 January 2022	52,413	(660,983)
Loss for the year	—	(10,613)
RSU Scheme:		
— Value of employee services	51,405	—
— Vesting of RSUs	(39,460)	—
At 31 December 2022	64,358	(671,596)

Notes to the Financial Statements

38 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 2022 and 2021 are set out below:

Year ended 31 December 2022:

Name	Fees RMB'000	Salaries RMB'000	Discretionary bonus RMB'000	Employer's contribution to retirement benefit scheme RMB'000	Other social security costs, housing benefits and other employee benefits RMB'000	Share-based compensation expenses RMB'000	Total RMB'000
Executive Directors							
Mr. Dai Jian ("CEO")	—	1,155	115	42	86	—	1,398
Mr. Wu Lili	—	930	120	88	91	—	1,229
Mr. Li Chong	—	1,080	120	42	56	6,102	7,400
Independent Non-Executive Directors							
Ms. Liu Qianli	404	—	—	—	—	—	404
Dr. Wang Qing	404	—	—	—	—	—	404
Mr. Ma Xiaofeng	404	—	—	—	—	—	404

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
Executive Directors							
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 (Note (f))	—	1,440	270	36	56	5,212	7,014
Independent Non-Executive Directors							
Ms. Liu Qianli	388	—	—	—	—	—	388
Dr. Wang Qing	388	—	—	—	—	—	388
Mr. Ma Xiaofeng	388	—	—	—	—	—	388

Notes to the Financial Statements

38 Benefits and interests of directors (disclosures required by section 383 of the Hong Kong Companies Ordinance (Cap. 622), Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) and HK Listing Rules) (continued)

(b) Directors' termination benefits

No director's termination benefit subsisted at the end of the year or at any time during the year.

(c) Consideration provided to third parties for making available directors' services

No consideration provided to third parties for making available directors' services subsisted at the end of the year or at any time during the year.

(d) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

No loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors subsisted at the end of the year or at any time during the year.

(e) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

(f) Mr. Wang Xiaodong resigned as an Executive Director with effect from 26 January 2022