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百奥家庭互動有限公司
BAIOO Family Interactive Limited

*(Incorporated in the Cayman Islands with limited liabilities)*

**(Stock Code: 2100)**

# ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

The board (the "**Board**") of directors (the "**Directors**") of BAIOO Family Interactive Limited ("**BAIOO**" or the "**Company**") is pleased to announce the audited consolidated results of the Company, its subsidiaries and its controlled entity in the PRC (the "**Group**") for the year ended 31 December 2019 together with the comparative figures of last year, as follows:

## Financial Summary

## INCOME STATEMENT HIGHLIGHT

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2019** | 2018 | Year-over-year |
| | ***RMB'000*** | *RMB'000* | change % |
| **Continuing operations** | | | |
| Revenue | **680,598** | 284,489 | 139.2% |
| Gross profit | **362,146** | 171,677 | 110.9% |
| Operating profit | **159,837** | 106,710 | 49.8% |
| Non-International Financial Reporting Standards ("**IFRSs**") Measures | | | |
| — Adjusted Net Profit(1) (unaudited) | **151,416** | 112,721 | 34.3% |
| — Adjusted EBITDA(2) (unaudited) | **164,193** | 111,928 | 46.7% |

*Notes:*

1. 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.

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

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2019** | 2018 | Year-over-year |
| | ***RMB'000*** | *RMB'000* | change % |
| **Continuing operations** | | | |
| Revenue | **680,598** | 284,489 | 139.2% |
| Gross profit | **362,146** | 171,677 | 110.9% |
| Non-International Financial Reporting (excluding the one-off disposal gain related to the disposal of a 7% equity interest in a subsidiary, Guangzhou Baiman Culture Communications Company Limited, the "**Disposal**") | | | |
| — Operating profit/(loss) | **159,837** | (7,367)[(1)] | 2,269.6% |
| — Profit after tax | **151,167** | 6,721[(1)] | 2,149.2% |
| — Adjusted Net Profit[(2)] (unaudited) | **151,416** | 11,794 | 1,183.8% |
| — Adjusted EBITDA[(3)] (unaudited) | **164,193** | 11,001 | 1,392.5% |

*Notes:*

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

2. 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 eliminates 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 limitations as an analytical tool, as adjusted net profit does not include all items that impact our net profit for the year.

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

# BALANCE SHEET HIGHLIGHT

| | As of 31 December | |
|---|---|---|
| | **2019** | 2018 |
| | ***RMB'000*** | *RMB'000* |
| **Assets** | | |
| Non-current assets | **220,573** | 130,164 |
| Current assets | **1,712,162** | 1,529,229 |
| **Total assets** | **1,932,735** | 1,659,393 |
| **Equity and Liabilities** | | |
| Total equity | **1,550,441** | 1,530,801 |
| Non-current liabilities | **95,413** | 17,182 |
| Current liabilities | **286,881** | 111,410 |
| **Total liabilities** | **382,294** | 128,592 |
| **Total equity and liabilities** | **1,932,735** | 1,659,393 |

# Management Discussion and Analysis

## BUSINESS OVERVIEW

For the year ended 31 December 2019 ("**FY2019**"), BAIOO continued to deliver steady operating metrics across the Company's products for personal computers ("**PCs**") and mobile devices. The Company has effectively deployed its intellectual property ("**IP**") and original content creation-centered strategies to develop creative products and expand its existing product pipeline. The Company proactively developed mobile games and achieved multiple breakthroughs during the year.

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

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

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

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

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

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

## INDUSTRY TRENDS

In FY2019, there was an overall steady expansion in China's gaming market, and continuous growth in mobile game market. According to the latest China Gaming Industry Report released by the Game Publishers Association Publications Committee of the China Audio-Video and Digital Publishing Association (中國音數協遊戲工委), the revenue generated by the gaming sector in China in 2019 amounted to RMB230.88 billion, representing an increase of 7.7% over 2018. In particular, the mobile game segment continued to top the industry with the largest market share, with revenue of RMB158.11 billion, accounting for 68.5% of the total revenue. Overall, the user number of Chinese gamers continued to grow, and increased by 2.5% to a total of 640 million as compared with 2018.

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

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

## OUTLOOK FOR 2020

Looking out to 2020 ("**FY2020**"), the Company will continue to expand mobile game business, and actively capture the development opportunities in domestic and overseas markets. With BAIOO's extensive experience in developing niche market, the Company will devote to improving user experience and scale up user base, thus bringing creative and diversified entertainment contents to users.

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

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

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

The outbreak of the Novel Coronavirus Diseases (the "**COVID-19**") in the PRC at the end of 2019, as well as the gradually mounting cases of infection reported in countries worldwide created threats and anxiety. The government of the PRC has implemented various large-scale contingency measures to mitigate the adverse impact of the COVID-19, however, there are uncertainties about when the COVID-19 epidemic might end and the PRC economy might fully rebound. The Company may face short-term challenges due to the current situation. Against such a background, the Company has taken active measures including telecommuting and strengthening the sanitation and epidemic prevention work, while steadily promoting the business development and consolidating its core competitiveness, with an aim to minimize the impact of COVID-19 on the Company. In light of the strong performance of the Company in FY2019, the Board is confident that there will be no material adverse impact on the financial performance and operations of the Group brought about by COVID-19. BAIOO will continue to monitor and assess the situation and continue to adopt measures that are beneficial to the growth of business and improvement of operating performances.

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

# OPERATION INFORMATION

The following table sets out average quarterly active accounts ("**QAA**"), average quarterly paying accounts ("**QPA**") and average quarterly average revenue per quarterly paying accounts ("**ARQPA**") for our online virtual worlds for the years indicated below:

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

*Notes:*

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

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

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

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

# OVERALL BUSINESS AND FINANCIAL PERFORMANCE

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

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

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

*Notes:*

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

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

## Revenue

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

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

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

## Cost of Revenue

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

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

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

**Gross Profit**

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

**Selling and Marketing Expenses**

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

**Administrative Expenses**

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

**Research and Development Expenses**

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

**Other Income**

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

**Other Gains — net**

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

## Gain on Disposal of an associate

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

## Operating Profit

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

## Finance Income — net

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

## Profit before Income Tax

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

## Income Tax Expense

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

## Profit for the Year

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

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

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

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

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

# LIQUIDITY AND CAPITAL RESOURCES

In FY2019, we met our working capital and other capital requirements principally from cash flow generated from our operating activities.

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

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

*Note:*

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

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

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

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

The effective interest rate per annum for cash in bank balances and deposits as of 31 December 2019 was 1.9%, compared with 1.8% as of 31 December 2018. Our policy is to place our cash in interest-bearing principal-protected demand or deposits with reputable domestic or international banks.

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

| Group | **As of 31 December 2019** *RMB'000* | As of 31 December 2018 *RMB'000* |
|---|---|---|
| RMB | **1,414,529** | 1,404,412 |
| HK$ | **56,618** | 39,423 |
| US$ | **28,801** | 24,216 |
| Others | **104** | 100 |
| | **1,500,052**[(2)] | 1,468,151[(1)] |

*Notes:*

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

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

**Bank Loans and Other Borrowings**

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

**Treasury Policies**

As of 31 December 2019, the Group had conservative treasury policies in terms of cash and financial management. The Group does not use any financial instruments for hedging purposes.

**Foreign Currency Risk**

As of 31 December 2019, RMB85.5 million of our financial resources were held in deposits in non-RMB currencies. Since there are no cost-effective hedges against the fluctuations of the RMB, there is a risk that we may experience a loss as a result of any foreign currency exchange rate fluctuations in connection with our cash in bank balances.

**Capital Expenditures and Investments**

Our capital expenditures consist of purchases of property and equipment such as servers and computers and intangible assets such as computer software. In the year ended 31 December 2019, our total capital expenditures were RMB4.3 million, compared with RMB12.6 million in the year ended 31 December 2018. The following table sets out our expenditures for the years indicated:

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

**Contingent Liabilities**

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

**Charges on Assets**

As of 31 December 2019, there were no charges on the Group's assets.

**Material Acquisitions and Future Plans for Major Investment**

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

**Employees and Staff Costs**

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

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

In addition to salary, we also provide various incentives, including share-based awards, such as share options and restricted shares units ("**RSUs**") granted pursuant to the share incentive schemes of the Company, and performance-based bonuses to better motivate our employees. As required by the PRC law, we contribute to housing funds and maintain mandatory social insurance plans for our employees, covering pension, medical, unemployment, work injury and maternity leave. We are required by the PRC law to make contributions to these social insurance plans at specified percentages of the compensation of each employee, up to a maximum amount as may be specified by the local government from time to time. Such social insurance plans include defined contribution retirement benefit plans organized by the relevant governmental authorities. Forfeited contributions by the Group to these plans may not be used by the Group to reduce the existing level of contributions. The total amount of contributions we made for employee social insurance plans in the year ended 31 December 2019 were approximately RMB38.4 million, compared with RMB31.7 million in the year ended of 2018. We incurred staff costs of approximately RMB181.9 million and RMB160.9 million, for the year ended 31 December 2019 and 2018, representing 26.7% and 56.6% of our revenue for those periods respectively.

We also grant share options and RSUs to our employees to incentivize them to contribute to our growth. Pursuant to the Pre-IPO Share Option Scheme and the Pre-IPO RSU Scheme, there were a total of 526,000 Pre-IPO share options and no shares of Pre-IPO RSUs outstanding as of 31 December 2019.

We will continue to grant RSUs to our employees to incentivize them pursuant to the Post-IPO RSU Scheme. The maximum aggregate number of the Shares underlying all the RSUs which we may grant pursuant to the Post-IPO RSU Scheme is 55,858,080 shares, representing approximately 2.0% of our share capital as of the date of the AGM (as defined below). Pursuant to the Post-IPO RSU Scheme and there were a total of 90,000 RSUs outstanding as of 31 December 2019.

**Dividend**

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

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

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

## CHANGES SINCE 31 DECEMBER 2019

There were no other significant changes in the Group's financial position or from the information disclosed under management discussion and analysis in this annual result announcement for the year ended 31 December 2019.

# CONSOLIDATED INCOME STATEMENT

| | Note | Year ended 31 December<br>**2019**<br>***RMB'000*** | <br>2018<br>*RMB'000* |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | *3* | **680,598** | 284,489 |
| Cost of revenue | *4* | **(318,452)** | (112,812) |
| **Gross profit** | | **362,146** | 171,677 |
| Selling and marketing expenses | *4* | **(77,249)** | (69,249) |
| Administrative expenses | *4* | **(52,903)** | (50,450) |
| Research and development expenses | *4* | **(97,062)** | (81,386) |
| Net impairment losses on financial assets | | **(2,669)** | (1,047) |
| Other income | | **3,247** | 6,576 |
| Other gains — net | | **17,053** | 15,574 |
| Gain on partial disposal of an associate | | **7,274** | — |
| Gain on disposal of a subsidiary | | **—** | 115,015 |
| **Operating profit** | | **159,837** | 106,710 |
| Finance income | *5* | **20,558** | 27,399 |
| Finance costs | *5* | **(6,001)** | (67) |
| Finance income — net | *5* | **14,557** | 27,332 |
| Share of losses of an associate | | **(18,144)** | (7,087) |
| **Profit before income tax** | | **156,250** | 126,955 |
| Income tax expense | *6* | **(5,083)** | (17,933) |
| **Profit for the year from continuing operations** | | **151,167** | 109,022 |
| **Discontinued operations** | | | |
| Loss for the year from discontinued operations | | **—** | (1,374) |
| **Profit for the year** | | **151,167** | 107,648 |

| | Note | Year ended 31 December 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| **Attributable to:** | | | |
| — Shareholders of the Company | | | |
| Continuing operations | | **151,625** | 113,052 |
| Discontinued operations | | **—** | (977) |
| | | **151,625** | 112,075 |
| — Non-controlling interests | | | |
| Continuing operations | | **(458)** | (4,030) |
| Discontinued operations | | **—** | (397) |
| | | **(458)** | (4,427) |
| | | **151,167** | 107,648 |
| **Earnings per share for profit from continuing operations attributable to shareholders of the Company** | | | |
| (expressed in RMB per share) | *7* | | |
| Basic earnings per share | | **0.0566** | 0.0413 |
| Diluted earnings per share | | **0.0566** | 0.0411 |
| **Earnings per share for profit attributable to shareholders of the Company** | | | |
| (expressed in RMB per share) | *7* | | |
| Basic earnings per share | | **0.0566** | 0.0409 |
| Diluted earnings per share | | **0.0566** | 0.0408 |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

# CONSOLIDATED BALANCE SHEET

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

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

## 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 (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.

## 2 Changes in accounting policies and disclosure

*2.1 New standards, amendments to existing standards and interpretations adopted by the Group*

The Group has applied the following new standards, amendments to existing standards and interpretations for the first time for its annual reporting period commencing 1 January 2019:

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

Save for the impact of adoption of IFRS 16 set out Note 2.3, the adoption of other new and amended standards and interpretations did not have material impact on the consolidated financial statements of the Group.

*2.2 New standards and interpretations not yet adopted*

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

*Note:* The amendments were originally intended to be effective for annual reporting periods beginning on or after 1 January 2020. None of above new standards and amendments to standards and interpretations is expected to have a significant effect on the consolidated financial statements of the Group.

### *2.3 Changes in accounting policies*

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

As indicated in note 2.1 above, the Group has adopted IFRS 16 from its mandatory adoption date of 1 January 2019. The Group has applied the simplified transition approach and has not restated comparative amounts for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in Note 2.4.

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

(a) Practical expedients applied

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

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics

- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review — there were no onerous contracts as at 1 January 2019

- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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

(b) Measurement of lease liabilities

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

(c) Measurement of right-of-use assets

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

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

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

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

(e) Lessor accounting

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

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

*2.4 Leases*

As explained in Note 2.3 above, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change is described in Note 2.3.

Until 31 December 2018, leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

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

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

- fixed payments (including in-substance fixed payments), less any lease incentives receivable

- variable lease payment that are based on an index or a rate

- amounts expected to be payable by the lessee under residual value guarantees

- the exercise price of a purchase option if the Group is reasonably certain to exercise that option

- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

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

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.

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

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

*2.5 Discontinued operations*

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

## 3 Segment information

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

The Group determined that it has operating segments as follows:

— Online entertainment business
— Other businesses

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

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

There were no material inter-segment sales during years ended 31 December 2019 and 2018, respectively. The revenues from external customers reported to CODM are measured as segment revenue.

Other information, together with the segment information, provided to the CODM, is measured in a manner consistent with that applied in these financial statements. There was no separate segment assets and segment liabilities information provided to the CODM.

The segment information provided to the Group's CODM for the reportable segments for the years ended 31 December 2019 and 2018 are as follows:

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

| | Year ended 31 December 2018 | | | | |
|---|---|---|---|---|---|
| | Online entertainment business | Other businesses | Subtotal | Discontinued operations* | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Segment revenue | 282,115 | 2,374 | 284,489 | 5,248 | 289,737 |
| Timing of revenue recognition | | | | | |
| At a point in time | 150,460 | — | 150,460 | 5,248 | 155,708 |
| Over time | 131,655 | 2,374 | 134,029 | — | 134,029 |
| Gross profit | 170,378 | 1,299 | 171,677 | 2,504 | 174,181 |
| Depreciation | 7,582 | 121 | 7,703 | 127 | 7,830 |
| Amortization | 780 | 271 | 1,051 | 7 | 1,058 |
| Share of losses of an associate | — | (7,087) | (7,087) | — | (7,087) |

* The retail business has been classified as discontinued operations, and the related revenue, expenses and tax are presented as a single amount in the consolidated income statement as "loss for the year from discontinued operations".

The reconciliation of gross profit to profit before income tax for the continuing operations is shown in the consolidated income statement.

The Company is domiciled in the Cayman Islands while the Group mainly operates its business in the PRC and Hong Kong. For the years ended 31 December 2019 and 2018, the geographical information on the total revenues is as follows:

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

There is no concentration risk in terms of customers (which include end users from online business and customers from other businesses) as no single external customer contributed more than 10% of the Group's total revenue for the years ended 31 December 2019 and 2018. However, revenue of the Group is mainly derived from self-developed online virtual worlds operations and the Group depends on the success of a limited number of online virtual worlds to generate revenue. As summarized in the table below, the online virtual worlds contributing more than 10% of the Group's total revenue account for 83.4% and 78.9% of the total revenue for the years ended 31 December 2019 and 2018, respectively. The percentage of revenue contributed by the following online virtual worlds is not presented for the years when such amount is less than 10% of the Group's total revenue in a particular period.

| | Year ended 31 December | |
|---|---|---|
| | **2019** | 2018 |
| Shiwuyu | **30.4%** | * |
| Aola Star Mobile | **21.3%** | * |
| Legend of Aoqi | **17.4%** | 32.8% |
| Aola Star | **14.3%** | 30.7% |
| Zaowufaze | * | 15.4% |

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

## 4 Expenses by nature

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

## 5 Finance income — net

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

## 6 Income tax expense

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

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

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

| | Year ended 31 December | |
|---|---|---|
| | **2019** | 2018 |
| | ***RMB'000*** | *RMB'000* |
| Profit from continuing operations before income tax expense | **156,250** | 126,955 |
| Loss from discontinued operations before income tax expense | **—** | (1,374) |
| | **156,250** | 125,581 |
| Share of losses of an associate | **18,144** | 7,087 |
| | **174,394** | 132,668 |
| Tax calculated at income tax rates applicable to profits of the consolidated entities in their respective jurisdictions (Note (a), (b), (c)) | **21,015** | 15,732 |
| Tax effects of: | | |
| Tax losses for which no deferred income tax asset was recognized | **1,775** | 7,925 |
| Utlisation of previously unrecognised tax losses and temporary timing differences | **(7,346)** | — |
| Super deduction for research and development expenses (Note (c)) | **(6,743)** | (5,743) |
| Change of appliable tax rate (Note (c)) | **(3,076)** | — |
| Income not subject to tax | **(725)** | (1,182) |
| Expenses not deductible for income tax purposes: | | |
| — Share-based compensation | **25** | 1,172 |
| — Others | **158** | 29 |
| **Income tax expense** | **5,083** | 17,933 |

*(a) Cayman Islands income tax*

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly, is exempted from Cayman Islands income tax.

*(b) Hong Kong profits tax*

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

*(c) PRC corporate income tax*

The Group's subsidiaries in the PRC are subject to corporate income tax at the rate of 25% except Guangzhou Baitian Information Technology Limited ("**Guangzhou Baitian**") and Baiduo (Guangzhou) Information Technology Limited ("**Baiduo**"). Guangzhou Baitian was qualified as "Key Software Enterprise" in 2019 and was entitled to a preferential income tax rate of 10% on its estimated assessable profits for the years ended 31 December 2019 (2018: 15%). Baiduo was qualified as "Small Low-Profit Enterprise" in 2018 and was entitled to a preferential income tax rate of 10% on its estimated assessable profits for the year ended 31 December 2019 (2018: 10%).

According to the relevant laws and regulations promulgated by the State Tax Bureau of the PRC that was effective from 2008 onwards, enterprises engaging in research and development activities are entitled to claim 150% of their eligible research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year ("**Super Deduction**"). The additional tax deducting amount of the qualified research and development expenses has been increased from 150% to 175%, effective from 2018 to 2020, according to a new tax incentives policy promulgated by the State Tax Bureau of the PRC in September 2018. The Group has considered the Super Deduction to be claimed for the Group entities in ascertaining their assessable profits for the years ended 31 December 2019 and 2018.

*(d) Withholding Tax ("**WHT**")*

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

For the years ended 31 December 2019 and 2018, the Group did not have any plan to require its PRC subsidiaries to distribute their retained earnings to the Company. Accordingly, no deferred income tax liability on WHT was accrued as at the end of each reporting period.

## 7 Earnings per share

### *(a) Basic*

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

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

| | **Year ended 31 December** | |
|---|---|---|
| | **2019** | 2018 |
| Profit from continuing operations attributable to shareholders of the Company *(RMB'000)* | **151,625** | 113,052 |
| Weighted average number of ordinary shares in issue less shares held for RSU Scheme | **2,679,031,094** | 2,738,003,867 |
| Basic earnings per share *(in RMB/share)* | **0.0566** | 0.0413 |

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

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

| | **Year ended 31 December** | |
|---|---|---|
| | **2019** | 2018 |
| Profit attributable to shareholders of the Company *(RMB'000)* | **151,625** | 112,075 |
| Weighted average number of ordinary shares in issue less shares held for RSU Scheme | **2,679,031,094** | 2,738,003,867 |
| Basic earnings per share *(in RMB/share)* | **0.0566** | 0.0409 |

*(b) Diluted*

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

For the years ended 31 December 2019 and 2018, the Company had two categories of potential ordinary shares, the share options and the RSUs, which had to be considered for calculating diluted earnings per share. A calculation is done to determine the number of shares that could have been issued at fair value (determined as the average market price per share for the year) based on the total proceeds receivable upon exercising the outstanding share options and RSUs. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options and RSUs. The difference is added to the denominator as the number of shares issued for no consideration.

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

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

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

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

## 8 Trade receivables

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

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

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

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

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

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

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

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

## 9 Trade payables

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

The ageing analysis of trade payables based on recognition date is as follows:

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

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

## 10 Dividend

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

### (a) Dividend paid to ordinary shares

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

**(b) Dividends not recognized as at 31 December 2019**

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

## 11 Events occurring after the reporting period

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

## Audit Committee and Review of Financial Statements

The audit committee of the Company (the "**Audit Committee**") has reviewed the accounting principles and practices adopted by the Group and discussed with the management regarding auditing, risk management, internal control and financial reporting matters. The Audit Committee has also reviewed the Group's results for the year ended 31 December 2019. Based on its review and discussions with the management, the Audit Committee was satisfied that the Group's audited consolidated financial statements were prepared in accordance with applicable accounting standards and fairly present the Group's financial position and results for the year ended 31 December 2019.

## Review of Preliminary Announcement

The figures set out in the preliminary announcement in respect of the Group's consolidated balance sheet, consolidated statement of comprehensive income, consolidated income statement and the related notes thereto to the audited consolidated financial statements of the Group for the year ended 31 December 2019 have been agreed by the Company's external auditor, PricewaterhouseCoopers ("**PwC**"), Certified Public Accountants, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PwC in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by PwC on the preliminary announcement.

## Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own securities dealing code to regulate Directors' dealings in the Company's securities and other matters covered by the Model Code.

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

The Company has also established written guidelines no less exacting than the Model Code (the "**Employees Written Guidelines**") for securities transactions by employees who are likely to be in possession of unpublished inside information of the Company. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company during the year ended 31 December 2019.

## Corporate Governance Code

The Company is committed to maintaining a high standard of corporate governance, the principles of which serve to uphold a high standard of ethics, transparency, responsibility and integrity in all aspects of business and to ensure that its affairs are conducted in accordance with applicable laws and regulations. The Company has adopted the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance.

Throughout the year ended 31 December 2019, the Company has applied the principles and complied with all the code provision as set out in the CG Code, save and except for code provision A.2.1 with details set out below.

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

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

**Purchase, Sale or Redemption of the Company's Listed Securities**

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

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

The Directors believe that the repurchases of Shares are in the best interests of the Company and its Shareholders and would lead to an enhancement of the earnings per Share. Save as disclosed above, neither the Company nor any member of the Group has purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2019.

**Annual General Meeting and Closure of Register of Members**

The AGM is scheduled to be held on Friday, 26 June 2020. The notice of AGM will be published and dispatched to the Shareholders in the manner as required by the Listing Rules in due course. The Register of Members will be closed from Monday, 22 June 2020 to Friday, 26 June 2020, both days inclusive, during which period no transfer of shares will be registered, in order to determine the identity of the Shareholders who are entitled to attend and vote at the AGM. In order to be eligible to attend and vote at the AGM, unregistered holders of shares shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong (the "**Hong Kong Share Registrar**"), Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Friday, 19 June 2020.

## Special Final Dividend and Closure of Register of Members

The Board recommended the payment of a special final dividend of HK$0.025 (equivalent to approximately RMB0.022) per Share for the year ended 31 December 2019, subject to the approval of the Shareholders at the AGM. The proposed dividend is expected to be payable on Wednesday, 22 July 2020 to the Shareholders whose names appear on the Register of Members as of Friday, 10 July 2020.

The Register of Members will be closed from Wednesday, 8 July 2020 to Friday, 10 July 2020, both days inclusive, for the purpose of ascertaining the shareholders' entitlement to the proposed special final dividend. In order to qualify for the proposed special final dividend, all transfers documents accompanied by the relevant share certificates must be lodged for registration with the Hong Kong Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 7 July 2020.

## Publication of 2019 Annual Results and Annual Report

The annual results announcement is published on the Company's website (http://www.baioo.com.hk) and the website of Hong Kong Exchanges and Clearing Limited (http://www.hkexnews.hk). The annual report of the Company for the year ended 31 December 2019 will be dispatched to the Shareholders and available on the above websites in due course.

By order of the Board
**BAIOO Family Interactive Limited**
**DAI JIAN**
*Chairman, Chief Executive Officer and Executive Director*

Hong Kong, 26 March 2020

*As at the date of this announcement, the executive Directors of the Company are Mr. DAI Jian (Chairman and Chief Executive Officer), Mr. WU Lili, Mr. LI Chong and Mr. WANG Xiaodong; the independent non-executive Directors of the Company are Ms. LIU Qianli, Dr. WANG Qing and Mr. MA Xiaofeng.*