baioo 百奥

BAIOO Family Interactive Limited
百奧家庭互動有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2100)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

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 2016 together with comparative figures of last year, as follows:

Financial Summary

INCOME STATEMENT HIGHLIGHT

	For the year ended 31 December		
	2016	2015	Year-over-year change
	RMB'000	*RMB'000*	*%*
Revenue	**383,260**	387,105	(1.0%)
— Online entertainment business	**324,357**	344,745	(5.9%)
— Retail business	**55,108**	34,656	59.0%
— Other businesses	**3,795**	7,704	(50.7%)
Gross profit	**212,390**	236,634	(10.2%)
Operating profit	**1,938**	56,299	(96.6%)
Non-International Financial Reporting Standards ("**IFRS**") Measures			
— Adjusted Net Profit[1] (unaudited)	**43,639**	124,556	(65.0%)
— Adjusted EBITDA[2] (unaudited)	**21,415**	89,219	(76.0%)

Notes:

(1) Adjusted net profit consists of profit for the year plus share-based compensation and fair value loss of convertible redeemable preferred shares. Adjusted net profit eliminates the effect of non-cash share-based compensation expenses and non-cash fair value change of preferred shares. 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, and plus income tax, depreciation of fixed assets and amortization of intangible assets.

BALANCE SHEET HIGHLIGHT

	As of 31 December 2016 *RMB'000*	As of 31 December 2015 *RMB'000*
Assets		
Non-current assets	**414,407**	464,519
Current assets	**1,603,432**	1,288,471
Total assets	**2,017,839**	1,752,990
Equity and liabilities		
Total equity	**1,573,114**	1,570,324
Non-current liabilities	**16,764**	16,865
Current liabilities	**427,961**	165,801
Total liabilities	**444,725**	182,666
Total equity and liabilities	**2,017,839**	1,752,990

Management Discussion and Analysis

BUSINESS OVERVIEW

In the year ended 31 December 2016 ("**FY2016**"), BAIOO continued to focus on stabilizing the operating metrics of the Company's online virtual worlds, while expanding into the mobile sphere through leveraging existing and newly acquired intellectual properties ("**IP(s)**"). The Company continued to strategically improve audience engagement and user retention and create 'fun' content during FY2016, and through these efforts, BAIOO was able to return to profitability over the course of 2016. BAIOO achieved revenue of RMB383.3 million for FY2016, with gross profit of RMB212.4 million, a decrease of 1.0% and 10.2% from the year ended 31 December 2015 ("**FY2015**"), respectively.

In FY2016, the Company's average quarterly active accounts ("**QAAs**") achieved 45.5 million, a decrease of 7.3% compared to FY2015, its average quarterly paying accounts ("**QPAs**") achieved approximately 2.0 million, a decrease of 13.0% compared to the FY2015, and its average quarterly average revenue per quarterly paying accounts ("**ARQPAs**") achieved RMB 41.5, an increase of approximately 8.9% compared to FY2015.

In addition, BAIOO successfully released a number of new products for mobile devices and personal computers ("**PC(s)**") on the market during FY2016, including a massively multiplayer online role-playing mobile adaptation ("**MMORPG**") of Zaowufaze (「造物法則」), one of BAIOO's most popular comic IPs. These new products attracted a wide range of users not just because of unique gameplay, but also as a result of the virtual characters the Group created and effectively integrated into the specific products. Towards the end of FY2016 and in early 2017, the Company's mobile game products also successfully entered overseas markets, including Hong Kong, Macao, and Southeast Asia. With the growing fan base of its IPs, the Company will seize opportunities to expand its current offerings from PC and mobile games to a number of multimedia adaptations, including online comics, online/TV cartoon series, movies and other forms of media works. The Group will continue to pursue potential cooperation with other well-known comic IPs while leveraging its newly developed IP portfolio to create engaging products and drive improvement in operating metrics through focusing on "fun" in 2017.

In terms of the baby and maternity product business, the Company continued to generate solid cash flow from the five retail stores of Bumps to Babes Limited ("**Bumps to Babes**") located in Hong Kong in FY2016. However, given the keen competition in China's baby and maternity e-commerce market, the management has concluded that the newly established e-commerce platform BumpsBB.com would not yield reasonable profits despite its unique advantage in product sourcing. As a result, BAIOO intends to maintain the e-commerce platform but will halt further investments into such segment.

Industry Analysis

As the competition in China's Internet and mobile Internet industries continued to grow tighter, the PRC government increased more measures to regulate such sectors. Most notably, the Cyberspace Administration of China (中華人民共和國國家互聯網信息辦公室) recently published a series of policies on cybersecurity for minors. These draft measures, among others, require online-game operators to prevent anyone below 18 years old from accessing online games during the period from midnight to 8 a.m. and they also called for increasing the number of websites warning minors about unsuitable content. The above proposed measures, set out in the draft policies to solicit public opinion, have not been formally adopted and may be subject to revisions and amendments taking into account the results of the public consultation. The Company is of the view that it has relevant measures in place on internet safety for children, which are in line with the requirements set out in the draft policies, and believes if such measures are implemented, they will have remote impact on the Company's daily operations and strategy.

Despite these stricter policies, China's Internet and mobile Internet industries continued to grow at a breakneck pace during 2016. According to the latest report on the Chinese Game Industry (《中國遊戲產業報告》) released by the Game Publishers Association Publications Committee (GPC) of the China Audio-video and Digital Publishing Association (中國音數協游戲工委), the revenue generated from the gaming sector in China in 2016 rose to RMB165.57 billion, an increase of 17.7% year-on-year, of which the mobile gaming market contributed significant market share of RMB81.92 billion, an increase of 59.2% year-on-year. The total number of gaming users reached 566 million, an increase of 5.9% year-on-year. The robust growth in revenue shows that there is still significant potential in China's gaming market, particularly for mobile devices.

OUTLOOK FOR YEAR 2017

In 2017, BAIOO will remain committed to further improving user retention and producing fun and engaging content for children on all its products, while executing its development strategies: strengthening game IPs, developing comic IPs and incubating new early childhood education IPs.

Over the past eight years, the Company has created a number of successful IPs, such as virtual characters from our classic virtual worlds, namely Aobi Island (「奧比島」) and Legend of Aoqi (「奧奇傳説」). Going forward, the Company will strengthen its efforts in developing and launching adaptive products including comics, fictions, films and televisions. The Company will also leverage other channels to increase the exposure of its IPs and enhance the image of those IPs for its online entertainment business to strengthen its existing IPs. Meanwhile, the Company will utilize certain well-established IPs to launch a number of new products catering to varied game genres and user types.

In terms of developing comic IPs, BAIOO will make full use of its 100bt.com platform to promote IPs from existing comic books, including the highly acclaimed XiXingJi (「西行紀」) and Zaowufaze (「造物法則」), and the newest release, Juexingzhe (「絕行者」), and provide a variety of peripheral information on the animation and comic offerings through the platform. New projects will continue to center on high quality IPs, and the Company may consider acquiring more IPs to attract new users.

At the same time, in response to the unmet demand in the China's early childhood education market, the Company will launch a new product line to address the family education and entertainment needs for children aged 3 to 6 after years of development. Through an IP-based strategy revolving around the cartoon character "Little Cloud Bear Bei Bei" (「小雲熊北北」), BAIOO plans to launch a series of innovative gaming products, from online to offline, including a well-designed drawing book product and interactive toys. Given BAIOO's insights on the young children market and its solid research and development capabilities in IP development and children narrative creation, the management of the Company is confident that BAIOO can capture the huge market opportunities in the early childhood education area, and looks forward to creating business synergies with its existing virtual worlds and comics segments with an even larger user base.

OPERATION INFORMATION

The following table sets out average QAAs, average QPAs and average quarterly ARQPAs for our online virtual worlds in web-based platforms for the years indicated below:

	For the Year Ended		
	31 December 2016[1]	31 December 2015	Year-over-year change
	(QAA & QPA in millions, ARQPA in RMB)		
average QAA[2]	**45.5**	49.1	(7.3%)
average QPA[3]	**2.0**	2.3	(13.0%)
average quarterly ARQPA[4]	**41.5**	38.1	8.9%

Notes:

(1) In FY2016, our online virtual worlds under commercial operation in web-based platforms included Aobi Island, Aola Star, Dragon Knights, Light of Aoya, Legend of Aoqi, Clashes of Aoqi, Magic Fighter, Amazing Combat and Super Badilong.

(2) The average QAA for online virtual worlds was 45.5 million for FY2016, representing a decrease of 7.3% year-on-year. This reflected shifting user trends from PCs to mobile devices.

(3) The average QPA for online virtual worlds was 2.0 million for FY2016, representing a decrease of 13.0% year-on-year as a result of our strategy of moving away from heavy monetization and focusing on fun purpose to attract more users.

(4) The average quarterly ARQPA for online virtual worlds was RMB41.5 for FY2016, representing an increase of 8.9% year-on-year as a result of the increasing popularity of our online virtual world after our "fun" strategy implement.

OVERALL BUSINESS AND FINANCIAL PERFORMANCE

The following table sets forth our consolidated statements of comprehensive income for the years ended 31 December 2016 and 2015, respectively:

	For the year ended			
	31 December 2016 *RMB'000*	**% of Revenue**	31 December 2015 *RMB'000*	% of Revenue
Revenue	**383,260**	**100.0**	387,105	100.0
Online entertainment business	**324,357**	**84.6**	344,745	89.1
Retail business	**55,108**	**14.4**	34,656	9.0
Other businesses	**3,795**	**1.0**	7,704	1.9
Cost of revenue	**(170,870)**	**(44.6)**	(150,471)	(38.9)
Gross profit	**212,390**	**55.4**	236,634	61.1
Selling and marketing expenses	**(92,868)**	**(24.2)**	(70,924)	(18.3)
Administrative expenses	**(75,865)**	**(19.8)**	(72,777)	(18.8)
Research and development expenses	**(61,057)**	**(15.9)**	(46,338)	(12.0)
Other income	**15,395**	**4.0**	10,429	2.7
Other gains/(losses) — net	**3,943**	**1.0**	(725)	(0.2)
Operating profit	**1,938**	**0.5**	56,299	14.5
Finance income — net	**41,084**	**10.7**	59,070	15.3
Share of loss of an associate	**(1,530)**	**(0.4)**	(344)	(0.1)
Profit before income tax	**41,492**	**10.8**	115,025	29.7
Income tax expense	**(8,489)**	**(2.2)**	(15,595)	(4.0)
Profit for the year	**33,003**	**8.6**	99,430	25.7
Other comprehensive income, net of tax	**1,356**	**0.4**	1,254	0.3
Total comprehensive income for the year	**34,359**	**9.0**	100,684	26.0
Other financial data				
Adjusted net profit[(1)] (unaudited)	**43,639**	**11.4**	124,556	32.2
Adjusted EBITDA[(2)] (unaudited)	**21,415**	**5.6**	89,219	23.0

Notes:

(1) Adjusted net profit consists of profit for the year plus share-based compensation and fair value loss of convertible redeemable preferred shares.

(2) Adjusted EBITDA consists of adjusted net profit less finance income — net, plus income tax, depreciation of fixed assets and amortization of intangible assets.

Revenue

Our revenue for the year ended 31 December 2016 was RMB383.3 million, representing a decrease by 1.0% from RMB387.1 million for the year ended 31 December 2015.

Online Entertainment Business: Our online entertainment business revenue for the year ended 31 December 2016 was RMB324.4 million, a decrease by 5.9% from RMB344.7 million for the year ended 31 December 2015. This was primarily due to our strategy of moving away from heavy monetization and focus on fun purpose to attract more users and reflected the shifting trends from PCs to mobile device.

Retail Business:* Revenue from the retail business for the year ended 31 December 2016 was RMB55.1 million, an increase by 59.0% from RMB34.7 million for the year ended 31 December 2015, primarily due to additional revenue generated from the sales of baby and maternity products by Bumps to Babes, which we acquired in May 2015.

Other Businesses: Revenue from the other businesses for the year ended 31 December 2016 was RMB3.8 million, a decrease by 50.7% from RMB7.7 million for the year ended 31 December 2015, primarily due to decrease of the revenue generated from advertisement.

Note:

* In light of the expansion of our retail business, we separate it from the "other businesses" segment in our financial statement from FY2016 onward. Comparative figures have been reclassified to conform the new presentation.

Cost of Revenue

Our cost of revenue for the year ended 31 December 2016 was RMB170.9 million, representing an increase by 13.6% from RMB150.5 million for the year ended 31 December 2015.

Online Entertainment Business: Our online entertainment business cost for the year ended 31 December 2016 was RMB132.8 million, an increase by 4.2% from RMB127.4 million for the year ended 31 December 2015. The increase was primarily driven by the increase in payment of third party revenue sharing and partly offset by the decrease in employee benefit expenses and prepaid card production fees.

Retail Business: Cost of the retail business for the year ended 31 December 2016 was RMB31.8 million, an increase by 70.1% from RMB18.7 million for the year ended 31 December 2015. The increase mainly reflected increase in cost of goods sold as a result of baby and maternity product sales following the acquisition of Bumps to Babes in May 2015.

Other Businesses: Cost of the other businesses for the year ended 31 December 2016 was RMB 6.3 million, an increase by 43.2% from RMB4.4 million for the year ended 31 December 2015. The increase primarily reflected increase in employee benefit expenses.

Gross Profit

As a result of the foregoing, our gross profit for the year ended 31 December 2016 was RMB212.4 million, compared with RMB236.6 million for the year ended 31 December 2015. Gross profit margin was 55.4% for the year ended 31 December 2016, compared with 61.1% for the year ended 31 December 2015. The lower gross profit margin was mainly due to the lower gross profit margins of baby and maternity products that were sold by Bumps to Babes.

Selling and Marketing Expenses

Our selling and marketing expenses for the year ended 31 December 2016 were RMB92.9 million, an increase by 31.0% from RMB70.9 million for the year ended 31 December 2015. This was primarily due to additional employee benefit expenses and operating lease rental expenses incurred following the Bumps to Babes acquisition.

Administrative Expenses

Our administrative expenses for the year ended 31 December 2016 were RMB75.9 million, an increase by 4.3% from RMB72.8 million for the year ended 31 December 2015. This was primarily the result of (i) approximately RMB7.6 million decrease in employee benefit expenses; (ii) RMB10.5 million increase in rental expenses mainly due to the one-off expense arising from relocation to a newly rented office space and (iii) RMB1.7 million increase in utility and office expenses.

Research and Development Expenses

Our research and development expenses for the year ended 31 December 2016 were RMB61.1 million, an increase by 32.0% from RMB46.3 million for the year ended 31 December 2015. This was primarily driven by increases in expenses for the research and development projects for new mobile and PC online virtual worlds development and development of an e-commerce platform.

Other Income

The Company recognized RMB15.4 million in other income for the year ended 31 December 2016, an increase by 48.1% from RMB10.4 million for the year ended 2015. The increase was mainly driven by the sale of an online virtual world of Amazing Combat (「特戰英雄」) and partly offset by the decrease in government grants.

Other Gains/(Losses) — net

Our other gains — net for the year ended 31 December 2016 were RMB3.9 million, compared with RMB0.7 million in foreign exchange losses for the year ended 31 December 2015. This was primarily due to fair value gains from variable element of the floating interest rate in the bank structure deposit.

Operating Profit

As a result of the foregoing, our operating profit for the year ended 31 December 2016 was RMB1.9 million, compared with operating profit of RMB56.3 million for the year ended 31 December 2015.

Finance Income — net

We had net finance income of RMB41.1 million for the year ended 31 December 2016, compared with net finance income of RMB59.1 million for the year ended December 2015. The finance income for the year ended 31 December 2016 was primarily attributable to (i) RMB29.3 million in interest income on bank deposits and other term deposits; (ii) RMB3.9 million in finance income on the long-term payable and (iii) RMB8.5 million in exchange gains related to non-RMB bank deposits.

Profit before Income Tax

As a result of the foregoing, we had a profit before income tax of RMB41.5 million for the year ended 31 December 2016, compared with a profit before income tax of RMB115.0 million for the year ended 31 December 2015.

Income Tax Expense

Our income tax expense for the year ended 31 December 2016 was RMB8.5 million, a decrease by 45.5% from RMB15.6 million for the year ended 31 December 2015. This was primarily due to the decrease of assessable profit.

Profit for the Year

As a result of the foregoing, we had a profit of RMB33.0 million for the year ended 31 December 2016, compared with a profit of RMB99.4 million for the year ended 31 December 2015.

Adjusted Net Profit/EBITDA (Unaudited)

Our adjusted net profit for the year ended 31 December 2016 was RMB43.6 million, representing a decrease by 65.0% from RMB124.6 million for the year ended 31 December 2015. Our adjusted EBITDA for the year ended 31 December 2016 was RMB21.4 million, representing a 76.0% decrease from RMB89.2 million for the year ended 31 December 2015.

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 IFRS, which is net profit:

	(Unaudited) For the year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Profit for the year	**33,003**	99,430
Add:		
Share-based compensation	**10,636**	25,126
Adjusted net profit	**43,639**	124,556
Add:		
Depreciation and amortization	**10,371**	8,138
Finance income-net	**(41,084)**	(59,070)
Income tax	**8,489**	15,595
Adjusted EBITDA	**21,415**	89,219

LIQUIDITY AND CAPITAL RESOURCES

In FY2016, 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 2016	As of 31 December 2015
	RMB'000	*RMB'000*
Total liabilities	**444,725**	182,666
Total assets	**2,017,839**	1,752,990
Gearing ratio*	**22%**	10%

Note:

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

Cash and Cash Equivalents, Restricted Cash, Short-term Deposits and Long-term Deposits

As of 31 December 2016, our cash and cash equivalents consisted of cash in bank and cash on hand, which amounted to RMB214.2 million, compared with RMB254.6 million as of 31 December 2015. We had short-term deposits of RMB1,041.4 million as of 31 December 2016, representing bank deposits which we intend to hold for over three months but less than one year. We also had long-term deposits of RMB300.0 million as of 31 December 2016, representing bank deposits with an expected maturity of over one year but less than two years.

As of 31 December 2016, the Group had restricted cash balance of RMB279.6 million, representing the cash deposit place in a bank as collateral for the one-year banking facility, which was granted to our controlled entity in the PRC.

The effective interest rate per annum for cash in bank balances and deposits as of 31 December 2016 was 1.7%, compared with 2.7% as of 31 December 2015. Our policy is to place our cash in interest-bearing principal-protected demand or deposits with reputable PRC or international banks.

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

Group	**As of 31 December 2016** *RMB'000*	As of 31 December 2015 *RMB'000*
RMB	**1,680,668**	1,455,632
HK$	**97,976**	146,282
US$	**56,462**	8,623
Others	**93**	92
	1,835,199	1,610,629

Bank Loans and Other Borrowings

The Group had a borrowing of RMB278.1 million and overdrafts of RMB0.9 million as of 31 December 2016, which are shown in current liabilities. The Group had a banking facility of RMB280.8 million as of 31 December 2016, including a borrowing facility of RMB278.1 million, an overdraft facility of RMB1.8 million and a rental guarantee of RMB0.9 million. The Group has RMB1.8 million undrawn facility as of 31 December 2016.

Treasury Policies

As of 31 December 2016, 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 2016, our financial resources of RMB154.5 million 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 leasehold improvement, purchases of property and equipment such as servers and computers and intangible assets such as computer software. During the year ended 31 December 2016, our total capital expenditures were RMB29.0 million, compared with RMB11.9 million in the year ended 31 December 2015. The following table sets out our capital expenditures for the periods indicated:

	For the year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Capital Expenditures		
— Purchase of property and equipment	**27,038**	11,587
— Purchase of intangible assets	**1,929**	270
Total	**28,967**	11,857

Contingent Liabilities

As of 31 December 2016, the Group did not have any material contingent liabilities, guarantees or litigation against it.

Charges on Assets

During the year ended 31 December 2016, the Group pledged RMB279.6 million of cash to a bank to secure a short-term banking facility granted to the Group.

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 2016, the Group had 697 full-time employees, 86.9% of whom are based in Guangzhou. The following table sets forth the number of full-time employees by function as of 31 December 2016:

	As of 31 December 2016	
	Number of Employees	% of Total
Operations	**325**	**46.7**
Development and research	**203**	**29.1**
Sales and Marketing	**90**	**12.9**
General and administration	**79**	**11.3**
Total	**697**	**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 laws 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 during the year ended 31 December 2016 was RMB34.8 million, compared with RMB28.4 million in the year ended 2015. We incurred staff costs of RMB201.1 million and RMB190.5 million, for the years ended 31 December 2016 and 2015, representing 52.5% and 49.2% 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. As of 31 December 2016, there were a total of 1,544,000 share options outstanding under the pre-IPO share option scheme of the Company and 14,366,400 RSUs outstanding under the pre-IPO RSU scheme of the Company, respectively.

We will continue to grant RSUs to our employees to incentivize them pursuant to the post-IPO RSU scheme of the Company (the "**Post-IPO RSU Scheme**"). As of 31 December 2016, there were a total of 43,176,000 RSUs outstanding under the Post-IPO RSU Scheme.

Dividend

At the Company's annual general meeting (the "**AGM**") held on 27 May 2016, the then shareholders of the Company (the "**Shareholder(s)**") approved the Board's recommended special dividend of HK$0.018 (equivalent to RMB0.015) per ordinary share of the Company (the "**Share(s)**") for the year ended 31 December 2015. Such dividend was paid to the then Shareholders on 27 June 2016.

The Board is pleased to recommend the payment of a special dividend of HK$0.018 (equivalent to RMB0.016) per Share for the year ended 31 December 2016 out of our share premium account, subject to the approval of the Shareholders at the forthcoming AGM to be held on 29 June 2017. The proposed dividend will be payable on or about 27 July 2017.

CHANGES SINCE 31 DECEMBER 2016

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 results announcement for the year ended 31 December 2016.

CONSOLIDATED INCOME STATEMENT

		Year ended 31 December	
		2016	2015
	Note	***RMB'000***	*RMB'000*
Revenue	*3*	**383,260**	387,105
Cost of revenue	*4*	**(170,870)**	(150,471)
Gross profit		**212,390**	236,634
Selling and marketing expenses	*4*	**(92,868)**	(70,924)
Administrative expenses	*4*	**(75,865)**	(72,777)
Research and development expenses	*4*	**(61,057)**	(46,338)
Other income		**15,395**	10,429
Other gains/(losses) — net		**3,943**	(725)
Operating profit		**1,938**	56,299
Finance income	*5*	**41,673**	59,723
Finance costs	*5*	**(589)**	(653)
Finance income — net	*5*	**41,084**	59,070
Share of loss of an associate		**(1,530)**	(344)
Profit before income tax		**41,492**	115,025
Income tax expense	*6*	**(8,489)**	(15,595)
Profit for the year		**33,003**	99,430
Attributable to:			
— Shareholders of the Company		**35,513**	98,909
— Non-controlling interests		**(2,510)**	521
		33,003	99,430
Earnings per share (expressed in RMB per share)	*7*		
— Basic		**0.0130**	0.0366
— Diluted		**0.0128**	0.0359

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Profit for the year	**33,003**	99,430
Other comprehensive income		
Items that may be reclassified to profit or loss		
Currency translation differences	**1,356**	1,254
Total comprehensive income for the year	**34,359**	100,684
Attributable to:		
— Shareholders of the Company	**36,452**	99,778
— Non-controlling interests	**(2,093)**	906
	34,359	100,684

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2016	2015
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Property and equipment		**38,873**	16,312
Intangible assets		**53,849**	50,003
Investment in an associate		**—**	3,656
Prepayments and other receivables		**12,616**	9,608
Deferred income tax assets		**6,375**	4,940
Long-term deposits		**300,000**	380,000
Financial assets at fair value through profit or loss		**2,694**	—
		414,407	464,519
Current assets			
Inventories		**13,151**	16,277
Trade receivables	*8*	**9,877**	6,161
Prepayments and other receivables		**42,038**	34,106
Financial assets at fair value through profit or loss		**3,167**	1,298
Short-term deposits		**1,041,427**	975,991
Cash and cash equivalents		**214,216**	254,638
Restricted cash		**279,556**	—
		1,603,432	1,288,471
Total assets		**2,017,839**	1,752,990
EQUITY			
Share capital		**9**	8
Share premium		**1,567,040**	1,581,855
Reserves		**30,857**	48,338
Accumulated losses		**(42,449)**	(77,962)
		1,555,457	1,552,239
Non-controlling interests		**17,657**	18,085
Total equity		**1,573,114**	1,570,324

		As at 31 December	
		2016	2015
	Note	***RMB'000***	*RMB'000*
LIABILITIES			
Non-current liabilities			
Long-term payable		**6,423**	9,793
Advances under government grants		**678**	1,560
Deferred revenue		**6,367**	2,842
Deferred income tax liabilities		**3,296**	2,670
		16,764	16,865
Current liabilities			
Trade payables	*9*	**9,618**	11,467
Other payables and accruals		**43,661**	38,865
Amounts due to related parties		**250**	1,075
Advances from customers and distributors		**42,563**	57,828
Advances under government grants		**1,000**	3,273
Deferred revenue		**49,708**	50,801
Income tax liabilities		**2,253**	2,276
Borrowing		**278,056**	—
Bank overdrafts		**852**	216
		427,961	165,801
Total liabilities		**444,725**	182,666
Total equity and liabilities		**2,017,839**	1,752,990

NOTES:

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 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 and financial liabilities (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 judgment in the process of applying the Group's accounting policies.

2 Changes in accounting policy and disclosure

(a) New and amended standards adopted by the Group

The following new standards and amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2016:

IAS 1 (Amendment)	Disclosure Initiative
IFRS 11 (Amendment)	Accounting for Acquisitions of Interests in Joint Operations
IFRS 14	Regulatory Deferral Accounts
IAS 16 and IAS 38 (Amendment)	Clarification of Acceptable Methods of Depreciation and Amortization
IAS 27 (Amendment)	Equity Method in Separate Financial Statements
IFRS 10, IFRS 12 and IAS 28 (Amendment)	Investment Entities: Applying the Consolidation Exception
IFRSs (Amendment)	Annual Improvements 2012–2014 Cycle

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

(b) New and amended standards not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these consolidated financial statements.

		Effective for annual periods beginning on or after
IAS 7 (Amendment)	Statement of Cash Flows	1 January 2017
IAS 12 (Amendment)	Income Taxes	1 January 2017
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 9	Financial Instruments	1 January 2018
IFRS 2 (Amendment)	Classification and Measurement of Share-based Payment Transactions	1 January 2018
IFRS 16	Leases	1 January 2019
IFRS 10 and IAS 28 (Amendment)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	*Note*

Note: The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments continues to be permitted.

None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following:

IFRS 9, 'Financial Instruments'

The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

While the Group has yet to undertake a detailed assessment of the classification and measurement of financial assets, equity investment and derivative currently measured at fair value through profit or loss which would likely continue to be measured on the same basis under IFRS 9, and hence there will be no change to the accounting for these assets.

Accordingly, the Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in an earlier recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

IFRS 9 must be applied for financial years commencing on or after 1 January 2018. The Group does not intend to adopt IFRS 9 before its mandatory date.

IFRS 15, 'Revenue from Contracts with Customers

The International Accounting Standards Board ("IASB") has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Management is currently assessing the effects of applying the new standard on the Group's financial statements and has identified the following areas that are likely to be affected:

- revenue from service — the application of IFRS 15 may result in the identification of separate performance obligations which could affect the timing of the recognition of revenue;

- accounting for certain costs incurred in fulfilling a contract — certain costs which are currently expensed may need to be recognised as an asset under IFRS 15; and

- rights of return — IFRS 15 requires separate presentation on the balance sheet of the right to recover the goods from the customer and the refund obligation.

At this stage, the Group is not able to estimate the impact of the new rules on the Group's financial statements. The Group will make more detailed assessments of the impact over the next twelve months.

IFRS 15 is mandatory for financial years commencing on or after 1 January 2018. At this stage, the Group does not intend to adopt the standard before its effective date.

IFRS 16, 'Leases'

IFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As of 31 December 2016, the Group has non-cancellable operating lease commitments of RMB181,281,000. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

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.

In light of the expansion of the Group's retail business, the retail revenue previously included in the "Other businesses" segment has been separately presented as the "Retail business" segment, including the associated e-commerce business, in these consolidated financial statements. The "Online business" has been renamed as "Online entertainment business". The comparative figures have also been reclassified to conform to the new presentation. The above changes in segment information were taken to better reflect the current operations of the Group, as well as the resource allocation and future business developments of the Group. As a result of this evaluation, the Group determined that it has operating segments as follows:

— Online entertainment business

— Retail business

— Other businesses

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

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

There were no material inter-segment sales during years ended 31 December 2016 and 2015, 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 2016 and 2015 are as follows:

	Year ended 31 December 2016			
	Online entertainment business	**Retail business**	**Other businesses**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Segment Revenue	324,357	55,108	3,795	383,260
Gross Profit/(loss)	191,591	23,297	(2,498)	212,390
Depreciation	7,331	1,306	14	8,651
Amortization	193	1,276	251	1,720
Share of loss of an associate	(1,530)	—	—	(1,530)

	Year ended 31 December 2015			
	Online entertainment business	**Retail business**	**Other businesses**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Segment Revenue	344,745	34,656	7,704	387,105
Gross Profit	217,390	15,941	3,303	236,634
Depreciation	6,981	292	—	7,273
Amortization	135	730	—	865
Share of loss of an associate	(344)	—	—	(344)

The reconciliation of gross profit to profit before income tax 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 2016 and 2015, the geographical information on the total revenues is as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Revenue		
— Mainland China	**334,842**	352,615
— Hong Kong	**48,418**	34,490
Total	**383,260**	387,105

There is no concentration risk in terms of customers (which include end users from online entertainment business and customers from retail businesses as well as other businesses) as no single external customer contributed more than 10% of the Group's total revenue for the years ended 31 December 2016 and 2015, respectively. 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 64.9% and 88.0% of the total revenue of the Group for the each of the years ended 31 December 2016 and 2015. The percentages 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 year.

	Year ended 31 December	
	2016	2015
Legend of Aoqi	**41.3%**	45.6%
Aola Star	**23.6%**	29.8%
Aobi Island	**N/A**	12.6%

As at 31 December 2016, the total non-current assets, other than financial instruments and deferred tax assets, located in Mainland China and Hong Kong were RMB40,779,000 (31 December 2015: RMB19,811,000) and RMB51,943,000 (31 December 2015: RMB50,983,000), respectively.

4 Expenses by nature

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Employee benefit expenses	**201,107**	190,530
Promotion and advertising expenses	**45,782**	50,090
Operating lease rentals in respect of office premises	**38,240**	17,858
Cost of inventories sold	**32,400**	19,905
Distribution cost and payment handling fees	**20,110**	2,331
Bandwidth and server custody fees	**18,527**	19,404
Depreciation of property and equipment and amortization of intangible assets	**10,371**	8,138
Professional fees	**8,422**	9,400
Content expenses	**5,327**	798
Utilities and office expenses	**4,872**	3,268
Travelling and entertainment expenses	**4,032**	4,170
Auditor's remuneration		
— Audit services	**3,800**	3,800
— Non-audit services	**—**	700
Prepaid card production expenses	**1,500**	3,373
Others	**6,170**	6,745
Total cost of revenue, selling and marketing expenses, administrative expenses and research and development expenses	**400,660**	340,510

5 Finance income — net

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Finance income:		
— Interest income on bank deposits and other term deposits	**29,287**	53,464
— Finance income on long-term payable	**3,906**	—
— Net foreign exchange gains	**8,480**	6,259
	41,673	59,723
Finance costs:		
— Interest expense	**(589)**	(653)
Finance income — net	**41,084**	59,070

6 Income tax expense

The income tax expense of the Group for the years ended 31 December 2016 and 2015 is analyzed as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Current income tax	**9,508**	13,021
Deferred income tax	**(1,019)**	2,574
Income tax expense	**8,489**	15,595

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	
	2016	2015
	RMB'000	*RMB'000*
Profit before income tax	**41,492**	115,025
Tax calculated at income tax rates applicable to profits of the consolidated entities in their respective jurisdictions *(Notes a, b, c)*	**2,915**	14,114
Tax effects of:		
Tax losses for which no deferred income tax asset was recognized	**6,023**	392
Super deduction for research and development expenses *(Note c)*	**(2,480)**	(3,027)
Expenses not deducted for income tax purposes:		
— Share-based compensation	**1,591**	3,769
— Others	**440**	347
Income tax expense	**8,489**	15,595

The high effective income tax rate for the year ended 31 December 2016 was mainly because no deferred tax asset was recognized on the tax losses of the e-commerce business due to the uncertainty of the utilization of the tax losses.

(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

Hong Kong profits tax provision has been provided at the rate of 16.5% on the estimated assessable profits for the years ended 31 December 2016 and 2015.

(c) PRC enterprise income tax ("EIT")

The Group's subsidiaries in the PRC are subject to corporate income tax at the rate of 25% except Guangzhou Baitian Information Technology Ltd., which was qualified as "High and New Technology Enterprise" ("HNTE") in 2011 and 2014 and was entitled to a preferential income tax rate of 15% on its estimated assessable profits for the years ended 31 December 2016 and 2015.

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 Group has made its best estimate for the Super Deduction to be claimed for the Group's entities in ascertaining their assessable profits for the years ended 31 December 2016 and 2015.

(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 2016 and 2015, the Group did not have any plan to require its PRC subsidiaries to distribute their retained earnings to the Company as the Company's share premium is distributable in accordance with the Cayman Island laws. Accordingly, no deferred income tax liability on WHT was accrued as at the end of each reporting period.

7 Earnings per share

(a) Basic

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(s) of the Company during the year.

	Year ended 31 December	
	2016	2015
Profit attributable to shareholders of the Company *(RMB'000)*	**35,513**	98,909
Weighted average number of ordinary shares in issue less shares held for RSU scheme(s) of the Company	**2,736,805,178**	2,699,943,341
Basic earnings per share *(in RMB/share)*	**0.0130**	0.0366

(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 2016 and 2015, 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.

	Year ended 31 December	
	2016	2015
Earnings		
Profit attributable to shareholders of the Company and profit used to determine diluted earnings per share *(RMB'000)*	**35,513**	98,909
Weighted average number of ordinary shares		
Weighted average number of ordinary shares in issue less shares held for RSU Scheme	**2,736,805,178**	2,699,943,341
Adjustments for:		
— Share options	**1,709,979**	2,863,711
— RSUs	**36,488,018**	51,160,438
Weighted average number of ordinary shares for diluted earnings per share	**2,775,003,175**	2,753,967,490
Diluted earnings per share *(in RMB/share)*	**0.0128**	0.0359

8 Trade receivables

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Receivables from third parties	**9,877**	6,161
Less: allowance for impairment	**—**	—
	9,877	6,161

As at 31 December 2016 and 2015, 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 are as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
0–30 days	**5,326**	4,234
31–60 days	**2,279**	168
61–90 days	**880**	22
91–180 days	**854**	1,737
181–365 days	**538**	—
	9,877	6,161

9 Trade payables

Trade payables primarily relate to the purchase of inventories for the retailing of baby and maternity products, services for server custody and distribution cost.

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

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
0–30 days	**4,043**	7,043
31–60 days	**2,188**	3,405
61–180 days	**3,005**	647
181–365 days	**382**	372
	9,618	11,467

10 Dividend

The dividends paid in 2016 and 2015 were RMB41,484,000 and RMB74,472,000, respectively. The Board proposed a special dividend in respect of the year ended 31 December 2016 of HK$0.018 (equivalent to approximately RMB0.016) per ordinary share out of the share premium account, totaling approximately RMB43,992,000. Such dividend is to be approved by the Shareholders at the annual general meeting ("**AGM**") on 29 June 2017. These financial statements do not reflect this dividend payable as a liability as at 31 December 2016.

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Proposed/final special dividend of HK$0.018 equivalent to approximately RMB0.016 (2015: HK$0.018) per ordinary share	**46,332**	43,352
Less: Dividend for shares held for the RSU Schemes	**(2,340)**	(1,868)
	43,992	41,484

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 2016. 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 2016.

Review of Preliminary Announcement

The figures in respect of the announcement of the Group's results for the year ended 31 December 2016 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 by Directors

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**") as its own securities dealing code to regulate all dealings by directors of securities in the Company and other matters covered by the Model Code. The Directors have confirmed that they had complied with all relevant requirements as set out in the Model Code during the financial year ended 31 December 2016.

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 ("**CG Code**") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance.

Save as the deviation from code provisions A.2.1 and E.1.2 of the CG Code, the Company has applied the principles and complied with all applicable code provisions of the CG Code during the year ended 31 December 2016.

Code provision A.2.1

Code provision A.2.1 of the CG Code provides that the responsibilities between the chairman and chief executive officer should be segregated and should not be performed by the same individual. Following the resignation of Dr. Xu Gang from his position as the chief executive officer of the Company ("**CEO**") effective on 15 October 2016, Mr. Dai Jian, the chairman of the Company ("**Chairman**"), currently acts as the CEO. Mr. Dai, as one of the founders of the Group, is instrumental to the Group's growth and business expansion since 2009. The Board believes that vesting the roles of both Chairman and CEO in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board further believes that the balance of power and authority for the present arrangement will not be impaired and is adequately ensured by the current Board which comprises experienced and high calibre individuals with sufficient number thereof being independent non-executive Directors.

Code provision E.1.2

Code provision E.1.2 of the CG Code stipulates that the chairman of the board of a listed issuer should attend the annual general meeting. Mr. Dai Jian, the Chairman, was unable to attend the Company's annual general meeting held on 27 May 2016 (the "**2016 AGM**") due to other business commitments. Nevertheless, the Chairman appointed Dr. Xu Gang, an executive Director and the then CEO of the Company, who is well versed in all business activities and operations of the Group, as his delegate to attend and chair the 2016 AGM on behalf of Mr. Dai Jian and to respond to shareholders' questions. Mr. Dai will use his best endeavours to attend upcoming annual general meetings of the Company.

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

During the year ended 31 December 2016, the Company repurchased a total of 6,482,000 Shares on the Stock Exchange at an aggregate consideration (before expenses) of HK$2,782,860. All the repurchased Shares were subsequently cancelled. Particulars of the repurchases during the year ended 31 December 2016 are as follows:

Month	Number of Shares repurchased	Purchase price per Share		Aggregate consideration (before expenses)
		Highest	Lowest	
		(HK$)	*(HK$)*	*(HK$)*
April 2016	1,618,000	0.445	0.415	698,460
May 2016	1,500,000	0.480	0.450	694,520
June 2016	904,000	0.440	0.425	391,030
July 2016	2,460,000	0.415	0.395	998,850
Total	6,482,000			2,782,860

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 2016.

Annual General Meeting and Closure of Register of Members

The AGM is scheduled to be held on Thursday, 29 June 2017. The notice of AGM will be published and despatched to the Shareholders in the manner as required by the Listing Rules in due course.

The register of members of the Company (the "**Register of Members**") will be closed from Monday, 26 June 2017 to Thursday, 29 June 2017 (both days inclusive), during which period no transfer of Shares will be effected, in order to determine the identity of the Shareholders who are entitled to attend and vote at the AGM. To be entitled 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 branch share registrar of the Company in Hong Kong (the "**Hong Kong Share Registrar**"), Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Friday, 23 June 2017.

Special Dividend and Closure of Register of Members

The Board recommended the payment of a special dividend of HK$0.018 (equivalent to RMB0.016) per Share for the year ended 31 December 2016, subject to the approval of the Shareholders at the AGM, be payable on Thursday, 27 July 2017 to the Shareholders whose names appear on the Register of Members on Thursday, 6 July 2017.

The Register of Members will be closed from Wednesday, 5 July 2017 to Thursday, 6 July 2017, 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 of Shares accompanied by the relevant Share certificates and transfer forms must be lodged with the Hong Kong Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 4 July 2017.

Publication of 2016 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.hkex.com.hk). The annual report of the Company for the year ended 31 December 2016 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, 29 March 2017

As of the date of this announcement, the directors of the Company are:

Executive Directors:
Mr. DAI Jian *(Chairman)*
Mr. WU Lili
Mr. LI Chong
Mr. WANG Xiaodong
Dr. XU Gang

Independent Non-executive Directors:
Ms. LIU Qianli
Dr. WANG Qing
Mr. MA Xiaofeng