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)

2017 INTERIM RESULTS ANNOUNCEMENT

The board (the "**Board**") of directors (the "**Directors**") of BAIOO Family Interactive Limited ("**BAIOO**" or the "**Company**") is pleased to announce the unaudited consolidated results of the Company, its subsidiaries and the PRC operating entity (the "**Group**") for the six months ended 30 June 2017.

Financial Summary

INCOME STATEMENT HIGHLIGHT

	(Unaudited) Six months ended 30 June		Period-over-period change
	2017	2016	
	RMB'000	*RMB'000*	%
Revenue	**173,185**	187,644	(7.7%)
Gross profit	**100,419**	109,947	(8.7%)
Operating profit/(loss)	**2,194**	(18,220)	112.0%
Non-International Financial Reporting Standards ("**IFRS**") Measures			
— Adjusted net profit(1)	**11,929**	8,569	39.2%
— Adjusted EBITDA(2)	**12,732**	1,278	896.2%

Note:

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

(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

	(Unaudited) As of 30 June 2017 *RMB'000*	(Audited) As of 31 December 2016 *RMB'000*
Assets		
Non-current assets	**102,943**	414,407
Current assets	**1,629,846**	1,603,432
Total assets	**1,732,789**	2,017,839
Equity and liabilities		
Total equity	**1,527,595**	1,573,114
Non-current liabilities	**15,491**	16,764
Current liabilities	**189,703**	427,961
Total liabilities	**205,194**	444,725
Total equity and liabilities	**1,732,789**	2,017,839

Management Discussion and Analysis

BUSINESS OVERVIEW

In the first half of 2017 ("**1H2017**"), BAIOO continued to improve the operating metrics of the Company's products for personal computers ("**PCs**") and mobile devices, while deploying its intellectual property ("**IP**")-centric strategies to develop new products and expand the ongoing product pipeline. The Company continued to maintain focus on generating 'fun' content and increasing audience engagement, which helped drive operating metrics for BAIOO's popular products for both PCs and mobile devices, including Aobi Island, Aola Star, Light of Aoya, Legend of Aoqi and Zaowufaze (「造物法則」).

For 1H2017, the Company's average quarterly active accounts ("**QAA**") was 25.0 million, a decrease of 48.5% compared to the same period of 2016 ("**1H2016**") due to the sale of the online virtual world Amazing Combat (「特戰英雄」), while average quarterly paying accounts ("**QPA**") was 1.6 million, a decrease of 20.0% compared to 1H2016 as the Company continued to steer away from heavy monetization. Despite the decrease in QAA and QPA, the Group was able to retain core users and even increase user stickiness with a further optimized IP portfolio. The Company's average quarterly average revenue per quarterly paying accounts ("**ARQPA**") achieved RMB47.7 for 1H2017, an increase of 20.8% compared to 1H2016, as the Company's mobile game products helped upgrade its user base to a higher age bracket with greater paying power.

As a result of the above factors, BAIOO achieved revenue of RMB173.2 million for 1H2017, with gross profit of RMB100.4 million, a decrease of 7.7% and 8.7% from 1H2016, respectively. BAIOO's mobile game products have also successfully entered overseas markets including Hong Kong, Macao, and Southeast Asia at the end of 2016, and has shown rapid growth.

In June 2017, the Company launched a new web game utilizing originated heroes IPs from its existing virtual worlds, Aoyi Alliance (「奧義聯盟」), which is the Company's latest multiplayer online battle arena (MOBA) web game and has begun monetization in July 2017. In April 2017, BAIOO announced a strategic cooperation with Tencent Interactive Entertainment for the XiXingJi (「西行紀」) IP and jointly established the XiXingJi IP Production Committee. This committee will promote the development of XiXingJi IP into online animation, film and television projects, game licensing, comics, peripherals, and literature. The Group believes that this represents a landmark in expanding its coverage throughout the whole value chain from games to pan-entertainment to bring its business to the next level.

INDUSTRY TRENDS

China's gaming industry continued to remain robust in 1H2017. According to the latest China Gaming Industry Report released by the Game Publishers Association Publications Committee (GPC) of the China Audio-video and Digital Publishing Association (中國音數協遊戲工委), the revenue generated from the gaming sector in China in 1H2017 rose to RMB99.78 billion, an increase of 26.7% compared to 1H2016. The total number of gaming users was 507 million in 1H2017, an increase of 3.6% compared to 1H2016. The Company believes that the market size of the gaming sector continues to demonstrate a strong growing trend with plenty of opportunities for healthy and high-quality products. Despite the increasingly competitive market environment, with BAIOO's IP-centric strategies of releasing products through utilizing its IP portfolio, the Company believes that it will be able to further capture opportunities in China's growing gaming sector through introducing more innovative products.

OUTLOOK FOR THE SECOND HALF OF 2017

In the second half of 2017 ("**2H2017**"), BAIOO will remain committed to further improving user retention and producing fun and engaging content for children and young teens on all its products, while executing its IP strategies: strengthening game IPs, developing comic IPs and incubating new early childhood education IPs. The Group plans to continue pushing for operational improvements across its virtual worlds, while introducing new derivative products from its IP portfolio. This includes an online animation of the XiXingJi IP, which is expected to be released in November 2017, alongside an early childhood educational picture book series based on the Company's Little Cloud Bay Bay Bear (「小雲熊北北」) proprietary IP, which is expected to be launched in 2H2017. The Company's comic arm, which operates various online comic IPs including Zaowufaze, XiXingji, Juexingzhe (「絕行者」) and Shadaoxingzhe (「殺道行者」), will continue to pursue potential cooperation with well-known comic IPs while leveraging on existing IPs to develop additional fun and engaging products.

BAIOO will continue to leverage its strong base of IPs across both its virtual worlds and its comic arm to explore business opportunities throughout the pan-entertainment industry value chain. With the Company's strong expertise and understanding of the children young teens' gaming market in China, BAIOO is confident that it will be able to capture more opportunities in 2H2017, in particular in the early childhood education area through its Little Cloud Bay Bay Bear IP, 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 the average QAA, average QPA and average quarterly ARQPA for our online virtual worlds for the periods indicated below (Note):

	For the six months ended		Period-
	30 June	30 June	over-period
	2017(1)	2016	change
	(QAA & QPA in millions, ARQPA in RMB)		
average QAA(2)	**25.0**	48.5	(48.5%)
average QPA(3)	**1.6**	2.0	(20.0%)
average quarterly ARQPA(4)	**47.7**	39.5	20.8%

Note:

1. In 1H2017, our online virtual worlds under commercial operation in web-based platforms and mobile devices included *Aobi Island, Aola Star, Dragon Knights, Light of Aoya, Legend of Aoqi, Clashes of Aoqi, Magic Fighter, Super Badilong, Aoyi Alliance, Three Kingdoms and Zaowufaze.*

2. The average QAA for online virtual worlds was approximately 25.0 million for the six months ended 30 June 2017, representing a decrease of approximately 48.5% compared with the same period last year. This primarily due to the disposal of its virtual world Amazing Combat (「特戰英雄」) at the end of last year, which generated high user numbers but low profitability and IP value. The disposal was in line with the Group's IP-centered strategies.

3. The average QPA for online virtual worlds was approximately 1.6 million for the six months ended 30 June 2017, representing a decrease of approximately 20% compared with the same period last year as a result of our strategy of steering away from heavy monetization and focus on fun purpose to attract more users.

4. The average quarterly ARQPA for online virtual worlds was approximately RMB47.7 for the six months ended 30 June 2017, representing an increase of approximately 20.8% compared with the same period last year as a result of the Company's mobile game products helped upgrade its user base to a higher age bracket with greater paying power.

OVERALL BUSINESS AND FINANCIAL PERFORMANCE

The following table sets forth our interim condensed consolidated statements of comprehensive income for the six months ended 30 June 2017 and 2016, respectively:

	(Unaudited) For the six months ended			
	30 June 2017 *RMB'000*	**% of Revenue**	30 June 2016 *RMB'000*	% of Revenue
Revenue	**173,185**	**100**	187,644	100
Online entertainment business	**148,507**	**85.8**	160,748	85.7
Retail Business	**22,916**	**13.2**	26,684	14.2
Other businesses	**1,762**	**1.0**	212	0.1
Cost of revenue	**(72,766)**	**(42.0)**	(77,697)	(41.4)
Gross profit	**100,419**	**58.0**	109,947	58.6
Selling and marketing expenses	**(45,802)**	**(26.4)**	(47,643)	(25.4)
Administrative expenses	**(30,038)**	**(17.3)**	(53,609)	(28.6)
Research and development expenses	**(30,774)**	**(17.8)**	(33,244)	(17.7)
Other income	**5,429**	**3.1**	3,959	2.1
Other gains — net	**2,960**	**1.7**	2,370	1.3
Operating profit/(loss)	**2,194**	**1.3**	(18,220)	(9.7)
Finance income — net	**7,367**	**4.3**	15,294	8.1
Share of profit of an associate	**—**	**—**	11	0.0
Profit/(Loss) before income tax	**9,561**	**5.5**	(2,915)	(1.6)
Income tax expense	**(2,254)**	**(1.3)**	(4,060)	(2.1)
Profit/(Loss) for the period	**7,307**	**4.2**	(6,975)	(3.7)
Other comprehensive income, net of tax	**(552)**	**(0.3)**	427	0.2
Total comprehensive income/(loss) for the period	**6,755**	**3.9**	(6,548)	(3.5)
Other financial data				
Adjusted net profit[1] (unaudited)	**11,929**	**6.9**	8,569	4.6
Adjusted EBITDA[2] (unaudited)	**12,732**	**7.4**	1,278	0.7

Notes:

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

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

Revenue

Our revenue for the six months ended 30 June 2017 was RMB173.2 million, representing a 7.7% decrease from RMB187.6 million for the six months ended 30 June 2016.

Online Entertainment Business: Our online entertainment business revenue for the six months ended 30 June 2017 was RMB148.5 million, a 7.6% decrease from RMB160.7 million for the six months ended 30 June 2016. This was primarily due to our strategy of steering away from heavy monetization and focus on fun purpose to attract more users.

Retail Business: Revenue from retail business for the six months ended 30 June 2017 was RMB22.9 million, a 14.2% decrease from RMB26.7 million for the six months ended 30 June 2016, primarily due to our strategy purpose to halt further investments into such sector.

Other Businesses: Revenue from other businesses for the six months ended 30 June 2017 was RMB1.8 million, a 800.0% increase from RMB0.2 million for the six months ended 30 June 2016, primarily due to increasing in advertising revenue.

Cost of Revenue

Our cost of revenue for the six months ended 30 June 2017 was RMB72.8 million, a 6.3% decrease from RMB77.7 million for the six months ended 30 June 2016.

Online Entertainment Business: Our online entertainment business cost for the six months ended 30 June 2017 was RMB59.7 million, a 1.3% decrease from RMB60.5 million for the six months ended 30 June 2016. The decrease was primarily driven by the decrease in employee benefit expenses and prepaid card production fees, partly offset by the increase in payment of third party revenue sharing.

Retail Business: Cost of retail business for the six months ended 30 June 2017 was RMB12.0 million, a 19.5% decrease from RMB14.9 million for the six months ended 30 June 2016. The decrease mainly reflected decrease in cost of goods sold as a result of sales of baby and maternity products.

Other Businesses: Cost of other businesses for the six months ended 30 June 2017 was RMB1.1 million, a 52.2% decrease from RMB2.3 million for the six months ended 30 June 2016. The decrease primarily reflected decrease in employee benefit expenses.

Gross Profit

As a result of the foregoing, our gross profit for the six months ended 30 June 2017 was RMB100.4 million, compared with RMB109.9 million for the six months ended 30 June 2016. Gross profit margin was 58.0% for the six months ended 30 June 2017, compared with 58.6% for the six months ended 30 June 2016.

Selling and Marketing Expenses

Our selling and marketing expenses for the six months ended 30 June 2017 were RMB45.8 million, a 3.8% decrease from RMB47.6 million for the six months ended 30 June 2016. This was primarily due to the decrease in employee benefit expense and partly offset by higher marketing spending on promotional programs.

Administrative Expenses

Our administrative expenses for the six months ended 30 June 2017 were RMB30.0 million, a 44.0% decrease from RMB53.6 million for the six months ended 30 June 2016. This was primarily the result of (i) a decrease of RMB13.4 million in employee benefit expenses; (ii) a decrease of RMB9.9 million in operating lease rentals in respect of office space and (iii) an increase of RMB1.3 million in utility and office expenses.

Research and Development Expenses

Our research and development expenses for the six months ended 30 June 2017 were RMB30.8 million, a 7.2% decrease from RMB33.2 million for the six months ended 30 June 2016. This was primarily driven by decreases in employee benefit expenses.

Other Income

The Company recognized RMB5.4 million in other income for the six months ended 30 June 2017, compared with RMB4.0 million for the six months ended 30 June 2016. The other income was generated as a result of our fulfillment of certain performance conditions attached to government grants.

Other Gains — net

The Company recognized RMB3.0 million in fair value gains on financial assets at fair value through profit and loss for the six months ended 30 June 2017, compared with fair value gain of RMB2.4 million for the six months ended 30 June 2016.

Operating Profit/(Loss)

As a result of the foregoing, our operating profit for the six months ended 30 June 2017 was RMB2.2 million, compared with operating loss of RMB18.2 million for the six months ended 30 June 2016.

Finance Income — net

We had net finance income of RMB7.4 million for the six months ended 30 June 2017, compared with net finance income of RMB15.3 million for the six months ended 30 June 2016. Finance income for the six months ended 30 June 2017 was primarily attributable to (i) RMB12.5 million in interest income on short-term, long-term deposits and cash bank balance and (ii) RMB4.5 million in exchange loss related to non-RMB cash on hands.

Profit/(Loss) before Income Tax

As a result of the foregoing, we had a profit before income tax of RMB9.6 million for six months ended 30 June 2017, compared with a loss before income tax of RMB2.9 million for the six months ended 30 June 2016.

Income Tax Expense

Our income tax expense for the six months ended 30 June 2017 was RMB2.3 million, a 43.9% decrease from RMB4.1 million for the six months ended 30 June 2016. This was primarily due to the decrease of assessable profit.

Profit/(Loss) for the Period

As a result of the foregoing, we had a profit of RMB7.3 million for the six months ended 30 June 2017, compared with a loss of RMB7.0 million for the six months ended 30 June 2016.

Non-IFRS Measures — Adjusted Net Profit/EBITDA

Our adjusted net profit for the six months ended 30 June 2017 was RMB11.9 million, representing a 38.4% increase from RMB8.6 million for the six months ended 30 June 2016. Our adjusted EBITDA for the six months ended 30 June 2017 was RMB12.7 million, representing a 876.9% increase from RMB1.3 million for the six months ended 30 June 2016.

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

	(Unaudited) Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Profit/(Loss) for the period	**7,307**	(6,975)
Add:		
Share-based compensation	**4,622**	15,544
Adjusted net profit	**11,929**	8,569
Add:		
Depreciation and amortization	**5,916**	3,943
Finance income-net	**(7,367)**	(15,294)
Income tax	**2,254**	4,060
Adjusted EBITDA	**12,732**	1,278

LIQUIDITY AND CAPITAL RESOURCES

In the first half of 2017, 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:

	(Unaudited) As of 30 June 2017 *RMB'000*	(Audited) As of 31 December 2016 *RMB'000*
Total liabilities	**205,194**	444,725
Total assets	**1,732,789**	2,017,839
Gearing ratio[1]	**12%**	22%

Note:

(1) 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 30 June 2017, our cash and cash equivalents consisted of cash in bank and cash on hand, which amounted to RMB1,189.1 million, compared with RMB214.2 million as of 31 December 2016. We had short-term deposits of RMB390.8 million as of 30 June 2017, representing bank deposits which we intend to hold for over three months but less than one year. We had no long-term deposits as of 30 June 2017.

As of 30 June 2017, the Group had no restricted cash.

The effective interest rate per annum for cash in bank balances and deposits as of 30 June 2017 was 1.7%, the same as of 31 December 2016. 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	**(Unaudited) As of 30 June 2017** *RMB'000*	(Audited) As of 31 December 2016 *RMB'000*
RMB	**1,424,157**	1,680,668
HK$	**136,201**	97,976
US$	**19,445**	56,462
Others	**99**	93
	1,579,902	1,835,199[1]

Note:

(1) As of 31 December 2016, the amount of RMB1,835 million included the amount of RMB278.1 million from a borrowing facility.

Bank Loans and Other Borrowings

The Group had overdrafts of RMB0.8 million as of 30 June 2017, which are shown in current liabilities. The Group has RMB1.7 million undrawn overdraft facility.

Treasury Policies

As of 30 June 2017, 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 30 June 2017, our financial resources of RMB155.7 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 purchases of property and equipment such as servers and computers and intangible assets such as computer software. In the six months ended 30 June 2017, our total capital expenditures were RMB1.4 million, compared with RMB17.1 million in six months ended 30 June 2016. The decrease was primarily due to the leasehold improvement last year, which increased capital expenditure. The following table sets out our expenditures for the periods indicated:

	(Unaudited) For the six months ended	
	2017	2016
	RMB'000	*RMB'000*
Capital Expenditures		
— Purchase of property and equipment	**1,359**	15,210
— Purchase of intangible assets	**—**	1,886
Total	**1,359**	17,096

Contingent Liabilities

As of 30 June 2017, the Group did not have any material contingent liabilities, guarantees or litigation against it.

Charges on Assets

The amount of RMB279.6 million of cash pledged to a bank to secure a short-term banking facility granted to the Group was discharged in May 2017. As of 30 June 2017, 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 30 June 2017, the Group had 705 full-time employees, 89% of whom are based in Guangzhou. The following table sets forth the number of full-time employees by function as of 30 June 2017:

	As of 30 June 2017	
	Number of Employees	**% of Total**
Operations	262	37.2
Development and research	268	38.0
Sales and Marketing	100	14.2
General and administration	75	10.6
Total	**705**	**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 first half of 2017 were approximately RMB14.8 million, compared with RMB16.1 million in the first half of 2016. We incurred staff costs of RMB85.3 million and RMB114.7 million, for the six months ended 30 June 2017 and 2016, representing 49.2% and 61.1% of our revenue for such 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 of the Company, there were a total of 1,544,000 share options and 5,851,800 RSUs outstanding as of 30 June 2017.

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**"). The maximum aggregate number of the Shares underlying all the RSUs which we may grant pursuant to the Post-IPO RSU Scheme is 57,653,520 shares of the Company, representing approximately 2.0% of our issued share capital as of 29 June 2017, the date of the annual general meeting of the Company (the "**AGM**"). Pursuant to the Post-IPO RSU Scheme, there were a total of 31,928,000 RSUs outstanding as of 30 June 2017.

Dividend

At the AGM, the then shareholders approved the Board-recommended final dividend of HK$0.018 (equivalent to approximately RMB0.016) per share for the year ended 31 December 2016. The final dividend was paid to the shareholders on 27 July 2017.

The Board did not propose any interim dividend for the six months ended 30 June 2017 (for the six months ended 30 June 2016: Nil).

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 the annual report of the Company for the year ended 31 December 2016.

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	(Unaudited) Six months ended 30 June 2017 RMB'000	2016 RMB'000
Revenue	3	**173,185**	187,644
Cost of revenue		**(72,766)**	(77,697)
Gross profit		**100,419**	109,947
Selling and marketing expenses		**(45,802)**	(47,643)
Administrative expenses		**(30,038)**	(53,609)
Research and development expenses		**(30,774)**	(33,244)
Other income		**5,429**	3,959
Other gains — net		**2,960**	2,370
Operating profit/(loss)	4	**2,194**	(18,220)
Finance income		**12,554**	15,969
Finance costs		**(5,187)**	(675)
Finance income — net		**7,367**	15,294
Share of profit of an associate		**—**	11
Profit/(loss) before income tax		**9,561**	(2,915)
Income tax expense	5	**(2,254)**	(4,060)
Profit/(loss) for the period		**7,307**	(6,975)
Attributable to:			
— Shareholders of the Company		**9,899**	(5,448)
— Non-controlling interests		**(2,592)**	(1,527)
		7,307	(6,975)
Earnings/(losses) per share			
(expressed in RMB per share)	6		
— Basic		**0.0036**	(0.0020)
— Diluted		**0.0035**	(0.0020)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	(Unaudited) Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Profit/(Loss) for the period	**7,307**	(6,975)
Other comprehensive (loss)/income		
Items that may be reclassified to profit or loss		
Currency translation differences	**(552)**	427
Total comprehensive income/(loss) for the period	**6,755**	(6,548)
Attributable to:		
— Shareholders of the Company	**9,517**	(5,152)
— Non-controlling interests	**(2,762)**	(1,396)
	6,755	(6,548)

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	(Unaudited) As at 30 June 2017 *RMB'000*	(Audited) As at 31 December 2016 *RMB'000*
ASSETS			
Non-current assets			
Property and equipment		**34,250**	38,873
Intangible assets		**52,266**	53,849
Prepayments and other receivables		**5,658**	12,616
Deferred income tax assets		**8,075**	6,375
Long-term deposits		**—**	300,000
Financial assets at fair value through profit or loss		**2,694**	2,694
		102,943	414,407
Current assets			
Inventories		**11,673**	13,151
Trade receivables	*8*	**9,785**	9,877
Prepayments and other receivables		**28,486**	42,038
Financial assets at fair value through profit or loss		**—**	3,167
Short-term deposits		**390,774**	1,041,427
Cash and cash equivalents		**1,189,128**	214,216
Restricted cash		**—**	279,556
		1,629,846	1,603,432
Total assets		**1,732,789**	2,017,839
EQUITY			
Share capital		**9**	9
Share premium		**1,520,639**	1,567,040
Reserves		**24,473**	30,857
Accumulated losses		**(32,550)**	(42,449)
		1,512,571	1,555,457
Non-controlling interests		**15,024**	17,657
Total equity		**1,527,595**	1,573,114

	Note	(Unaudited) As at 30 June 2017 RMB'000	(Audited) As at 31 December 2016 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred revenue		**5,474**	6,367
Deferred income tax liabilities		**3,121**	3,296
Advances from government grants		**311**	678
Long-term payable		**6,585**	6,423
		15,491	16,764
Current liabilities			
Trade payables	*9*	**13,203**	9,618
Other payables and accruals		**85,816**	43,661
Amount due to related parties		**—**	250
Advances from customers and distributors		**35,012**	42,563
Advance from government grant		**733**	1,000
Deferred revenue		**51,379**	49,708
Income tax liabilities		**2,738**	2,253
Borrowing		**—**	278,056
Bank overdrafts		**822**	852
		189,703	427,961
Total liabilities		**205,194**	444,725
Total equity and liabilities		**1,732,789**	2,017,839

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1 Basis of preparation

This interim condensed consolidated financial information for the six months ended 30 June 2017 has been prepared in accordance with International Accounting Standard ("**IAS**") 34, 'Interim financial reporting'. The interim condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**").

2 Accounting policies

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2016, as described in those annual financial statements, except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of new and amended standards as set out below:

(a) The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2017:

IAS 7 (Amendment)	Statement of cash flows
IAS 12 (Amendment)	Income taxes
IFRS 12 (Amendment)	Disclosures of interest in other entities

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) The following new standards and amendments to existing standards have been issued but are not effective for the financial year beginning 1 January 2017 and have not been early adopted:

		Effective for accounting periods beginning on or after
IAS 28 (Amendment)	Investments in associates and joint ventures	1 January 2018
IFRS 1 (Amendment)	First time adoption of IFRS	1 January 2018
IFRS 2 (Amendments)	Classification and measurement of share-base payment transactions	1 January 2018
IFRS 4 (Amendments)	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 January 2018
IFRS 9	Financial instruments	1 January 2018
IFRS 10 and IAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be announced

		Effective for accounting periods beginning on or after
IFRS 15	Revenue from contracts with customers	1 January 2018
IFRS 16	Leases	1 January 2019
IFRIC 22	Foreign currency transactions and advance consideration	1 January 2018

The directors and management of the Company are in the process of making an assessment of the impact of these new standards and amendments to existing standards and are not yet in a position to state whether they would have a significant impact on the Group's results of operations and financial position.

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

— 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 profits 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 and share of profit of an associate are not included in the measure of the segments' performance.

There were no material inter-segment sales during six months ended 30 June 2017 and 2016, 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 the financial information. There was no separate segment assets and segment liabilities information provided to the CODM.

The segment revenue provided to the Group's CODM for the reportable segments for the six months ended 30 June 2017 and 2016, respectively, are as follows:

	(Unaudited) Six months ended 30 June 2017			
	Online entertainment business	**Retail business**	**Other businesses**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Segment Revenue	**148,507**	**22,916**	**1,762**	**173,185**
Gross Profit	**88,804**	**10,960**	**655**	**100,419**
Depreciation	**3,987**	**967**	**12**	**4,966**
Amortization	**99**	**601**	**250**	**950**
Share of profit of an associate	**—**	**—**	**—**	**—**

	(Unaudited) Six months ended 30 June 2016			
	Online entertainment business	Retail business	Other businesses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Segment Revenue	160,748	26,684	212	187,644
Gross Profit	100,258	11,778	(2,089)	109,947
Depreciation	2,644	547	—	3,191
Amortization	176	576	—	752
Share of profit of an associate	11	—	—	11

The reconciliation of gross profit to profit/(loss) before income tax is shown in the interim condensed 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 six months ended 30 June 2017 and 2016, the geographical information on the total revenue is as follows:

	(Unaudited) Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Revenue		
— Mainland China	**150,269**	160,960
— Hong Kong	**22,916**	26,684
Total	**173,185**	187,644

There is no concentration risk in terms of customers (which include end users from online entertainment business and customers from retail business as well as other businesses) as no single external customer contributed more than 10% of the Group's total revenue for the six months ended 30 June 2017 and 2016. 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 73.0% and 67.3% of the total revenue for the six months ended 30 June 2017 and 2016, respectively. The percentages of revenue contributed by the following online virtual worlds are not presented for the periods when such amount is less than 10% of the Group's total revenue in a particular period.

	(Unaudited) Six months ended 30 June	
	2017	2016
Legend of Aoqi	**33.3%**	44.7%
Aola Star	**26.8%**	22.6%
Zaowufaze	**12.9%**	N/A

As at 30 June 2017, the total non-current assets, other than financial instruments and deferred tax assets, located in Mainland China and Hong Kong were RMB36,393,000 (31 December 2016: RMB40,779,000) and RMB50,123,000 (31 December 2016: RMB51,943,000), respectively.

4 Operating profit/(loss)

An analysis of the amounts presented as operating items in the financial information is given below.

	(Unaudited) Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Operating items		
Employee benefit expenses	**85,264**	114,747
Promotion and advertising expenses	**27,986**	23,783
Operating lease rentals in respect of office premises	**16,053**	22,033
Cost of inventories sold	**11,943**	15,063
Depreciation of property and equipment and amortization of intangible assets	**5,916**	3,943
Bandwidth and server custody fees	**5,198**	10,045
Professional fees	**3,790**	5,120
Prepaid card production fee	**421**	1,051

5 Income tax expense

The income tax expense of the Group for the six months ended 30 June 2017 and 2016 is analysed as follows:

	(Unaudited) Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Current income tax	**4,115**	4,058
Deferred income tax	**(1,861)**	2
Income tax expense	**2,254**	4,060

(a) Cayman Islands income tax

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

(b) Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits for the six months ended 30 June 2017 and 2016, respectively.

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

The Group's PRC subsidiaries and operating entities in the PRC are subject to corporate income tax at the rate of 25% except Guangzhou Baitian Information Technology Limited ("**Guangzhou Baitian**"), which was qualified as "High and New Technology Enterprise" ("**HNTE**") in 2011 and was entitled to a preferential income tax rate of 15% on its estimated assessable profits for the six months ended 30 June 2017 and 2016, respectively.

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 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 its entities in ascertaining their assessable profits for the six months ended 30 June 2017 and 2016, respectively.

(d) PRC withholding tax ("**WHT**")

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

For the six months ended 30 June 2017 and 2016, respectively, the Group does 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 under the Cayman Islands Law. Accordingly, no deferred income tax liability on WHT was accrued as at the end of each of the reporting periods.

6 Earnings/(losses) per share

(a) Basic

Basic earnings/(losses) per share is calculated by dividing the earnings/(losses) attributable to the shareholders of the Company by the weighted average number of ordinary shares in issue less shares held for RSU Schemes during the period.

	(Unaudited) Six months ended 30 June	
	2017	2016
Earnings/(losses) attributable to shareholders of the Company *(RMB'000)*	**9,899**	(5,448)
Weighted average number of ordinary shares in issue less shares held for RSU Schemes	**2,757,788,778**	2,727,638,392
Basic earnings/(losses) per share *(in RMB/share)*	**0.0036**	(0.0020)

(b) Diluted

Diluted earnings/(losses) 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 six months ended 30 June 2017, 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.

For the six months ended 30 June 2016, the Company had two categories of potential ordinary shares, the share options and the RSUs, which had to be considered for calculating diluted losses per share. No adjustment was made to basic losses per share to derive the diluted losses per share for the six months ended 30 June 2016 as each of the types of potential ordinary shares was anti-dilutive.

	(Unaudited) Six months ended 30 June 2017
Earnings	
Earnings attributable to shareholders of the Company *(RMB'000)*	9,899
Weighted average number of ordinary shares	
Weighted average number of ordinary shares in issue less shares held for RSU Scheme	2,757,788,778
Adjustments for:	
— Share options	1,352,998
— RSUs	35,550,763
Weighted average number of ordinary shares for diluted earnings per share	2,794,692,539
Diluted earnings per share *(in RMB/share)*	0.0035

7 Dividend

	(Unaudited) Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Final dividend of HK$0.018 (2016: HK$0.018) per ordinary share *(Note a)*	**45,114**	43,352
Less: Dividend for shares held for the RSU Schemes	**(2,027)**	(1,868)
	43,087	41,484

(a) The 2016 final dividend of HK$0.018 (equivalent to approximately RMB0.016) per ordinary share, totalling HK$51,816,000 (equivalent to approximately RMB45,114,000), was approved in the Company's annual general meeting held on 29 June 2017 and was paid on 27 July 2017.

The 2015 final dividend of HK$0.018 (equivalent to approximately RMB0.015) per ordinary share, total HK$51,407,000 (equivalent to approximately RMB43,352,000), was approved in the Company's annual general meeting held on 27 May 2016 and was paid on 27 June 2016.

(b) The Company did not declare an interim dividend for the six months ended 30 June 2017 (2016: nil).

8 Trade receivables

	(Unaudited) As at 30 June 2017 *RMB'000*	(Audited) As at 31 December 2016 *RMB'000*
Receivables from third parties	**9,785**	9,877
Less: Allowance for impairment	**—**	—
	9,785	9,877

Trade receivables mainly arose from several online payment collection channels and advertising agencies. Advertising revenues of the Group are mainly generated on sales with credit terms determined on an individual basis with normal credit periods of 90 to 120 days from the respective invoice dates.

As at 30 June 2017, the ageing analysis of trade receivables is as follows:

	(Unaudited) As at 30 June 2017 *RMB'000*	(Audited) As at 31 December 2016 *RMB'000*
0–30 days	**1,651**	5,326
31–60 days	**2,367**	2,279
61–90 days	**1,604**	880
91–180 days	**3,467**	854
Over 180 days	**696**	538
	9,785	9,877

9 Trade payables

Trade payables primarily relate to the purchase of inventories for the retailing of baby and maternity product and related items, services for server custody, outsourcing game development and the revenue sharing collected by the Group's own platforms which is payable to cooperating game developers according to the respective cooperation agreements.

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

	(Unaudited) As at 30 June 2017 *RMB'000*	(Audited) As at 31 December 2016 *RMB'000*
0–30 days	**4,541**	4,043
31–60 days	**3,071**	2,188
61–180 days	**5,083**	3,005
181–365 days	**508**	382
	13,203	9,618

Audit Committee and Review of Financial Statements

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters. The Audit Committee has also reviewed the Group's unaudited Interim Condensed Consolidated Financial Information for the six months ended 30 June 2017. Based on this review and discussions with the management, the Audit Committee was satisfied that the financial statements were prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting".

The Company's Auditor has reviewed the Interim Condensed Consolidated Financial Information in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

Compliance with the Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers 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 "**Model Code**") 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 Company has made specific enquiry with all directors of the Company (the "**Directors**") and the Directors have confirmed that they had complied with all relevant requirements as set out in the Model Code during the period under review.

Compliance with the 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.

Save as the deviation from code provision A.2.1 of the CG Code, the Company has applied the principles and complied with all applicable code provisions of the CG Code during the six months ended 30 June 2017.

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.

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

During the six months ended 30 June 2017, the Company repurchased a total of 22,000,000 Shares on the Stock Exchange at an aggregate consideration (before expenses) of HK$15,744,940. All the repurchased Shares were subsequently cancelled.

Particulars of the repurchases during the six months ended 30 June 2017 are as follows:

Month	Number of Shares repurchased	Purchase price per Share Highest *(HK$)*	Purchase price per Share Lowest *(HK$)*	Aggregate consideration (before expenses) *(HK$)*
May	9,000,000	0.75	0.69	6,537,860
June	13,000,000	0.75	0.68	9,207,080
Total	22,000,000	—	—	15,744,940

Save as disclosed above, the Group did not purchase, sell or redeem any of the listed securities of the Company during the six months ended 30 June 2017.

Interim Dividend

The Directors do not recommend the payment of dividend for the six months ended 30 June 2017 (six months ended 31 June 2016: nil).

Publication of 2017 Interim Results and Interim Report

The interim 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 interim report of the Company for the six months ended 30 June 2017 will be dispatched to the shareholders of the Company 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, 28 August 2017

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

Executive Directors:
Mr. DAI Jian *(Chairman and Chief Executive Officer)*
Mr. WU Lili
Mr. LI Chong
Mr. WANG Xiaodong

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