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 2017

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 2017 together with comparative figures of last year, as follows:

Financial Summary

INCOME STATEMENT HIGHLIGHT

	For the year ended 31 December		
	2017	2016	Year-over-year change
	RMB'000	*RMB'000*	*%*
Revenue	**350,530**	383,260	(8.5%)
— Online entertainment business	**305,690**	324,357	(5.8%)
— Retail business	**40,853**	55,108	(25.9%)
— Other businesses	**3,987**	3,795	5.1%
Gross profit	**186,799**	212,390	(12.0%)
Operating (loss)/profit	**(51,729)**	1,938	(2769.2%)
Non-International Financial Reporting Standards ("IFRS") Measures			
— Adjusted Net (Loss)/Profit[1] (unaudited)	**(22,613)**	43,639	(151.8%)
— Adjusted EBITDA[2] (unaudited)	**(32,375)**	21,415	(251.2%)

Notes:

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

(2) Adjusted EBITDA means adjusted net (loss)/profit less finance income — net, and plus income tax, depreciation of property and equipment and amortization of intangible assets.

BALANCE SHEET HIGHLIGHT

	As of 31 December 2017 *RMB'000*	As of 31 December 2016 *RMB'000*
Assets		
Non-current assets	**48,256**	414,407
Current assets	**1,582,352**	1,603,432
Total assets	**1,630,608**	2,017,839
Equity and liabilities		
Total equity	**1,488,774**	1,573,114
Non-current liabilities	**7,278**	16,764
Current liabilities	**134,556**	427,961
Total liabilities	**141,834**	444,725
Total equity and liabilities	**1,630,608**	2,017,839

Management Discussion and Analysis

BUSINESS OVERVIEW

In the year ended 31 December 2017 ("**FY2017**"), BAIOO continued to improve the operating metrics of the Company's products for personal computers ("**PC(s)**") and mobile devices, while deploying its intellectual property ("**IP**") and original content creation-centered strategies to develop new products and expand the ongoing product pipeline. In an effort to strengthen its gaming IP, the Company continued to generate 'fun' content and maintain focus on increasing audience engagement for popular titles, particularly mobile game products. However, given the shifting trends from PCs to mobile devices in the online entertainment business and the weak market condition in the retail business in Hong Kong, BAIOO reported decreases in operating results, with revenue of RMB350.5 million, a decrease of 8.5% from the year ended 31 December 2016 ("**FY2016**"). Gross profit was RMB186.8 million, down by 12.0% year-over-year.

For FY2017, the Company's average quarterly active accounts ("**QAA**") was 23.8 million, a decrease of 47.7% compared to FY2016 due to the PCs to mobile devices transition and the sale of the online virtual world Amazing Combat (「特戰英雄」), while average quarterly paying accounts ("**QPA**") was 1.4 million, a decrease of 30.0% compared to FY2016 as the Company continued to steer away from heavy monetization. The Company's average quarterly average revenue per quarterly paying accounts ("**ARQPA**") achieved RMB55.2 for FY2017, an increase of 33.0% compared to FY2016, mainly driven by the success of the Group's mobile title Zaowufaze (「造物法則」, also known as Law of Creation).

Alongside optimizing its virtual worlds, the Company has also been focused on executing its IP-centered strategies, which began to bear fruit in the first quarter and continued to positively impact performance in the following quarters. Led by growth in the Company's mobile title, Zaowufaze, a comic-adapted game which has been very well received in both China and overseas markets such as Taiwan and South Korea, the Company's operational metrics have achieved notable improvements.

Furthermore, 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 milestone 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 experience rapid growth, most notably in the mobile sector. 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 sales revenue generated from the gaming sector in China in 2017 rose to RMB203.61 billion, an increase of 23.0% compared to 2016. Of this, the mobile game market took up the lion's share, accounting for 57.0% of the total revenue, or approximately RMB116.16 billion. The web game market recorded revenue of only RMB15.6 billion, with only 7.6% share of the sector. The total number of gaming users reached 585 million, an increase of 3.1% compared to 2016.

A notable trend in the gaming market is that a few top players have taken most of the market share, either for web games or mobile products. For the Company, despite the market's strong growth in both revenue and user numbers, the competition in the year of 2017 has never been more intense than before. The Company believes that despite the substantial opportunities in the gaming sector, particularly in mobile gaming, smaller players have to develop a unique strategy to attract users and execute the right monetization strategy.

In addition, according to the 41st Statistical Report on Internet Development in China （《中國互聯網絡發展狀況統計報告》）, the user scale of online entertainment applications maintained rapid growth in 2017, with a further increase in revenue from the online entertainment industry represented by online games and online videos. According to the report, the increasing industry revenue will promote online entertainment manufacturers to increase support for content creators, laying a foundation for the prosperity and development of online entertainment content. As one of the top online entertainment destinations for teenagers in China, content creation has always been a core advantage for the Company. In the face of large volumes of content, users have higher requirements for content quality. The development of the pan-entertainment industry has gradually shifted from "channel is King" to "the pursuit of high quality content". High quality content will enjoy higher traffic, drive market growth, and gain greater market share in the future. The companies with unique content creation capabilities are expected to differentiate from other competitors in future, leading the development of the industry. BAIOO will continue to invest resources into original content creation, including games, animation and early education, and build a content platform with IP as its core to meet the new industry environment.

OUTLOOK FOR 2018

In 2018, BAIOO will continue to focus on growing its IP-centered strategies and increase emphasis on original content creation, as well as releasing new products as part of this initiative. The Company will also seek new business opportunities throughout the value chain of the pan-entertainment industry as the sector gradually develops towards "the pursuit of high quality content".

To maintain competitiveness in the gaming market, BAIOO will continue to leverage on its strong IP portfolio to promote its mobile gaming development. BAIOO will focus on developing certain game genres that it has advantages in and best match its DNA, including female-oriented games, comic adapted "nijigen" (「二次元」) games and pet collection and cultivation type games. BAIOO will continue to push its overseas markets expansion in 2018.

For the female gaming market, which is still a "blue ocean" segment, BAIOO has accumulated extensive experience over the past few years and plans to launch a series of mobile game titles in 2018 to capture market share, including Shiwuyu (「食物語」), an RPG game that was awarded The Most Anticipated New Game of the Year (「年度最具期待新遊獎」) at the Second Golden Gyros Prize (「金陀螺獎」), which is primarily designed for female users featuring traditional Chinese cuisine, and Helix Waltz (「螺旋圓舞曲」), a female adventure game featuring a unique clothes-changing experience.

With strong synergies from the comic of the same name, the Company's award-winning "nijigen" mobile game Zaowufaze (「造物法則」) will continue to grow in popularity with the unique comic universe and interactive gameplay. The game achieved a solid performance during 2017 in China and overseas, including Japan, the key market that attracts "nijigen" fans from all over the world. Zaowufaze (「造物法則」) received The Best China Nijigen Index Game 2017 (「中國二次元指數二零一七年度最佳遊戲」) at the China Animation & Comic Competition (CACC) Golden Dragon Award (「中國動漫金龍獎」). Building on this success, BAIOO will strive to attract and retain its "nijigen" fans with the upcoming mobile game Zaowufaze II (「造物法則二」).

In addition, pet collection and cultivation games will remain to be a main focus going forward, as classic products of this type including Aola Star (「奧拉星」) continue to exhibit a long life cycle and high user stickiness, which highlights BAIOO's great understanding of its users. We will continually introduce similar mobile games to expand our user base in the future.

BAIOO believes that even if the gaming market continues to consolidate and integrate, the preference and orientation of users will show a trend of diversification, and the Company's differentiated competition strategy will allow it to continuously grow its position in the market.

To carry out its strategy to develop comic IPs, BAIOO will also leverage its strong base of IPs for its comic arm to explore monetization opportunities throughout the pan-entertainment industry value chain. The Group's strategic cooperation with Tencent Interactive Entertainment to develop related multimedia content for the XiXingJi (「西行紀」) IP remains on track. Concurrently, the Company is also preparing to launch another comic title in the same series to maintain its current popularity. The Company's latest comic products include Juexingzhe (「絕行者」) and Shadaoxingzhe (「殺道行者」), both of which are in the process of accelerated incubation.

With the Company's strong expertise and understanding of the young teens' pan-entertainment market in China, BAIOO is confident that it will be able to capture more opportunities in 2018, and looks forward to creating more business synergies with its existing virtual worlds and comics segments with an even larger user base.

OPERATION INFORMATION

The following table sets out average QAA, average QPA and average quarterly ARQPA for our online virtual worlds for the years indicated below (Note):

	For the Year Ended		
	31 December 2017[1]	31 December 2016	Year-over-year change
	(QAA & QPA in millions, ARQPA in RMB)		
average QAA[2]	**23.8**	45.5	(47.7%)
average QPA[3]	**1.4**	2.0	(30.0%)
average quarterly ARQPA[4]	**55.2**	41.5	33.0%

Notes:

(1) As of 31 December 2017, our online virtual worlds under commercial operation included Aobi Island, Aola Star, Dragon Knights, Light of Aoya, Legend of Aoqi, Clashes of Aoqi, Magic Fighter, Super badilong, Aoyi Alliance, Three Kingdoms, Zaowufaze and Tuntianji.

(2) The average QAA for online virtual worlds was approximately 23.8 million for the year ended 31 December 2017, representing a decrease of approximately 47.7% compared with the same period last year. This primarily due to the disposal of its virtual world Amazing Combat (「特戰英雄」) and the PCs to mobile devices transition 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 1.4 million for the year ended 31 December 2017, representing a decrease of approximately 30.0% compared with the same period last year as a result of our strategy of moving away from heavy monetization and focus on fun purpose to attract more users.

(4) The average quarterly ARQPA for online virtual worlds was approximately RMB55.2 for the year ended 31 December 2017, representing an increase of approximately 33.0% compared with the same period last year as 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 consolidated statements of comprehensive (loss)/ income for the years ended 31 December 2017 and 2016, respectively:

	For the year ended			
	31 December 2017 *RMB'000*	**% of Revenue**	31 December 2016 *RMB'000*	% of Revenue
Revenue	**350,530**	**100.0**	383,260	100.0
Online entertainment business	**305,690**	**87.2**	324,357	84.6
Retail Business	**40,853**	**11.7**	55,108	14.4
Other businesses	**3,987**	**1.1**	3,795	1.0
Cost of revenue	**(163,731)**	**(46.7)**	(170,870)	(44.6)
Gross profit	**186,799**	**53.3**	212,390	55.4
Selling and marketing expenses	**(80,724)**	**(23.0)**	(92,868)	(24.2)
Administrative expenses	**(62,419)**	**(17.8)**	(75,865)	(19.8)
Research and development expenses	**(61,452)**	**(17.5)**	(61,057)	(15.9)
Other income	**6,963**	**2.0**	15,395	4.0
Other gains — net	**6,787**	**1.9**	3,943	1.0
Impairment of goodwill and trademark	**(47,683)**	**(13.6)**	—	—
Operating (loss)/profit	**(51,729)**	**(14.8)**	1,938	0.5
Finance income — net	**26,409**	**7.5**	41,084	10.7
Share of loss of an associate	**—**	—	(1,530)	(0.4)
(Loss)/profit before income tax	**(25,320)**	**(7.2)**	41,492	10.8
Income tax expense	**(5,089)**	**(1.5)**	(8,489)	(2.2)
(Loss)/profit for the year	**(30,409)**	**(8.7)**	33,003	8.6
Other comprehensive (loss)/income, net of tax	**(374)**	**(0.1)**	1,356	0.4
Total comprehensive (loss)/income for the year	**(30,783)**	**(8.8)**	34,359	9.0
Other financial data				
Adjusted net (loss)/profit[1] (unaudited)	**(22,613)**	**(6.5)**	43,639	11.4
Adjusted EBITDA[2] (unaudited)	**(32,375)**	**(9.2)**	21,415	5.6

Notes:

(1) Adjusted net (loss)/profit consists of (loss)/profit for the year plus share-based compensation.

(2) Adjusted EBITDA means adjusted net (loss)/profit less finance income-net, and plus income tax, depreciation of property and equipment and amortization of intangible assets.

Revenue

Our revenue for the year ended 31 December 2017 was RMB350.5 million, representing an 8.5% decrease from RMB383.3 million for the year ended 31 December 2016.

Online Business: Our online business revenue for the year ended 31 December 2017 was RMB305.7 million, a 5.8% decrease from RMB324.4 million for the year ended 31 December 2016. This was primarily due to our strategy of moving away from heavy monetization and focus on fun purpose to attract more users.

Retail Business: Revenue from retail business for the year ended 31 December 2017 was RMB40.9 million, a 25.9% decrease from RMB55.1 million for the year ended 31 December 2016. This was primarily due to our strategy purpose to halt further investments into such sector.

Other Business: Revenue from other businesses for the year ended 31 December 2017 was RMB4.0 million, a 5.1% increase from RMB3.8 million for the year ended 31 December 2016. The increase mainly reflected increase of the revenue generated from advertisement.

Cost of Revenue

Our cost of revenue for the year ended 31 December 2017 was RMB163.7 million representing a decrease by 4.2% from 170.9 million for the year ended 31 December 2016.

Online Entertainment Business: Our online entertainment business cost for the year ended 31 December 2017 was RMB139.9 million, a 5.3% increase from RMB132.8 million for the year ended 31 December 2016. The increase was primarily driven by the increase in payment of third party revenue sharing.

Retail Business: Cost of Retail business for the year ended 31 December 2017 was RMB22.1 million, a 30.5% decrease from RMB31.8 million for the year ended 31 December 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 year ended 31 December 2017 was RMB1.7 million, a 73.0% decrease from RMB6.3 million for the year ended 31 December 2016. The decrease primarily reflected decrease in employee benefit expenses.

Gross Profit

As a result of the foregoing, our gross profit for the year ended 31 December 2017 was RMB186.8 million, compared with RMB212.4 million for the year ended 31 December 2016. Gross profit margin was 53.3% for the year ended 31 December 2017, compared with 55.4% for the year ended 31 December 2016.

Selling and Marketing Expenses

Our selling and marketing expenses for the year ended 31 December 2017 were RMB80.7 million, a 13.1% decrease from RMB92.9 million for the year ended 31 December 2016. This was primarily due to decrease in employee benefit expenses and partly offset by increase in marketing promotional programs.

Administrative Expenses

Our administrative expenses for the year ended 31 December 2017 were RMB62.4 million, a 17.8% decrease from RMB75.9 million for the year ended 31 December 2016. This was primarily due to decrease in employee benefit expenses and operating lease rentals in respect of office premises.

Research and Development Expenses

Our research and development expenses for the year ended 31 December 2017 were RMB61.5 million, a 0.7% increase from RMB61.1 million for the year ended 31 December 2016.

Other Income

The Company recognized RMB7.0 million in other income for the year ended 31 December 2017, a decrease by 54.5% from RMB15.4 million for the year ended 31 December 2016. The decrease was mainly driven by sale of an online virtual world of Amazing Combat(「特戰英雄」) at the end of year 2016.

Other Gains — net

Our other gains — net for the year ended 31 December 2017 were RMB6.8 million, compared with RMB3.9 million for the year ended 31 December 2016. This was primarily due to the increase of fair value gains from financial assets at fair value through profit and loss.

Impairment Loss of Goodwill and Trademark

The Company recognized RMB47.7 million in impairment loss of one-time loss arising from the impairment on goodwill and trademark from the Group's retail business due to the Company intends not to further invest in its retail business as part of its strategy to focus on its principal business of developing and operating children's online entertainment destinations.

Operating (Loss)/Profit

As a result of the foregoing, our operating loss for the year ended 31 December 2017 was RMB51.7 million, compared with operating profit of RMB1.9 million for the year ended 31 December 2016. This was mainly driven by one-time impairment loss recognized of approximately RMB47.7 million.

Finance Income — net

We had net finance income of RMB26.4 million for the year ended 31 December 2017, compared with net finance income of RMB41.1 million for the year ended 31 December 2016. Finance income for the year ended 31 December 2017 was primarily attributable to (i) RMB28.5 million in interest income on bank deposits and other term deposits; (ii) RMB6.4 million in finance income on the long-term payable and (iii) RMB8.5 million in exchange loss related to non-RMB bank deposit.

(Loss)/Profit before Income Tax

As a result of the foregoing, we had a loss of RMB25.3 million for the year ended 31 December 2017, compared with a profit of RMB41.5 million for the year ended 31 December 2016.

Income Tax Expense

Our income tax expense for the year ended 31 December 2017 was RMB5.1 million, a 40.0% decrease from RMB8.5 million for the year ended 31 December 2016. This was primarily due to the decrease of assessable profit.

(Loss)/Profit for the Year

As a result of the foregoing, we had a loss of RMB30.4 million for the year ended 31 December 2017, compared with a profit of RMB33.0 million for the year ended 31 December 2016.

Non-IFRS Measure — Adjusted Net (Loss)/Profit/EBITDA (Unaudited)

Our adjusted net loss for the year ended 31 December 2017 was RMB22.6 million, representing a 151.8% decrease from net profit of RMB43.6 million for the year ended 31 December 2016. Our adjusted EBITDA for the year ended 31 December 2017 was loss of RMB32.4 million, representing a 251.2% decrease from profit of RMB21.4 million for the year ended 31 December 2016.

The following table reconciles our adjusted net (loss)/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	
	2017	2016
	RMB'000	*RMB'000*
(Loss)/profit for the year	**(30,409)**	33,003
Add:		
Share-based compensation	**7,796**	10,636
Adjusted net (loss)/profit	**(22,613)**	43,639
Add:		
Depreciation and amortization	**11,558**	10,371
Finance income-net	**(26,409)**	(41,084)
Income tax	**5,089**	8,489
Adjusted EBITDA	**(32,375)**	21,415

LIQUIDITY AND CAPITAL RESOURCES

In FY2017, 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 2017	As of 31 December 2016
	RMB'000	*RMB'000*
Total liabilities	**141,834**	444,725
Total assets	**1,630,608**	2,017,839
Gearing ratio[(1)]	**9%**	22%

Note:

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

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

As of 31 December 2017, our cash and cash equivalents consisted of cash in bank and cash on hand, which amounted to RMB907.2 million, compared with RMB214.2 million as of 31 December 2016. We had short-term deposits of RMB634.0 million as of 31 December 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 31 December 2017.

As of 31 December 2017, The Group had no restricted cash.

The effective interest rate per annum for cash in bank balances and deposits as of 31 December 2017 was 1.9%, compared with 1.7% 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, short-term deposits and long-term deposits are denominated in the following currencies:

Group	**As of 31 December 2017** *RMB'000*	As of 31 December 2016 *RMB'000*
RMB	**1,425,650**	1,680,668
HK$	**90,414**	97,976
US$	**25,091**	56,462
Others	**94**	93
	1,541,249	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 a borrowing of RMB278.1 million as of 31 December 2016, which is shown in current liabilities. In 2017, the Group repaid the borrowing RMB278.1 million. As of 31 December 2017, the Group had overdrafts of RMB0.9 million, which is shown in current liabilities and the Group has RMB1.7 million undrawn overdraft facilities.

Treasury Policies

As of 31 December 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 31 December 2017, RMB115.6 million of our financial resources were held in deposits in non-RMB currencies. Since there are no cost-effective hedges against the fluctuations of the RMB, there is a risk that we may experience a loss as a result of any foreign currency exchange rate fluctuations in connection with our cash in bank balances.

Capital Expenditures and Investments

Our capital expenditures consist of purchases of property and equipment such as servers and computers and intangible assets such as computer software. In the year ended 31 December 2017, our total capital expenditures were RMB4.6 million, compared with RMB29.0 million in the year ended 31 December 2016. The following table sets out our expenditures for the periods indicated:

	For the year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Capital Expenditures		
— Purchase of property and equipment	**4,175**	27,038
— Purchase of intangible assets	**387**	1,929
Total	**4,562**	28,967

Contingent Liabilities

As of 31 December 2017, the Group did not have any material contingent liabilities, guarantees or litigation against it.

Charges on Assets

The Group pledged RMB279.6 million to a bank to secure a short-term banking facility granted to the Group and it was discharged in May 2017. As of 31 December 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 31 December 2017, the Group had 749 full-time employees, 90.4% of whom are based in Guangzhou. The following table sets forth the number of full-time employees by function as of 31 December 2017:

	As of 31 December 2017	
	Number of Employees	% of Total
Operations	322	43.0
Development and research	239	31.9
Sales and Marketing	103	13.8
General and administration	85	11.3
Total	749	100.0

In addition to salary, we also provide various incentives, including share-based awards, such as share options and restricted shares units ("**RSUs**") granted pursuant to the share incentive schemes of the Company, and performance-based bonuses to better motivate our employees. As required by the PRC law, we contribute to housing funds and maintain mandatory social insurance plans for our employees, covering pension, medical, unemployment, work injury and maternity leave. We are required by the PRC law to make contributions to these social insurance plans at specified percentages of the compensation of each employee, up to a maximum amount as may be specified by the local government from time to time. Such social insurance plans include defined contribution retirement benefit plans organized by the relevant governmental authorities. Forfeited contributions by the Group to these plans may not be used by the Group to reduce the existing level of contributions. The total amount of contributions we made for employee social insurance plans in the year ended 31 December 2017 were approximately RMB30.7 million, compared with RMB34.8 million in the year ended 31 December 2016. We incurred staff costs of approximately RMB163.9 million and RMB201.1 million, for the year ended 31 December 2017 and 2016, representing 46.8% and 52.5% of our revenue for those periods respectively.

We also grant share options and RSUs to our employees to incentivize them to contribute to our growth. Pursuant to the Pre-IPO Share Option Scheme and the Pre-IPO RSU Scheme, there were a total of 1,384,000 share options and 888,000 RSUs outstanding as of 31 December 2017.

We will continue to grant RSUs to our employees to incentivize them pursuant to the Post-IPO RSU Scheme. The maximum aggregate number of the Shares underlying all the RSUs which we may grant pursuant to the Post-IPO RSU Scheme is 57,653,520 shares, representing approximately 2.0% of our share capital as of the date of the AGM (as defined below). For the year ended 31 December 2017, 6,100,000 RSUs have been granted to a total of six key management members and employees of the Group pursuant to the Post-IPO RSU Scheme and there were a total of 26,194,000 RSUs outstanding as of 31 December 2017.

Dividend

At the Company's annual general meeting (**"AGM"**) on 29 June 2017, the then shareholders of the Company (the "**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 then Shareholders on 27 July 2017.

The Board is pleased to recommend the payment of a special dividend of HK$0.021 (equivalent to RMB0.017) per share for the year ended 31 December 2017 out of our share premium account, subject to the approval of the Shareholders at the forthcoming AGM to be held on Friday, 29 June 2018. The proposed dividend will be payable on Tuesday, 31 July 2018 to the Shareholders of whose names appear on the register of members of the Company (the "Register of Members") on Tuesday, 10 July 2018.

CHANGES SINCE 31 DECEMBER 2017

On 2 March 2018, Bumps to Babes Limited, an indirect subsidiary of the Company, was put into voluntary winding up under section 228A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap.32). For details, please refer to the announcement of the Company dated 5 March 2018. A shareholders' and creditors' meeting of Bumps to Babes Limited was held on 22 March 2018, whereby the shareholders and creditors of Bumps to Babes Limited resolved on, inter alia, the appointment of liquidators of Bumps to Babes Limited.

CONSOLIDATED INCOME STATEMENT

		Year ended 31 December	
		2017	2016
	Note	***RMB'000***	*RMB'000*
Revenue	*3*	**350,530**	383,260
Cost of revenue	*4*	**(163,731)**	(170,870)
Gross profit		**186,799**	212,390
Selling and marketing expenses	*4*	**(80,724)**	(92,868)
Administrative expenses	*4*	**(62,419)**	(75,865)
Research and development expenses	*4*	**(61,452)**	(61,057)
Other income		**6,963**	15,395
Other gains — net		**6,787**	3,943
Impairment of goodwill and trademark		**(47,683)**	—
Operating (loss)/profit		**(51,729)**	1,938
Finance income	*5*	**34,969**	41,673
Finance costs	*5*	**(8,560)**	(589)
Finance income — net	*5*	**26,409**	41,084
Share of loss of an associate		**—**	(1,530)
(Loss)/profit before income tax		**(25,320)**	41,492
Income tax expense	*6*	**(5,089)**	(8,489)
(Loss)/profit for the year		**(30,409)**	33,003
Attributable to:			
— Shareholders of the Company		**(14,394)**	35,513
— Non-controlling interests		**(16,015)**	(2,510)
		(30,409)	33,003
(Losses)/earnings per share (expressed in RMB per share)	*7*		
— Basic		**(0.0052)**	0.0130
— Diluted		**(0.0052)**	0.0128

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
(Loss)/profit for the year	**(30,409)**	33,003
Other comprehensive income		
Items that may be reclassified to profit or loss		
Currency translation differences	**(374)**	1,356
Total comprehensive income for the year	**(30,783)**	34,359
Attributable to:		
— Shareholders of the Company	**(14,654)**	36,452
— Non-controlling interests	**(16,129)**	(2,093)
	(30,783)	34,359

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2017	2016
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Property and equipment		**30,096**	38,873
Intangible assets		**3,825**	53,849
Prepayments and other receivables		**3,200**	12,616
Deferred income tax assets		**4,579**	6,375
Long-term deposits		**—**	300,000
Financial assets at fair value through profit or loss		**6,556**	2,694
		48,256	414,407
Current assets			
Inventories		**9,618**	13,151
Trade receivables	*8*	**10,546**	9,877
Prepayments and other receivables		**20,639**	42,038
Financial assets at fair value through profit or loss		**300**	3,167
Short-term deposits		**634,000**	1,041,427
Cash and cash equivalents		**907,249**	214,216
Restricted cash		**—**	279,556
		1,582,352	1,603,432
Total assets		**1,630,608**	2,017,839
EQUITY			
Share capital		**9**	9
Share premium		**1,525,596**	1,567,040
Reserves		**18,161**	30,857
Accumulated losses		**(56,843)**	(42,449)
		1,486,923	1,555,457
Non-controlling interests		**1,851**	17,657
Total equity		**1,488,774**	1,573,114

	Note	As at 31 December 2017 RMB'000	2016 RMB'000
LIABILITIES			
Non-current liabilities			
Long-term payable		**—**	6,423
Advances under government grants		**78**	678
Deferred revenue		**6,674**	6,367
Deferred income tax liabilities		**526**	3,296
		7,278	16,764
Current liabilities			
Trade payables	*9*	**8,491**	9,618
Other payables and accruals		**46,625**	43,661
Amounts due to related parties		**—**	250
Advances from customers and distributors		**36,026**	42,563
Advances under government grants		**600**	1,000
Deferred revenue		**38,979**	49,708
Income tax liabilities		**2,954**	2,253
Borrowing		**—**	278,056
Bank overdrafts		**881**	852
		134,556	427,961
Total liabilities		**141,834**	444,725
Total equity and liabilities		**1,630,608**	2,017,839

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 disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets 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) Amended standards adopted by the Group

The Group has applied the following amendments for the first time for their annual reporting period commencing 1 January 2017:

IAS 7 (Amendment)	Statement of Cash Flows
IAS 12 (Amendment)	Income Taxes
IFRSs (Amendment)	Annual improvements 2014-2016 Cycle

The Group has assessed the impact of the adoption of these amended standards that are effective for the first time for this financial year and considered that there was no material impact on the Group.

(b) New standards, amendments to existing standards and interpretations that have been issued but are not effective and have not been early adopted by the Group

		Effective for annual periods beginning on or after
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*

		Effective for annual periods beginning on or after
Annual Improvements to 2015-2017 Cycle	Improvements to IFRSs	1 January 2019
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019

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 above new standards and amendments to standards and interpretations is expected to have a significant effect on the consolidated financial statements of the Group, except for the following:

IFRS 9, 'Financial Instruments'

Nature of change

IFRS 9 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.

Impact

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

The financial assets held by the Group include equity instruments that are currently classified as financial assets at fair value through profit or loss ("FVPL") which will continue to be measured on the same basis under IFRS 9. Accordingly, the Group does not expect the new guidance to affect the classification and measurement of these 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 ("FVPL") 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 hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. While the Group does not involve any hedging accounting, it does not expect a significant impact on the accounting for its hedging relationships.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group does not expect significant increase or decrease in the loss allowance for trade debtors.

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.

Date of adoption by Group

Mandatory be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

IFRS 15, 'Revenue from Contracts with Customers'

Nature of change

The 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.

Impact

Management has assessed the effects of applying the new standard on the Group's financial statements and does not expect a significant impact on net income of the Group's financial statements.

Date of adoption by group

Mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

IFRS 16, 'Leases'

Nature of change

IFRS 16 was issued in January 2016. It 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.

Impact

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB151,084,000. The Group estimates those relate to payments for short-term and low value leases which will be recognised on a straight-line basis as an expense in profit or loss are insignificant.

However, the Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

Date of adoption by Group

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. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

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 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, and income tax expense are not included in the measure of the segments' performance.

There were no material inter-segment sales during years ended 31 December 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 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 2017 and 2016 are as follows:

	Year ended 31 December 2017			
	Online entertainment business	**Retail business**	**Other businesses**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Segment revenue	**305,690**	**40,853**	**3,987**	**350,530**
Gross profit	**165,843**	**18,704**	**2,252**	**186,799**
Depreciation	**7,444**	**1,777**	**136**	**9,357**
Amortization	**205**	**1,661**	**335**	**2,201**

	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)

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 2017 and 2016, the geographical information on the total revenues is as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Revenue		
— Mainland China	**310,859**	334,842
— Hong Kong	**39,671**	48,418
Total	**350,530**	383,260

There is no concentration risk in terms of customers (which include end users from online business and customers from other businesses) as no single external customer contributed more than 10% of the Group's total revenue for the years ended 31 December 2017 and 2016, 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 72.2% and 64.9% of the total revenue for the years ended 31 December 2017 and 2016, respectively. The percentage of revenue contributed by the following online virtual worlds is not presented for the periods when such amount is less than 10% of the Group's total revenue in a particular period.

	Year ended 31 December	
	2017	2016
Legend of Aoqi	**28.6%**	41.3%
Aola Star	**25.9%**	23.6%
Zaowufaze	**17.7%**	N/A

As at 31 December 2017, the total non-current assets, other than financial assets and deferred tax assets, located in Mainland China and Hong Kong were RMB33,522,000 (31 December 2016: RMB40,779,000) and RMB399,000 (31 December 2016: RMB51,943,000), respectively.

4 Expenses by nature

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Employee benefit expenses	**163,949**	201,107
Distribution cost and payment handling fees	**53,346**	20,110
Promotion and advertising expenses	**41,673**	45,782
Operating lease rentals	**31,287**	38,240
Cost of inventories sold	**22,011**	32,400
Depreciation of property and equipment and amortization of intangible assets	**11,558**	10,371
Bandwidth and server custody fees	**9,879**	18,527
Professional fees	**7,190**	8,422
Content expenses	**5,228**	5,327
Travelling and entertainment expenses	**5,050**	4,032
Auditor's remuneration	**3,800**	3,800
Impairment of prepayments and other receivables	**3,797**	—
Utilities and office expenses	**3,184**	4,872
Prepaid card production expenses	**603**	1,500
Others	**5,771**	6,170
Total cost of revenue, selling and marketing expenses, administrative expenses and research and development expenses	**368,326**	400,660

5 Finance income — net

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Finance income:		
— Interest income from bank deposits and other term deposits	**28,546**	29,287
— Finance income from long-term payable	**6,423**	3,906
— Net foreign exchange gains	**—**	8,480
	34,969	41,673
Finance costs:		
— Net foreign exchange loss	**(8,519)**	—
— Interest expense	**(41)**	(589)
	(8,560)	(589)
Finance income — net	**26,409**	41,084

6 Income tax expense

The income tax expense of the Group for the years ended 31 December 2017 and 2016 is analyzed as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Current income tax	**6,040**	9,508
Deferred income tax	**(951)**	(1,019)
Income tax expense	**5,089**	8,489

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	
	2017	2016
	RMB'000	*RMB'000*
(Loss)/profit before income tax	**(25,320)**	41,492
Tax calculated at income tax rates applicable to profits of the consolidated entities in their respective jurisdictions *(Notes a, b, c)*	**(5,786)**	2,915
Tax effects of:		
Tax losses for which no deferred income tax asset was recognized	**6,067**	6,023
Super deduction for research and development expenses *(Note c)*	**(2,374)**	(2,480)
Expenses not deductible for income tax purposes:		
— Share-based compensation	**1,288**	1,591
— Goodwill impairment	**5,496**	—
— Others	**398**	440
Income tax expense	**5,089**	8,489

The negative effective income tax rate for the year ended 31 December 2017 was mainly because no deferred tax asset was recognized on the tax losses and the non-deductible expenses of the retail 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 2017 and 2016.

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

The Group's subsidiaries in the PRC are subject to EIT at the rate of 25% except Guangzhou Baitian Information Technology Ltd., which was qualified as "High and New Technology Enterprise" in 2011, 2014 and 2017 and was entitled to a preferential income tax rate of 15% on its estimated assessable profits for the years ended 31 December 2017 and 2016.

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 considered the Super Deduction to be claimed for the Groups entities in ascertaining their assessable profits for the years ended 31 December 2017 and 2016.

(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 2017 and 2016, 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 under the Cayman Island laws. Accordingly, no deferred income tax liability on WHT was accrued as at the end of each reporting period.

7 (Losses)/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 during the year.

	Year ended 31 December	
	2017	2016
(Loss)/profit attributable to shareholders of the Company (*RMB'000*)	**(14,394)**	35,513
Weighted average number of ordinary shares in issue less shares held for RSU Scheme of the Company	**2,755,781,015**	2,736,805,178
Basic (losses)/earnings per share (*in RMB/share*)	**(0.0052)**	0.0130

(b) Diluted

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

For the year ended 31 December 2017, 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 year ended 31 December 2017 as each of the types of potential ordinary shares was anti-dilutive.

For the year ended 31 December 2016, 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
Earnings	
Profit attributable to shareholders of the Company and profit used to determine diluted earnings per share *(RMB'000)*	35,513
Weighted average number of ordinary shares	
Weighted average number of ordinary shares in issue less shares held for RSU Scheme	2,736,805,178
Adjustments for:	
— Share options	1,709,979
— RSUs	36,488,018
Weighted average number of ordinary shares for diluted earnings per share	2,775,003,175
Diluted earnings per share *(in RMB/share)*	0.0128

8 Trade receivables

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Receivables from third parties	**10,546**	9,877
Less: allowance for impairment	**—**	—
	10,546	9,877

As at 31 December 2017 and 2016, 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	
	2017	2016
	RMB'000	*RMB'000*
0–30 days	**4,406**	5,326
31–60 days	**1,454**	2,279
61–90 days	**992**	880
91–180 days	**1,533**	854
181–365 days	**2,161**	538
	10,546	9,877

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	
	2017	2016
	RMB'000	*RMB'000*
0–30 days	**1,830**	4,043
31–60 days	**2,189**	2,188
61–180 days	**3,351**	3,005
181–365 days	**1,121**	382
	8,491	9,618

(a) As at 31 December 2017 and 2016, the fair value of trade payables approximated their carrying amounts.

10 Dividend

The dividends paid in 2017 and 2016 were RMB43,087,000 and RMB41,484,000 respectively. The Board of Directors of the Company proposed a special dividend of HK$0.021 (equivalent to approximately RMB0.017) per ordinary share out of the share premium account, totaling approximately RMB46,937,000. Such dividend is to be approved by the shareholders at the annual general meeting ("AGM") on 29 June 2018. These financial statements do not reflect this dividend payable as a liability as at 31 December 2017.

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Proposed special dividend of HK$0.021 equivalent to approximately RMB0.017 (2016: HK$0.018) per ordinary share	**48,976**	45,114
Less: Dividend for shares held for the RSU Schemes	**(2,039)**	(2,027)
	46,937	43,087

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 2017. 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 2017.

Review of Preliminary Announcement

The figures set out in the preliminary announcement in respect of the Group's consolidated balance sheet, consolidated statement of comprehensive income, consolidated income statement and the related notes thereto to the audited consolidated financial statements of the Group for the year ended 31 December 2017 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 2017.

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 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 year ended 31 December 2017.

Code provision A.2.1

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

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

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

During the year ended 31 December 2017, the Company repurchased a total of 31,978,000 Shares on the Stock Exchange at an aggregate consideration (before expenses) of HK$20,863,780. All the repurchased Shares were subsequently cancelled. Particulars of the repurchases during the year ended 31 December 2017 are as follows:

Month	**Number of Shares repurchased**	**Purchase price per Share**		**Aggregate consideration (before expenses)**
		Highest	**Lowest**	
		(HK$)	***(HK$)***	***(HK$)***
May 2017	9,000,000	0.75	0.69	6,537,860
June 2017	13,000,000	0.75	0.68	9,207,080
September 2017	4,000,000	0.52	0.50	2,034,040
October 2017	2,000,000	0.57	0.54	1,119,920
December 2017	3,978,000	0.50	0.48	1,964,880
Total	31,978,000			20,863,780

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 2017.

Annual General Meeting and Closure of Register of Members

The AGM is scheduled to be held on Friday, 29 June 2018. The notice of AGM will be published and dispatched to the Shareholders in the manner as required by the Listing Rules in due course. The register of members of the Company (the "**Register of Members**") will be closed from Tuesday, 26 June 2018 to Friday, 29 June 2018 (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 Monday, 25 June 2018.

Special Dividend and Closure of Register of Members

The Board recommended the payment of a special dividend of HK$0.021 (equivalent to RMB0.017) per Share for the year ended 31 December 2017, subject to the approval of the Shareholders at the AGM, be payable on Tuesday, 31 July 2018 to the Shareholders whose names appear on the Register of Members on Tuesday, 10 July 2018.

The Register of Members will be closed from Friday, 6 July 2018 to Tuesday, 10 July 2018, 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 Thursday, 5 July 2018.

Publication of 2017 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 2017 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, 28 March 2018

As at 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