百奧家庭互動有限公司
BAIOO Family Interactive Limited
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2100)

2018 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 its controlled entity in the PRC (the "**Group**") for the six months ended 30 June 2018 together with comparative figures of last year, as follows:

Financial Summary

INCOME STATEMENT HIGHLIGHT

	Unaudited six months ended 30 June		Period-over-period change
	2018	2017	
	RMB'000	*RMB'000*	%
		(Restated)[1]	
Continuing operations			
Revenue	**144,862**	150,269	(3.6%)
Gross profit	**76,699**	89,459	(14.3%)
Operating profit	**100,690**	6,326	1,491.7%
Non-International Financial Reporting Standards ("**IFRS**") Measures			
— Adjusted net profit[2]	**99,837**	11,929	736.9%
— Adjusted EBITDA[3]	**107,043**	12,732	740.7%

Notes:

1. Due to the discontinuance of our retail business as part of our strategy, our retail business has been classified as discontinued operation, and the related revenue, expenses and tax are presented as a single amount in the interim condensed consolidated income statement as "loss for the period from discontinued operations". Comparative figures have been reclassified to conform with the new presentation.

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

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

BALANCE SHEET HIGHLIGHT

	Unaudited As of 30 June 2018 *RMB'000*	Audited As of 31 December 2017 *RMB'000*
Assets		
Non-current assets	**135,794**	48,256
Current assets	**1,580,309**	1,582,352
Total assets	**1,716,103**	1,630,608
Equity and liabilities		
Total equity	**1,533,579**	1,488,774
Non-current liabilities	**15,099**	7,278
Current liabilities	**167,425**	134,556
Total liabilities	**182,524**	141,834
Total equity and liabilities	**1,716,103**	1,630,608

Management Discussion and Analysis

BUSINESS OVERVIEW

In the first half of 2018 ("**1H2018**"), BAIOO continued to deliver steady operating metrics across the Company's products for personal computers ("**PC(s)**") and mobile devices. The Company also effectively deployed its intellectual property ("**IP**") and original content creation-centered strategies to develop new products and expand its ongoing product pipeline.

In an effort to strengthen its gaming IP, the Company continued to generate 'fun' content and maintain its focus on increasing audience engagement for popular titles, particularly the award-winning mobile game Zaowufaze (「造物法則」). During 1H2018, the comic-adapted mobile game was well received in both China and overseas, with rising user stickiness among "nijigen" (「二次元」) communities. The strong performance once again demonstrated that the Company's business model of leveraging the same IP, from IP incubation to comic development and mobile game operation, in the pan-entertainment market is effective and viable.

The Company also expanded its addressable market to overseas regions in 1H2018 as the mobile game Zaowufaze (「造物法則」) achieved a solid performance in Korea, Japan, Southeast Asia, Europe and the United States. With a dedicated in-house overseas publishing team, the Company was not only able to identify and reach out to potential customers abroad, but would also strive to further develop the IP among the local communities in the respective markets, laying a strong foundation for releasing and operating more gaming products with similar characteristics in the future.

After experiencing the success of Zaowufaze (「造物法則」), in particular its massive scalability, BAIOO's management is more determined than ever to execute its IP-centered strategies, and plans to extend this effective model to more of the Company's proprietary IP. The Company recently released a number of exciting comic and animation products with the aim of acquiring new comic users and introducing the comic user base to the Company's mobile games that are based on the same IP. In July 2018, the first XiXingJi (「西行紀」)-adapted product, the XiXingJi 3D animated cartoon series co-developed with Tencent Interactive Entertainment, was exclusively premiered on Tencent Video and achieved over 180 million visits in the first month. The IP of Xixingji was held by Guangzhou Baiman Culture Communications Company Limited (廣州百漫文化傳播有限公司), an investee of the Company. During the same month, the Company also launched two comic series based on proprietary IP on the Tencent Comics platform, namely Aola Star: Parallel Universe (「奥拉星 • 平行宇宙」) and Shiwuyu (「食物語」, also known as Tale of Food). The comic Aola Star: Parallel Universe (「奥拉星 • 平行宇宙」) was based on the classic virtual world Aola Star. In the first two weeks following its launch, it attracted over 50 million visits, and was rated 9.6 points out of 10 by Tencent Comics users. Shiwuyu (「食物語」) is one of the Company's emerging IP for female users, and the Company will unveil its mobile game version in the next step.

INDUSTRY TRENDS

Although China's gaming industry continued to grow, the growth rate has recently started to slow down. 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 1H2018 rose to RMB105 billion, an increase of 5.2% year-over-year, which compares with a year-over-year growth rate of 26.7% for the same period last year. Of this, the mobile game market took up the lion's share, accounting for 60.4% of the total revenue, or RMB63.41 billion.

Confronted with a more competitive industry landscape, the Company believes that mobile game companies should develop a unique strategy to attract users and execute the right monetization strategy. BAIOO will continue to focus on IP incubation, comic and animation development, and mobile game operation. With particular strengths in content and graphics development, the Company will strive to attract and retain users, scale its business model, and achieve sustainable growth in the pan-entertainment industry over the long term.

OUTLOOK FOR THE SECOND HALF OF 2018

Following the success of Zaowufaze (「造物法則」), BAIOO has identified a scalable business model that is based on incubating and then developing the same IP across the entertainment industry, from comics to mobile games. To execute this strategy and create maximum value for shareholders, BAIOO will target specific user groups and focus on developing certain game genres that best match the Company's DNA, including female-oriented games, comic-adapted "nijigen" (「二次元」) games and pet collection and cultivation games.

In the second half of 2018 ("**2H2018**"), BAIOO will continue to focus on executing its IP-centered strategies, developing original content, and releasing new products, including the highly anticipated Helix Waltz (「螺旋圓舞曲」). This medieval-themed female adventure game features a unique experience that allows players to change and update their clothing, and has scored a top 9.5 user rating out of 10 on TapTap, the online gaming community in China known for its credibility in mobile game ratings and reviews. The Company launched a public testing in August 2018 and plans to officially release it soon after obtaining all necessary licenses. Leveraging BAIOO's dedicated in-house overseas publishing team, the Company also plans to publish and operate the game beyond China to address unmet demand in various overseas markets.

In addition to Helix Waltz (「螺旋圓舞曲」), BAIOO also planned to launch four more mobile games in China and overseas in the following months, including Battle Cell (「牌武者」), a "nijigen"-themed strategy card game that was released in July 2018, Shiwuyu (「食物語」), a unique game that was primarily designed for female that features traditional Chinese cuisine, Typoman (「字母人」), a world-renowned 2D puzzle game on iOS and Android, and Tianming Shaonv (「天命少女」), a "nijigen" card game adopted from the Japanese comic "Ikki Tousen" (「一騎當千」). While targeting different user groups, all four games scored high ratings on TapTap based on their unique gameplay and gaming universe. The Company aims to publish all new mobile games in China and overseas markets.

With a strong and diversified mobile game pipeline, BAIOO is confident that it will be able to capture more opportunities over the 2H2018 and the year ahead, and the Company looks forward to creating more business synergies with its existing virtual worlds and comic segments with an even larger user base.

OPERATION INFORMATION

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

	For the six months ended		Period-
	30 June 2018[1]	30 June 2017	over-period change
	(QAA & QPA in millions, ARQPA in RMB)		
average QAA[2]	**16.8**	25.0	(32.8%)
average QPA[3]	**1.1**	1.6	(31.3%)
average quarterly ARQPA[4]	**62.3**	47.7	30.6%

Notes:

1. As of 30 June 2018, our online virtual worlds under commercial operation included Aobi Island, Aola Star, Dragon Knights, Light of Aoya, Legend of Aoqi, Clashed of Aoqi, Magic Fighter, Super badilong, Aoyi Alliance, Three Kingdoms, Zaowufaze and Tuntianji.

2. The average QAA for online virtual worlds was approximately 16.8 million for the six months ended 30 June 2018, representing a decrease of approximately 32.8% compared with the same period of last year. This was primarily due to the trend of users migrating from PCs to mobile devices.

3. The average QPA for online virtual worlds was approximately 1.1 million for the six months ended 30 June 2018, representing a decrease of approximately 31.3% from the same period of last year as a result of the shift to mobile.

4. The average quarterly ARQPA for online virtual worlds was approximately RMB62.3 for the six months ended 30 June 2018, representing an increase of approximately 30.6% compared with the same period last year. The increase was primarily because the Company's mobile game products are shifting to an older user base that has greater paying power.

OVERALL BUSINESS AND FINANCIAL PERFORMANCE

The following table sets forth our consolidated statements of comprehensive income for the six months ended 30 June 2018 and 2017, respectively:

	(Unaudited) For the six months ended			
	30 June 2018 *RMB'000*	**% of Revenue**	30 June 2017 *RMB'000* *(Restated)*[(1)]	% of Revenue
Continuing operations				
Revenue	**144,862**	**100**	150,269	100
Online entertainment business	**143,247**	**99**	148,507	99
Other business	**1,615**	**1**	1,762	1
Cost of revenue	**(68,163)**	**(47)**	(60,810)	(40)
Gross profit	**76,699**	**53**	89,459	60
Selling and marketing costs	**(29,427)**	**(20)**	(33,943)	(23)
Administrative expenses	**(28,295)**	**(20)**	(26,836)	(18)
Research and development expenses	**(38,695)**	**(27)**	(30,748)	(20)
Net impairment loss on financial assets	**(974)**	**(1)**	—	—
Other income	**4,217**	**3**	5,428	3
Other gains — net	**2,150**	**1**	2,966	2
Gain on disposal of a subsidiary	**115,015**	**80**	—	—
Operating profit	**100,690**	**69**	6,326	4
Finance income — net	**17,360**	**12**	10,030	7
Share of loss of an associate	**(1,711)**	**(1)**	—	—
Profit before income tax	**116,339**	**80**	16,356	11
Income tax expense	**(19,315)**	**(13)**	(2,714)	(2)
Profit for the period from continuing operations	**97,024**	**67**	13,642	9
Discontinued operations				
Loss for the period from discontinued operations	**(1,950)**	**(1)**	(6,335)	(4)
Profit for the period	**95,074**	**66**	7,307	5
Other comprehensive income/(loss), net of tax	**276**	**0**	(552)	(0)
Total comprehensive income for the period	**95,350**	**66**	6,755	4
Other financial data				
Adjusted net profit[(2)] (unaudited)	**99,837**	**—**	11,929	—
Adjusted EBITDA[(3)] (unaudited)	**107,043**	**—**	12,732	—

Notes:

1. Due to the discontinuance of our retail business as part of our strategy, our retail business has been classified as discontinued operation, and the related revenue, expenses and tax are presented as a single amount in the interim condensed consolidated income statement as "loss for the period from discontinued operations". Comparative figures have been reclassified to conform with the new presentation.

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

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

Revenue

Revenue for the six months ended 30 June 2018 was RMB144.9 million, representing a 3.6% decrease from RMB150.3 million for the six months ended 30 June 2017.

Online Business: Online business revenue for the six months ended 30 June 2018 was RMB143.2 million, a 3.6% decrease from RMB148.5 million for the six months ended 30 June 2017. This was primarily due to the impact of users migrating from PC to mobile devices.

Other Businesses: Revenue from other businesses for the six months ended 30 June 2018 was RMB1.6 million, an 11.1% decrease from RMB1.8 million for the six months ended 30 June 2017. The decrease was primarily due to lower advertising revenue.

Cost of Revenue

Our cost of revenue for the six months ended 30 June 2018 was RMB68.2 million, a 12.2% increase from RMB60.8 million for the six months ended 30 June 2017.

Online Entertainment Business: Our online entertainment business cost for the six months ended 30 June 2018 was RMB67.4 million, a 12.9% increase from RMB59.7 million for the six months ended 30 June 2017. The increase was primarily driven by the rise in third party revenue sharing, and was partly offset by a decrease in employee benefit expenses.

Other Businesses: Cost of other businesses for the six months ended 30 June 2018 was RMB0.8 million, a 27.3% decrease from RMB1.1 million for the six months ended 30 June 2017. The decrease primarily reflected a decline in employee benefit expenses.

Gross Profit

As a result of the foregoing, gross profit for the six months ended 30 June 2018 was RMB76.7 million, compared with RMB89.5 million for the six months ended 30 June 2017. Gross profit margin was 52.9% for the six months ended 30 June 2018, compared with 59.5% for the six months ended 30 June 2017.

Selling and Marketing Expenses

Selling and marketing expenses for the six months ended 30 June 2018 were RMB29.4 million, a 13.3% decrease from RMB33.9 million for the six months ended 30 June 2017. This was primarily due to lower marketing spending on promotional programs and partly offset by increase in employee benefit expense.

Administrative Expenses

Administrative expenses for the six months ended 30 June 2018 were RMB28.3 million, a 5.6% increase from RMB26.8 million for the six months ended 30 June 2017. This was primarily due to an increase in employee benefit expenses.

Research and Development Expenses

Research and development expenses for the six months ended 30 June 2018 were RMB38.7 million, a 26.1% increase from RMB30.7 million for the six months ended 30 June 2017. This was primarily driven by more new game developments.

Net Impairment Losses on Financial Assets

We recorded net impairment losses on financial assets of RMB1.0 million for the six months ended 30 June 2018, which was primarily due to an accrued accounts receivable impairment. This compares with nil for the six months ended 30 June 2017.

Other Income

We recognized RMB4.2 million in other income for the six months ended 30 June 2018, compared with RMB5.4 million for the six months ended 30 June 2017. The other income was generated as a result of our fulfillment of certain performance conditions attached to government grants.

Other Gains — net

We recognized RMB2.2 million mainly in fair value gains on financial assets at fair value through profit and loss for the six months ended 30 June 2018. This compares with a fair value gain of RMB3.0 million for the six months ended 30 June 2017.

Gain on Disposal of a Subsidiary

We had a gain on disposal of a subsidiary of RMB115.0 million for the six months ended 30 June 2018, compared with nil for the six months ended 30 June 2017. This was mainly attributable to the gain on a disposal of a 7% equity share in the Group's subsidiary, Guangzhou Baiman Culture Communications Company Limited (廣州百漫文化傳播有限公司), and the re-measurement of the retained non-controlling investment. For details, please refer to Note 9 of the interim condensed consolidated financial information.

Operating Profit

As a result of the foregoing, our operating profit for the six months ended 30 June 2018 was RMB100.7 million, compared with operating profit of RMB6.3 million for the six months ended 30 June 2017.

Finance Income — net

We had net finance income of RMB17.4 million for the six months ended 30 June 2018, compared with net finance income of RMB10.0 million for the six months ended 30 June 2017. Finance income for the six months ended 30 June 2018 was primarily driven by greater interest income on short-term deposits and cash in bank balances.

Share of Loss of an Associate

We recorded a share of loss of an associate of RMB1.7 million for the six months ended 30 June 2018 due to a loss at the start-up period from an investee company.

Profit before Income Tax

As a result of the foregoing, we had a profit of RMB116.3 million for six months ended 30 June 2018, compared with a profit of RMB16.4 million for the six months ended 30 June 2017.

Income Tax Expense

Income tax expense for the six months ended 30 June 2018 was RMB19.3 million, compared with income tax expense of RMB2.7 million for the six months ended 30 June 2017. This was primarily due to the increase of assessable profit.

Profit for the Period from Continuing Operations

We had a profit of RMB97.0 million for the six months ended 30 June 2018, compared with a profit of RMB13.6 million for the six months ended 30 June 2017.

Loss for the Period from Discontinued Operations

We had a loss of RMB2.0 million for the six months ended 30 June 2018, compared with a loss of RMB6.3 million for the six months ended 30 June 2017.

Profit for the Period

As a result of the foregoing, we had a profit of RMB95.1 million for the six months ended 30 June 2018, compared with a profit of RMB7.3 million for the six months ended 30 June 2017.

Non-IFRS Measure — Adjusted Net Profit/EBITDA

Our adjusted net profit for the six months ended 30 June 2018 was RMB99.8 million, representing a 738.7% increase from RMB11.9 million for the six months ended 30 June 2017. Our adjusted EBITDA for the six months ended 30 June 2018 was RMB107.0 million, representing a 742.5% increase from RMB12.7 million for the six months ended 30 June 2017.

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	
	2018	2017
	RMB'000	*RMB'000*
Profit for the period	**95,074**	7,307
Add:		
Share-based compensation	**4,763**	4,622
Adjusted net profit	**99,837**	11,929
Add:		
Depreciation and amortization	**5,533**	5,916
Finance income-net	**(17,642)**	(7,367)
Income tax	**19,315**	2,254
Adjusted EBITDA	**107,043**	12,732

LIQUIDITY AND CAPITAL RESOURCES

In the first half of 2018, 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	Audited
	As of	As of
	30 June	31 December
	2018	2017
	RMB'000	*RMB'000*
Total liabilities	**182,524**	141,834
Total assets	**1,716,103**	1,630,608
Gearing ratio(1)	**11%**	9%

Note:

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

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

As of 30 June 2018, our cash and cash equivalents consisted of cash in bank and cash on hand, which totaled RMB841.7 million, compared with RMB907.2 million as of 31 December 2017. We had short-term deposits of RMB591.5 million as of 30 June 2018, compared with 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 30 June 2018. We also had the principal of structural deposit with embedded derivative of RMB100 million which was classified as "Financial assets at fair value through profit or loss" due to the application of IFRS9 since 1 January 2018.

As of 30 June 2018, the Group had no restricted cash.

The effective interest rate per annum for cash in bank balances and deposits as of 30 June 2018 was 1.9%, compared with 1.9% as of 31 December 2017. 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, long-term deposits and structural deposits classified as "Financial assets at fair value through profit or loss" are denominated in the following currencies:

Group	**Unaudited As of 30 June 2018[1]** *RMB'000*	Audited As of 31 December 2017 *RMB'000*
RMB	**1,433,298**	1,425,650
HK$	**77,229**	90,414
US$	**22,538**	25,091
Others	**97**	94
	1,533,162	1,541,249

Note:

1. The cash balance as of 30 June 2018 included the principal of structural deposit with embedded derivative of RMB100 million which was classified as "Financial assets at fair value through profit or loss" due to the application of IFRS9 since 1 January 2018.

Bank Loans and Other Borrowings

The Group had no bank loans or other borrowings as of 30 June 2018.

Treasury Policies

As of 30 June 2018, 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 2018, RMB99.9 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 balances.

Capital Expenditures and Investments

Our capital expenditures consist of the purchases of property and equipment such as servers and computers. In the six months ended 30 June 2018, our total capital expenditures were RMB8.2 million, compared with RMB1.4 million for the six months ended 30 June 2017. The following table sets out our expenditures for the periods indicated:

	Unaudited **For the six months ended 30 June**	
	2018	2017
	RMB'000	*RMB'000*
Capital Expenditures		
— Purchase of property and equipment	**8,155**	1,359

Contingent Liabilities

As of 30 June 2018, the Group did not have any material contingent liabilities, guarantees or litigation against it.

Charges on Assets

As of 30 June 2018, 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 2018, the Group had 554 full-time employees. The following table sets forth the number of full-time employees by function as of 30 June 2018:

	As of 30 June 2018	
	Number of Employees	**% of Total**
Operations	235	42.4
Development and research	219	39.5
Sales and marketing	43	7.8
General and administration	57	10.3
Total	**554**	**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 2018 were approximately RMB16.7 million, compared with RMB14.8 million in the first half of 2017. We incurred staff costs of approximately RMB88.9 million and RMB85.3 million, for the six months ended 30 June 2018 and 2017, representing 61.4% and 56.8% 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 1,344,000 share options and no shares of RSUs outstanding as of 30 June 2018.

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 57,025,280 shares, representing approximately 2.0% of our share capital as of the date of the AGM (as defined below). Pursuant to the Post-IPO RSU Scheme, there were a total of 14,617,500 RSUs outstanding as of 30 June 2018.

Dividend

At the Company's annual general meeting ("**AGM**") on 29 June 2018, the then shareholders of the Company approved the Board-recommended final dividend of HK$0.021 (equivalent to approximately RMB0.018) per share for the year ended 31 December 2017. The final dividend was paid to shareholders on 31 July 2018.

The Board did not propose any interim dividend for the six months ended 30 June 2018 (for the six months ended 30 June 2017: Nil).

CHANGES SINCE 31 DECEMBER 2017

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 for the year ended 31 December 2017.

SIGNIFICANT EVENTS

The Group did not have any significant events which have occured after 30 June 2018.

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Unaudited Six months ended 30 June **2018** *RMB'000*	2017 *RMB'000* *(Restated)*
Continuing operations			
Revenue	*3*	**144,862**	150,269
Cost of revenue		**(68,163)**	(60,810)
Gross profit		**76,699**	89,459
Selling and marketing expenses		**(29,427)**	(33,943)
Administrative expenses		**(28,295)**	(26,836)
Research and development expenses		**(38,695)**	(30,748)
Net impairment losses on financial assets		**(974)**	—
Other income		**4,217**	5,428
Other gains — net		**2,150**	2,966
Gain on disposal of a subsidiary	*9*	**115,015**	—
Operating profit	*4*	**100,690**	6,326
Finance income		**17,427**	12,387
Finance costs		**(67)**	(2,357)
Finance income — net		**17,360**	10,030
Share of loss of an associate		**(1,711)**	—
Profit before income tax		**116,339**	16,356
Income tax expense	*5*	**(19,315)**	(2,714)
Profit for the period from continuing operations		**97,024**	13,642
Discontinued operations			
Loss for the period from discontinued operations	*8*	**(1,950)**	(6,335)
Profit for the period		**95,074**	7,307

		Unaudited	
		Six months ended 30 June	
		2018	2017
	Note	***RMB'000***	*RMB'000*
			(Restated)
Attributable to:			
— Shareholders of the Company			
Continuing operations		**100,955**	15,248
Discontinued operations		**(1,510)**	(5,349)
		99,445	9,899
— Non-controlling interests			
Continuing operations		**(3,931)**	(1,606)
Discontinued operations		**(440)**	(986)
		(4,371)	(2,592)
		95,074	7,307
Earnings per share for profit from continuing operations attributable to shareholders of the Company (expressed in RMB per share)	*6*		
Basic earnings per share		**0.0367**	0.0055
Diluted earnings per share		**0.0365**	0.0055
Earnings per share for profit attributable to shareholders of the Company (expressed in RMB per share)	*6*		
Basic earnings per share		**0.0361**	0.0036
Diluted earnings per share		**0.0359**	0.0035

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited Six months ended 30 June 2018 RMB'000	2017 RMB'000 (Restated)
Profit for the period	**95,074**	7,307
Other comprehensive income		
Items that may be reclassified to profit or loss		
Currency translation differences of discontinued operation	**276**	(552)
Total comprehensive income for the period	**95,350**	6,755
Attributable to:		
— Shareholders of the Company	**99,638**	9,517
— Non-controlling interests	**(4,288)**	(2,762)
	95,350	6,755
Total comprehensive income/(loss) attributable to Shareholders of the Company arising from:		
— Continuing operations	**100,955**	15,248
— Discontinued operations	**(1,317)**	(5,731)
	99,638	9,517

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	**Unaudited As at 30 June 2018** *RMB'000*	Audited As at 31 December 2017 *RMB'000*
ASSETS			
Non-current assets			
Property and equipment		**30,635**	30,096
Intangible assets		**507**	3,825
Investment in an associate		**93,156**	—
Prepayments and other receivables		**4,673**	3,200
Deferred income tax assets		**201**	4,579
Financial assets at fair value through profit or loss		**6,622**	6,556
		135,794	48,256
Current assets			
Inventories		**2,236**	9,618
Contract costs		**1,110**	—
Trade receivables	*10*	**6,674**	10,546
Prepayments and other receivables		**17,955**	20,639
Amount due from a related party		**17,099**	—
Financial assets at fair value through profit or loss		**102,073**	300
Short-term deposits		**591,465**	634,000
Cash and cash equivalents		**841,697**	907,249
		1,580,309	1,582,352
Total assets		**1,716,103**	1,630,608
EQUITY			
Share capital		**9**	9
Share premium		**1,469,906**	1,525,596
Reserves		**14,042**	18,161
Retained earnings/(accumulated losses)		**42,602**	(56,843)
Capital and reserves attributable to Shareholders of the Company		**1,526,559**	1,486,923
Non-controlling interests		**7,020**	1,851
Total equity		**1,533,579**	1,488,774

	Note	Unaudited As at 30 June 2018 *RMB'000*	Audited As at 31 December 2017 *RMB'000*
LIABILITIES			
Non-current liabilities			
Contract liabilities		**5,517**	—
Deferred revenue		**—**	6,674
Deferred income tax liabilities		**9,582**	526
Advances from government grants		**—**	78
		15,099	7,278
Current liabilities			
Trade payables	*11*	**5,572**	8,491
Other payables and accruals		**89,911**	46,625
Advance from distributors		**19,171**	—
Advances from customers and distributors		**—**	36,026
Advance from government grant		**311**	600
Contract liabilities		**48,396**	—
Deferred revenue		**—**	38,979
Income tax liabilities		**4,026**	2,954
Bank overdrafts		**38**	881
		167,425	134,556
Total liabilities		**182,524**	141,834
Total equity and liabilities		**1,716,103**	1,630,608

1 Basis of preparation

This interim condensed consolidated financial information for the six months ended 30 June 2018 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 2017, which have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

2 Accounting policies

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the estimation of income tax and the adoption of new and amended standards as set out below.

2.1 The following new standards and amendments to existing standards and interpretation are mandatory for adoption for the financial year beginning 1 January 2018 for the Group:

IFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions
IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRIC 22	Foreign Currency Transactions and Advance Consideration
IAS 28 (Amendment)	Investments in Associates and Joint Ventures

The Group has assessed the impact of the adoption of these new and amended standards that are effective for the first time for this interim period and there was no material impact on the Group except for IFRS 9 and IFRS 15, which are disclosed in Note 2.3 below.

2.2 The following new standards and amendments to existing standards and interpretation have been issued but are not effective for the financial year beginning 1 January 2018 and have not been early adopted:

		Effective for accounting periods beginning on or after
IAS 19 (Amendments)	Employee Benefits	1 January 2019
IFRS 10 and IAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be announced
IFRS 16	Leases	1 January 2019
Annual Improvements to IFRSs 2015-2017 Cycle	Improvements to IFRS	1 January 2019
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019

The above new standards, amendments to existing standards and interpretations are effective for annual periods beginning on or after 1 January 2019 and have not been applied in preparing this interim condensed consolidated financial information. None of these is expected to have a significant effect on the interim condensed consolidated financial information of the Group, except for the following:

IFRS 16, Leases

IFRS 16 was issued in January 2016. It will result in almost all leases being recognized 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 recognized. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB133,593,000. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

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

The standard is mandatory for first interim period within annual reporting periods beginning on or after 1 January 2019. The Group does not intend to adopt the standard before its effective date.

2.3 Changes in accounting policies

This note explains the impact of the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers on the Group's financial information/statements and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior period.

(a) Impact on the financial assets

The Group applied the modified retrospective approach to adopt IFRS 9 and IFRS 15 without restating comparative information. The reclassifications and the adjustments arising from the new accounting policies are therefore not reflected in the restated balance sheet as at 31 December 2017, but are recognized in the opening balance sheet on 1 January 2018.

The following tables show the adjustments recognized for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more details by standard below.

	31 December 2017 *RMB'000*	IFRS 9 *RMB'000*	IFRS 15 *RMB'000*	1 January 2018 *RMB'000* *(Restated)*
Balance sheet (extract)				
Current assets				
Contract costs	—	—	2,908	2,908
Financial assets at fair value through profit or loss	300	100,000	—	100,300
Short-term deposits	634,000	(100,000)	—	534,000
Total assets	**1,630,608**	**—**	**2,908**	**1,633,516**
Non-current liabilities				
Contract liabilities	—	—	6,674	6,674
Deferred revenue	6,674	—	(6,674)	—
Current liabilities				
Contract liabilities	—	—	50,196	50,196
Advance from distributors	—	—	27,717	27,717
Advance from customers and distributors	36,026	—	(36,026)	—
Deferred revenue	38,979	—	(38,979)	—
Total liabilities	**141,834**	**—**	**2,908**	**144,742**
Net assets	**1,488,774**	**—**	**—**	**1,488,774**

(b) IFRS 9 Financial Instruments

(i) Impact of adoption

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies in the financial information/statements. The new accounting policies are set out in note 2.3(b)(ii) below.

Classification and measurement

On 1 January 2018 (the date of initial application of IFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 measurement categories.

The Group classified its investment in unlisted equity security and the structural deposit with embedded derivative as financial assets at fair value through profit or loss ("FVPL"). The investment and structural deposit do not meet the IFRS 9 criteria for classification at amortized cost and should be recognized at financial asset at FVPL, because their cash flows do not represent solely payments of principal and interest.

In addition, in accordance with IFRS 9, financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest. The principal of the structural deposit was reclassified from short-term deposit to financial assets at FVPL.

Impairment of financial assets

The Group has three types of financial assets measured at amortized cost that are subject to IFRS 9's new expected credit loss ("ECL") model:

- Trade receivables
- Other receivables
- Amount due from a related party

The Group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The Group's management consider that there is no material impact of the change in impairment methodology on the Group's retained earnings and equity.

While cash and cash equivalents and short-term deposits are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

(ii) Accounting policies applied from 1 January 2018

Investment and other financial assets

Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("OCI"), or through profit or loss), and
- those to be measured at amortized cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the income statement.

- Fair value through other comprehensive income ("FVOCI"): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the income statement.

- FVPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognized in other gains/(losses) in the income statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Impairment of financial assets

The Group assesses on a forward looking basis the ECL associated with its financial assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

ECL are a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial assets.

Impairment on other receivables and amounts due from related parties is measured as either 12-month ECL or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition.

The Group applies the simplified approach permitted by IFRS 9, which uses expected lifetime losses to be recognized from initial recognition of the assets for trade receivables.

(c) IFRS 15 Revenue from Contracts with Customers

(i) Impact of adoption

The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognized in the financial information/statements. In accordance with the transition provisions in IFRS 15, the Group has adopted the new rules modified retrospectively and the comparative figures have not been restated. Based on the Group's assessment, the accumulated losses as of 1 January 2018 were not adjusted upon the adoption of IFRS15. In summary, the deferred distribution cost, which was recognized in deferred revenue in net amount in prior period, will be classified in contract costs in balance sheet from 1 January 2018. The advance from customers and deferred revenue will be classified as contract liabilities from 1 January 2018.

(ii) Accounting policies applied from 1 January 2018

Online entertainment business

The Group earns revenue primarily through development and operation of online virtual world business through its own web-based platform, third party web-based platforms and mobile platforms. Third party web-based platforms and mobile platforms are collectively referred to the "Third Party Platforms" thereafter. The Group is responsible for hosting the online virtual worlds, providing on-going updates of additional online virtual worlds, activity and storyline, sales of virtual items and services, technical support for the operations of the online virtual worlds, etc. Third Party Platforms are responsible for distribution, marketing, payer authentication and payment collections related to the online virtual worlds.

Revenue from operation of online virtual worlds

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

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

For online services using the time-based model, Paying Players pay a membership subscription fee for a certain number of calendar days ("Subscription Period") and enjoy a certain range of privileges during the Subscription Period. Subscription fee income is recognized over the Subscription Period on a straight-line basis.

Revenue earned from the sale of virtual items is recognized by applying the item-based model, based on the different features of virtual items. Under the item-based model, revenue is recognized over the estimated lives of the virtual items purchased or consumed. Upon the sales of virtual items, the Group typically has an implied obligation to provide the service which enables the virtual items to be displayed and used in the respective online virtual worlds. As a result, the proceeds from the sales of virtual items are initially recorded in deferred revenue and are recognized as revenue subsequently only when the services have been rendered. For the purposes of determining when services have been rendered to the respective Paying Players, the Group has determined the following:

- Consumable virtual items represent items that will be extinguished shortly after consumption by a specific player action. Paying Players will not continue to benefit from the virtual items thereafter. Revenue is recognized upon consumption.

- Durable virtual items represent virtual items that are accessible to a player over an extended period of time. The life of a durable virtual item approximately equals the period during which Paying Players use it. For the revenue derived from durable items, the Group has adopted a policy of using the period of Paying Players' relationship with the Group on an individual virtual world basis ("Player Relationship Period") to approximate the period during which Paying Players use durable virtual items. Revenue from sales of durable virtual items of a specific online virtual world is recognized ratably over the Player Relationship Period of that online virtual worlds.

Other key accounting policies in relation to revenue from online entertainment business

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

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

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

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

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

Other businesses

Revenues from the Group's other businesses mainly include advertising revenue and licensing income from licensing the Group's proprietary cartoon images to merchandisers and book publishers.

Advertising revenue

Advertising revenues are derived principally from advertising arrangements where the advertisers pay to place their advertisements inside the online virtual worlds hosted by the Group over a particular period of time. Advertisements inside the Group's online virtual worlds are generally charged on the basis of duration, and advertising contracts are signed to establish the fixed price and the advertising services to be provided. Where collectability is reasonably assured, advertising revenues from advertising contracts are recognized ratably over the contract period of display.

The Group enters into advertising contracts with third party advertising agencies that represent advertisers. Contract terms generally range from 1 to 3 months. Third party advertising agencies are generally billed at the end of the display period and payments are due usually within 3 months.

Licensing fees

Revenues generated under merchandise licensing are calculated and recognized based on the volume of the merchandise products determined in the agreement (such as sales volume) and the agreed rate of licensing fees as set out in the licensing contracts. The sales of the licensed products are derived from the sales reports provided by the licensees, the evidence of which is readily available for verification by the Group. In case where the licensing fee is charged based on the period of usage by the licensees, the Group recognizes the revenue from licensing fee ratably over the usage period.

Contract costs and contract liabilities

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

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

2.4 Discontinued operation

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

3 Segment information

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

The Group determined that it has operating segments as follows:

— Online entertainment business
— Other businesses

The Group's other businesses mainly include 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.

The retail segment was wound up from 22 March 2018. Information about this discontinued segment is provided in Note 8.

There were no material inter-segment sales during six months ended 30 June 2018 and 2017, 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 2018 and 2017, respectively, are as follows:

	Unaudited Six months ended 30 June 2018				
	Online entertainment business *RMB'000*	**Other businesses** *RMB'000*	**Subtotal** *RMB'000*	**Discontinued operations*** *RMB'000*	**Total** *RMB'000*
Segment revenue	**143,247**	**1,615**	**144,862**	**5,248**	**150,110**
Timing of revenue recognition					
At a point in time	**72,635**	**—**	**72,635**	**5,248**	**77,883**
Over time	**70,612**	**1,615**	**72,227**	**—**	**72,227**
Gross profit	**75,881**	**818**	**76,699**	**2,504**	**79,203**
Depreciation	**4,897**	**121**	**5,018**	**127**	**5,145**
Amortization	**110**	**271**	**381**	**7**	**388**
Share of loss of an associate	**—**	**(1,711)**	**(1,711)**	**—**	**(1,711)**

	Unaudited Six months ended 30 June 2017				
	Online entertainment business *RMB'000*	Other businesses *RMB'000*	Subtotal *RMB'000*	Discontinued operations* *RMB'000*	Total *RMB'000*
Segment revenue	148,507	1,762	150,269	22,916	173,185
Gross profit	88,804	655	89,459	10,960	100,419
Depreciation	3,987	12	3,999	967	4,966
Amortization	99	250	349	601	950
Share of loss of an associate	—	—	—	—	—

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

The reconciliation of gross profit to profit 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 2018 and 2017, the geographical information on the total revenue is as follows:

	Unaudited	
	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
		(Restated)
Continuing operations		
— Mainland China	**135,416**	150,269
— Hong Kong	**9,446**	—
Revenue from continuing operations	**144,862**	150,269
Discontinued operations		
— Hong Kong	**5,248**	22,916
Revenue from discontinued operations	**5,248**	22,916
Total	**150,110**	173,185

There is no concentration risk in terms of customers (which include end users from online 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 six months ended 30 June 2018 and 2017, respectively. However, revenue of the Group is mainly derived from self-developed online virtual world 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 78.4% and 73.0% of the total revenue for six months ended 30 June 2018 and 2017.

	Six months ended 30 June	
	2018	2017
Legend of Aoqi	**31.1%**	33.3%
Aola Star	**27.4%**	26.8%
Zaowufaze	**19.9%**	12.9%

As at 30 June 2018, the total non-current assets, other than financial instruments and deferred tax assets, located in Mainland China and Hong Kong were RMB124,298,000 (31 December 2017: RMB33,522,000) and nil (31 December 2017: RMB399,000), respectively.

4 Operating profit

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

	Unaudited Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
		(Restated)
Gain on disposal of a subsidiary	**115,015**	—
Employee benefit expenses	**86,645**	79,654
Distribution cost and payment handling fees	**21,511**	11,584
Promotion and advertising expenses	**20,950**	27,409
Operating lease rentals in respect of office premises	**9,899**	9,741
Depreciation of property and equipment and amortization of intangible assets	**5,399**	4,348
Bandwidth and server custody fees	**3,570**	5,198
Professional fees	**2,878**	3,754

5 Income tax expense

The income tax expense of the Group for the six months ended 30 June 2018 and 2017 is analysed as follows:

	Unaudited Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
		(Restated)
Current income tax	**5,417**	4,115
Deferred income tax	**13,898**	(1,401)
Income tax expense	**19,315**	2,714

(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 2018 and 2017, respectively.

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

The Group's PRC subsidiaries and operating entities 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 2018 and 2017.

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 2018 and 2017.

(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 2018 and 2017, 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 per share

(a) Basic

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

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

	Six months ended 30 June	
	2018	2017 *(Restated)*
Profit from continuing operations attributable to shareholders of the Company (RMB'000)	**100,955**	15,248
Weighted average number of ordinary shares in issue less shares held for RSU Schemes	**2,752,389,068**	2,757,788,778
Basic earnings per share (in RMB/share)	**0.0367**	0.0055

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

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

	Six months ended 30 June	
	2018	2017
Profit attributable to shareholders of the Company (RMB'000)	**99,445**	9,899
Weighted average number of ordinary shares in issue less shares held for RSU Schemes	**2,752,389,068**	2,757,788,778
Basic earnings per share (in RMB/share)	**0.0361**	0.0036

(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 six months ended 30 June 2018 and 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.

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

	Six months ended 30 June	
	2018	2017 (Restated)
Earnings		
Profit from continuing operations attributable to shareholders of the Company and profit used to determine diluted earnings per share (RMB'000)	**100,955**	15,248
Weighted average number of ordinary shares		
Weighted average number of ordinary shares in issue less shares held for RSU Scheme	**2,752,389,068**	2,757,788,778
Adjustments for:		
— Share options	**1,151,515**	1,352,998
— RSUs	**13,940,599**	35,550,763
Weighted average number of ordinary shares for diluted earnings per share	**2,767,481,182**	2,794,692,539
Diluted earnings per share (in RMB/share)	**0.0365**	0.0055

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

	Six months ended 30 June	
	2018	2017
Earnings		
Profit attributable to shareholders of the Company and profit used to determine diluted earnings per share (RMB'000)	**99,445**	9,899
Weighted average number of ordinary shares	**2,752,389,068**	2,757,788,778
Weighted average number of ordinary shares in issue less shares held for RSU Scheme		
Adjustments for:		
— Share options	**1,151,515**	1,352,998
— RSUs	**13,940,599**	35,550,763
Weighted average number of ordinary shares for diluted earnings per share	**2,767,481,182**	2,794,692,539
Diluted earnings per share (in RMB/share)	**0.0359**	0.0035

7 Dividend

	Unaudited Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Final dividend of HK$0.021(2017: HK$0.018) per ordinary share (Note a)	**50,385**	45,114
Less: Dividend for shares held for the RSU Schemes	**(1,913)**	(2,027)
	48,472	43,087

(a) The 2017 final dividend of HK$0.021 (equivalent to approximately RMB0.018) per ordinary share, totalling HK$59,761,000 (equivalent to approximately RMB50,385,000), was approved in the Company's annual general meeting held on 29 June 2018 and was paid on 31 July 2018.

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.

(b) The Company did not declare an interim dividend for the six months ended 30 June 2018 (2017: nil).

8 Discontinued operations

(a) Description

On 22 March 2018, the Group initiated the winding up of Bumps to Babes Limited ("**Bumps**"), an indirect non-wholly owned subsidiary. Due to the insolvency of Bumps, the voluntary winding up was converted to creditors' winding up. Therefore, the Group lost the control of Bumps.

In light of this, the Group also discontinued the whole retail business and associated e-commerce in its entirety.

Financial information relating to retail business for the six months ended 30 June 2018 is set out below.

(b) Financial performance and cash flow information

The financial performance and cash flow information presented reflects the operations for the six months ended 30 June 2018 (2017: six months ended 30 June 2017).

		Unaudited Six months ended 30 June	
		2018	2017
	Note	***RMB'000***	*RMB'000*
Revenue	*3*	**5,248**	22,916
Expenses		**(15,898)**	(27,043)
Other income		**—**	1
Other losses		**(123)**	(6)
Finance income/(costs) – net		**282**	(2,663)
Loss before income tax from discontinued operations		**(10,491)**	(6,795)
Income tax expense		**—**	460
Loss after income tax from discontinued operations		**(10,491)**	(6,335)
Gain on disposal of a subsidiary after income tax	*(c)*	**8,541**	—
Loss from discontinued operations		**(1,950)**	(6,335)
Currency translation differences of discontinued operation		**276**	(552)
Other comprehensive income/(loss) of discontinued operations		**276**	(552)
Total comprehensive loss of discontinued operations		**(1,674)**	(6,887)

	Unaudited Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Net cash outflow from operating activities	**(991)**	(409)
Net cash outflow from investing activities	**(27)**	(33)
Net cash outflow from financing activities	**(38)**	(20)
Net decrease in cash generated by the subsidiaries	**(1,056)**	(462)
	RMB	*RMB*
Basic losses per share from discontinued operations attributable to shareholders of the Company	**(0.0005)**	(0.0019)
Diluted losses per share from discontinued operations attributable to shareholders of the Company	**(0.0005)**	(0.0019)

(c) Details of the disposal of the subsidiary

	Unaudited Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Consideration received or receivable	**—**	—
Carrying amount of net liabilities disposed	**6,800**	—
Reclassification of foreign currency translation reserve	**1,741**	—
Gain on disposal after income tax	**8,541**	—

Outflow of cash arising from disposal of a subsidiary:

	Six months ended 30 June
	2018
	RMB'000
Cash and cash equivalents disposed	(47)
Net cash outflow from disposal of a subsidiary	**(47)**

9 Disposal of a subsidiary

On 4 May 2018, the Group disposed 7% equity interests of Guangzhou Baiman Culture Communications Company Limited ("Guangzhou Baiman") to Xiamen Geecap Equity Investment Co., Ltd., a third party company, for a consideration of RMB14,000,000. After the disposal, the Group retained 47.4% equity interest of Guangzhou Baiman. As a result, Guangzhou Baiman ceased to be a subsidiary and became an associate of the Group, which was recognized at fair value.

Details of the net liabilities disposed and the gain on disposal are as follows:

	Six months ended 30 June 2018 *RMB'000*
Assets and liabilities disposed of	
Total assets	**8,895**
Total liabilities	**(21,295)**
Less: non-controlling interest	**6,252**
Net liabilities disposed of	**(6,148)**
Consideration received	**14,000**
Recognition of investment in an associate at fair value	**94,867**
Net liabilities disposed of	**6,148**
Gain on disposal of a subsidiary	**115,015**
Inflow of cash arising from disposal of a subsidiary:	
Cash received	**14,000**
Cash and cash equivalents disposed	**(995)**
Net cash inflow from disposal of a subsidiary	**13,005**

10 Trade receivables

	Unaudited As at 30 June 2018	Audited As at 31 December 2017
	RMB'000	*RMB'000*
Receivables from third parties	**7,647**	10,546
Less: Allowance for impairment	**(973)**	—
	6,674	10,546

Trade receivables mainly arose from online payment agencies and Third Party Platforms.

As at 30 June 2018, the ageing analysis of trade receivables is as follows:

	Unaudited As at 30 June 2018	Audited As at 31 December 2017
	RMB'000	*RMB'000*
0–30 days	**3,102**	4,406
31–60 days	**1,089**	1,454
61–90 days	**613**	992
91–180 days	**1,094**	1,533
Over 180 days	**1,749**	2,161
	7,647	10,546

11 Trade payables

Trade payables primarily relate to services for server custody 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 2018 *RMB'000*	Audited As at 31 December 2017 *RMB'000*
0-30 days	**1,898**	1,830
31-60 days	**1,288**	2,189
61-180 days	**1,684**	3,351
181-365 days	**702**	1,121
	5,572	8,491

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 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 2018. 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 (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 Company has made specific enquiry with all Directors and the Directors have confirmed that they had complied with all relevant requirements as set out in the Model Code during the six months ended 30 June 2018.

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 ("**CG Code**") 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 2018.

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 the 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.

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

During the six months ended 30 June 2018, the Company repurchased a total of 29,194,000 Shares on the Stock Exchange at an aggregate consideration (before expenses) of HK$16,247,710. All the repurchased Shares were subsequently cancelled.

Particulars of the repurchases during the six months ended 30 June 2018 are as follows:

Month	Number of Shares repurchased	Purchase price per Share		Aggregate consideration (before expenses)
		Highest	Lowest	
		(HK$)	*(HK$)*	*(HK$)*
January	7,000,000	0.53	0.50	3,644,240
March	1,756,000	0.47	0.455	820,930
May	7,368,000	0.60	0.52	4,224,860
June	13,070,000	0.59	0.55	7,557,680
Total	**29,194,000**	**—**	**—**	**16,247,710**

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 2018.

Interim Dividend

The Directors do not recommend the payment of dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: nil).

Publication of 2018 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.hkexnews.hk). The interim report of the Company for the six months ended 30 June 2018 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 2018

As at the date of this announcement, the executive directors of the Company are Mr. DAI Jian, Mr. WU Lili, Mr. LI Chong and Mr. WANG Xiaodong; the independent non-executive directors of the Company are Ms. LIU Qianli, Dr. WANG Qing and Mr. MA Xiaofeng.