



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



Fun entertainment
Healthy interaction
Joyful companion

Interim Report 2017

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Dai Jian (*Chairman*)

Mr. Wu Lili

Mr. Li Chong

Mr. Wang Xiaodong

Independent Non-executive Directors

Ms. Liu Qianli

Dr. Wang Qing

Mr. Ma Xiaofeng

AUDIT COMMITTEE

Ms. Liu Qianli (*Chairperson*)

Dr. Wang Qing

Mr. Ma Xiaofeng

NOMINATION COMMITTEE

Mr. Dai Jian (*Chairperson*)

Mr. Ma Xiaofeng

Ms. Liu Qianli

REMUNERATION COMMITTEE

Dr. Wang Qing (*Chairperson*)

Mr. Ma Xiaofeng

Mr. Wu Lili

CHIEF EXECUTIVE OFFICER

Mr. Dai Jian

ACTING CHIEF FINANCIAL OFFICER

Ms. Chen Xiao Hong

COMPANY SECRETARY

Ms. Ngai Kit Fong

AUTHORIZED REPRESENTATIVES

Mr. Wu Lili

Ms. Ngai Kit Fong

AUDITOR

PricewaterhouseCoopers

Certified Public Accountants

22/F, Prince's Building

Central

Hong Kong

COMPANY'S WEBSITE

www.baioo.com.hk

STOCK CODE

2100

HEADQUARTERS IN THE PRC

34 Floor, Goldchi Building

120 Huangpu W Ave, Tianhe

Guangzhou, Guangdong

China 510623

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Hutchins Drive
Cricket Square
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

REGISTERED OFFICE

Hutchins Drive
Cricket Square
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands
British West Indies

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKS

China Merchants Bank Guangzhou, Ti Yu East Road Sub-branch
30/F, Goldlion Centre, 138 Ti Yu East Road
Tianhe District
Guangzhou
Guangdong 510620
PRC

The Hongkong and Shanghai Banking Corporation Limited
1 Queen's Road Central
Central
Hong Kong

LEGAL ADVISORS AS TO HONG KONG LAW

Kirkland & Ellis
26/F, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

LEGAL ADVISORS AS TO CAYMAN ISLANDS LAW

Conyers Dill & Pearman (Cayman) Limited
Hutchins Drive
Cricket Square
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

INVESTOR RELATIONS

Christensen China Limited
Tel: (852) 2117 0861
Fax: (852) 2117 0869
Email: Baioo@ChristensenIR.com

Company Profile

We are one of the top web game and mobile game developers for children and young teens in China. Supported by a deep and growing collection of first-class intellectual property (“IP”) portfolio, we aim to become a leading company in China’s fast growing IP-centered pan-entertainment industry.

Our website, 100bt.com (「百田網」), serves as an all-in-one platform for proprietary content that allows kids and young teens aged 6 through 16 to explore various educational and entertainment products and participate in a variety of other activities. Users of the platform can register a single account, represented by a unique “Duoduo” ID, or use their own QQ account to access all of our products and services.

Since we commenced operation, we have developed, launched and currently operate the following main popular products available on web-based platforms: *Aobi Island*, *Aola Star*, *Dragon Knights*, *Light of Aoya*, *Legend of Aoqi*, *Super Badilong* (「超凡巴迪龍」), *Zaowufaze* (「造物法則」), and *Aoyi Alliance* (「奧義聯盟」). We will continue to develop a healthy pipeline of products for personal computers (“PC(s)”) and mobile devices throughout the year of 2017.

To expand our IP portfolio for long-term growth, we have set up a new comic arm which currently operates various online comic IPs, including *Zaowufaze* (「造物法則」), *XiXingji* (「西行紀」), *Juexingzhe* (「絕行者」), and *Shadaoxingzhe* (「殺道行者」). These IPs have built a large and increasing fan base and we will continue to focus on exploring potential monetization opportunities in the pan-entertainment industry. We will also continue to pursue potential strategic cooperation with well-known comic IPs while leveraging our newly-acquired IP portfolio as we look to develop fun and engaging products and drive improvement across our business in 2017.

We also successfully tapped into interactive early childhood education products, such as children’s picture books, board games and smart products targeting children between age of 3 to 6, through developing our proprietary IP of *Little Cloud Bay Bay Bear* (「小雲熊北北」). The picture book series based on such IP is expected to be launched in the second half of 2017. The interactive series combines both online and offline products, original characters, supporting toys and puzzles, and materials that offer healthy and educational family lifestyle by giving children with the opportunities to develop and grow through fun and play.

For our baby and maternity product business, we formed a strategic partnership with Hong Kong’s leading maternity product provider, Bumps to Babes Limited (“**Bumps to Babes**”). We plan to maintain the steady development of these retail stores in Hong Kong.

Financial Summary

INCOME STATEMENT HIGHLIGHT

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

Note:

- (1) Adjusted net profit consists of profit/(loss) for the period plus share-based compensation and fair value loss of convertible redeemable preferred shares. Adjusted net profit eliminates the effect on non-cash share-based compensation expenses and non-cash fair value change of preferred shares. The term of adjusted net profit is not defined under the IFRS.
- (2) Adjusted EBITDA means adjusted net profit less finance income — net, and plus income tax, depreciation of fixed assets and amortization of intangible assets.

BALANCE SHEET HIGHLIGHT

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

Chairman Letter

Dear Shareholders,

Over the last year, we have established IP-centered strategies with a focus on strengthening game IPs, developing comic IPs and incubating new IPs. I am pleased to announce that we have successfully executed these strategies in the first half of 2017, with satisfactory initial results.

IP-CENTERED STRATEGIES

In terms of games and virtual worlds, we continued to optimize our existing virtual worlds for PC and mobile game businesses, while introducing new products to cater to market demand. The newly-launched web game *Aoyi Alliance* (「奧義聯盟」) recorded a very strong performance and began monetization in July 2017. *Aoyi Alliance* is our latest multiplayer online battle arena (**MOBA**) webgame and the heroes in such game originated from IPs of our proprietary virtual worlds. We recreated the IPs in *Aoyi Alliance* and combined them with innovative gameplay to provide users with a fresh experience. As to mobile games, *Zaowufaze* (「造物法則」), adapted from our original comic IP, recorded a strong performance, not only drawing in Chinese comic fans but also successfully attracting overseas agents to operate the game in Japan, South Korea and Southeast Asia, growing its global player base.

In terms of comic IPs, we made remarkable breakthroughs in the first half of this year, especially through our cooperation with Tencent Interactive Entertainment for the *XiXingJi* (「西行紀」) IP. BAIIO and Tencent Interactive Entertainment established the *XiXingJi* IP Production Committee to jointly promote the development of *XiXingJi* in the areas of film and television projects, game licensing, comics, peripherals and literature. An online animation of this IP is expected to be launched in November 2017. As content production and IP creation are our strongest expertise, we believe that the partnership can be applied to other star IPs in the future, and will facilitate to continue exploring business opportunities throughout the pan-entertainment industry value chain.

Last, we have also made positive progress in our IP incubation for educational entertainment products. After continuous research and development efforts, our early childhood educational picture book series of *Little Cloud Bay Bay Bear* (「小雲熊北北」), our proprietary IP, is expected to be launched in the second half of 2017.

Chairman Letter

OUTLOOK

Looking ahead, we will continue to implement IP-centered strategies to leverage our expertise in content production and IP creation. We believe that with our promising product pipeline, we will be able to further explore the potential of our existing IP while tapping into the early childhood education market, which has strong synergies with our deep understanding of children and their families in China. All these initiatives will allow us to take advantage of the rising online pan-entertainment industry to seek new business opportunities throughout the whole value chain and become a leading company in China's fast growing IP-centered pan-entertainment industry.

ACKNOWLEDGEMENTS

On behalf of our management team, I would like to express my gratitude to our staff for their tireless efforts. At the same time, I also would like to express my thanks to our numerous partners and shareholders for their long term support for the Company.

DAI Jian

Chairman, Chief Executive Officer and Executive Director

BAIOO Family Interactive Limited

28 August 2017

Definitions and Glossaries

DEFINITIONS

“Articles of Association”	the articles of association of the Company as amended, supplemented or revised from time to time
“Audit Committee”	the audit committee of the Company
“Board” or “Board of Directors”	the board of Directors
“Chairman”	the chairman of the Board
“Company” or “us” or “Our Company”	BAIOO Family Interactive Limited (百奧家庭互動有限公司), (formerly known as Baitian Information Limited, Baitian Family Interactive Limited (百田家庭互動有限公司) and BYO Family Interactive Limited (百奧家庭互動有限公司)), an exempted company incorporated in the Cayman Islands with limited liability on 25 September 2009, and, except where the context otherwise requires, all of its subsidiaries and Guangzhou Baitian or where the context refers to any time prior to its incorporation, the business which its predecessors or the predecessors of its present subsidiaries and Guangzhou Baitian was engaged in and which was subsequently assumed by it
“Contractual Arrangements”	a series of agreements entered into among Guangzhou WFOE, Guangzhou Baitian and the Registered Shareholders on 4 December 2013 and amended on 20 March 2014
“Corporate Governance Code” or “CG Code”	the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules
“DAE Trust”	a discretionary trust set up by Mr. DAI Jian for which TMF (Cayman) Ltd. acts as the trustee, and the beneficiaries of which are Mr. DAI and his family members
“Director(s)” or “our Director(s)”	the director(s) of our Company or any one of them
“Group” or “our Group” or “BAIOO”	our Company, its subsidiaries and the PRC Operating Entity (the financial results of which have been consolidated and accounted for as a subsidiary of our Company by virtue of the Contractual Arrangements), or, where the context so requires, in respect of the period before our Company became the holding company of its current subsidiaries, our Company’s current subsidiaries or the business operated by such subsidiaries or their predecessors (as the case may be)

Definitions and Glossaries

“Guangzhou Baiman”	Guangzhou Baiman Culture Communications Company Limited* (廣州百漫文化傳播有限公司), a company with limited liability incorporated on 5 January 2016 under the laws of the PRC and owned as to 54.4% by Guangzhou Baitian and as to 45.6% by independent third parties
“Guangzhou Baitian” or “PRC Operating Entity”	Guangzhou Baitian Information Technology Ltd.* (廣州百田信息科技有限公司), a Company incorporated on 2 June 2009 and existing under the laws of the PRC. As of the date hereof, Mr. DAI Jian, Mr. WU Lili, Mr. LI Chong, Mr. CHEN Ziming and Mr. WANG Xiaodong hold 46.92%, 28.37%, 12.9%, 7.08% and 4.73% equity interests in Guangzhou Baitian, respectively
“Guangzhou Tianti”	Guangzhou Tianti Internet Technology Limited* (廣州天梯網絡科技有限公司), a company with limited liability incorporated on 9 July 2015 under the laws of the PRC, a direct wholly-owned subsidiary of Guangzhou Baitian
“Guangzhou WFOE”	Baiduo (Guangzhou) Information Technology Limited* (百多(廣州) 信息科技有限公司), a company incorporated on 29 October 2013 under the laws of the PRC, an indirect wholly-owned subsidiary of the Company
“independent third party”	any entity or party which is not connected (as defined in the Listing Rules) to our Directors, substantial shareholders or chief executive of our Company or its subsidiaries, or any of their respective associates
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange on 10 April 2014
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time)
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“Nomination Committee”	the nomination committee of the Company
“Option(s)”	an option or right to purchase Shares under the Pre-IPO Share Option Scheme
“Post-IPO RSU Scheme”	the post-IPO restricted share unit scheme adopted by the Company on 18 March 2014, which took effect on 10 April 2014 and was amended on 19 June 2015
“PRC”	the People’s Republic of China

Definitions and Glossaries

“Pre-IPO RSU Scheme”	the restricted share unit plan approved and adopted by the Company on 30 September 2013
“Pre-IPO Share Option Scheme”	the share option plan approved and adopted by the Company on 18 June 2010
“Prospectus”	the prospectus of the Company dated 28 March 2014
“Registered Shareholders”	the registered shareholders of Guangzhou Baitian, namely Mr. DAI Jian, Mr. WU Lili, Mr. LI Chong, Mr. CHEN Ziming and Mr. WANG Xiaodong
“Remuneration Committee”	the remuneration committee of the Company
“RSU(s)”	restricted share unit(s), being a contingent right to receive Shares which is granted pursuant to the Pre-IPO RSU Scheme and/or the Post-IPO RSU Scheme
“SFO”	the Securities and Futures Ordinance of Hong Kong (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s) or “Ordinary Share(s)”	ordinary share(s) in the share capital of our Company with par value US\$0.0000005 each (or of such other nominal amount as shall result from capitalization, subdivision, consolidation, re-classification or re-construction of the share capital of the Company from time to time) with the rights ascribed in the Articles of Association
“Shareholder(s)”	holder(s) of our Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“The Zhen Family Trust”	a discretionary trust set up by Mr. LI Chong for which TMF (Cayman) Ltd. acts as the trustee, and the beneficiaries of which are Mr. LI and his family members
“WHZ Trust”	a discretionary trust set up by Mr. WU Lili for which TMF (Cayman) Ltd. acts as the trustee, and the beneficiaries of which are Mr. WU and his family members
“WSW Family Trust”	a discretionary trust set up by Mr. WANG Xiaodong for which TMF (Cayman) Ltd. acts as the trustee, and the beneficiaries of which are Mr. WANG and his family members

* English names are for identification purpose only.

Definitions and Glossaries

GLOSSARIES

“ARQPA”	average revenue per QPA, which is revenue from our virtual worlds in a particular quarter divided by the number of quarterly paying accounts in that quarter
“average quarterly ARQPA”	average quarterly average revenue per QPA, which is revenue from our virtual worlds in a particular period divided by the total number of QPAs in that period
“MOBA”	multi player online battle arena
“QAA”	quarterly active accounts, which is the number of active accounts for our virtual worlds in the relevant quarter. A quarterly active account is defined as a registered account that was accessed at least once during a quarter. An account that logged into two virtual worlds in the same quarter is counted as two QAAs. Average QAAs for a particular period is the average of the QAAs in each quarter during that period
“QPA”	quarterly paying accounts, which is the number of paying accounts in the relevant quarter. An account that paid subscription fees or for virtual items in two virtual worlds in the same quarter is counted as two QPAs. Average QPAs for a particular period is the average of the QPAs in each quarter during that period

Management Discussion and Analysis

BUSINESS OVERVIEW

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

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

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

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

Management Discussion and Analysis

INDUSTRY TRENDS

China's gaming industry continued to remain robust in 1H2017. According to the latest China Gaming Industry Report released by the Game Publishers Association Publications Committee (GPC) of the China Audio-video and Digital Publishing Association (中國音數協遊戲工委), the revenue generated from the gaming sector in China in 1H2017 rose to RMB99.78 billion, an increase of 26.7% compared to 1H2016. The total number of gaming users was 507 million in 1H2017, an increase of 3.6% compared to 1H2016. The Company believes that the market size of the gaming sector continues to demonstrate a strong growing trend with plenty of opportunities for healthy and high-quality products. Despite the increasingly competitive market environment, with BAI00's IP-centric strategies of releasing products through utilizing its IP portfolio, the Company believes that it will be able to further capture opportunities in China's growing gaming sector through introducing more innovative products.

OUTLOOK FOR THE SECOND HALF OF 2017

In the second half of 2017 ("2H2017"), BAI00 will remain committed to further improving user retention and producing fun and engaging content for children and young teens on all its products, while executing its IP strategies: strengthening game IPs, developing comic IPs and incubating new early childhood education IPs. The Group plans to continue pushing for operational improvements across its virtual worlds, while introducing new derivative products from its IP portfolio. This includes an online animation of the XiXingJi IP, which is expected to be released in November 2017, alongside an early childhood educational picture book series based on the Company's Little Cloud Bay Bay Bear (「小雲熊北北」) proprietary IP, which is expected to be launched in 2H2017. The Company's comic arm, which operates various online comic IPs including Zaowufaze, XiXingji, Juexingzhe (「絕行者」) and Shadaoxingzhe (「殺道行者」), will continue to pursue potential cooperation with well-known comic IPs while leveraging on existing IPs to develop additional fun and engaging products.

BAI00 will continue to leverage its strong base of IPs across both its virtual worlds and its comic arm to explore business opportunities throughout the pan-entertainment industry value chain. With the Company's strong expertise and understanding of the children young teens' gaming market in China, BAI00 is confident that it will be able to capture more opportunities in 2H2017, in particular in the early childhood education area through its Little Cloud Bay Bay Bear IP, and looks forward to creating business synergies with its existing virtual worlds and comics segments with an even larger user base.

OPERATION INFORMATION

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

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

Note:

- (1) In 1H2017, our online virtual worlds under commercial operation in web-based platforms and mobile devices included Aobi Island, Aola Star, Dragon Knights, Light of Aoya, Legend of Aoji, Clashes of Aoji, Magic Fighter, Super Badilong, Aoyi Alliance, Three Kingdoms and Zaowufaze.
- (2) The average QAA for online virtual worlds was approximately 25.0 million for the six months ended 30 June 2017, representing a decrease of approximately 48.5% compared with the same period last year. This primarily due to the disposal of its virtual world Amazing Combat (「特戰英雄」) at the end of last year, which generated high user numbers but low profitability and IP value. The disposal was in line with the Group's IP-centered strategies.
- (3) The average QPA for online virtual worlds was approximately 1.6 million for the six months ended 30 June 2017, representing a decrease of approximately 20% compared with the same period last year as a result of our strategy of steering away from heavy monetization and focus on fun purpose to attract more users.
- (4) The average quarterly ARQPA for online virtual worlds was approximately RMB47.7 for the six months ended 30 June 2017, representing an increase of approximately 20.8% compared with the same period last year as a result of the Company's mobile game products helped upgrade its user base to a higher age bracket with greater paying power.

Management Discussion and Analysis

OVERALL BUSINESS AND FINANCIAL PERFORMANCE

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

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

Notes:

- (1) Adjusted net profit consists of profit/(loss) for the period plus share-based compensation and fair value loss of convertible redeemable preferred shares.
- (2) Adjusted EBITDA means adjusted net profit less finance income-net, plus income tax, depreciation of fixed assets and amortization of intangible assets.

Revenue

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

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

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

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

Cost of Revenue

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

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

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

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

Gross Profit

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

Management Discussion and Analysis

Selling and Marketing Expenses

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

Administrative Expenses

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

Research and Development Expenses

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

Other Income

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

Other Gains — net

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

Operating Profit/(Loss)

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

Finance Income — net

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

Profit/(Loss) before Income Tax

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

Income Tax Expense

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

Profit/(Loss) for the Period

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

Non-IFRS Measures – Adjusted Net Profit/EBITDA

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

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

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

Management Discussion and Analysis

LIQUIDITY AND CAPITAL RESOURCES

In the first half of 2017, we met our working capital and other capital requirements principally from cash flow generated from our operating activities.

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

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

Note:

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

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

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

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

The effective interest rate per annum for cash in bank balances and deposits as of 30 June 2017 was 1.7%, the same as of 31 December 2016. Our policy is to place our cash in interest-bearing principal-protected demand or deposits with reputable PRC or international banks.

Management Discussion and Analysis

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

Group	(Unaudited)	(Audited)
	As of 30 June 2017 RMB'000	As of 31 December 2016 RMB'000
RMB	1,424,157	1,680,668
HK\$	136,201	97,976
US\$	19,445	56,462
Others	99	93
	1,579,902	1,835,199⁽¹⁾

Note:

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

Bank Loans and Other Borrowings

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

Treasury Policies

As of 30 June 2017, the Group had conservative treasury policies in terms of cash and financial management. The Group does not use any financial instruments for hedging purposes.

Foreign Currency Risk

As of 30 June 2017, our financial resources of RMB155.7 million were held in deposits in non-RMB currencies. Since there are no cost-effective hedges against the fluctuations of the RMB, there is a risk that we may experience a loss as a result of any foreign currency exchange rate fluctuations in connection with our cash in bank balances.

Management Discussion and Analysis

Capital Expenditures and Investments

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

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

Contingent Liabilities

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

Charges on Assets

The amount of RMB279.6 million of cash pledged to a bank to secure a short-term banking facility granted to the Group was discharged in May 2017. As of 30 June 2017, there were no charges on the Group's assets.

Material Acquisitions and Future Plans for Major Investment

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

Employees and Staff Costs

As of 30 June 2017, the Group had 705 full-time employees, 89% of whom are based in Guangzhou. The following table sets forth the number of full-time employees by function as of 30 June 2017:

	As of 30 June 2017	
	Number of Employees	% of Total
Operations	262	37.2
Development and research	268	38.0
Sales and Marketing	100	14.2
General and administration	75	10.6
Total	705	100

Management Discussion and Analysis

In addition to salary, we also provide various incentives, including share-based awards, such as share options and restricted shares units (“**RSUs**”) granted pursuant to the share incentive schemes of the Company, and performance-based bonuses to better motivate our employees. As required by the PRC law, we contribute to housing funds and maintain mandatory social insurance plans for our employees, covering pension, medical, unemployment, work injury and maternity leave. We are required by the PRC law to make contributions to these social insurance plans at specified percentages of the compensation of each employee, up to a maximum amount as may be specified by the local government from time to time. Such social insurance plans include defined contribution retirement benefit plans organized by the relevant governmental authorities. Forfeited contributions by the Group to these plans may not be used by the Group to reduce the existing level of contributions. The total amount of contributions we made for employee social insurance plans in the first half of 2017 were approximately RMB14.8 million, compared with RMB16.1 million in the first half of 2016. We incurred staff costs of RMB85.3 million and RMB114.7 million, for the six months ended 30 June 2017 and 2016, representing 49.2% and 61.1% of our revenue for such periods respectively.

We also grant share options and RSUs to our employees to incentivize them to contribute to our growth. Pursuant to the pre-IPO share option scheme and the pre-IPO RSU scheme of the Company, there were a total of 1,544,000 share options and 5,851,800 RSUs outstanding as of 30 June 2017.

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

Dividend

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

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

CHANGES SINCE 31 DECEMBER 2016

There were no other significant changes in the Group’s financial position or from the information disclosed under management discussion and analysis in the annual report of the Company for the year ended 31 December 2016.

Report on Review of Interim Financial Information



羅兵咸永道

TO THE BOARD OF DIRECTORS OF BAIOO FAMILY INTERACTIVE LIMITED

(incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 25 to 55, which comprises the interim condensed consolidated balance sheet of BAIOO Family Interactive Limited (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2017 and the related interim condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting”. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 “Interim Financial Reporting”.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 28 August 2017

PricewaterhouseCoopers, 22/F, Prince’s Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Interim Condensed Consolidated Income Statement

	Note	(Unaudited) Six months ended 30 June	
		2017 RMB'000	2016 RMB'000
Revenue	6	173,185	187,644
Cost of revenue		(72,766)	(77,697)
Gross profit		100,419	109,947
Selling and marketing expenses		(45,802)	(47,643)
Administrative expenses		(30,038)	(53,609)
Research and development expenses		(30,774)	(33,244)
Other income		5,429	3,959
Other gains — net		2,960	2,370
Operating profit/(loss)	7	2,194	(18,220)
Finance income		12,554	15,969
Finance costs		(5,187)	(675)
Finance income — net		7,367	15,294
Share of profit of an associate		—	11
Profit/(loss) before income tax		9,561	(2,915)
Income tax expense	8	(2,254)	(4,060)
Profit/(loss) for the period		7,307	(6,975)
Attributable to:			
— Shareholders of the Company		9,899	(5,448)
— Non-controlling interests		(2,592)	(1,527)
		7,307	(6,975)
Earnings/(losses) per share (expressed in RMB per share)	9		
— Basic		0.0036	(0.0020)
— Diluted		0.0035	(0.0020)

The notes on pages 32 to 55 form an integral part of this interim condensed consolidated financial information.

Interim Condensed Consolidated Statement of Comprehensive Income

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

The notes on pages 32 to 55 form an integral part of this interim condensed consolidated financial information.

Interim Condensed Consolidated Balance Sheet

		(Unaudited) As at 30 June 2017 RMB'000	(Audited) As at 31 December 2016 RMB'000
	Note		
ASSETS			
Non-current assets			
Property and equipment	11	34,250	38,873
Intangible assets	11	52,266	53,849
Prepayments and other receivables		5,658	12,616
Deferred income tax assets	16	8,075	6,375
Long-term deposits	13	—	300,000
Financial assets at fair value through profit or loss		2,694	2,694
		102,943	414,407
Current assets			
Inventories		11,673	13,151
Trade receivables	12	9,785	9,877
Prepayments and other receivables		28,486	42,038
Financial assets at fair value through profit or loss		—	3,167
Short-term deposits	13	390,774	1,041,427
Cash and cash equivalents	13	1,189,128	214,216
Restricted cash	13	—	279,556
		1,629,846	1,603,432
Total assets		1,732,789	2,017,839
EQUITY			
Share capital	14	9	9
Share premium	14	1,520,639	1,567,040
Reserves	15	24,473	30,857
Accumulated losses		(32,550)	(42,449)
		1,512,571	1,555,457
Non-controlling interests		15,024	17,657
Total equity		1,527,595	1,573,114

Interim Condensed Consolidated Balance Sheet

		(Unaudited) As at 30 June 2017 RMB'000	(Audited) As at 31 December 2016 RMB'000
	Note		
LIABILITIES			
Non-current liabilities			
Deferred revenue		5,474	6,367
Deferred income tax liabilities	16	3,121	3,296
Advances from government grants		311	678
Long-term payable		6,585	6,423
		15,491	16,764
Current liabilities			
Trade payables	17	13,203	9,618
Other payables and accruals	18	85,816	43,661
Amount due to related parties		—	250
Advances from customers and distributors		35,012	42,563
Advance from government grant		733	1,000
Deferred revenue		51,379	49,708
Income tax liabilities		2,738	2,253
Borrowing	19	—	278,056
Bank overdrafts		822	852
		189,703	427,961
Total liabilities		205,194	444,725
Total equity and liabilities		1,732,789	2,017,839

This interim condensed consolidated financial information on pages 25 to 55 were approved for issue by the board of directors of the Company (the "Board") and were signed on its behalf.

DAI Jian
Director

LI Chong
Director

The notes on pages 32 to 55 form an integral part of this interim condensed consolidated financial information.

Interim Condensed Consolidated Statement of Changes in Equity

	(Unaudited)							
	Attributable to shareholders of the Company							
	Note	Share capital RMB'000	Share premium RMB'000	Reserves RMB'000	Accumulated losses RMB'000	Total RMB'000	Non- controlling interests RMB'000	Total equity RMB'000
Balance as at 1 January 2016		8	1,581,855	48,338	(77,962)	1,552,239	18,085	1,570,324
Comprehensive income								
Loss for the period		—	—	—	(5,448)	(5,448)	(1,527)	(6,975)
Other comprehensive income		—	—	296	—	296	131	427
Total comprehensive income		—	—	296	(5,448)	(5,152)	(1,396)	(6,548)
Transactions with owners, recognized directly in equity								
Share Option Scheme:								
— Exercise of share options	15	—	32	(17)	—	15	—	15
— Value of options to vendor	15	—	—	44	—	44	—	44
RSU Scheme:								
— Value of employee services	15	—	—	15,544	—	15,544	—	15,544
— Vesting of RSUs	15	—	14,004	(14,004)	—	—	—	—
Final dividend of 2015	10	—	(41,484)	—	—	(41,484)	—	(41,484)
Buy-back and cancellation of shares		—	(1,494)	—	—	(1,494)	—	(1,494)
Total transactions with owners, recognized directly in equity		—	(28,942)	1,567	—	(27,375)	—	(27,375)
Balance as at 30 June 2016		8	1,552,913	50,201	(83,410)	1,519,712	16,689	1,536,401

Interim Condensed Consolidated Statement of Changes in Equity

	(Unaudited)							
	Attributable to shareholders of the Company							
	Note	Share capital RMB'000	Share premium RMB'000	Reserves RMB'000	Accumulated losses RMB'000	Total RMB'000	Non- controlling interests RMB'000	Total equity RMB'000
Balance as at 1 January 2017		9	1,567,040	30,857	(42,449)	1,555,457	17,657	1,573,114
Profit/(loss) for the period		—	—	—	9,899	9,899	(2,592)	7,307
Other comprehensive income		—	—	(382)	—	(382)	(170)	(552)
Total comprehensive income		—	—	(382)	9,899	9,517	(2,762)	6,755
Transactions with owners, recognized directly in equity								
Share Option Scheme:								
— Value of options to vendor	15	—	—	106	—	106	—	106
RSU Scheme:								
— Value of employee services	15	—	—	4,292	—	4,292	—	4,292
— Vesting of RSUs	15	—	10,624	(10,624)	—	—	—	—
Value of employee services for restricted shares		—	—	224	—	224	129	353
Final dividend of 2016	10	—	(43,087)	—	—	(43,087)	—	(43,087)
Buy-back and cancellation of shares		—	(13,938)	—	—	(13,938)	—	(13,938)
Total transactions with owners, recognized directly in equity		—	(46,401)	(6,002)	—	(52,403)	129	(52,274)
Balance as at 30 June 2017		9	1,520,639	24,473	(32,550)	1,512,571	15,024	1,527,595

The notes on pages 32 to 55 form an integral part of this interim condensed consolidated financial information.

Interim Condensed Consolidated Statement of Cash Flows

		(Unaudited)	
		Six months ended 30 June	
		2017	2016
	Note	RMB'000	RMB'000
Cash flows from operating activities			
Cash generated from/(used in) operations		5,155	(3,918)
Interest received		10,265	1,154
Income tax paid		(3,593)	(3,601)
Net cash generated from/(used in) operating activities		11,827	(6,365)
Cash flows from investing activities			
Purchase of property and equipment and intangible assets		(1,359)	(17,096)
Payments for investment in an associate		—	(875)
Investment in bank deposits		(290,774)	(681,121)
Repayment from bank deposits		1,241,427	715,991
Interest received from bank deposits		31,446	24,189
Decrease/(Increase) in restricted cash	13(a)	279,556	(279,556)
Net cash generated from/(used in) investing activities		1,260,296	(238,468)
Cash flows from financing activities			
Proceeds from short-term borrowing	19	—	278,056
Repayment of short-term borrowing	19	(278,056)	—
Buy-back of shares		(13,938)	(1,494)
Exercise of share option		—	15
Interest paid		(672)	(127)
Dividends paid to the Company's shareholders		—	(41,484)
Net cash (used in)/generated from financing activities		(292,666)	234,966
Net increase/(decrease) in cash and cash equivalents			
Cash and cash equivalents at beginning of the period		213,364	254,422
Currency translation (losses)/gains on cash and cash equivalents		(4,515)	2,506
Cash and cash equivalents at end of the period		1,188,306	247,061
Cash and cash equivalents comprises:			
Bank overdrafts		(822)	(660)
Cash and banks	13	1,189,128	247,721
Cash and cash equivalents		1,188,306	247,061

The notes on pages 32 to 55 form an integral part of this interim condensed consolidated financial information.

Notes to the Interim Condensed Consolidated Financial Information

1 General information

BAIOO Family Interactive Limited (the “Company” or “Baioo”) was incorporated in the Cayman Islands on 25 September 2009 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company’s registered office is Hutchins Drive, Cricket Square, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands, British West Indies.

The Company and its subsidiaries and the PRC operating entity (collectively the “Group”) are principally engaged in the development and operation of online virtual world business for children in the People’s Republic of China (the “PRC”), a chain of retail outlets for selling baby and maternity products in Hong Kong together with its associated e-commerce business, as well as some other off-line businesses.

The Company’s shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 10 April 2014.

The interim condensed consolidated financial information is presented in Renminbi (“RMB”), unless otherwise stated, and have been approved for issue by the Board on 28 August 2017.

The interim condensed consolidated financial information has not been audited.

2 Basis of preparation

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

Notes to the Interim Condensed Consolidated Financial Information

3 Accounting policies

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

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

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

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

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

		Effective for accounting periods beginning on or after
IAS 28 (Amendment)	Investments in associates and joint ventures	1 January 2018
IFRS 1 (Amendment)	First time adoption of IFRS	1 January 2018
IFRS 2 (Amendments)	Classification and measurement of share-based payment transactions	1 January 2018
IFRS 4 (Amendments)	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 January 2018
IFRS 9	Financial instruments	1 January 2018
IFRS 10 and IAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be announced
IFRS 15	Revenue from contracts with customers	1 January 2018
IFRS 16	Leases	1 January 2019
IFRIC 22	Foreign currency transactions and advance consideration	1 January 2018

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

Notes to the Interim Condensed Consolidated Financial Information

4 Estimates

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this interim condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2016.

5 Financial risk management and financial instruments

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (mainly representing currency risk), credit risk and liquidity risk.

The interim condensed consolidated financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2016.

There have been no changes in the risk management department or in any risk management policies since the year end.

5.2 Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents for daily operations. Due to the dynamic nature of the underlying businesses, the Group's finance department maintains flexibility in funding by maintaining adequate cash and cash equivalents.

The table below analyses the Group's financial liabilities into the relevant maturity grouping based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Notes to the Interim Condensed Consolidated Financial Information

5 Financial risk management and financial instruments (continued)

5.2 Liquidity risk (continued)

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 3 years RMB'000	Between 3 and 4 years RMB'000	Between 4 and 5 years RMB'000	Total RMB'000
As at 30 June 2017						
Trade payables	13,203	—	—	—	—	13,203
Other payables and accruals (excluding other tax liabilities and staff costs and welfare accruals)	64,810	—	—	—	—	64,810
Bank overdrafts	822	—	—	—	—	822
Long-term payable	—	—	9,096	—	—	9,096
As at 31 December 2016						
Trade payables	9,618	—	—	—	—	9,618
Other payables and accruals (excluding other tax liabilities and staff costs and welfare accruals)	20,816	—	—	—	—	20,816
Amount due to related parties	250	—	—	—	—	250
Borrowing	278,473	—	—	—	—	278,473
Bank overdrafts	852	—	—	—	—	852
Long-term payable	—	—	—	9,374	—	9,374

5.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Notes to the Interim Condensed Consolidated Financial Information

5 Financial risk management and financial instruments (continued)

5.3 Fair value estimation (continued)

The following table presents the Group's financial assets and liabilities that are measured at fair value at 30 June 2017.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Recurring fair value measurements:				
Assets:				
Financial assets at fair value through profit or loss	—	—	2,694	2,694

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2016.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Recurring fair value measurements:				
Assets:				
Financial assets at fair value through profit or loss	—	—	5,861	5,861

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Notes to the Interim Condensed Consolidated Financial Information

5 Financial risk management and financial instruments (continued)

5.3 Fair value estimation (continued)

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments
- Discounted cash flow model and unobservable inputs mainly including assumptions of expected future cash flows and discount rate
- A combination of observable inputs and unobservable inputs, including discount rate, risk-free interest rate, expected volatility and market multiples.

There were no changes in valuation techniques.

The following table presents the changes in level 3 instruments for the six months ended 30 June 2017.

	Financial assets at fair value through profit or loss RMB'000
At 1 January 2017	5,861
Gains recognized in profit or loss	2,980
Settlement	(6,147)
At 30 June 2017	2,694
Total gains for the period included in profit or loss , under “Other gains — net”	2,980
Changes in unrealised gains or losses relating to assets held at the end of the reporting period	—

Notes to the Interim Condensed Consolidated Financial Information

5 Financial risk management and financial instruments (continued)

5.3 Fair value estimation (continued)

The following table presents the Group's financial assets and liabilities that are measured at fair value at 30 June 2016.

	Financial assets at fair value through profit or loss RMB'000
At 1 January 2016	1,298
Addition	—
Gains recognized in profit or loss	2,399
At 30 June 2016	3,697
Total gains for the period included in profit or loss , under “Other gains — net”	2,399
Changes in unrealised gains relating to assets held at the end of the reporting period	2,399

The Group determines the fair value of the Group's level 3 financial instrument carried at fair value at each of the reporting dates.

The carrying amounts of financial assets including cash and cash equivalents, short-term deposits, long-term deposits, restricted cash, trade and other receivables; and financial liabilities including trade payables, other payables and accruals, amount due to related parties, borrowing and long-term payable, approximated their respective fair value at each of the reporting dates.

6 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.

6 Segment information (continued)

The Group determined that it has operating segments as follows:

- Online entertainment business
- Retail business
- Other businesses

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

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

There were no material inter-segment sales during six months ended 30 June 2017 and 2016, respectively. The revenues from external customers reported to CODM are measured as segment revenue.

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

Notes to the Interim Condensed Consolidated Financial Information

6 Segment information (continued)

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

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

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

The reconciliation of gross profit to profit/(loss) before income tax is shown in the interim condensed consolidated income statement.

Notes to the Interim Condensed Consolidated Financial Information

6 Segment information (continued)

The Company is domiciled in the Cayman Islands while the Group mainly operates its business in the PRC and Hong Kong.

For six months ended 30 June 2017 and 2016, the geographical information on the total revenue is as follows:

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

There is no concentration risk in terms of customers (which include end users from online entertainment business and customers from retail business as well as other businesses) as no single external customer contributed more than 10% of the Group's total revenue for the six months ended 30 June 2017 and 2016. However, revenue of the Group is mainly derived from self-developed online virtual worlds operations and the Group depends on the success of a limited number of online virtual worlds to generate revenue. As summarized in the table below, the online virtual worlds contributing more than 10% of the Group's total revenue account for 73.0% and 67.3% of the total revenue for the six months ended 30 June 2017 and 2016, respectively. The percentages of revenue contributed by the following online virtual worlds are not presented for the periods when such amount is less than 10% of the Group's total revenue in a particular period.

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

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

Notes to the Interim Condensed Consolidated Financial Information

7 Operating profit/(loss)

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

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

8 Income tax expense

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

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

8 Income tax expense (continued)

(a) Cayman Islands income tax

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

(b) Hong Kong profits tax

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

(c) PRC enterprise income tax (“EIT”)

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

According to the relevant laws and regulations promulgated by the State Tax Bureau of the PRC that was effective from 2008 onwards, enterprises engaging in research and development activities are entitled to claim 150% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year (“Super Deduction”). The Group has made its best estimate for the Super Deduction to be claimed for its entities in ascertaining their assessable profits for the six months ended 30 June 2017 and 2016.

(d) PRC withholding tax (“WHT”)

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

For the six months ended 30 June 2017 and 2016, respectively, the Group does not have any plan to require its PRC subsidiaries to distribute their retained earnings to the Company as the Company’s share premium is distributable under the Cayman Islands Law. Accordingly, no deferred income tax liability on WHT was accrued as at the end of each of the reporting periods.

Notes to the Interim Condensed Consolidated Financial Information

9 Earnings/(losses) per share

(a) Basic

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

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

(b) Diluted

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

For the six months ended 30 June 2017, the Company had two categories of potential ordinary shares, the share options and the RSUs, which had to be considered for calculating diluted earnings per share. A calculation is done to determine the number of shares that could have been issued at fair value (determined as the average market price per share for the year) based on the total proceeds receivable upon exercising the outstanding share options and RSUs. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options and RSUs. The difference is added to the denominator as the number of shares issued for no consideration.

Notes to the Interim Condensed Consolidated Financial Information

9 Earnings/(losses) per share (continued)

(b) Diluted (continued)

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

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

Notes to the Interim Condensed Consolidated Financial Information

10 Dividend

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

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

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

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

Notes to the Interim Condensed Consolidated Financial Information

11 Property and equipment and intangible assets

		(Unaudited)	
	Property and equipment	Other intangible assets	Goodwill
	RMB'000	RMB'000	RMB'000
Six months ended 30 June 2017			
Opening net book amount	38,873	20,543	33,306
Additions	416	—	—
Depreciation and amortization charge	(4,972)	(1,114)	—
Disposals	(2)	—	—
Exchange difference	(65)	(469)	—
Closing net book amount	34,250	18,960	33,306
Six months ended 30 June 2016			
Opening net book amount	16,312	16,697	33,306
Additions	28,026	1,886	—
Depreciation and amortization charge	(3,191)	(752)	—
Exchange difference	35	321	—
Closing net book amount	41,182	18,152	33,306

Notes to the Interim Condensed Consolidated Financial Information

12 Trade receivables

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

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

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

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

Notes to the Interim Condensed Consolidated Financial Information

13 Cash and cash equivalents, restricted cash, short-term deposits and long-term deposits

	(Unaudited) As at 30 June 2017 RMB'000	(Audited) As at 31 December 2016 RMB'000
Restricted cash (Note a)	—	279,556
Long-term deposits (Note b)	—	300,000
Short-term deposits (Note c)	390,774	1,041,427
Cash and cash equivalents		
– Cash at bank and on hand (Note d)	1,189,128	214,216
	1,579,902	1,835,199
Maximum exposure to credit risk (Note f)	1,579,754	1,834,853

(a) In April 2016, the Group pledged deposits of RMB279,556,000 to a bank as security for a short-term banking facility granted to the Group. In April 2017, the Group repaid the borrowing and the restricted cash was unrestricted.

(b) Long-term deposits represent the Group's deposit placed in a bank with an expected maturity of over one year but less than two years. In 2017, the Group withdrew the long-term deposits before its maturity.

(c) Short-term deposits represent the Group's deposit placed in a bank with an expected maturity of over three months but less than one year.

(d) Cash at bank balances as at 30 June 2017 and 31 December 2016 was all demand in nature.

(e) The effective interest rate per annum for all bank balances and deposits as at 30 June 2017 was approximately 1.7% (31 December 2016: 1.7%).

(f) To manage the credit risk, bank deposits are mainly placed with state-owned or reputable listed financial institutions in the PRC and reputable international financial institutions outside the PRC. There has been no recent history of default in relation to these financial institutions.

Notes to the Interim Condensed Consolidated Financial Information

14 Share capital and share premium

As at 30 June 2017, the total number of issued ordinary shares of the Company was 2,878,676,000 shares (31 December 2016: 2,900,676,000 shares) which included 129,350,750 shares (31 December 2016: 146,443,950 shares) held under the RSU Scheme.

	Number of shares	Nominal value of shares US\$'000	(Unaudited)		Share premium RMB'000	Total RMB'000	
			Share capital RMB'000	Shares held			
				Share capital RMB'000			under RSU Scheme RMB'000
Issued and fully paid:							
As at 1 January 2017	2,900,676,000	2	9	—	1,567,040	1,567,049	
RSU Scheme:							
— Vesting of RSUs	—	—	—	—	10,624	10,624	
Buy-back and cancellation of shares (Note a)	(22,000,000)	—	—	—	(13,938)	(13,938)	
2016 final dividend paid to equity holders of the Company	—	—	—	—	(43,087)	(43,087)	
As at 30 June 2017	2,878,676,000	2	9	—	1,520,639	1,520,648	
As at 1 January 2016	2,858,672,000	2	8	—	1,581,855	1,581,863	
Share Option Scheme:							
— Exercise of share options	396,000	—	—	—	32	32	
RSU Scheme:							
— Vesting of RSUs	—	—	—	—	14,004	14,004	
Buy-back and cancellation of shares (Note a)	(4,022,000)	—	—	—	(1,494)	(1,494)	
2015 final dividend paid to equity holders of the Company	—	—	—	—	(41,484)	(41,484)	
As at 30 June 2016	2,855,046,000	2	8	—	1,552,913	1,552,921	

(a) The Company acquired 22,000,000 of its own shares through purchases on the Hong Kong Stock Exchange during the six months ended 30 June 2017 for cash totaling HKD15,744,940 (equivalent to RMB13,938,000) and deducted from shareholders' equity.

Notes to the Interim Condensed Consolidated Financial Information

15 Reserves

	Other reserves RMB'000 (Note a)	Statutory reserves RMB'000 (Note b)	(Unaudited) Share-based compensation reserve RMB'000	Translation RMB'000	Total RMB'000
As at 1 January 2017	2,069	5,005	21,975	1,808	30,857
Share Option Scheme					
– Value of options to vendor	–	–	106	–	106
RSU Scheme					
– Value of employee services	–	–	4,292	–	4,292
– Vesting of RSUs	–	–	(10,624)	–	(10,624)
Value of employee services for restricted shares	–	–	224	–	224
Currency translation difference	–	–	–	(382)	(382)
As at 30 June 2017	2,069	5,005	15,973	1,426	24,473
As at 1 January 2016	2,069	5,005	40,395	869	48,338
Share Option Scheme					
– Exercise of share options	–	–	(17)	–	(17)
– Value of options to vendor	–	–	44	–	44
RSU Scheme					
– Value of employee services	–	–	15,544	–	15,544
– Vesting of RSUs	–	–	(14,004)	–	(14,004)
Currency translation difference	–	–	–	296	296
As at 30 June 2016	2,069	5,005	41,962	1,165	50,201

Notes to the Interim Condensed Consolidated Financial Information

15 Reserves (continued)

- (a) The reserves represent capital contribution injected by Guangzhou Baitian's shareholders into Guangzhou Baitian upon its establishment and a financial liabilities in respect of the put options granted to non-controlling interests with a right to require the Group to acquire the remaining equity interest in the non-wholly owned subsidiary.
- (b) In accordance with the relevant laws and regulations in the PRC and the Articles of Association of the companies incorporated in the PRC now comprising the Group, the companies are required to appropriate 10% of the annual net profits, after offsetting any prior years' losses as determined under the PRC accounting standards, to the statutory surplus reserve fund before distributing any net profit. When the balance of the statutory surplus reserve reaches 50% of the registered capital of the companies, any further appropriation is at the discretion of shareholders. The statutory surplus reserve can be used to offset prior years' losses, if any, and may be capitalized as capital, provided that the remaining balance of the statutory surplus reserve fund after such issue is no less than 25% of registered capital.
- (c) In addition, in accordance with the Law of the PRC on Enterprises with Foreign Investments and the stipulated provisions of the articles of association of wholly owned foreign subsidiaries in the PRC, appropriation from net profits (after offsetting accumulated losses brought forward from prior years) should be made by these companies to their respective reserve funds. The percentage of net profit to be appropriated to the reserve fund is not less than 10% of the net profit. When the balance of the reserve fund reaches 50% of the registered capital, such transfer needs not be made.

16 Deferred income tax

	(Unaudited)	
	Deferred income tax assets RMB'000	Deferred income tax liabilities RMB'000
As at 1 January 2017	6,375	3,296
Charged to profit or loss	1,763	(98)
Currency translation differences	(63)	(77)
As at 30 June 2017	8,075	3,121
As at 1 January 2016	4,940	2,670
Charged to profit or loss	(96)	(94)
Currency translation differences	29	52
As at 30 June 2016	4,873	2,628

Notes to the Interim Condensed Consolidated Financial Information

17 Trade payables

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

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

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

18 Other payables and accruals

	(Unaudited) As at 30 June 2017 RMB'000	(Audited) As at 31 December 2016 RMB'000
Dividend payable (Note 10)	43,087	—
Staff costs and welfare accruals	20,794	22,257
Rental payable	11,660	11,123
Professional service fees payable	3,710	3,506
Capital expenditure for leasehold improvement	3,046	3,989
Commission payable to distributors	647	820
Other tax liabilities	212	588
Others	2,660	1,378
	85,816	43,661

Notes to the Interim Condensed Consolidated Financial Information

19 Borrowing

	(Unaudited) As at 30 June 2017 RMB'000	(Audited) As at 31 December 2016 RMB'000
Bank borrowing repayable within 1 year	—	278,056

Movement in borrowing is analysed as follows:

	Unaudited RMB'000
Six months ended 30 June 2017	
Opening net book amount	278,056
Repayment of bank borrowing	(278,056)
Closing net book amount	—

20 Capital commitments

Capital expenditure contracted as at 30 June 2017 and 31 December 2016 are analysed as follows:

	(Unaudited) As at 30 June 2017 RMB'000	(Audited) As at 31 December 2016 RMB'000
Leasehold improvement	312	—

Notes to the Interim Condensed Consolidated Financial Information

21 Significant related party transactions

Key management compensation amounted to RMB5,780,000 for the six month ended 30 June 2017 (2016: RMB12,680,000).

	(Unaudited)	
	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Wages, salaries and bonuses	4,064	5,693
Pension costs — defined contribution plans	117	87
Other social security costs, housing benefits and other employee benefits	209	127
Share-based compensation expenses	1,390	6,773
	5,780	12,680

22 Contingencies

The Group did not have any material contingent liabilities as at 30 June 2017 and 31 December 2016.

Other Information

AUDIT COMMITTEE AND REVIEW OF FINANCIAL STATEMENTS

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

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

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code 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 period under review.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to maintaining a high standard of corporate governance, the principles of which serve to uphold a high standard of ethics, transparency, responsibility and integrity in all aspects of business and to ensure that its affairs are conducted in accordance with applicable laws and regulations. The Company has adopted the CG Code as its own code of corporate governance.

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

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

BOARD OF DIRECTORS AND BOARD COMMITTEES

Save as Dr. Xu Gang's resignation as an executive Director effective on 31 March 2017, the compositions of the Board, the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company remain the same as set out in the annual report of the Company for the year ended 31 December 2016 (the "2016 Annual Report").

CHANGES IN A DIRECTOR'S BIOGRAPHICAL DETAILS

The Company is not aware of any changes in the Directors' information which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules for the six months ended 30 June 2017.

INTERIM DIVIDEND

The Directors do not recommend the payment of dividend for the six months ended 30 June 2017.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

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

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

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

Other Information

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS AND CHIEF EXECUTIVE IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2017, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Name	Position	Relevant company (including associated corporation)	Capacity/Nature of interest	Number of Shares/ underlying Shares held	Approximate percentage of shareholding ⁽¹⁰⁾
DAI Jian ⁽¹⁾	Chairman, Executive Director and Chief Executive Officer ⁽⁸⁾	The Company	Founder of a discretionary trust Interest of controlled corporation	756,460,000(L) ⁽⁹⁾	26.28%(L)
		The Company	Beneficial owner	10,000,000(L)	0.35%(L)
WU Liji ⁽²⁾	Executive Director	The Company	Founder of a discretionary trust Interest of controlled corporation	447,112,000(L)	15.53%(L)
LI Chong ⁽³⁾	Executive Director	The Company	Founder of a discretionary trust Interest of controlled corporation	203,304,000(L)	7.06%(L)
WANG Xiaodong ⁽⁴⁾	Executive Director	The Company	Founder of a discretionary trust Interest of controlled corporation	74,544,000(L)	2.59%(L)
LIU Qianli ⁽⁵⁾	Independent Non-executive Director	The Company	Beneficial owner	200,000(L)	0.01%(L)
WANG Qing ⁽⁶⁾	Independent Non-executive Director	The Company	Beneficial owner	200,000(L)	0.01%(L)
MA Xiaofeng ⁽⁷⁾	Independent Non-executive Director	The Company	Beneficial owner	200,000(L)	0.01%(L)

Notes:

- (1) Mr. DAI established DAE Trust on 27 December 2013 for the benefit of himself and his family members, and acts as its settlor and protector. The trustee of DAE Trust is TMF (Cayman) Ltd., an independent third party and sole shareholder of DAE Holding Investments Limited, a trust holding company owns 100% of equity interest in Stmoritz Investment Limited. In addition, Mr. DAI is interested in 10,000,000 RSUs granted to him under the Pre-IPO RSU Scheme entitling him to receive 10,000,000 Shares subject to vesting. As at 30 June 2017, 7,750,000 RSUs granted to Mr. DAI were vested in accordance with the vesting schedule as specified under the relevant grant letter and the rules relating to the Pre-IPO RSU Scheme. The 2,250,000 Shares underlying the RSUs are held by ZEA Holding Limited (“ZEA”), as the nominee of The Core Services Limited, the trustee of a trust established by the Company under the Pre-IPO RSU Scheme.
- (2) Mr. WU established WHZ Trust on 27 December 2013 for the benefit of himself and his family members, and acts as its settlor and protector. The trustee of WHZ Trust is TMF (Cayman) Ltd., an independent third party and sole shareholder of WHEZ Holding Ltd., a trust holding company owns 100% of equity interest in Bright Stream Holding Limited.
- (3) Mr. LI established The Zhen Family Trust on 27 December 2013 for the benefit of himself and his family members, and acts as its settlor and protector. The trustee of The Zhen Family Trust is TMF (Cayman) Ltd., an independent third party and sole shareholder of Golden Water Management Limited, a trust holding company owns 100% of equity interest in LNZ Holding Limited.
- (4) Mr. WANG established WSW Family Trust on 27 December 2013 for the benefit of himself and his family members, and acts as its settlor and protector. The trustee of WSW Family Trust is TMF (Cayman) Ltd., an independent third party and sole shareholder of Charlotte Holding Limited, a trust holding company owns 100% of equity interest in Angel Wang Holding Limited.
- (5) Ms. LIU is interested in 200,000 RSUs granted to her under the Pre-IPO RSU Scheme entitling her to receive 200,000 Shares subject to vesting. As at 30 June 2017, all the RSUs granted to Ms. LIU were vested in accordance with the vesting schedule as specified under the relevant grant letter and the rules relating to the Pre-IPO RSU Scheme.
- (6) Dr. WANG is interested in 200,000 RSUs granted to him under the Pre-IPO RSU Scheme entitling him to receive 200,000 Shares subject to vesting. As at 30 June 2017, all the RSUs granted to Dr. WANG were vested in accordance with the vesting schedule as specified under the relevant grant letter and the rules relating to the Pre-IPO RSU Scheme.
- (7) Mr. MA is interested in 200,000 RSUs granted to him under the Pre-IPO RSU Scheme entitling him to receive 200,000 Shares subject to vesting. As at 30 June 2017, all the RSUs granted to Mr. MA were vested in accordance with the vesting schedule as specified under the relevant grant letter and the rules relating to the Pre-IPO RSU Scheme.
- (8) Dr. XU Gang resigned from his position as the chief executive officer of the Company effective on 15 October 2016 and Mr. DAI Jian resumed such position on the same day. Dr. XU subsequently resigned as an executive Director with effect from 31 March 2017.
- (9) The Letter “L” denotes the person’s Long position in such Shares.
- (10) These percentages are calculated on the basis of 2,878,676,000 Shares in issue as at 30 June 2017.

Save as disclosed above, as at 30 June 2017, none of the Directors and Chief Executive of the Company and their respective associates had registered an interest or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that are required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules.

Other Information

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2017, the following persons had interests or short positions in the Shares and underlying Shares as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of shareholder	Capacity/Nature of Interest	Number of Shares	Approximate percentage of shareholding in the issued share capital of our Company ⁽⁶⁾
TMF (Cayman) Ltd. ⁽¹⁾	Trustee of trusts	1,506,888,000(L)	52.35%(L)
DAE Holding Investments Limited ⁽²⁾	Trust holding company	756,460,000(L)	26.28%(L)
Stmoritz Investment Limited ⁽²⁾	Registered owner	756,460,000(L)	26.28%(L)
DAI Jian (戴堅) ⁽²⁾⁽⁵⁾	Founder of a discretionary trust Interest of controlled corporation	756,460,000(L)	26.28%(L)
	Beneficial owner	10,000,000(L)	0.35%(L)
Bright Stream Holding Limited ⁽³⁾	Registered owner	447,112,000(L)	15.53%(L)
WHEZ Holding Ltd. ⁽³⁾	Trust holding company	447,112,000(L)	15.53%(L)
WU Lili (吳立立) ⁽³⁾	Founder of a discretionary trust Interest of controlled corporation	447,112,000(L)	15.53%(L)
LNZ Holding Limited ⁽⁴⁾	Registered owner	203,304,000(L)	7.06%(L)
Golden Water Management Limited ⁽⁴⁾	Trust holding company	203,304,000(L)	7.06%(L)
LI Chong (李冲) ⁽⁴⁾	Founder of a discretionary trust Interest of controlled corporation	203,304,000(L)	7.06%(L)
The Core Trust Company Limited ⁽⁶⁾	Trustee of a trust	187,656,000(L)	6.52%(L)

Notes:

- (1) TMF (Cayman) Ltd. is the trustee of DAE Trust, WHZ Trust, The Zhen Family Trust and WSW Family Trust.
- (2) The entire share capital of Stmoritz Investment Limited is wholly-owned by DAE Holding Investments Limited and ultimately owned by TMF (Cayman) Ltd. as the trustee of the DAE Trust, which is a discretionary trust set up by Mr. DAI on 27 December 2013 for the benefit of himself and his family members, and Mr. DAI is a settlor and protector. Mr. DAI (as founder of the DAE Trust), DAE Holding Investments Limited and TMF (Cayman) Ltd. are taken to be interested in 756,460,000 Shares held by Stmoritz Investment Limited (without taking into account any Shares to be issued upon exercise of any share options and/or any vesting of the RSUs under the Pre-IPO Share Option Scheme, Pre-IPO RSU Scheme and/or Post-IPO RSU Scheme) pursuant to Part XV of the SFO.
- (3) The entire share capital of Bright Stream Holding Limited is wholly-owned by WHEZ Holding Ltd. and ultimately owned by TMF (Cayman) Ltd. as the trustee of the WHZ Trust, which is a discretionary trust set up by Mr. WU on 27 December 2013 for the benefit of himself and his family members, and Mr. WU is a settlor and protector. Mr. WU (as founder of the WHZ Trust), WHEZ Holding Ltd. and TMF (Cayman) Ltd. are taken to be interested in 447,112,000 Shares held by Bright Stream Holding Limited (without taking into account any Shares to be issued upon exercise of any share options and/or any vesting of the RSUs under the Pre-IPO Share Option Scheme, Pre-IPO RSU Scheme and/or Post-IPO RSU Scheme) pursuant to Part XV of the SFO.
- (4) The entire share capital of LNZ Holding Limited is owned by Golden Water Management Limited, which is wholly-owned by TMF (Cayman) Ltd. as the trustee of The Zhen Family Trust, which is a discretionary trust set up by Mr. LI on 27 December 2013 for the benefit of himself and his family members, and Mr. LI is a settlor and protector. Mr. LI (as founder of The Zhen Family Trust), Golden Water Management Limited and TMF (Cayman) Ltd. are taken to be interested in 203,304,000 Shares held by LNZ Holding Limited (without taking into account any Shares to be issued upon exercise of any share options and/or any vesting of the RSUs under the Pre-IPO Share Option Scheme, Pre-IPO RSU Scheme and/or Post-IPO RSU Scheme) pursuant to Part XV of the SFO.
- (5) Mr. DAI is interested in 10,000,000 RSUs granted to him under the Pre-IPO RSU Scheme entitling him to receive 10,000,000 Shares subject to vesting. As at 30 June 2017, 7,750,000 RSUs granted to Mr. DAI were vested in accordance with the vesting schedule as specified under the relevant grant letter and the rules relating to the Pre-IPO RSU Scheme. The 2,250,000 Shares underlying the RSUs are held by ZEA.
- (6) The Core Trust Company Limited is the trustee to administer the Pre-IPO Share Option Scheme, the Pre-IPO RSU Scheme and the Post-IPO RSU Scheme.
- (7) The Letter "L" denotes the person's Long position in such Shares.
- (8) These percentages are calculated on the basis of 2,878,676,000 Shares in issue as at 30 June 2017.

Save as disclosed above, as at 30 June 2017, the Directors and the chief executive of the Company are not aware of any other person who had an interest or short position in the Shares or underlying Shares of the Company or any associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

EQUITY-LINKED AGREEMENTS/SHARE INCENTIVE SCHEMES

In order to incentivize the Directors, senior management and other employees of the Group for their contribution to the Group and to attract and retain suitable personnel of our Group, the Company adopted the Pre-IPO Share Option Scheme, the Pre-IPO RSU Scheme and the Post-IPO RSU Scheme, respectively.

Summaries of the terms of the Pre-IPO Share Option Scheme, the Pre-IPO RSU Scheme and the Post-IPO RSU Scheme have been disclosed in the sections headed “Statutory and General Information — Pre-IPO Share Option Scheme”, “Statutory and General Information — Pre-IPO RSU Scheme” and “Statutory and General Information — Post-IPO RSU Scheme” in Appendix IV to the Prospectus, the previous annual reports of the Company, the circular of the Company dated 24 April 2015 and the supplementary circular of the Company dated 14 May 2015.

Outstanding Share Options

During the six months ended 30 June 2017, no option has been cancelled. As at 30 June 2017, there were a total of 1,544,000 Options outstanding. If all the outstanding Options are exercised, there would be a dilution effect on the issued share capital of the Company of approximately 0.05% as at 30 June 2017. Save as set out above, no further Options have been or would be granted by the Company after the Listing pursuant to the Pre-IPO Share Option Scheme.

The Company appointed The Core Trust Company Limited as the trustee and Duoduo Holding Limited, a company incorporated in the BVI and an independent third party, as the nominee to administer the Pre-IPO Share Option Scheme pursuant to its scheme rules. As at 30 June 2017, Duoduo Holding Limited holds 16,000 Shares underlying the Options granted under the Pre-IPO Share Option Scheme for the benefit of eligible participants pursuant to the Pre-IPO Share Option Scheme.

Movements of the Options under the Pre-IPO Share Option Scheme during the six months ended 30 June 2017

Name of Grantees	Nature	Number of Shares represented by Options at 1 January 2017	Date of grant	Exercise price (US\$)	Exercised during the period	Lapsed during the period	Number of Shares represented by Options at 30 June 2017	Vesting Period	Exercise period	Approximate percentage of issued Shares of the Company ⁽³⁾
Directors	—	—	—	—	—	—	—	—	—	—
Senior management member of the Company	—	—	—	—	—	—	—	—	—	—
Other employees of the Group										
15 employees	Options	1,022,000	20 June 2010	0.0090	—	—	1,022,000	Note 1	Note 2	0.04%
2 employees	Options	522,000	15 January 2011	0.0090	—	—	522,000	Note 1	Note 2	0.02%
Sub-total		1,544,000		—	—	—	1,544,000			0.05%
Total		1,544,000		—	—	—	1,544,000			0.05%

Note:

- (1) The vesting period of the Options under the Pre-IPO Share Option Scheme is 36 months from the date of grant of such Options.
- (2) The exercise period of the Options under the Pre-IPO Share Option Scheme is 10 years after the date of grant of such Options.
- (3) Approximate percentage of issued Shares of the Company is calculated by dividing the Options held by the relevant grantees by the issued and outstanding Shares of the Company (as enlarged by the exercise in full of all the Options granted under the Pre-IPO Share Option Scheme) as at 30 June 2017.

As disclosed in the section headed “Waivers from Strict Compliance with the Listing Rules and Exemption from Strict Compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance — Waiver and Exemption in relation to the Pre-IPO Share Option Scheme” in the Prospectus, the Company had applied for, and had been granted, an exemption from the SFC from strict compliance with the disclosure requirements under paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous) Ordinance, and a waiver from the Stock Exchange from strict compliance with the disclosure requirements under Rule 17.02(1)(b) of and paragraph 27 of Appendix 1A to the Listing Rules in connection with the particulars of the grantees under the Pre-IPO Share Option Scheme.

Other Information

Further details of the Pre-IPO Share Option Scheme are set out in the Prospectus and the previous annual reports of the Company.

Outstanding RSUs

(1) Pre-IPO RSU Scheme

During the six months ended 30 June 2017, 221,400 RSUs have lapsed under the Pre-IPO RSU Scheme. As at 30 June 2017, there were a total of 5,851,800 RSUs outstanding under the Pre-IPO RSU Scheme. If all the outstanding RSUs under the Pre-IPO RSU Scheme are vested according to the relevant vesting schedules, there would be a dilution effect on the issued share capital of the Company of approximately 0.20% as at 30 June 2017.

Prior to the Listing on 10 April 2014, the Company appointed The Core Trust Company Limited as the trustee (the “**Pre-IPO RSU Trustee**”) and Peto Holding Limited, a company incorporated in the BVI and an independent third party, as its nominee (the “**Pre-IPO RSU Nominee**”) to administer the Pre-IPO RSU Scheme. To increase the public float, the Company further engaged The Core Services Limited, as the new trustee (the “**New RSU Trustee**”), and ZEA Holding Limited, a company incorporated in the BVI and an independent third party, as the new nominee (the “**New RSU Nominee**”), to administer certain RSUs granted to the Directors and the senior management under our Pre-IPO RSU Scheme on 10 June 2014. As at 30 June 2017, the Pre-IPO RSU Nominee holds 93,592,000 Shares and the New RSU Nominee holds 24,120,000 Shares, respectively, underlying the RSUs granted under the Pre-IPO RSU Scheme for the benefit of eligible participants pursuant to the Pre-IPO RSU Scheme.

(2) Post-IPO RSU Scheme

During the six months ended 30 June 2017, 2,448,000 RSUs have lapsed under the Post-IPO RSU Scheme. As at 30 June 2017, there were a total of 31,928,000 RSUs outstanding under the Post-IPO RSU Scheme. If all the outstanding RSUs under the Post-IPO RSU Scheme are vested according to the relevant vesting schedules, there would be a dilution effect on the issued share capital of the Company of approximately 1.11% as at 30 June 2017.

The Company appointed The Core Trust Company Limited as the trustee and Baiduo Investment Holding Limited, a company incorporated in the BVI and an independent third party, as the nominee to administer the Post-IPO RSU Scheme pursuant to its scheme rules. As at 30 June 2017, Baiduo Investment Holding Limited holds 94,048,000 Shares underlying the RSUs granted under the Post-IPO RSU Scheme for the benefit of eligible participants pursuant to the Post-IPO RSU Scheme.

Movements of the RSUs under the Pre-IPO RSU Scheme and the Post-IPO RSU Scheme during the six months ended 30 June 2017

Name of Grantees	Nature	Number of Shares underlying the RSUs at 1 January 2017	Granted during the six months ended 30 June 2017	Date of grant	Consideration (US\$)	Vested during the period	Lapsed during the period	Number of Shares underlying the RSUs at 30 June 2017	Vesting Schedule	Approximate percentage of issued Shares of the Company ⁽⁷⁾
(1) Pre-IPO RSU Scheme										
(a) Directors										
DAI Jian (戴堅)	RSUs	3,750,000	—	18 February 2014	—	1,500,000	—	2,250,000	Note 1	0.08%
LIU Qianli (劉千里)	RSUs	80,000	—	17 March 2014	—	80,000	—	—	Note 2	—
WANG Qing (王慶)	RSUs	80,000	—	17 March 2014	—	80,000	—	—	Note 2	—
MA Xiaofeng (馬肖風)	RSUs	80,000	—	17 March 2014	—	80,000	—	—	Note 2	—
Sub-total		3,990,000	—			1,740,000	—	2,250,000		0.08%
(b) Senior management member(s) of the Company										
CHEN Xiao Hong (陳小紅)	RSUs	540,000	—	1 October 2013	—	360,000	—	180,000	Note 1	0.01%
	RSUs	300,000	—	18 February 2014	—	120,000	—	180,000	Note 1	0.01%
Sub-total		840,000	—			480,000	—	360,000		0.01%
(c) Other grantees (other than the grantees disclosed in paragraphs 1a and 1b above)										
202 employees	RSUs	8,962,650	—	1 October 2013	—	5,843,700	221,400	2,897,550	Note 1	0.10%
7 employees	RSUs	573,750	—	18 February 2014	—	229,500	—	344,250	Note 1	0.01%
Sub-total		9,536,400	—			6,073,200	221,400	3,241,800		0.11%
Total		14,366,400	—			8,293,200	221,400	5,851,800		0.20%
(2) Post-IPO RSU Scheme										
(a) Directors										
XU Gang (徐剛)	RSUs	6,000,000	—	10 July 2015	—	6,000,000	—	—	Note 6	—
(b) Senior management member(s) of the Company										
DENG Linghua (鄧凌華)	RSUs	6,000,000	—	10 July 2015	—	1,500,000	—	4,500,000	Note 3	0.16%
CHEN Xiao Hong (陳小紅)	RSUs	1,600,000	—	10 July 2015	—	—	—	1,600,000	Note 5	0.06%
Sub-total		7,600,000	—			1,500,000	—	6,100,000		0.21%
(c) Other grantees (other than the grantees disclosed in paragraphs 2a and 2b above)										
1 employee	RSUs	4,000,000	—	10 July 2015	—	—	—	4,000,000	Note 4	0.14%
95 employees	RSUs	25,576,000	—	10 July 2015	—	1,300,000	2,448,000	21,828,000	Note 5	0.76%
Sub-total		29,576,000	—			1,300,000	2,448,000	25,828,000		0.90%
Total		43,176,000	—			8,800,000	2,448,000	31,928,000		1.11%

Other Information

Note:

- (1) The RSUs granted to the subjected RSU grantees under the Pre-IPO RSU Scheme shall be vested in accordance with the vesting schedule as follow:
 - 20% of the RSUs at 12 months after the date of grant;
 - 20% of the RSUs at 24 months after the date of grant;
 - 30% of the RSUs at 36 months after the date of grant; and
 - 30% of the RSUs at 48 months after the date of grant.
- (2) The RSUs granted to the subjected RSU grantees under the Pre-IPO RSU Scheme shall be vested in accordance with the vesting schedule as follow:
 - 30% of the RSUs at 12 months after the date of grant;
 - 30% of the RSUs at 24 months after the date of grant; and
 - 40% of the RSUs at 36 months after the date of grant.
- (3) The RSUs granted to the subjected RSU grantee under the Post-IPO RSU Scheme shall be vested in accordance with the vesting schedule as follow:
 - 20% of the RSUs on 21 November 2015;
 - 20% of the RSUs on 21 November 2016; and
 - 7.50% of the RSUs shall vest over 8 three consecutive months periods starting at the end of 3 month period after 21 November 2016 until 100% is vested.
- (4) The RSUs granted to the subjected RSU grantee under the Post-IPO RSU Scheme shall be vested in accordance with the vesting schedule as follow:
 - 20% of the RSUs on 10 July 2016;
 - 20% of the RSUs on 10 July 2017; and
 - 7.50% of the RSUs shall vest over 8 three consecutive months periods starting at the end of 3 month period after 10 July 2017 until 100% is vested.
- (5) For details of the vesting schedules for the RSUs granted to the subjected RSU grantees under the Post-IPO RSU Scheme, please refer to the announcement of the Company dated 10 July 2015.
- (6) The RSUs granted to the subjected RSU grantee under the Post-IPO RSU Scheme shall be vested in accordance with the vesting schedule as follow:
 - 20% of the RSUs on 5 March 2016;
 - 20% of the RSUs on 5 March 2017;
 - 30% of the RSUs vested on a quarterly basis from 5 March 2017 to 5 March 2018; and
 - 30% of the RSUs vested on a quarterly basis from 5 March 2018 to 5 March 2019.

The grant of certain RSUs to the subjected RSU grantee under the Post-IPO RSU Scheme was approved by the independent shareholders of the Company on 14 August 2015. Dr. Xu resigned as executive Director with effect from 31 March 2017.
- (7) Approximate percentage of issued Shares of the Company is calculated by dividing the RSUs held by the relevant grantees by the issued and outstanding Shares of the Company (as enlarged by the vest in full of all the RSUs granted under the Pre-IPO RSU Scheme and the Post-IPO RSU Scheme, respectively) as at 30 June 2017.

Further details of the Pre-IPO RSU Scheme and the Post-IPO RSU Scheme are set out in the Prospectus and the previous annual reports of the Company.

EQUITY-LINKED AGREEMENTS

On 20 April 2016, the Company entered into a consultancy agreement (the “**Consultancy Agreement**”) with Hong Kong Zhixin Financial News Agency Limited (香港智信財經通訊社有限公司) (the “**Consultant**”), pursuant to which, the Company engaged the Consultant to provide the investor relations services. As a consideration for such services, the Company has agreed to (i) pay a monthly fee of HK\$30,000 (equivalent to a total amount of HK\$1,080,000) during the term of the Consultancy Agreement to the Consultant and (ii) grant options (the “**Consultant Options**”) to the Consultant to subscribe for an aggregate of 10,000,000 Shares at the exercise price of HK\$0.70 per Share during the three years ending on 19 April 2019 (the “**Consultant Option Period**”).

The Consultant will be entitled to exercise the Consultant Options (or part thereof) by serving an option exercise notice to the Company together with the exercise price payable in respect of the number of Shares to be issued upon exercise of such Consultant Options (or such part thereof), upon the following conditions are met:

- (a) up to 30% of the Consultant Options become exercisable, if at any time during the Consultant Option Period, the market capitalization of the Company exceeds HK\$2.6 billion;
- (b) up to 60% of the Consultant Options become exercisable, if at any time during the Consultant Option Period, the market capitalization of the Company exceeds HK\$3.1 billion; and
- (c) up to 100% of the Consultant Options become exercisable, if at any time during the Consultant Option Period, the market capitalization of the Company exceeds HK\$3.7 billion.

As at 30 June 2017, none of the above conditions has been met and no Consultant Option has been exercised.

Save as disclosed above, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the six months ended 30 June 2017.

Other Information

PUBLIC FLOAT

As of the date of this report, based on information that is publically available to the Company and within the knowledge of the Directors, the Company has maintained the minimum public float of 25% as required under the Listing Rules.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

The Shares of the Company were listed on the main board of the Stock Exchange on 10 April 2014 with net proceeds from the initial public offering of approximately RMB1,121.2 million, after deducting underwriting fees and commissions and other expenses paid by the Company in connection with the initial public offering.

Details of the application of the net proceeds from the Listing up to 30 June 2017: (i) development of new virtual worlds on both PC and mobile devices: RMB154.3 million; (ii) funding the further expansion into online education and e-learning market on both PC and mobile devices: RMB13.4 million; (iii) funding the expansion of the offline product offering: RMB35.5 million; and (iv) funding potential strategic acquisitions: RMB0.8 million. The Company will continue to utilize the net proceeds for the same purposes as set out in the section headed “Future Plans and Use of Proceeds — Use of Proceeds” in the Prospectus.

COMPLIANCE WITH THE QUALIFICATION REQUIREMENT

As set out in the section headed “Contractual Arrangements — Legality of the Contractual Arrangements” in the Prospectus, a foreign investor who invests in a value-added telecommunications business in the PRC must possess prior experience in operating value-added telecommunications businesses and a proven track record of business operations overseas (the “**Qualification Requirement**”). Despite the lack of clear guidance or interpretation on the Qualification Requirement, we have been gradually building up our track record of overseas business operations to comply with the Qualification Requirement. We have continued to engage a local distributor in Hong Kong through whom our overseas users can purchase our physical prepaid cards. In addition, we have launched a Hong Kong website offering investor relations and other corporate information. Save as above, as at 30 June 2017, the Company has no further update to disclose in relation to the Qualification Requirement.

MATERIAL LITIGATION

As at 30 June 2017, the Company was not involved in any material litigation or arbitration. Nor were the Directors of the Company aware of any material litigation or claims that were pending or threatened against the Company.