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

Annual Report 2017

Contents

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 Minsheng Bank, Guangzhou Branch
Minsheng Building, No. 68 Lie De Avenue
Tianhe District
Guangzhou
Guangdong 510620
PRC

China Merchants Bank Guangzhou, Ti Yu Dong Road Sub Branch
30/F, Goldlion Centre, No. 138 Ti Yu Dong 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 online entertainment destinations designed for young teens in China. Supported by our strong content creation capabilities and a deep and growing collection of first-class intellectual property ("IP") portfolio, we aim to become a leading company in China's fast growing 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」), and Aoyi Alliance (「奧義聯盟」).

For mobile game products, we have developed and currently operate a number of mobile game titles through our subsidiary Tianti Interactive Entertainment, including Zaowufaze (「造物法則」), (also known as "Law of Creation"), and TunTianJi (「吞天記」). We also have a strong pipeline of new games in three major genres that we have advantages in, namely female-oriented games, comic adapted "nijigen"「二次元」games and pet collection and cultivation type games.

To expand our IP portfolio for long-term growth, we have set up a new comic arm Baiman Culture (「百漫文化」) which currently operates four comic series, including Zaowufaze (「造物法則」), XiXingJi (「西行紀」), Juexingzhe (「絕行者」), and Shadaoxingzhe (「殺道行者」). These original comic contents 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 IP while leveraging our newly-acquired IP portfolio as we look to develop fun and engaging products and drive improvement across our business.

We also successfully tapped into interactive early childhood education product series targeting children between age of 2 to 6, through developing our proprietary IP of Little Cloud Bay Bay Bear (「小雲熊北北」). The interactive series contains audio stories, short videos and etc., which offer healthy and educational family lifestyle by giving children with the opportunities to develop and grow through fun and play.

Financial Summary

INCOME STATEMENT HIGHLIGHT

	Year ended 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**350,530**	383,260	387,105	506,193	454,996
Gross profit	**186,799**	212,390	236,634	347,738	348,881
Operating (loss)/profit	**(51,729)**	1,938	56,299	199,852	248,158
Non-International Financial Reporting Standards ("IFRS") Measures — Adjusted Net (Loss)/Profit[1] (unaudited)	**(22,613)**	43,639	124,556	243,977	226,800

Note:

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

BALANCE SHEET HIGHLIGHT

	As at 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets					
Non-current assets	**48,256**	414,407	464,519	19,654	37,860
Current assets	**1,582,352**	1,603,432	1,288,471	1,664,139	496,803
Total assets	**1,630,608**	2,017,839	1,752,990	1,683,793	534,663
Equity and Liabilities					
Total equity/(deficits)	**1,488,774**	1,573,114	1,570,324	1,509,674	(19,430)
Non-current liabilities	**7,278**	16,764	16,865	3,305	352,045
Current liabilities	**134,556**	427,961	165,801	170,814	202,048
Total liabilities	**141,834**	444,725	182,666	174,119	554,093
Total Equity and Liabilities	**1,630,608**	2,017,839	1,752,990	1,683,793	534,663

Chairman Letter

Dear Shareholders,

In 2017, the gaming, animation and comics industry in China developed rapidly. The online gaming market in China continued to expand in size, surpassing that of the United States for the first time to become the world's largest gaming market. The market continued to trend towards mobile gaming, with the proportion of mobile gaming exceeding that of PC gaming for the first time. In China, pan-entertainment was a major development trend for the gaming industry in the past year, and the market size of the animation and the comics industry in China reached a new high under this trend. The development of the pan-entertainment industry has gradually shifted from "channel is King" to "the pursuit of high quality content". High quality content will enjoy higher traffic, drive market growth, and gain greater market share in the future. The companies with unique content creation capabilities are expected to differentiate from other competitors in future, leading the development of the industry. We will continue to invest resources into original content creation, including games, animation and comics as well as early education, and build a content platform with IP as our core to meet the new industry environment.

FURTHER DEVELOPMENT OF GAMING IP

In terms of our gaming business, we continued to strengthen our existing market position, adhered to a strategy of further developing gaming IP, and focused on developing certain game genres that we have advantages in and best match with our DNA. For example, compared with traditional games that mainly target male users, the gaming market for female users is still a "blue ocean" segment. We started to deploy female-oriented virtual world products many years ago and have accumulated extensive experience in the segment. Moreover, with the increasing number of female users that form an important potential user base, we believe that BAIOO will be able to grasp this market opportunity. Furthermore, we also focus on developing pet collection and cultivation type games. Thanks to the very long life cycle of our classic products, such as Aola Star (「奧拉星」) and the higher stickiness of our users than that of other popular competitive games, our IP portfolio is very strong and has a loyal following, which will benefit us when launching mobile gaming products in the future. Last but not least, it is worth mentioning our comic adapted games, a genre which is called "nijigen" (「二次元」) in Japanese. Currently, the number of China's nijigen fans has reached 310 million, which is not a small audience any more, and I'm glad that we have been well-prepared for this trend. *Zaowufaze* (「造物法則」), adapted from our proprietary comic IP, achieved a zero-to-one breakthrough from web gaming to mobile gaming for our Company and won the "Best Game of the Year – China Nijigen Index" at the 2017 China Animation & Comic Competition (CACC) Golden Dragon Award. More importantly, it allowed us to accumulate valuable experience in the world of comics. We believe that even if the gaming market continues to consolidate and integrate, the preference and orientation of users will show a trend of diversification, and our differentiated competition strategy will allow us to continuously grow our position in the market.

DEVELOPMENT OF COMIC IP

In terms of the development of comic IP, after intensive market research, we have identified and confirmed two major design styles for our original comic universes, namely the Chinese wuxia style and the modern metropolitan style. For example, *XiXingJi* (「西行紀」), our proprietary Hong Kong martial art style comic, is a representative of the wuxia comic style with its unique comic universe and subversive character design. XiXingJi received the bronze award of the 11th Japan International MANGA Award, a prestigious prize in the comic industry. We will continue to develop our *XiXingJi* (「西行紀」) IP. Concurrently, we are also preparing to launch spin-off titles from the same series to maintain its current popularity. We are also working with Tencent Interactive to introduce XiXingJi film and television adaptation products and other derivative products as scheduled. We also have a number of offerings utilizing the modern metropolitan style, and our strategy is to highlight superheroes and incorporate the creative elements of Japanese comics to satisfy the aesthetic needs of this reader group. Currently, our products for this segment include *Juexingzhe* (「絕行者」) and *Shadaoxingzhe* (「殺道行者」), both of which are in the process of accelerated incubation.

IP INCUBATION

Our IP incubation in the edutainment area saw strong growth momentum. During the year, we released our interactive early childhood education products with our proprietary *Little Cloud Bay Bay Bear* (「小雲熊北北」) IP. This product series features ongoing content updates and various toy formats. *Little Cloud Bay Bay Bear* (「小雲熊北北」) is a family early childhood education brand targeting children from the ages of 2 to 6. Not only have we fully utilized our advantages in content creation and art design, we have also introduced strategic expertise in early childhood development through our in-depth research cooperation with the MIT Industrial Liaison Program. We are pleased to see the improvements in our product development and performance evaluation through leveraging MIT's advanced applications on children's learning and cognitive development.

OUTLOOK

Looking ahead, we will strive to implement our IP and original content-centered strategies with our expertise in content production and IP incubation. We will also seek new business opportunities throughout the value chain of the pan-entertainment industry as the sector develops. We believe that with BAIOO's insight into users and our experience in the industry, we will have the opportunity to capture growth opportunities in various "blue ocean" markets and usher in a new round of growth.

ACKNOWLEDGEMENTS

On behalf of our management team, I would like to express my gratitude to our staff for their unremitting efforts, as well as to our numerous partners and investors for their long-term support for the Company.

DAI Jian
Chairman, Chief Executive Officer and Executive Director
BAIOO Family Interactive Limited
28 March 2018

Definitions and Glossaries

DEFINITIONS

"AGM"	the annual general meeting of the Company to be convened and held in accordance with the Articles of Association
"Altratek Guangdong"	GuangDong Altratek Communications Technology Corporation* (廣東阿爾創通信技術股份有限公司) (formerly known as Guangzhou Altratek Telecommunications Company Limited* (廣州市阿爾創通信技術有限公司)), a connected person of the Company and incorporated on 14 December 2004 and existing under the laws of the PRC, whose securities are listed on the NEEQ
"Articles of Association"	the articles of association of the Company as amended, supplemented or revised from time to time
"associate"	has the meaning ascribed to it under the Listing Rules
"Audit Committee"	the audit committee of the Company
"Beijing Fenghuo Tianyuan"	Beijing Fenghuo Tianyuan Animation & Comics Technology Limited Company* (北京烽火天元動漫科技有限公司), a company with limited liability incorporated on 14 June 2012 under the laws of the PRC, a direct wholly-owned subsidiary of Beijing Xingmen
"Beijing Guli"	Beijing Guli Animation & Comics Technology Limited Company* (北京古力動漫科技有限公司), a company with limited liability incorporated on 27 November 2013 under the laws of the PRC, a direct wholly-owned subsidiary of Beijing Xingmen
"Beijing Xingmen"	Beijing Xingmen Animation & Comics Technology Limited Company* (北京星門動漫科技有限公司), a company with limited liability incorporated on 14 April 2014 under the laws of the PRC, a direct wholly-owned subsidiary of Guangzhou Baiman
"Board" or "Board of Directors"	the board of Directors
"Bumps to Babes" or "Bumps"	Bumps To Babes Limited, a company with limited liability incorporated on 24 October 2001 under the laws of Hong Kong and owned as to 74.9% by a venture of the Group
"Chairman"	the chairman of the Board

Definitions and Glossaries

"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
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"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
"Controlling Shareholders"	has the meaning ascribed to it under the Listing Rules and unless the context requires otherwise, collectively refers to Mr. DAI Jian and Stmoritz Investment Limited
"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
"Founders"	Mr. DAI Jian, Mr. WU Lili, Mr. LI Chong, Mr. CHEN Ziming, Mr. WANG Xiaodong and Mr. KAN Wei
"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)
"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. As of 31 December 2017, Guangzhou Baitian held 54.4% equity interests in Guangzhou Baiman and independent third parties held 45.6%

"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
"Huoerguosi Baiman"	Huoerguosi Baiman Media Production Company Limited* (霍爾果斯百漫影業有限公司), a company with limited liability incorporated on 28 July 2017 under the laws of PRC, a direct wholly-owned subsidiary of Guangzhou Baiman
"independent third party"	any entity or party which is not connected (as defined in the Listing Rules) to our Directors, substantial shareholders or chief executives 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
"NEEQ"	The National Equities Exchange and Quotations (全國中小企業股份轉讓系統), also known as "The New Third Board" (新三板)
"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
"Pre-IPO RSU Scheme"	the restricted share unit plan approved and adopted by the Company on 30 September 2013

Definitions and Glossaries

"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
"Register of Members"	the register of members of the Company
"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
"Xiaoyunxiong"	Guangzhou Xiaoyunxiong Family Interactive Education Company Limited* (廣州小雲熊家庭互動教育有限公司), a company with limited liability incorporated on 15 June 2017 under the laws of PRC, a direct wholly-owned subsidiary of Guangzhou Baitian

* English names are for identification purpose only

GLOSSARY

"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
"MMORPG"	massively multi-player online role-playing game
"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 QAA. Average QAA for a particular period is the average of the QAA 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 QPA. Average QPA for a particular period is the average of the QPA in each quarter during that period

Management Discussion and Analysis

BUSINESS OVERVIEW

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

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

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

Furthermore, in April 2017, BAIOO announced a strategic cooperation with Tencent Interactive Entertainment for the XiXingJi (「西行紀」) IP and jointly established the XiXingJi IP Production Committee. This committee will promote the development of XiXingJi IP into online animation, film and television projects, game licensing, comics, peripherals, and literature. The Group believes that this represents a milestone in expanding its coverage throughout the whole value chain from games to pan-entertainment to bring its business to the next level.

Industry Trends

China's gaming industry continued to experience rapid growth, most notably in the mobile sector. According to the latest China Gaming Industry Report released by the Game Publishers Association Publications Committee (GPC) of the China Audio-video and Digital Publishing Association (中國音數協遊戲工委), the sales revenue generated from the gaming sector in China in 2017 rose to RMB203.61 billion, an increase of 23.0% compared to 2016. Of this, the mobile game market took up the lion's share, accounting for 57.0% of the total revenue, or approximately RMB116.16 billion. The web game market recorded revenue of only RMB15.6 billion, with only 7.6% share of the sector. The total number of gaming users reached 585 million, an increase of 3.1% compared to 2016.

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

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

OUTLOOK FOR 2018

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

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

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

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

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

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

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

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

OPERATION INFORMATION

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

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

Notes:

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

(2) The average QAA for online virtual worlds was approximately 23.8 million for the year ended 31 December 2017, representing a decrease of approximately 47.7% compared with the same period last year. This primarily due to the disposal of its virtual world Amazing Combat (「特戰英雄」) and the PCs to mobile devices transition at the end of last year, which generated high user numbers but low profitability and IP value. The disposal was in line with the Group's and original content IP-centered strategies.

(3) The average QPA for online virtual worlds was approximately 1.4 million for the year ended 31 December 2017, representing a decrease of approximately 30.0% compared with the same period last year as a result of our strategy of moving away from heavy monetization and focus on fun purpose to attract more users.

(4) The average quarterly ARQPA for online virtual worlds was approximately RMB55.2 for the year ended 31 December 2017, representing an increase of approximately 33.0% compared with the same period last year as the Company's mobile game products helped upgrade its user base to a higher age bracket with greater paying power.

OVERALL BUSINESS AND FINANCIAL PERFORMANCE

The following table sets forth our consolidated statements of comprehensive (loss)/ income for the years ended 31 December 2017 and 2016, respectively:

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

Notes:

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

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

Revenue

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

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

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

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

Cost of Revenue

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

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

Retail Business: Cost of Retail business for the year ended 31 December 2017 was RMB22.1 million, a 30.5% decrease from RMB31.8 million for the year ended 31 December 2016. The decrease mainly reflected decrease in cost of goods sold as a result of sales of baby and maternity products.

Other Businesses: Cost of other businesses for the year ended 31 December 2017 was RMB1.7 million, a 73.0% decrease from RMB6.3 million for the year ended 31 December 2016. The decrease primarily reflected decrease in employee benefit expenses.

Gross Profit

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

Selling and Marketing Expenses

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

Administrative Expenses

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

Research and Development Expenses

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

Other Income

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

Other Gains — net

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

Impairment loss of goodwill and trademark

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

Operating (Loss)/Profit

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

Finance Income — net

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

(Loss)/Profit before Income Tax

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

Income Tax Expense

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

(Loss)/Profit for the Year

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

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

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

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

	(Unaudited) For the year ended 31 December	
	2017 RMB'000	2016 RMB'000
(Loss)/profit for the year	**(30,409)**	33,003
Add:		
Share-based compensation	**7,796**	10,636
Adjusted net (loss)/profit	**(22,613)**	43,639
Add:		
Depreciation and amortization	**11,558**	10,371
Finance income-net	**(26,409)**	(41,084)
Income tax	**5,089**	8,489
Adjusted EBITDA	**(32,375)**	21,415

LIQUIDITY AND CAPITAL RESOURCES

In FY2017, we met our working capital and other capital requirements principally from cash flow generated from our operating activities.

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

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

Note:

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

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

As of 31 December 2017, our cash and cash equivalents consisted of cash in bank and cash on hand, which amounted to RMB907.2 million, compared with RMB214.2 million as of 31 December 2016. We had short-term deposits of RMB634.0 million as of 31 December 2017, representing bank deposits which we intend to hold for over three months but less than one year. We had no long-term deposits as of 31 December 2017.

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

The effective interest rate per annum for cash in bank balances and deposits as of 31 December 2017 was 1.9%, compared with 1.7% as of 31 December 2016. Our policy is to place our cash in interest-bearing principal-protected demand or deposits with reputable PRC or international banks.

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

Group	As of 31 December 2017 RMB'000	As of 31 December 2016 RMB'000
RMB	**1,425,650**	1,680,668
HK$	**90,414**	97,976
US$	**25,091**	56,462
Others	**94**	93
	1,541,249	1,835,199[1]

Note:

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

Bank Loans and Other Borrowings

The Group had a borrowing of RMB278.1 million as of 31 December 2016, which is shown in current liabilities. In 2017, the Group repaid the borrowing RMB278.1 million. As of 31 December 2017, the Group had overdrafts of RMB0.9 million, which is shown in current liabilities and the Group has RMB1.7 million undrawn overdraft facilities.

Treasury Policies

As of 31 December 2017, the Group had conservative treasury policies in terms of cash and financial management. The Group does not use any financial instruments for hedging purposes.

Foreign Currency Risk

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

Capital Expenditures and Investments

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

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

Contingent Liabilities

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

Charges on Assets

The Group pledged RMB279.6 million to a bank to secure a short-term banking facility granted to the Group and it was discharged in May 2017. As of 31 December 2017, there were no charges on the Group's assets.

Material Acquisitions and Future Plans for Major Investment

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

Employees and Staff Costs

As of 31 December 2017, the Group had 749 full-time employees, 90.4% of whom are based in Guangzhou. The following table sets forth the number of full-time employees by function as of 31 December 2017:

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

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

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

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

Dividend

At the Company's annual general meeting (**"AGM"**) on 29 June 2017, the then shareholders of the Company (the "**Shareholders**") approved the Board-recommended final dividend of HK$0.018 (equivalent to approximately RMB0.016) per share for the year ended 31 December 2016. The final dividend was paid to the then Shareholders on 27 July 2017.

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

CHANGES SINCE 31 DECEMBER 2017

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

Biographies of the Directors and Senior Management

DIRECTORS

Executive Directors

DAI Jian (戴堅), aged 50, is a co-founder of our Group and was appointed as our Chairman in November 2011, Executive Director in April 2012 and Chief Executive Officer in mid-October 2016. He is responsible for the overall management, corporate development and strategic planning of our Group.

Mr. DAI has more than 17 years of experience in the information and technology industry. From March 2013 to present, he has served as the chairman of the board of Altratek Guangdong, a wireless telecommunication product and service provider, where he is responsible for overall management, resources integration and strategic planning. From December 2004 to March 2013, he was the executive director and chief executive officer of Altratek Guangdong. Prior to that, he co-founded and was the chairman of Guangzhou Elite Enterprise Management Corporation* (廣州市伊萊哲企業管理有限公司) ("**Guangzhou Elite**") from November 1999 to November 2004, where he was responsible for overall management, resources integration and strategic planning.

Mr. DAI received his bachelor's degree in computer application from Hunan University (湖南大學) in July 1990.

WU Lili (吳立立), aged 50, is a co-founder of our Group and was appointed as Executive Director in September 2009. Mr. WU was appointed as our Chief Executive Officer in March 2010 and relinquished such position in March 2015. He is responsible for overseeing the Company's growth strategies, mergers and acquisitions and other business opportunities.

Mr. WU has more than 17 years of experience in the information technology industry. From March 2013 to present, he has served as the director of Altratek Guangdong. From September 2007 to June 2009, he was the deputy director of marketing of Altratek Guangdong, where he was responsible for resources integration and capital operation, as well as strategic planning and new project development, including the overall management of the company's new Internet business and the integration of the telecom value added services. Prior to that, he was the vice chairman of marketing of Guangzhou Elite from November 1999 to August 2007, where he managed the company's various production lines and marketing agencies in the PRC, and was responsible for the implementation of the company's marketing strategies.

Mr. WU received his MBA degree from the China Europe International Business School (中歐國際工商學院) in September 2004. He also received his master's degree in computer application and bachelor's degree in computer communications from Beijing University of Posts and Telecommunications (北京郵電大學), formerly known as (北京郵電學院) in April 1992 and July 1989, respectively.

LI Chong (李沖), aged 49, is a co-founder of our Group and was appointed as our Chief Operating Officer in September 2009 and Executive Director in September 2009. He is responsible for the overall operations of our Group and the marketing and distribution of our products.

Mr. LI has more than 17 years of experience in the information technology industry. From March 2013 to present, he has served as the chairman of the supervisory board of Altratek Guangdong. From January 2008 to July 2009, he was one of the new project leaders of Altratek Guangdong, where he was responsible for the design and operation of the company's products. In particular, he was a key participant in the feasibility study and development of Aobi Island. Prior to that, he was the President of Guangzhou Aochuang Information Technology Co., Ltd.* (廣州市奧創信息技術有限公司) from October 2000 to December 2008, where he was responsible for the overall operation and management of the company.

Mr. LI received his master's degree in business management from Jinan University (暨南大學) in June 2000. He also received his master's degree in communications and electric systems and bachelor's degree in telecommunications engineering from Beijing University of Posts and Telecommunications (北京郵電大學) in April 1992 and July 1989, respectively.

WANG Xiaodong (王曉東), aged 52, is a co-founder of our Group and was appointed as our Executive Director in December 2013 and Executive Vice President in September 2009. Mr. WANG was also appointed as our Executive Director between September 2009 and March 2010. He is in charge of the overall management of the human resources, user services, public affairs and business cooperation of our Group.

Mr. WANG has more than 19 years of experience in the information technology industry, as well as extensive experience in the education industry. Prior to joining the Group, he was one of the new project leaders of Altratek Guangdong from September 2007 to July 2009, where he was a key participant in the feasibility study and development of Aobi Island. He was specifically responsible for managing human resources, administration and the cooperation with primary schools and other education agencies for the product. He was the Director of Human Resources and Vice President of Guangzhou Elite from August 2001 to December 2008, where he was in charge of the company's operations in northern China, as well as the management and development of the company's human resources department.

From April 2001 to August 2001, he was the Associate Dean of Hunan University College of Civil Engineering (湖南大學土木工程學院), where he was responsible for overall student education and management. Prior to that, he was the Associate Director of the department of mechanical engineering of Hunan University (湖南大學) from February 1997 to January 1998, where he was responsible for the overall management of the department.

Mr. WANG received his master's degree in industrial international trade and bachelor's degree in machine design and manufacturing from Hunan University (湖南大學) in December 1998 and July 1988, respectively.

Independent Non-Executive Directors

LIU Qianli (劉千里), aged 42, was appointed as our Independent Non-Executive Director on 18 March 2014.

Ms. LIU has over 14 years of experience in investment banking and corporate finance. From December 2010 to July 2013, Ms. LIU served as the Chief Financial Officer of Phoenix New Media, a media company in China listed on the New York Stock Exchange. Prior to that, she served as the Chief Financial Officer of ChinaEDU Corp., an education services provider in China listed on NASDAQ, from October 2008 to November 2010. From July 2007 to August 2008, she served as Chief Financial Officer of MainOne Inc., an information technology company. Ms. LIU was a Vice President at Lehman Brothers investment banking in Hong Kong and an Associate at Lehman Brothers investment banking in New York from July 2003 to June 2007.

Ms. LIU has been an Independent Non-Executive Director of Feiyu technology International Company Limited since November 2014, a HK-listed developer and operator of mobile games and web games.

Ms. LIU received her MBA degree from MIT Sloan School of Management in June 2003 and her bachelor of arts from Dartmouth College, U.S., in June 1997.

WANG Qing (王慶), aged 49, was appointed as our Independent Non-Executive Director on 18 March 2014.

Dr. WANG has over 17 years of experience in investment banking and corporate finance. Dr. WANG is President and Partner of Shanghai Chongyang Investment Management Co., Ltd, a privately managed fund in China. Before joining Chongyang Investment in April 2013, Dr. WANG was Deputy Head of Investment banking department at China International Capital Corporation ("**CICC**") from June 2011 to April 2013. Dr. WANG joined CICC from Morgan Stanley, where he served as Managing Director and chief economist for Greater China in the research division in Hong Kong from May 2007 to June 2011. Prior to that, Dr. WANG spent 6 years, from June 1999 to October 2005, in Washington, D.C. as an economist with the International Monetary Fund.

Dr. WANG received his Ph.D. in economics from the University of Maryland at College Park, U.S. in August 2000. He received his bachelor's degree and master's degree in economics from Renmin University of China (中國人民大學) in July 1991 and January 1994, respectively.

MA Xiaofeng (馬肖風), aged 54, was appointed as our Independent Non-Executive Director on 18 March 2014.

Mr. MA is the co-founder, chairman and Chief Executive Officer of ATA Inc., a professional services provider for testing, assessment and related services in China, and a public company listed on NASDAQ. Since July 2015, Mr. MA has served as Chairman of the board of directors of ATA Online (Beijing) Education Technology Co., Ltd.* (全美在線(北京)教育科技股份有限公司) whose shares were listed on the NEEQ since 21 December 2015 and were delisted since 11 October 2017.

Save as disclosed above, all the above Directors are not and have not been a director of any other listed companies in Hong Kong or overseas in the past three years.

SENIOR MANAGEMENT

DAI Jian (戴堅), aged 50, is our Chairman, Executive Director and Chief Executive Officer. Please refer to the section headed "— Executive Directors — DAI Jian" for his biography.

LI Chong (李沖), aged 49, is our Executive Director and Chief Operating Officer. Please refer to the section headed "— Executive Directors — LI Chong" for his biography.

WANG Xiaodong (王曉東), aged 52, is our Executive Director and Executive Vice President. Please refer to the section headed "— Executive Directors — WANG Xiaodong" for his biography.

DENG Linghua (鄧淩華), aged 42, was appointed as our Chief Technology officer in November 2014. He is responsible for the design, development and testing of our products, as well as the operation, maintenance and upgrade of our network infrastructure and information technology system.

Mr. DENG has more than 18 years of experiences in the information and technology industry. Prior to joining the Group, he was a system structure engineer of Altratek Guangdong, a wireless telecommunication product and service provider from May 2007 to July 2009, where he was a key participant in the technology development of Aobi Island at the early stage, and was responsible for the system structure design, technology team recruitment and research management. Prior to that, Mr. DENG worked with Zhongxing Telecommunication Equipment Corporation (ZTE Corporation) and Shenzhen Sysway Information & Technology Co., Ltd.

Mr. Deng received his bachelor degree in computer science and technology from Jilin University of Technology (吉林工業大學) (now a part of Jilin University (吉林大學)) in July 1999.

CHEN Xiao Hong (陳小紅), aged 51, was appointed as Acting Chief Financial Officer of the Company in October 2016. Ms. Chen was appointed as the Financial Controller of the Company in September 2009 and Vice President of Finance of the Company in July 2014. Ms. Chen is responsible for corporate finance, investor relations and financial management of our Group. She has over 9 years of experience in finance management.

Ms. Chen has accepted Certified General Accountants Association of Canada (CGA) course study and professional manager training in Peking University (北京大學). Ms. Chen received her bachelor's degree in meteorology from Beijing Institute of Meteorology (北京氣象學院).

COMPANY SECRETARY

NGAI Kit Fong (倪潔芳), aged 52, was appointed as the Company Secretary of our Company on 20 December 2013.

Ms. NGAI is a director, Corporate Services of Tricor Services Limited, a global professional services provider specializing in integrated Business, Corporate and Investor Services. She has over 27 years of experience in corporate secretarial field and has been providing professional corporate services to Hong Kong listed companies as well as multinational, private and offshore companies.

Ms. NGAI is a Chartered Secretary and a Fellow of both The Hong Kong Institute of Chartered Secretaries ("**HKICS**") and The Institute of Chartered Secretaries and Administrators ("**ICSA**") in the United Kingdom. She is also a holder of the Practitioner's Endorsement of HKICS. (Note: The Company has engaged Tricor Services Limited as external service provider and appointed Ms. NGAI Kit Fong as the Company's joint company secretary since 20 December 2013. She has become the sole company secretary since 15 October 2016.)

* English names for identification purpose only

Directors' Report

The Board is pleased to present its report and the audited consolidated financial statements of the Group for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Group are the development and operation of children's online entertainment destination and other businesses in the PRC. Details of the principal activities of the Group are set out in note 14 to the section headed "Notes to the Financial Statements" of this annual report. The analysis of the Group's revenues and contribution to results by business segments are set out in note 5 to the section headed "Notes to the Financial Statements" of this annual report. There were no other significant changes in the nature of the Group's principal activities during the year ended 31 December 2017.

BUSINESS REVIEW AND KEY FINANCIAL PERFORMANCE INDICATORS

A review of the business of the Group during the year ended 31 December 2017 (including particulars of important events affecting the Company that have occurred during the year ended 31 December 2017, an analysis of the Group's performance during the year ended 31 December 2017 using financial key performance indicators and a discussion on the Group's future business development) is provided in the sections headed "Chairman Letter" and "Management Discussion and Analysis" of this annual report. A description of the principal risks and uncertainties that the Group may be facing and compliance with relevant laws and regulations which have a significant impact on the Group can be found in this directors' report. In addition, the financial risk management objectives and policies of the Group are available in note 3 to the section headed "Notes to the Financial Statements" of this annual report. These discussions form part of this directors' report.

Considering the principal activities of the Group, less destruction has been made directly to the environment, but protecting the environment has always been essential to the Group and has guided our actions to minimize the impact of the Group. Going forward, continuous efforts will be made by the Group and our employees in promoting sustainability in environment, social and corporate governance.

RESULTS

The results of the Group for the year ended 31 December 2017 are set out in the sections headed "Consolidated Income Statement", "Consolidated Statement of Comprehensive Income", "Consolidated Balance Sheet", "Consolidated Statement of Changes in Equity" and "Consolidated Statement of Cash Flows" of this annual report.

DIVIDENDS

The Board recommended the payment of a special dividend of HK$0.021 (equivalent to approximately RMB0.017) per Share for the year ended 31 December 2017, subject to the approval of the Shareholders at the AGM to be held on Friday, 29 June 2018. The proposed dividend is expected to be payable on Tuesday, 31 July 2018 to the Shareholders whose names appear on the Register of Members as of Tuesday, 10 July 2018.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the upcoming AGM, the Register of Members will be closed from Tuesday, 26 June 2018 to Friday, 29 June 2018, both dates inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, unregistered holders of shares of the Company shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 25 June 2018.

In addition, subject to the Shareholders' approval of the proposed special dividend at the AGM, the Register of Members will be closed from Friday, 6 July 2018 to Tuesday, 10 July 2018, both days inclusive, for the purpose of ascertaining the shareholders' entitlement to the proposed special dividend. In order to qualify for the proposed special dividend, all transfers documents accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, no later than 4:30 p.m. on Thursday, 5 July 2018.

USE OF PROCEEDS FROM THE COMPANY'S GLOBAL OFFERING

The total net proceeds from the Company's global offering which involved the issue of 706,106,000 Shares amounted to approximately HK$1,382 million after deduction of the underwriting commissions and other estimated expenses. During the year ended 31 December 2017, the net proceeds were utilized in accordance with the proposed applications set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus. The unutilized portion of the net proceeds is currently held in cash and cash equivalents and it is intended that it will be applied in the manner consistent with the proposed allocations in the Prospectus.

FINANCIAL SUMMARY

The Company has been listed on the Main Board of the Stock Exchange since 10 April 2014. A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out in the section headed "Financial Summary" of this annual report. This summary does not form part of the audited consolidated financial statements.

PROPERTY AND EQUIPMENT

Detail of movements in the property and equipment of the Group during the year ended 31 December 2017 are set out in note 15 to the section headed "Notes to the Financial Statements" of this annual report.

SHARE CAPITAL AND SHARE INCENTIVE SCHEMES

Details of movements in the Company's share capital and share incentive schemes are set out in notes 23 and 25 to the section headed "Notes to the Financial Statements" of this annual report and the below paragraph headed "Equity-linked Agreements/Share Incentive Schemes", respectively.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights, which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders, under the Articles of Association, although there are no restrictions against such rights under the laws in the Cayman Islands being the jurisdiction in which the Company is incorporated.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

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

The Directors believe that the repurchases of Shares are in the best interests of the Company and its Shareholders and would lead to an enhancement of the earnings per Share. Save as disclosed above, neither the Company nor any member of the Group has purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2017.

RESERVES

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2017 are set out in note 24 to the sections headed "Notes to the Financial Statements" and "Consolidated Statement of Changes in Equity" of this annual report, respectively.

DISTRIBUTABLE RESERVES

For the year ended 31 December 2017, the Company had no distributable reserves.

CHARITABLE CONTRIBUTIONS

The Group had no charitable contributions during the year ended 31 December 2017.

MAJOR CUSTOMERS AND SUPPLIERS

The customers of the Group consisted of end users/customers from online entertainment business, retail business and other businesses of the Group.

For the year ended 31 December 2017, the top five sources of cash proceeds from sales of physical and virtual prepaid cards and sales of AoCoins through other payment channels accounted for 79.6% of our total cash proceeds from these sales.

The top source of cash proceeds from these sales for the year ended 31 December 2017 was our online payment channel and accounted for 57.2% of our total cash proceeds from these sales.

None of the Directors, their close associates or any Shareholders that, to the knowledge of the Directors, own more than 5% of the Company's issued share capital had any interest in any of the five largest revenue contributors during the year ended 31 December 2017.

For the year ended 31 December 2017, charges from the five largest suppliers accounted for 23.9% of our cost of revenues.

The charges from the largest supplier accounted for 12.6% of our cost of revenues.

None of the Directors, any of their close associates or any Shareholders that, to the knowledge of the Directors, own more than 5% of the issued share capital of the Company had any interest in any of the five largest suppliers during the year ended 31 December 2017.

For the year ended 31 December 2017, there was no material dispute between the Group and its suppliers and/or customers.

DIRECTORS

The Directors during the year ended 31 December 2017 and up to the date of this annual report are:

Executive Directors

Mr. DAI Jian *(Chairman and Chief Executive Officer)*
Mr. WU Lili
Mr. LI Chong
Mr. WANG Xiaodong
Dr. Xu Gang *(resigned on 31 March 2017)*

Independent non-executive Directors

Ms. LIU Qianli
Dr. WANG Qing
Mr. MA Xiaofeng

The Board has received annual confirmations of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules and as at the date of this annual report still considers them to be independent.

ROTATION AND RE-ELECTION OF DIRECTORS

In accordance with article 84(1) of the Articles of Association, Mr. WU Lili, Mr. WANG Xiaodong and Mr. MA Xiaofeng will retire by rotation at the forthcoming AGM and, being eligible, offer themselves for re-election.

The Board recommended the re-appointment of the Directors standing for re-election at the AGM.

CHANGES IN DIRECTORS' INFORMATION

Certain changes in Directors' information are set out below pursuant to Rule 13.51B(1) of the Listing Rules:

Name of Director

MA Xiaofeng	Shares of ATA Online (Beijing) Education Technology Co., Ltd. (全美在線(北京)教育科技股份有限公司) of which Mr. MA has served as Chairman of the board of directors were delisted on the NEEQ since 11 October 2017. The annual remuneration of Mr. MA has been adjusted to USD50,000 since March 2017.
XU Gang	Mr. XU resigned as Executive Director on 31 March 2017.
LIU Qianli	The annual remuneration of Ms. LIU has been adjusted to USD50,000 since March 2017.
WANG Qing	The annual remuneration of Dr. WANG has been adjusted to USD50,000 since March 2017.

Save as the information disclosed above and in published announcements of the Company, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management members of the Group are set out in the section headed "Biographies of the Directors and Senior Management" of this annual report.

DIRECTORS' SERVICE CONTRACTS

None of the aforesaid retiring Directors proposed for re-election at the forthcoming AGM has an unexpired service contract which is not determinable by the Company or any member of the Group within one year without payment of compensation, other than under normal statutory obligations.

Save as disclosed in note 39 to the section headed "Notes to the Financial Statements" of this annual report, there were no other emoluments, pension and any compensation arrangements for the Directors and past Directors which are required to be disclosed under the Listing Rules, or section 383 of the Companies Ordinance or the Companies (Disclosure of Information about Benefits of Directors) Regulation (Chapter 622G, Laws of Hong Kong). Save as disclosed above, none of the Directors has a service contract with the Company or any member of the Group which is not determinable within one year without payment of compensation, other than statutory obligations.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in this annual report, no transactions, arrangements or contracts of significance in relation to the Group's business to which the Company or any member of the Group was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of or at any time during the year ended 31 December 2017.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

None of the Controlling Shareholders or his/its subsidiary has or had a material interest, either directly or indirectly, in any contract of significance, whether for the provision of services or otherwise, to the business of the Group to which any member of the Group was a party during the year ended 31 December 2017.

DIRECTORS' EMOLUMENTS

Details of the remuneration of the Directors and those of the five highest paid individuals for the year ended 31 December 2017 are set out in note 39 and note 9 to the section headed "Notes to the Financial Statements" of this annual report, respectively. The remunerations of the Directors are determined based on the market price and contribution made by such Directors to the Company. There has been no arrangement under which any Director has waived or agreed to waive any emoluments during the year ended 31 December 2017.

PERMITTED INDEMNITY

Permitted indemnity provisions (as defined in section 469 of the Companies Ordinance) for the benefit of the Directors are currently in force and were in force during the year ended 31 December 2017. Pursuant to article 164(1) of the Articles of Association, each Director and the officers of the Company shall be entitled to be indemnified by the Company out of the assets and profits of the Company against all actions, costs, charges, losses, damages and expenses which he/she may sustain or incur or about the execution and discharge of his/her duties or in relation thereto.

The Company has maintained appropriate Directors' and officers' liability insurance coverage for the Directors in respect of any legal actions which may be taken against the Directors in the execution and discharge of their duties or in relation thereto during the year ended 31 December 2017.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year ended 31 December 2017.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 31 December 2017, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or 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 otherwise 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[9]
DAI Jian[1]	Chairman, executive Director and Chief Executive Officer[11]	The Company	Founder of a discretionary trust Interest of controlled corporation	769,460,000(L)[8]	26.73%(L)
		The Company	Beneficial owner	10,000,000(L)	0.35%(L)
WU Lili[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., and 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 was 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 31 December 2017, 9,250,000 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. Such 750,000 Shares underlying the RSUs were 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., and 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., and 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., and 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 was 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 31 December 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 was 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 31 December 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 was 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 31 December 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) The Letter "L" denotes the person's Long position in such Shares.

(9) These percentages are calculated on the basis of 2,878,936,000 Shares in issue as at 31 December 2017, since the 3,978,000 shares repurchased on 29 December 2017 were not cancelled until 4 Jan 2018.

Save as disclosed above, as at 31 December 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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 31 December 2017, the following persons have interests or short positions in the Shares or underlying Shares or debentures of the Company 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[8]
TMF (Cayman) Ltd.[1]	Trustee of trusts	1,519,888,000(L)[7]	52.79%(L)
DAE Holding Investments Limited[2]	Trust holding company	769,460,000(L)	26.73%(L)
Stmoritz Investment Limited[2]	Registered owner	769,460,000(L)	26.73%(L)
DAI Jian[2] [5]	Founder of a discretionary trust Interest of controlled corporation	779,460,000(L)	27.07%(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[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[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	193,290,000(L)	6.71%(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 769,460,000 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 was 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 31 December 2017, 9,250,000 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. Such 750,000 Shares underlying the RSUs were 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 2,878,936,000 Shares in issue as at 31 December 2017, since the 3,978,000 shares repurchased on 29 December 2017 were not cancelled until 4 Jan 2018.

Save as disclosed above, as at 31 December 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 or debentures 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 annual reports of the Company of the past four years, 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 year ended 31 December 2017, no option has been cancelled. As at 31 December 2017, there were a total of 1,384,000 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 31 December 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 31 December 2017, 160,000 Shares underlying the Options had been allotted and issued to Duoduo Holding Limited.

Movements of the Options under the Pre-IPO Share Option Scheme during the year ended 31 December 2017

Name of Grantees	Nature	Number of Shares represented by Options as at 1 January 2017	Date of grant	Exercise price (US$)	Exercised during the year	Lapsed during the year	Number of Shares represented by Options as at 31 December 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	60,000	—	962,000	Note 1	Note 2	0.03%
2 employees	Options	522,000	15 January 2011	0.0090	100,000	—	422,000	Note 1	Note 2	0.01%
	Sub-total	1,544,000		—	160,000	—	1,384,000			0.05%
Total	Options	1,544,000		—	160,000	—	1,384,000			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 31 December 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.

Further details of the Pre-IPO Share Option Scheme are set out in note 25 to the section headed "Notes to the Financial Statements" of this annual report and the Prospectus.

Outstanding RSUs

1) Pre-IPO RSU Scheme

As at 31 December 2017, there were a total of 888,000 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 0.03% as at 31 December 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 31 December 2017, IPO RSU Nominee and the Pre-IPO RSU Nominee holds 93,334,000 Shares and the New RSU Nominee hold 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

As at 31 December 2017, there were a total of 26,194,000 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 0.91% as at 31 December 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 31 December 2017, Baiduo Investment Holding Limited holds 99,940,000 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 year ended 31 December 2017

Name of Grantees	Nature	Number of Shares underlying the RSUs as at 31 December 2016	Granted during the year	Date of grant	Consideration (US$)	Vested during the year	Lapsed during the year	Number of Shares underlying the RSUs as at 31 December 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	–	3,000,000	–	750,000	Note 1	0.03%
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	–		–	3,240,000	–	750,000		0.03%
(b) Senior Management										
CHEN Xiao Hong (陳小紅)	RSUs	540,000	–	1 October 2013	–	540,000	–	–	Note 1	–
	RSUs	300,000	–	18 February 2014	–	240,000	–	60,000	Note 1	0.002%
	Sub-total	840,000	–		–	780,000	–	60,000		0.002%
(c) Other grantees (other than the grantees disclosed in paragraphs 1a and 1b above)										
157 employees	RSUs	8,962,650	–	1 October 2013	–	8,713,350	249,300	–	Note 1	–
6 employees	RSUs	573,750	–	18 February 2014	–	408,750	87,000	78,000	Note 1	0.003%
	Sub-total	9,536,400	–		–	9,122,100	336,300	78,000		0.003%
	Total	14,366,400	–		–	13,142,100	336,300	888,000		0.03%
(2) Post-IPO RSU Scheme										
(a) Director(s)										
XU Gang (徐剛)	RSUs	6,000,000	–	10 July 2015	–	6,000,000	–	–	Note 3	–
(b) Senior management member(s) of the Company										
DENG Ling Hua (鄧凌華)	RSUs	6,000,000	–	10 July 2015	–	3,000,000	–	3,000,000	Note 4	0.10%
CHEN Xiao Hong (陳小紅)	RSUs	1,600,000	–	10 July 2015	–	550,000	–	1,050,000	Note 5	0.04%
	Sub-total	13,600,000	–		–	9,550,000	–	4,050,000		0.14%

Name of Grantees	Nature	Number of Shares underlying the RSUs as at 31 December 2016	Granted during the year	Date of grant	Consideration (US$)	Vested during the year	Lapsed during the year	Number of Shares underlying the RSUs as at 31 December 2017	Vesting Schedule	Approximate percentage of issued Shares of the Company (7)
(c) Other grantees (other than the grantees disclosed in paragraphs 2a and 2b above)										
78 employees	RSUs	29,576,000	—	10 July 2015	—	9,991,250	3,540,750	16,044,000	Note 5	0.47%
6 employees	RSUs	—	6,100,000	10 November 2017	—	—	—	6,100,000	Note 6	0.21%
	Total	43,176,000	6,100,000		—	19,541,250	3,540,750	26,194,000		0.91%

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 5 March 2016;
- 20% of the RSUs on 5 March 2017;
- 30% of the RSUs on a quarterly basis from 5 March 2017 to 5 March 2018; and
- 30% of the RSUs 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. Following Dr. Xu's resignation from his capacity as the chief executive officer of the Company effective on 15 October 2016, 18,000,000 unvested RSUs lapsed upon cessation of such position and 6,000,000 unvested RSUs remained effective and was vested on 5 March 2017.

(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 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.

(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) 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 November 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) as at 31 December 2017.

Further details of the Pre-IPO RSU Scheme and the Post-IPO RSU Scheme are set out in note 25 to the section headed "Notes to the Financial Statements" of this annual report and the Prospectus.

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 31 December 2017, none of the above conditions has been met and no Consultant Option was exercised. In accordance with the terms of the Consultancy Agreement, the Consultancy Agreement has been terminated with effect from 20 January 2018. Pursuant to the terms of the Consultancy Agreement, the Consultant has the right to exercise the Consultant Options within 3 months from the termination date of the Consultancy Agreement. As such, the Consultant Options shall be valid until 20 April 2018.

DIRECTORS' RIGHT TO ACQUIRE SHARES

Save as disclosed above under the paragraphs headed "Equity-linked Agreements/Share Incentive Schemes" and "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares and Debentures of the Company" above, at no time during the year ended 31 December 2017 were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any of the Directors or chief executive of the Company or their respective associates, or were any such rights exercised by them; nor was the Company or a specified undertaking (within the meaning of the Companies Ordinance) of the Company, a party to any arrangement to enable the Directors or chief executive of the Company or their respective associates to acquire such rights in any other body corporate.

CONNECTED TRANSACTIONS

The Board confirmed that none of the related party transactions set out in note 35 to the section headed "Notes to the Financial Statements" of this annual report constituted connected transactions or continuing connected transaction under Chapter 14A of the Listing Rules during the year ended 31 December 2017. Further, save as disclosed below, the Group has not entered into any connected transactions or continuing connected transactions which are required to be disclosed in this annual report pursuant to the Listing Rules during the year ended 31 December 2017. The Directors confirm they have complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Non-exempt Continuing Connected Transactions

Reference is made to the Prospectus, pages 67 to 73 of the Company's interim report (the "**2015 Interim Report**") for the six months ended 30 June 2015, pages 48 to 54 of the Company's 2016 Annual Report and page 68 of the Company's interim report (the "**2017 Interim Report**") for the six months ended 30 June 2017 in relation to the Contractual Arrangements. The Company wishes to provide further information in relation to the Contractual Arrangements for the year ended 31 December 2017.

1) **Reasons for using the Contractual Arrangements**

   Details of the reasons for using the Contractual Arrangements are set out in sections headed "Contractual Arrangements" and "Connected Transactions — Non-exempt Continuing Connected Transactions" in the Prospectus.

2) **Operating entity of the Group controlled through the Contractual Arrangements**

   The online children's interactive entertainment and e-learning services provided by the Group are respectively prohibited and restricted to foreign investment in the PRC pursuant to the applicable PRC laws and regulations. Accordingly, the Group has entered into the Contractual Arrangements narrowly tailored to provide the Group with supervision and control over Guangzhou Baitian which holds the licenses and regulatory approvals that are essential to the Group's business operations.

During the year ended 31 December 2017, the following entity was controlled by the Group through the Contractual Arrangements:

Name of the PRC Operating Entities	Kind of legal entity/place of establishment and operation	Registered owners	Business activities
As at 31 December 2017			
Guangzhou Baitian Information Technology Ltd.* (廣州百田信息科技有限公司)	Limited liability company/ the PRC	46.92% by Mr. DAI Jian 28.37% by Mr. WU Lili 12.90% by Mr. LI Chong 7.08% by Mr. CHEN Ziming 4.73% by Mr. WANG Xiaodong	Operating the virtual worlds and e-learning products of the Group

On 9 July 2015, Guangzhou Baitian established Guangzhou Tianti which is principally engaged in providing software and information technology services to facilitate Guangzhou Baitian's role and function under the Contractual Arrangements.

On 5 January 2016, Guangzhou Baitian established Guangzhou Baiman which is principally engaged in providing animation creation and production services to facilitate Guangzhou Baitian's role and function under the Contractual Arrangements.

On 15 June 2017, Guangzhou Baitian established Xiaoyunxiong which is principally engaged in providing education service for children to facilitate Guangzhou Baitian's role and function under the Contractual Arrangements.

On 20 September 2016, Guangzhou Baiman acquired the whole equity interest in Beijing Xingmen which is principally engaged in providing animation creation and production services to facilitate Guangzhou Baitian's role and function under the Contractual Arrangements.

On 7 August 2015 and 11 August 2015, Beijing Xingmen acquired the whole equity interest in Beijing Guli and Beijing Fenghuo Tianyuan, respectively, both of which are principally engaged in providing animation creation and production services to facilitate Guangzhou Baitian's role and function under the Contractual Arrangements.

On 28 July 2017, Guangzhou Baiman established Huoerguosi Baiman which is principally engaged in TV, film and other media production to facilitate Guangzhou Baitian's role and function under the Contractual Arrangements.

None of Guangzhou Tianti, Guangzhou Baiman, Xiaoyunxiong, Beijing Xingmen, Beijing Guli, Beijing Fenghuo Tianyuan or Huoerguosi Baiman is a party to any of the Contractual Arrangements. For details, please see note 14 to the section headed "Notes to the Financial Statements" of this annual report.

3) **Revenue and Assets subject to the Contractual Arrangements**

The revenue, profit and total assets subject to the Contractual Arrangements are set out as follows:

	Year ended 31 December 2017 RMB'000	Year ended 31 December 2016 RMB'000
Revenue	**274,482**	322,004
Profit for the year	**39,601**	55,485

	As at 31 December 2017 RMB'000	As at 31 December 2016 RMB'000
Total assets	**896,531**	1,157,961

For the year ended 31 December 2017, the revenue and profit subject to the Contractual Arrangements amounted to approximately 78.3% (2016: 84.0%) and -130.2% (2016: 168.1%) of the revenue and profit for the year of the Group, respectively.

As at 31 December 2017, the total assets subject to the Contractual Arrangements amounted to approximately 55.0% (2016: 57.4%) of the total assets of the Group.

Transactions carried out during the year ended 31 December 2017, which have been eliminated in the consolidated financial statements of the Group, are set out as follows:

- For the year ended 31 December 2017, the service fees provided by Guangzhou WFOE to Guangzhou Baitian pursuant to the Contractual Arrangements amounted to RMB3,883,495 (2016: RMB4,271,845).

4) **Contractual Arrangements in place**

For the year ended 31 December 2017, the Contractual Arrangements consist of four agreements: (a) the exclusive business consultation and service agreement, (b) the proxy agreement, (c) the share pledge agreement and (d) the exclusive option agreement. The PRC legal advisers of the Company have advised that the Contractual Arrangements as a whole and each of the agreements comprising the Contractual Arrangements are legal, valid and binding on the parties and are enforceable under applicable PRC laws and regulations. For the year ended 31 December 2017, there were no new Contractual Arrangements entered into, renewed or reproduced among Guangzhou Baitian, its shareholders and Guangzhou WFOE. There was no change in the Contractual Arrangements under which they were adopted for the year ended 31 December 2017.

Further details of the major terms of the Contractual Arrangements have been set out in the sections headed "Connected Transactions" and "Contractual Arrangements" in the Prospectus, "Directors' Report — Connected Transactions" in the 2016 Annual Report and "Other Information — Compliance with the Qualification Requirement" in the 2017 Interim Report, respectively.

Change in the Contractual Arrangements and/or Circumstances and Latest Regulatory Development in Using Contractual Arrangements

There was no material change in the Contractual Arrangements and/or the circumstances under which they were adopted for the year ended 31 December 2017.

Draft Foreign Investment Law

The Company noticed that, on 19 January 2015, the Ministry of Commerce of the PRC published a discussion draft of the proposed new Foreign Investment Law (《中華人民共和國外國投資法 (草案徵求意見稿)》) (the "**Draft FIL**") for public comments which for the first time introduced the concept of actual controller from the foreign investment prospective. It might have potential impact on the Contractual Arrangements. Taking into account the facts that the consultation stage for public comment of the Draft FIL ended in February 2015, a number of legislative stages have to be undergone before the promulgation and implementation of the new Foreign Investment Law and information on how existing contractual arrangements would be dealt with is still outstanding, there is no definite timeline when the Draft FIL will come into effect up to the date of this annual report. Accordingly, the Company believes that any attempt to evaluate the potential impact that it will have on the Contractual Arrangements and the business of our Group would be premature. In order to continuously monitor the development of the Draft FIL to assess the possible impact on the Contractual Arrangements, the Board will continuously monitor any updates on the Draft FIL and seek guidance from our legal advisors on a regular basis to ensure compliance with all relevant rules and regulations in the PRC at all times and inform the public in due course.

New Internet Publication Regulations

In addition, the Board noted that on 4 February 2016, as approved by the General Administration of Press and Publication (the "**GAPP**"), the Ministry of Industry and Information Technology issued the Regulations on Administration of Internet Publication Services (《網絡出版服務管理規定》) (the "**New Internet Publication Regulations**") which came into force from 10 March 2016 and the Interim Regulations on Administration of Internet Publication (《互聯網出版管理暫行規定》) issued on 27 June 2002 was superseded. The New Internet Publication Regulations reiterate foreign enterprises are prohibited to invest in the Internet publications business preserved the license requirement for any company that engages in Internet publication activities which includes the publication of online games through Internet. Guangzhou Baitian, as an Internet content provider, holds a valid network cultural business permit issued by the Ministry of Culture and a valid internet publication license issued by the GAPP in relation to publication of all games currently operated by the Group through the Internet. The Group complied with the New Internet Publication Regulations in all material respects during the year ended 31 December 2017.

Draft Regulation on Internet Safety for Children

In January 2017, the Cyberspace Administration of China (中華人民共和國國家互聯網信息辦公室) (the "**CAC**") published the draft policies for deliberation on internet safety for children (《未成年人網絡保護條例(送審稿)》) under the age of 18 (the "**Draft Policy**"). Among other things, the Draft Policy purports to require onlinegame operators to lock out anyone under the age of 18 between midnight and 8 a.m. as well as to post warnings about content deemed unsuitable for minors. The above possible measures set out in the Draft Policy which has been published to solicit public opinion, have not been formally adopted and may be subject to revisions and amendments taking into account the results of the public consultation. The Group is of the view that it has relevant measures in place for internet safety for children, which is in line with the requirements set out in the Draft Policy. If the Draft Policy is promulgated in the current draft form, the Group believes that it will have remote impact on the Group's daily operations and strategy. In any event, the Company will take reasonable steps in good faith to seek compliance with the enacted version of the Draft Policy, if and when it comes into force.

Regulations on mobile Internet applications information services

In addition to the new policies and regulations above, the mobile Internet applications (the "**APPs**") and the Internet application store (the "**APP Stores**") are especially regulated by the Administrative Provisions on Mobile Internet Applications Information Services (《移動互聯網應用程序信息服務管理規定》) (the "**APP Provisions**"), which was promulgated by the CAC on 28 June 2016 and became effective on 1 August 2016. The APP Provisions regulated the APP information service providers and the APP Store service providers and the CAC and local offices of cyberspace administration shall be responsible for the supervision and administration of nationwide or local APP information respectively.

The APP information service providers shall acquire relevant qualifications required by laws and regulations and implement the information security management responsibilities strictly and fulfill their obligations as follows: (i) shall authenticate the identity information of the registered users, including their mobile telephone number and other identity information under the principle that mandatory real name registration at the back-office end, and voluntary real name display at the front-office end; (ii) shall establish and perfect the mechanism for the protection of users' information, and follow the principle of legality, rightfulness and necessity, indicate expressly the purpose, method and scope of collection and use and obtain the consent of users while collecting and using users' personal information; (iii) shall establish and perfect the mechanism for the examination and management of information content, and in terms of any information content released that breaches laws or regulations, take such measures as warning, restricting the functions, suspending the update and closing the accounts, as the case may be, keep relevant records and report the same to relevant competent authorities; (iv) shall safeguard users' right to know and to make choices when users are installing or using such applications, and shall neither start such functions as collecting the information of users' positions, accessing users' contacts, turning on the camera and recording the sound, or any other function irrelevant to the services, nor forcefully install any other irrelevant applications without prior consent of users when noticed expressly; (v) shall respect and protect the intellectual properties and shall neither produce nor release any application that infringes others' intellectual properties; and (vi) shall record the users' log information and keep the same for 60 days.

The Group complied with the APP Provisions in all material respects during the year ended 31 December 2017.

5) **Risks associated with the Contractual Arrangements and actions taken by the Company to mitigate the risks associated with the Contractual Arrangements**

Details of the risks associated with the Contractual Arrangements and actions taken by the Company to mitigate the risks associated with the Contractual Arrangements are set out in section headed "Other Information — Requirements related to Contractual Arrangements (other than Relevant Foreign Ownership Restrictions)" in the 2015 Interim Report.

6) **The extent to which the Contractual Arrangements relating to requirements other than the foreign ownership restriction (the "Qualification Requirements")**

As at 31 December 2017, the Company has no update to disclose in relation to the Qualification Requirements as required under the Regulations on the Administration of Foreign-Invested Telecommunications Enterprises (《外商投資電信企業管理規定》), which were promulgated by the State Council on 11 December 2001 and amended on 10 September 2008 and 6 February 2016. Despite the lack of clear guidance or interpretation on the Qualification Requirements, the Group has been gradually building up its track record of overseas business operations to comply with the Qualification Requirements. Details of the extent to which the Contractual Arrangements relating to requirements other than the foreign ownership restriction are set out in section headed "Other Information — Requirements related to Contractual Arrangements (other than Relevant Foreign Ownership Restrictions)" in the 2015 Interim Report.

7) **Unwinding of the Contractual Arrangements**

Up to the date of this annual report, there has not been any unwinding of any Contractual Arrangements, nor has there been any failure to unwind any Contractual Arrangements when the restrictions that led to the adoption of the Contractual Arrangements are removed.

8) **Waiver from the Stock Exchange**

As disclosed in the sections headed "Waivers from Strict Compliance with the Listing Rules and Exemption from Strict Compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance — Waiver in respect of Non-exempt Connected Transactions" and "Connected Transactions" in the Prospectus, the Company had applied for, and had been granted a specific waiver to the Company from strict compliance with the continuing connected transactions requirements of Chapter 14A of the Listing Rules in respect of the Contractual Arrangements.

9) **Directors' view**

The Directors (including the independent non-executive Directors) are of the view that the Contractual Arrangements and the transactions contemplated thereunder are fundamental to the Group's legal structure and business operations, that such transactions are on normal commercial terms and are fair and reasonable, or advantageous, so far as the Group is concerned and in the interests of the Company and the Shareholders as a whole.

The independent non-executive Directors reviewed the Contractual Arrangements and confirmed that (i) the continuing connected transactions carried out during the year ended 31 December 2017 (the "**Continuing Connected Transactions**") have been entered into in the ordinary and usual course of business of the Group, (ii) the Continuing Connected Transactions have been entered into on normal commercial terms or better, (iii) the Continuing Connected

Transactions have been entered into according to the Contractual Arrangements governing each of the Continuing Connected Transactions on terms that are fair and reasonable and in the interests of the Shareholders as a whole, (iv) no new agreements within the Group have been entered into from the Listing Date till the end of the year ended 31 December 2017, and (v) no dividends or other distributions have been made by Guangzhou Baitian to the relevant holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group.

10) Auditor's view

Further, the Company's external auditor, PricewaterhouseCoopers ("**PwC**"), was engaged to report on the Continuing Connected Transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. PwC has issued its unqualified letter containing its findings and conclusions in respect of the Continuing Connected Transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules.

A copy of PwC's letter on the Continuing Connected Transactions of the Group for the year ended 31 December 2017 has been provided by the Company to the Stock Exchange.

PRINCIPAL RISKS AND UNCERTAINTIES

The Company has identified principal risks and uncertainties that the Group faces with respect to economic risks, operational risks, regulatory risks, financial risks, and specific risks related to the Group's corporate structure. The Group's business, future results of operations and prospects could be materially and adversely affected by those risks and uncertainties. The following highlights the principal risks and uncertainties of the Group and it is not meant to be exhaustive. There may be other risks and uncertainties which are not known to the Group or which may not be material now but turn out to be material in the future.

Economic Risks

— A severe or prolonged downturn of the PRC economy.

— Negative effect on the operational, financing or investing activities of the Group due to fluctuations in foreign currency exchange rates, inflation, fluctuations of interest rates and other measures relating to financial policies in the PRC.

Operational Risks

— Failure to compete in the competitive environment which the Group operates in or to keep up with technological developments.

— If the Group fails to continuously strengthen its existing games and launch new games, or if its top games lose their popularity, the Group may not be able to retain existing players and attract new players, which will adversely affect the business and results of the operation of the Group.

Regulatory Risks

— Failure to adhere to laws, regulations and rules, or to obtain or maintain all applicable permits and approvals.

— Adverse effects arising from change in laws and regulations affecting the businesses of the Group.

Financial Risks

— Details of financial risks are set out in note 3 to the section headed "Notes to the Financial Statements" of this annual report.

Risks related to the Contractual Arrangements

— Details of risks related to the corporate structure of the Group are set out in the above paragraph headed "Risks associated with the Contractual Arrangements and actions taken by the Company to mitigate the risks associated with the Contractual Arrangements" above under the paragraph headed "Connected Transactions".

RELATED PARTY TRANSACTIONS

Details of related party transactions during the year ended 31 December 2017 are set out in note 35 to the section headed "Notes to the Financial Statements" of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its Directors, the Board confirms that the Company has maintained the amount of public float as required under the Listing Rules during the year ended 31 December 2017.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year ended 31 December 2017, none of the Directors or their respective associates had engaged in or had any interest in any business which competes or may compete, either directly or indirectly, with the business of the Group.

RETIREMENT BENEFIT SCHEME

Details of retirement benefit scheme of the Group are set out in note 9 to the section headed "Notes to the Financial Statements" of this annual report.

IMPORTANT EVENTS AFTER THE YEAR ENDED 31 DECEMBER 2017

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

CORPORATE GOVERNANCE

Information on the corporate governance practices adopted by the Company is set out in the section headed "Corporate Governance Report" of this annual report.

MATERIAL LITIGATION AND COMPLIANCE MATTERS

For the year ended 31 December 2017, the Company was not involved in any material litigation or arbitration and the Directors were not aware of any material litigation or claims that were pending or threatened against the Company.

For the year ended 31 December 2017 and up to the date of this report, to the best knowledge of the Directors, the Group complied with applicable laws, rules and regulations in all material respects.

ENVIRONMENTAL POLICIES AND PERFORMANCE

As one of the top online entertainment destinations designed for young teens in China, the Group's businesses do not involve in production-related air, water and land pollutions which are regulated by the applicable laws and regulations in the PRC. No hazardous waste was produced by the Group in its course of business in the year ended 31 December 2017.

The Group complies with the relevant laws and regulations in environmental protection and impact on the environment has always been a major focus of the Group. The Group adheres to the principle and practice of recycling and conservation. The Group encourages all employees to be eco-friendly and participate in energy and resources saving, such as encouraging two-sided printing and the use of scratch papers, saving water and electricity to reduce energy consumption. The Group will continually make efforts to put emphasis on environmental protection and sustainable development.

For details, please see the section headed "Environmental, Social and Governance Report" of this annual report.

COMPLIANCE WITH LAWS AND REGULATIONS

For the year ended 31 December 2017, as far as the Directors are aware, the Group has complied with all relevant laws and regulations that have significant impact on the Group. For details of such laws and regulations, please refer to the section headed "Change in the Contractual Arrangements and/or Circumstances and Latest Regulatory Development in Using Contractual Arrangements" of this annual report.

STAFF RELATIONSHIP AND HUMAN RESOURCES

The Company views employees as our most valuable asset. The Company recognizes that the skill, dedication and enthusiasm of our team are critical to our success in the face of ever-evolving market challenges. The Company strives to build an energetic working environment and to offer competitive remuneration packages, various incentives, promotion opportunities and training courses to its staff.

Workplace Quality

The Group is an equal opportunity employer and does not discriminate on the basis of personal characteristics. The Group has employee handbooks outlining terms and conditions of employment, expectations for employees' conduct and behavior, employees' rights and benefits. The Group has established and implemented policies that promote a harmony and respectful workplace.

The Group believes that employees are the valuable assets of an enterprise and regards human resources as its corporate wealth. We provide on-the-job training and development opportunities to enhance our employees' career progression. Through different training, staff's professional knowledge in corporate operations, occupational and management skills are enhanced.

Health and Safety

The Group prides itself on providing a safe, effective and congenial work environment. Adequate arrangements, training and guidelines are implemented to ensure the working environment is healthy and safe. The Group provides health and safety communications for employees to present the relevant information and raise awareness of occupational health and safety issues.

The Group values the health and well-being of staff. In order to provide employees with health coverage, staffs are entitled to medical insurance benefits as well as other health awareness programs.

For details, please see the section headed "Environmental, Social and Governance Report" of this annual report.

REVIEW BY THE AUDIT COMMITTEE

The Audit Committee has reviewed the accounting principles and policies adopted by the Group and discussed the Group's auditing, internal controls and financial reporting matters with the management. The Audit Committee has also reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2017.

PROFESSIONAL TAX ADVICE RECOMMENDED

If the Shareholders are unsure about the taxation implications of purchasing, holdings, disposing of, dealing in, or the exercise of any rights in relation to, the Shares, they are advised to consult an expert.

APPRECIATION

The Group would like to express its appreciation to all the staff for their outstanding contribution towards the Group's development. The Board wishes to sincerely thank the management for their dedication and diligence, and they are the key factors for the Group to continue its success in future. Also, the Group wishes to extend its gratitude for the continued support from its Shareholders, customers, and business partners. The Group will continue to deliver sustainable business development, so as to meet its business objectives for 2018 and realize higher values for its Shareholders and other stakeholders.

AUDITOR

PricewaterhouseCoopers retired and a resolution for their re-appointment as auditor of the Company will be proposed at the forthcoming AGM. There have been no other changes of auditor in the past three years.

ON BEHALF OF THE BOARD
DAI JIAN
Chairman, Chief Executive Officer and Executive Director

Hong Kong
28 March 2018

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Board believes that high corporate governance standards are essential in providing a framework for the Group to safeguard the interests of shareholders and to enhance corporate value and accountability. The Board is committed to achieving high corporate governance standards.

Throughout the year ended 31 December 2017 (the "**Review Period**"), the Company has applied the principles and complied with all the code provision as set out in the Corporate Governance Code, save and except for code provision A.2.1 with details set out below.

Code provision A.2.1

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own securities dealing code to regulate Directors' dealings in the Company's securities and other matters covered by the Model Code.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code during the Review Period.

The Company has also established written guidelines no less exacting than the Model Code (the "**Employees Written Guidelines**") for securities transactions by employees who are likely to be in possession of unpublished inside information of the Company. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company during the Review Period.

BOARD OF DIRECTORS

The Board of the Company comprises the following directors:

Executive Directors:

Mr. DAI Jian *(Chairman of the Board, Chief Executive Officer and Chairman of Nomination Committee)*
Mr. WU Lili *(Member of Remuneration Committee)*
Mr. LI Chong
Mr. WANG Xiaodong
Dr. XU Gang *(resigned as Executive Director on 31 March 2017)*

Independent Non-executive Directors:

Ms. LIU Qianli *(Chairperson of Audit Committee and Member of Nomination Committee)*
Dr. WANG Qing *(Chairperson of Remuneration Committee and Member of Audit Committee)*
Mr. MA Xiaofeng *(Member of Audit Committee, Remuneration Committee and Nomination Committee)*

The biographical information of the Directors are set out in the section headed "Biographies of the Directors and Senior Management" of this annual report.

To the knowledge of the Directors, the Board members have no financial, business, family or other material relationship with each other.

Independent Non-executive Directors

During the Review Period, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

Each of the three independent non-executive Directors has confirmed his/her independence and the Company considers each of them to be independent in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules.

Non-executive Directors and Directors' Re-election

Code provision A.4.1 of the Corporate Governance Code stipulates that non-executive directors shall be appointed for a specific term, subject to re-election, whereas code provision A.4.2 states that all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

Each of the Directors is appointed for a specific term of three years and subject always to re-election as and when required under the Articles of Association. The Articles of Association requires that at each annual general meeting one-third of the directors for the time being (or, if the number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every director shall be subject to retirement at an annual general meeting at least once every three years.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Directors of the Board take decisions objectively in the interests of the Company.

All Directors, including independent non-executive Directors, shall bring a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

All Directors shall have full and timely access to all the information of the Company as well as the services and advice from the company secretary and senior management. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his responsibilities to the Company.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

Continuous Professional Development of Directors

Directors shall keep abreast of responsibilities as a director of the Company and of the conduct, business activities and development of the Company.

Every newly appointed director will receive formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

In accordance with A.6.5 of the Corporate Governance Code with regards to continuous professional development, directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally-facilitated briefings for directors will be arranged and reading material on relevant topics will be issued to directors where appropriate. All directors are encouraged to attend relevant training courses at the Company's expenses.

Records of training received by each of the existing Directors during the Review Period is summarized below:

Directors	Types of training
Executive Directors	
Mr. DAI Jian	C
Mr. WU Lili	C
Mr. LI Chong	C
Mr. WANG Xiaodong	A, C
Independent Non-Executive Directors	
Ms. LIU Qianli	B
Dr. WANG Qing	B, C
Mr. MA Xiaofeng	C

A Attending in-house briefing(s)

B Attending seminar(s) and training(s)

C Reading materials relating to directors' roles, functions and duties

BOARD COMMITTEES

The Board has established three committees, namely, the Audit Committee, Remuneration Committee and Nomination Committee for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request.

The majority of the members of each Board committee are independent non-executive Directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" of this annual report.

Audit Committee

The Company established the Audit Committee on 19 March 2014 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C3 of the Corporate Governance Code. The Audit Committee currently comprises three members namely, Ms. LIU Qianli (as Chairperson), Dr. WANG Qing and Mr. MA Xiaofeng (including one independent non-executive director who possesses appropriate professional qualifications or accounting or related financial management expertise). The primary duties of the Audit Committee are to assist the Board by providing an independent view of effectiveness of the financial reporting system, risk management and internal control systems of the Group, overseeing the audit process and performing other duties and responsibilities as assigned by the Board.

The Audit Committee held two meetings to review interim and annual financial results and reports in respect of the Review Period and significant issues on the financial reporting and compliance procedures, risk management and internal control systems, scope of work and appointment of external auditor, connected transactions and arrangements for employees to raise concerns about possible improprieties.

The Audit Committee also met the external auditor twice without the presence of the executive Directors during the Review Period.

Remuneration Committee

The Company established the Remuneration Committee on 19 March 2014 with written terms of reference in compliance with paragraph B1 of the Corporate Governance Code. The Remuneration Committee comprises three members, namely Dr. WANG Qing (as Chairperson), Mr. MA Xiaofeng and Mr. WU Lili. The primary duties of the Remuneration Committee include, but not limited to, the following (i) making recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedures for developing policy on such remuneration; (ii) determining the specific remuneration package of all directors and senior management; and (iii) reviewing and approving performance based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

The Remuneration Committee met twice to review and make recommendation to the Board on the remuneration policy and structure of all the Directors and senior management of the Company during the Review Period.

Details of the remuneration of each Director of the Company for the year ended 31 December 2017 are set out in note 39 to the Consolidated Financial Statements contained in this Annual Report.

Nomination Committee

The Company established the Nomination Committee on 19 March 2014 with written terms of reference in compliance with paragraph A4 of the Corporate Governance Code. The Nomination Committee comprises three members namely, Mr. DAI Jian (as Chairperson), Mr. MA Xiaofeng and Ms. LIU Qianli. The primary functions of the Nomination Committee include, without limitation, reviewing the structure, size and composition of the Board, assessing the independence of independent non-executive directors and making recommendations to the Board on matters relating to the appointment of directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects set out in the Board diversity policy, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates to become a member of the Board, the ultimate decision will be based on merit and contribution that the selected candidates to the Board.

The Nomination Committee met twice to review the independence of the independent non-executive Directors and structure, size and composition of the Board during the Review Period.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the Corporate Governance Code.

The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and Employees Written Guidelines, and the Company's compliance with the Corporate Governance Code and disclosure in its corporate governance report.

ATTENDANCE RECORD OF DIRECTORS AND COMMITTEE MEMBERS

The attendance records of each Director at the Board and Board committee meetings and the annual general meeting of the Company held during the Review Period is set out in the table below:

	Board	Nomination Committee	Remuneration Committee	Audit Committee	AGM
Executive Directors					
Mr. DAI Jian	4/4	2/2	–	–	1/1
Mr. WU Lili	4/4	–	2/2	–	1/1
Mr. LI Chong	4/4	–	–	–	1/1
Mr. WANG Xiaodong	3/4	–	–	–	1/1
Dr. XU Gang *(resigned on March 31, 2017)*	0/1	–	–	–	–
Independent Non-Executive Directors					
Ms. LIU Qianli	4/4	2/2	–	2/2	0/1
Dr. WANG Qing	3/4	–	1/2	1/2	1/1
Mr. MA Xiaofeng	3/4	2/2	2/2	2/2	1/1

Apart from regular Board Meetings, the Chairman also held a meeting with the independent non-executive Directors without the presence of executive Directors during the Review Period.

RISK MANAGEMENT AND INTERNAL CONTROLS

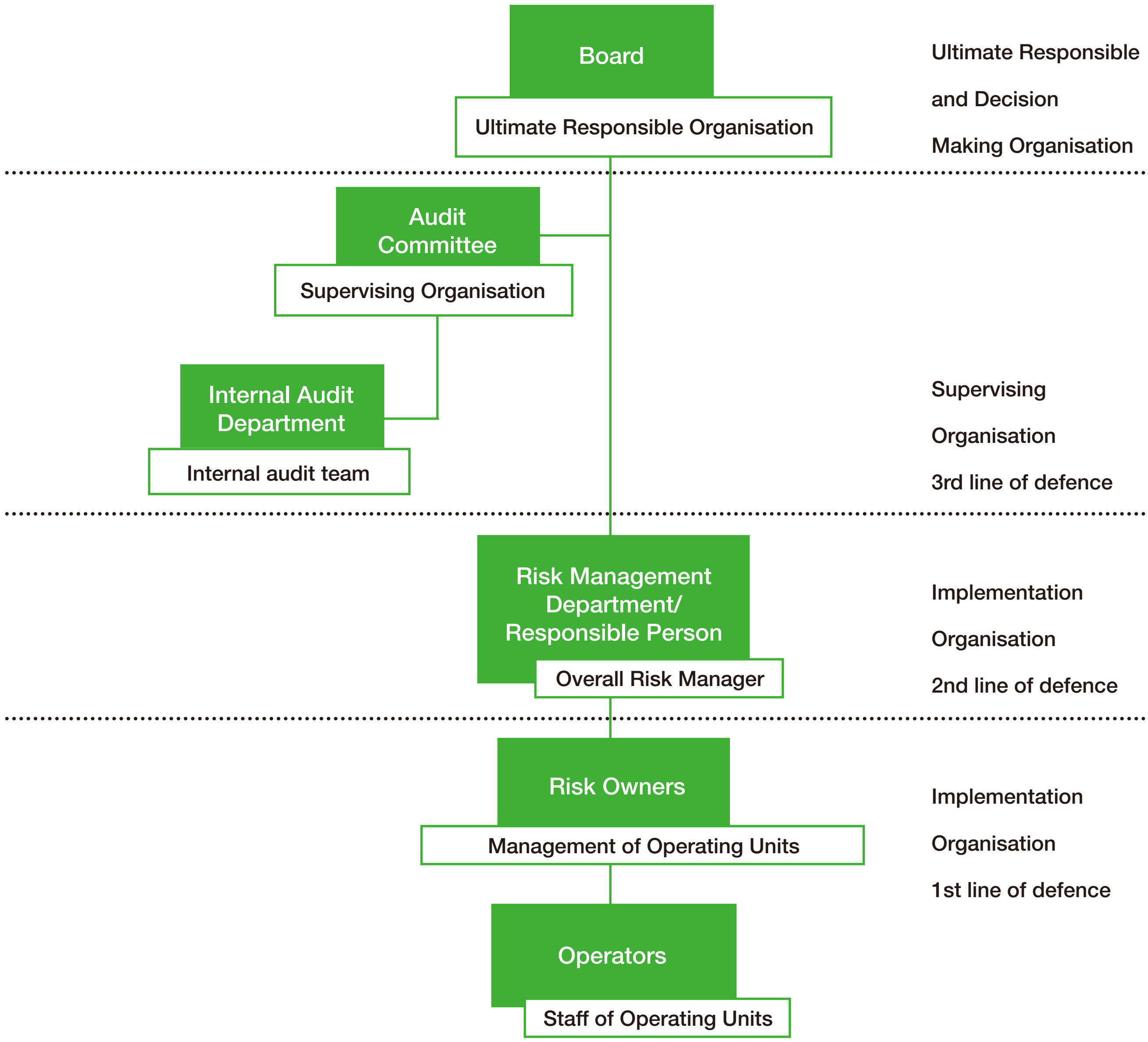
The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Audit Committee and the Internal Audit Department established under the supervision of the Audit Committee assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

The Company has developed and adopted a Risk Management Policy with defined principles, procedures, roles and responsibility of each level in the risk management framework (see below diagram) and implementation details.

RISK MANAGEMENT FRAMEWORK



The Company's risk management and internal control systems have been developed with the following features and process:

Features

1) facilitates risk identification and escalation whilst providing assurance to the Board;

2) assigns clear roles and responsibilities and facilitates implementation with guidelines and tools; and

3) adopts a "Three Lines of Defence" model, with oversight and directions from the Board.

Process

1) the operating units of the Group, as risk owners, implement the risk management policy, identify, alert, evaluate, mitigate and monitor their own risks and the management of the operating units report such risk management activities to the Risk Management Department/Responsible Person;

2) the Risk Management Department/Responsible Person, in coordination with the management of the operating units, identify the internal/external risks of the Group at least annually and establish/update the risk database. At the same time, they assess the risk issues and put forward proposals to the Audit Committee/Board to mitigate and/or transfer the identified risks; and

3) the Audit Committee and the Internal Audit Department are responsible for providing guidance and performing independent review of the adequacy and effectiveness of the risk management and internal control systems of the Company, and reporting to the Board in a timely manner. Their duties and responsibilities include persistently monitoring the operation of the risk management system to ensure the system is able to identify, assess, respond, trace and monitor corporate risks; reviewing the risk management framework; making regular discussion with the senior management on the Group's risk management and internal control systems so as to ensure effective internal control system being established; reviewing and/or preparing annual report of risk management for review by the Board. Special reviews are also performed at management's request.

The management has confirmed to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for the year ended 31 December 2017.

The Board, as supported by the Audit Committee as well as the management report and the internal audit findings, reviewed the risk management and internal control systems, including the financial, operational and compliance controls, for the year ended 31 December 2017, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experiences and relevant resources.

Arrangements are in place to facilitate employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

Disclosure of Inside Information

With respect to the procedures and internal controls for the handling and dissemination of inside information, the Group:

- has conducted its affairs with close regard to the disclosure requirement under the Listing Rules as well as the Guidelines on Disclosure of Inside Information published by the Securities and Future Commission in June 2012 in company with Part XIV A of the SFO;
- has implemented and disclosed its policy on fair disclosure by pursuing broad, non-exclusive distribution of information to the public through channels such as financial reporting, public announcement and its website;
- has included in its code of conduct a strict prohibition on unauthorized use of confidential or inside information;
- has established and implemented procedures for responding to external enquiries about the Group's affairs so that only the executive Directors and corporate communications and investor relations general manager are authorized to communicate with parties outside the Group.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2017.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

Pursuant to the code provision C.1.1 of the CG Code, the management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval.

The statement of the independent auditor of the Company about their reporting responsibilities on the consolidated financial statements is set out in the Independent Auditor's Report of this annual report.

AUDITOR'S REMUNERATION

The remuneration paid/payable to the external auditor of the Company, PricewaterhouseCoopers, was RMB3,670,000 and RMB130,000 in respect of audit services and non-audit services for the Review Period. The non-audit services for the Review Period included professional services on ESG reporting.

COMPANY SECRETARY

Ms. NGAI Kit Fong of Tricor Services Limited, an external service provider, is the Company Secretary. Ms. CHEN Xiao Hong, the Acting Chief Financial Officer of the Company, is Ms. NGAI's primary contact person at the Company.

During the Review Period, Ms. NGAI Kit Fong has undertaken not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

To safeguard shareholders' interests and rights, a separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual directors. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

Convening an Extraordinary General Meeting ("EGM") and Putting Forward Proposals at EGM

Pursuant to article 58 of the Articles of Association, any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an EGM to be called by the Board for the transaction of any business specified in such requisition, including making proposals or moving a resolution at the EGM.

The requisitionists who wish to convene an EGM for the purpose of making proposals or moving a resolution at the EGM must deposit a written requisition (the "Requisition") signed by the requisitionist(s) concerned to the head office of the Company at 34 Floor, Goldchi Building, 120 Huangpu W Ave, Tianhe, Guangzhou, Guangdong, China 510623 or at the office of Tricor Investor Services Limited, the Hong Kong Share Registrar of the Company, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for the attention of the company secretary.

The Requisition must state clearly the name of the requisitionist(s) concerned, his (their) shareholding in the Company, the reason(s) to convene an EGM, the agenda proposed to be included the details of the business(es) proposed to be transacted in the EGM, signed by the requisitionist(s) concerned.

The Company will check the Requisition and the identity and the shareholding of the requisitionist(s) will be verified with the Company's Hong Kong share registrar. If the Requisition is found to be proper and in order, the Company Secretary will ask the Board to convene an EGM within 2 months and/or include the proposal or the resolution proposed by the requisitionist(s) at the EGM after the deposit of the Requisition. On the contrary, if the Requisition has been verified as not in order, the requisitionist(s) concerned will be advised of this outcome and accordingly, the Board will not call for an EGM and/or include the proposal or the resolution proposed by the requisitionist(s) at the EGM.

If within 21 days of the deposit of the Requisition the Board has not advised the requisitionist(s) of any outcome to the contrary and fails to proceed to convene such EGM, the requisitionist(s) himself (themselves) may do so in accordance with the Articles of Association, and all reasonable expenses incurred by the requisitionist(s) concerned as a result of the failure of the Board shall be reimbursed to the requisitionist(s) concerned by the Company.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Address:	(Head Office) 34 Floor, Goldchi Building, 120 Huangpu W Ave, Tianhe, Guangzhou, Guangdong, China 510623
	or
	(Hong Kong Share Registrar) the office of Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong
	(For the attention of the Company Secretary)
Fax:	(852) 2117 0869
Email:	Baioo@ChristensenIR.com

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavors to maintain an ongoing dialogue with shareholders and in particular, through annual general meetings and other general meetings. At the 2017 AGM of the Company held on 29 June 2017, the directors (or their delegates as appropriate) are available to meet shareholders and answer their enquires.

CHANGE IN CONSTITUTIONAL DOCUMENTS

During the Review Period, the Company has not made any changes to its Articles of Association. An up to date version of the Company's Articles of Association is also available on the Company's website and the Stock Exchange's website.

2017 Environmental, Social and Governance Report

I. ABOUT THE REPORT

This report is the second environmental, social and governance report (the "**Report**") issued by the Group. The Report has been prepared in accordance with the "Environmental, Social and Governance Reporting Guide" in Appendix 27 to the Listing Rules of the Hong Kong Stock Exchange (the "**ESG Reporting Guide**") to comply with the evolving regulatory requirements and meet the expectation of stakeholders and the social public for an growing publicity of the environmental, social and governance information.

The Report covers the period from 1 January 2017 to 31 December 2017, with some of its contents tracking back to previous years. The scope of the Report mainly includes the business of the portal website platform and interactive virtual world operated by Guangzhou Baitian, the comics business managed by Guangzhou Baiman and the *Little Cloud Bay Bay Bear Parent-child Interaction* series of products operated by Xiaoyunxiong.

The collection scope of the environmental data disclosed in the Report included those from the office areas of BAIOO Family Interactive Limited located in Gaozhi Building, Guangzhou and Xiamen.

The data in the Report was reproduced from BAIOO's internal documents and internal statistics.

II. THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE STRATEGY OF THE GROUP

In 2017, by upholding its vision of "fun entertainment, healthy interaction, joyful companion", Baioo closely focused on the research and development and operation of children's Internet products, and steadily fulfilled the strategic planning goal of building a content platform with IP and original content production as our core. The Group constantly managed itself under laws and strictly complied with the "Administrative Rules on Internet Publication Service" (《網絡出版服務管理規定》), the "Administration Rules on Mobile Internet Application and Information Service" (《移動互聯網應用程序信息服務管理規定》), the draft policies for deliberation on "Internet Safety for Children under the Age of 18." (《未成年人網絡保護條例(送審稿)》), the "Administrative Measures on Internet Information and Service" (《互聯網信息服務管理辦法》) and other laws and rules, thus ensuring the regulatory compliance of the Group.

With the development of business, the Group reviewed the environmental and social impact in the course of its day-to-day operation in a timely manner. The Board regularly reviewed the environmental, social and governance system of the Group, guided and monitored the implementation of relevant policies and metrics, and urged the smooth roll-out of the environmental, social and governance work. Based on the survey results of the stakeholder survey in the environmental, social and governance (ESG) work in 2016, the Group highlighted the following issues of discussion as the core of the ESG management for 2017, such as product responsibility, staff recruitment and development, health and safety, and responded to the propositions and expectations of both internal and external stakeholder groups with practical actions.

The Board of the Group takes the full responsibility for the strategy and reporting of the environmental, social and governance work, and has reviewed and signed for publication of the 2017 Environmental, Social and Governance Report.

III. STAKEHOLDER ENGAGEMENT AND ESG MATERIALITY ASSESSMENT

(1) Stakeholder Engagement

The Group has always valued the exchange and communication with stakeholders, established diversified communication channels based on the features of different stakeholder groups, endeavored to promote an efficient, open and transparent dual communication mechanism and kept close ties with stakeholders.

Stakeholders	Expectation and Proposition	Communication and Response
Staff	Protection of legitimate interests; good career development channel; remuneration and benefits; healthy and safe working environment	Establishment of the labor union of the Group; perfection of the occupational promotion mechanism; competitive market-based salaries; solidifying a safety management system
Customers	High-quality products and services; protection of customer information; business integrity; rule-compliant operation	Improvement of product and service quality; application and innovation of scientific methods; optimization of internal control and risk management; perfection of customer communication mechanism
Government and regulatory authorities	Operation under laws and rules; timely and proactive tax payment; compliance with state policies and laws; promotion of employment	Strengthening of the integrity construction; proactive discharging of tax payment obligations; acceptance of the supervision and investigation of the government; proactive participation in regional common construction
Investors and shareholders	Financial performance; scientific control; rule-compliant operation; information disclosure	Improvement of profitability; creation of long-term earnings, strengthening of risk management and control; routine information disclosure

Stakeholders	Expectation and Proposition	Communication and Response
Suppliers and partners	Openess and fairness; cooperation and win-win; Sharing of development benefits	Regulation of procurement process; perfection of the supplier management mechanism; building of a supplier communication platform
Industry association	Fair competition; promotion of the industry progress; promotion of the management level of the industry	Improvement of research and development capability; participation in industry discussion and exchange; sharing of operational and managerial experience
Communities	Protection of the community environment; devotion to social welfare; creation of a harmonious community environment; promotion of the development of the community	Comprehensive implementation of green operation; launch of public well-being projects; proactive participation in the joint development of the community; provision of quality cultural resources

(2) 2017 ESG Materiality Assessment

In the preparation of the ESG Report for the year, the Group has commissioned a professional third-party agency to preside over the work of the stakeholder survey. They have proactively learnt about the propositions and expectations of the stakeholders for the ESG management of the Group in the form of online questionnaire, and identified the order of the importance of our issues for the year based on the analysis results of such questionnaire which have been applied as the important reference basis for the information disclosure in the Report and the strategic ESG decision-making in the next year.

The workflow of the survey:

Professional third-party agency to assist Baioo in identifying major internal and external stakeholders; despatch questionnaire to major internal and external stakeholders.

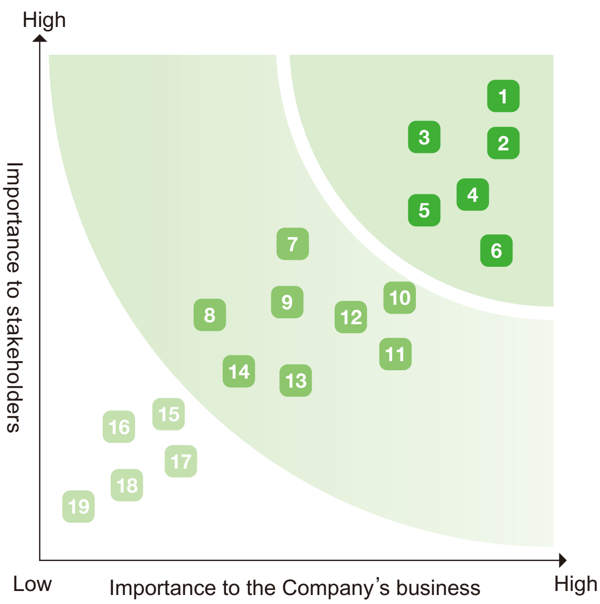
The management of BAIOO analyzes the results of questionnaire; The management of BAIOO to confirm the order of the importance of the 2017 ESG issues.

Professional third-party agency to assist BAIOO in identifying the important issues relating to the environment, society and governance; Professional third-party agency to prepare online materiality questionnaire.

Professional third-party agency to consolidate the rating of each topic based on the questionaries recovered.

Figure 1: The 2017 Stakeholder Survey and Materiality Assessment Flow

Materiality assessment results:



	No.	Issue
Very important	1	Concern about user needs and improve user experience
	2	Create green and healthy Internet environment
	3	User information and privacy protection
	4	Maintenance and protection of intellectual property rights
	5	Staff recruitment and performance-based remuneration
	6	Staff training and development
Important	7	Product contents and product grading
	8	Staff's occupational health and safety
	9	Regulatory compliance and anti-corruption
	10	Reasonable marketing and promotion
	11	Protection of labor interests
	12	Contribution to community
	13	Management of environmental and social risks of the supply chain
	14	Green office and environmental protection promotion
Less important	15	Energy and resource utilization
	16	Environmental protection measures such as energy conservation and emission reduction
	17	Emission of exhaust gases and greenhouse gases
	18	Management of toxic and non-toxic wastes
	19	Promotion of the sustainable development of the supply chain

Figure 2: The 2017 Importance Assessment Results

The 2017 sequencing results indicate that user needs, product responsibility and human resource management remain the top priorities our stakeholders concern about. BAIOO takes its social responsibilities and has proactively responded to the propositions of all stakeholders, fully respected the opinions of external customers and suppliers and satisfied the expectations of internal management and staff, so as to ensure the smooth development of our business and to achieve our long-term development goals.

BAIOO firmly believes that to capture users' needs and to keep innovation are the important premises of achieving its long-term development. In 2017, our Group closely focused on the investigation on users' needs at the early stage of our product research and development, fully carried out user experience activities, gathered users' opinions and feedbacks, and conducted product design and research and development innovation oriented according to users' needs with an aim to intensify our customer attractiveness and enlarge our market share. Considering the fact that a majority of our customers are teenagers aged 6–16, BAIOO will continuously focus on the contents of its products. Our Group has established a dedicated legal affairs and information review team to ensure that our publication of information is in compliance with laws and regulations while offering a green and healthy internet environment for teenager users. BAIOO deeply understands that innovation is the driving force for the development of enterprises and excellent talent teams are the source of driving force for innovation of research and development. As such, our Group will invest more in team building and talent cultivation to form a stable reserve talent fleet, thus providing sufficient human resources for the strategic development of the Group.

In light of the current increasingly intense competition in the industries of teenager game, animation and comics and children's toy, BAIOO has adhered to the strategic guideline of product diversification and market globalization, proactively listened to the opinions and suggestions from all parties and constantly improved the ESG management of the enterprise so as to cope with the increasingly severe market competition while committing to creating the long-term economic, social and environmental benefits of the enterprise.

IV. ENVIRONMENTAL MANAGEMENT

(1) Green operation

BAIOO always adheres to the principle of "green office, energy conservation". In 2017, while continuously implementing the "Office 5S Management System", in which 5S means *Seiri, Seition, Seiso, Setketsu and Shitsuke*, it concerned about details and trivial matters, and called on all staff to join together to create a green and energy-efficient office environment. The Group has complied with relevant laws and regulations on environmental protection that have a significant impact during the year.

Our Group relocated to the new office at Gaozhi Building in Guangzhou in July 2016 and gave a top priority to energy-saving and environmentally friendly products when selecting decoration materials and office appliances. We installed LED lamps and lighting and split-type air conditioners in our new office building and purchased PCs with state energy conservation certification labels. In addition, our Group also requires that all lamps and lighting should be turned off during the lunch break, and has created a quiet and comfortable rest environment for our staff while upholding the principle of green office.

Our Group has initiated paperless office and has currently upgraded the inspection and acceptance process of all game products online. As our game products are inspected and accepted online, it has substituted the offline inspection and acceptance process and saved a large amount of printing paper. Our Group strictly implemented the policy of "green printing" and set a monthly printing/duplicating limit for our staff. Moreover, BAIOO has required the administrative specialists to regularly monitor the printing/duplicating data at the back office and forthwith investigate the causes with relevant departments and staff according to the significant growth of data and report the same to the chief executive officer. By doing so, the use of paper at office is monitored to avoid the unnecessary waste of our resources.

Our Group has proactively publicized the green education activities. We have pasted water and power saving makings at the water source and power source within the office area to remind our staff to save resources. There was no issue relating to the search of the water source that fits for use. Meanwhile, we strongly advocate green travel and encourage our staff to take metro or other public transportation tools between home and office for daily commute so as to reduce personal carbon footprint and help achieve the green operation goal of the Group. Due to the nature of business of the Group, we consumed insignificant amount of packaging materials.

(2) Management of emissions

As an Internet service provider, our Group generated a small amount of exhaust gases and wastes in the course of daily operation, but was not involved in any creation of noise or any direct sewage into water and land. The exhaust gases of the Group are generated from the use of its own official vehicles. The wastes mainly included office wastes, old and used batteries and PCs and other electronic appliances.

For our office wastes, our cleaners are responsible for sorting, gathering, clearing and transportation at a fixed time point each day. For our wastes with recycling value, such as newspapers and steel cans, they will be sorted out for packaging and transferred to the garbage gathering point of the building for the unified recycling and disposal by the property management company. Old and used batteries will be treated by professional agencies after being sorted out and gathered.

Our Group always adheres to the principle of "green operation", and prioritizes the recycling of used PCs and printers by way of donation and internal subscription. We donated our old PCs and used office appliances to Dongxi Village, Huaiji County, Zhaoqing City in September 2017. With the combination of resource recycling and social welfare, we also achieved the win-win situation of environmental protection and public welfare.

Figure 3: PCs Donated to Dongxi Village

Figure 4: Book Corner in Dongxi Village

The Group adheres to the principle of resource recycling. We have achieved the recycling of wastes by way of providing the opportunities of purchasing old PCs and printers at lower prices to internal employees. For our PCs and printers that cannot be reused as well as our old and used PCs and other office electronic appliances, the Group will dispose them to professional recycling purchasers on a lump sum basis, thus enabling the recycling of old and used resources.

(3) Environmental protection education

BAIOO understands the importance of establishing the environmental protection awareness at adolescence, sticks to the "green, healthy and happy" product design concept, and incorporates the green environmental protection elements into product design. This kind of edutainment will help enhance the environmental protection awareness of teenagers and children.

One of the featured products of the Group, being "*Aola Star*", is a star-craft game carrying the concept of protecting earth environment. The target subscribers of this game are children at an age of 6-16. Through updating stories and tasks themed by "environmental protection", we deliver the environmental protection knowledge, such as resource recycling and waste management to the target users.

Figure 5: Tasks of the Game Called "Little Environmental Protection Guard" in "*Aola Star*"

2017 Key Environmental Performance Indicators

Key performance indicators	Unit	Consumption/Emission
Sulphur oxides	Kg	0.1
Nitrogen oxides	Kg	52.49
Particulate matter	Kg	5.03
Direct greenhouse gas emission (Scope I)	Tonnes CO_2e	26.71
Indirect greenhouse gas emission (Scope II)	Tonnes CO_2e	1,317.2
Total Greenhouse gas emission (Scope I+II)	Tonnes CO_2e	1,343.91
Used batteries	Kg	4.77
Office wastes	Tonnes	6.8
Electricity consumption	kWH	1,474,184
Electricity consumption per capita	kWH/person	2,002.97
Petrol	L	6,535.13
Total energy consumption	GJ	5,511.13
Energy consumption per capita	GJ/person	7.49
Water consumption	m^3	6,082
Water consumption per capita	m^3/person	8.26

Remarks:

(1) The environmental data covers the period from 1 January to 31 December 2017, which was collected from the offices and official vehicles of the Group in Guangzhou and Xiamen.

(2) Emissions were generated from the use of the Company's vehicles. The greenhouse gas emission (Scope I) was calculated mainly based on the consumption of fuels by the Company's vehicles and the replacement of refrigerants of our official vehicles; the greenhouse gas emission (Scope II) was calculated based on purchased electricity. The emission factor is referenced from the Reporting Guidance on Environmental KPIs issued by the Hong Kong Stock Exchange and the greenhouse gas emission factor for purchase of purchased electricity is referenced from "2015 China Regional Grid Baseline Emission Factor" <2015中國區域電網基準線排放因子> published by the National Development and Reform Commission.

(3) The type of energy consumed by the Group in 2017 includes purchase of purchased electricity and fuels for the Company's vehicles; the energy consumption factor is referenced from the national GB2589-2008T General Principles of Comprehensive Energy Consumption Calculation.

V. EMPLOYMENT MANAGEMENT

In 2017, the Group continued to implement the "People First" human resource strategy and injected the fresh blood into its team through multiple channels to maintain the innovative vitality. Meanwhile, we created a comfortable and healthy working environment, enhanced the knowledge and skills of our staff, and established the platform for them to unleash their creativity, which would help them achieve their occupational dreams and join hands together to realize the sustainable development. The Group has complied with relevant laws and regulations on employment, health and safety and labour standards that have a significant impact during the year.

(1) Talent recruitment and management

The Group recruits outstanding talents by means of on-campus recruitment, social recruitment and internal referral. In 2017, in order to improve the effectiveness of our on-campus recruitment work and to fully demonstrate our working atmosphere and corporate culture, we introduced the method of "Open Day" to invite potential candidates from on-campus recruitment to visit and interact at our headquarter, experience our working environment and understand our workflow at first hand, and attracted the outstanding fresh graduates who share same culture and concept in an open-minded, fair and respectful attitude.

Figure 6: The "Open Day" for the Group's On-campus Recruitment

Figure 7: Introduction of the Group to Fresh Graduates Participating in the "Open Day"

The Group requires the staff to formulate a quarterly performance plan, pursuant to which the staff defines the personal performance targets under the guidance of their direct supervisors and conducts self-assessment and conclusion against the plan on a monthly basis. At the end of each quarter, the direct supervisors would track and summarize the work performance of the staff according to the quarterly performance assessment statement, discuss the degree of completeness of the personal plan, assess the merits and demerits thereof, and provide guidance for them to complete the setting of performance target for the new quarter. The performance assessment results are the important reference indicators for staff remuneration and promotion.

On the remuneration front, the Group adheres to the principle of "performance first with balanced equity", regularly adjusted the level of remuneration according to the industry remuneration survey and price levels, and recognized and rewarded the efforts of the staff. On the promotion front, the Group continuously implemented the "double-ladder" promotion mechanism, which has identified the capability development and occupational promotion channels in the two directions of "management ladder" and "profession ladder" and has therefore provided diversified development opportunities for our staff.

(2) Staff training and development

In 2017, the Group further enriched the training course system in facilitating the establishment of our training system, established our internal trainer system and improved our course operation system, which increased the motivation of our staff's participation and enhanced the training effectiveness. The Group offers three kinds of in-class training to our staff:

- New staff training: intended for newly-recruited staff and focusing on role transition and corporate culture engagement;

- In-job promotion: contents covering common knowledge and skills and quality cultivation, and special trainings related to technology, planning, art and function according to the requirements of the job positions;

- Management development: management development courses are classified based on job grades, which are designed to provide management trainees, first-line managers and middle and senior managers with trainings on management skills.

According to the characteristics of our own business, the Group focused on the establishment of our internal sharing mechanism and was committed to facilitating the professional exchange and sharing among our staff. Our human resource department regularly organized project staff to choose subjects at their discretion, to summarize the points of the selected projects and to share their personal experience and insights in projects. Meanwhile, they also invited the team who has achieved significant technological breakthroughs to delegate representatives to share the achievements across the Group.

The Group is concentrating efforts on building an internal trainer team who will provide tailor-made courses and training contents that match the development stage of our business to ensure that the capability and knowledge of our staff can meet the needs of the Group for sustainable development. The internal trainer system is planned to be implemented in 2018.

Figure 8: Training to Internal Trainers in 2017


Figure 9: The Group's Training to Staff in 2017

The Group implements the "One-to-One" mentoring system for the new staff from on-campus recruitment. Each mentor provides three-month follow-up guidance to new staff and helps them rapidly integrate into professional roles, command working skills and adapt to the job positions as soon as possible.

In order to ensure the quality of mentors, the Group has imposed strict requirements on the selection and assessment of mentors; at the same time, the Group has a comprehensive survey on mentors' competencies, attitudes and guiding effectiveness according to trainees' and supervisor's assessments, thereby ensuring the quality of the mentor's tutorship. In addition, outstanding mentors will have the opportunities to be rewarded, promoted and appraised in return for encouraging them to earnestly perform their own duties and responsibilities.

(3) Staff's health and safety

The Group deeply acknowledges that a staff's health is the intangible fortune of an enterprise. We are committed to creating a comfortable and healthy working environment for our staff and have provided them with diversified welfare facilities.

The Group has built restaurants and cafés for our staff to meet their daily dining needs. In addition, considering the possibility that our staff may have diversified needs, we have provided comprehensive and thoughtful welfare facilities. For example, the Group has built baby care rooms for novice mothers which are separated with curtains to fully respect and protect the privacy of our staff. The Group opened up fitness and yoga rooms for free, provided the staff with the place for physical exercises and called upon all the staff to exercise properly at the spare time to keep mental and physical health.

The Group has also demonstrated care and concern for our staff in the design of the office environment. In response to the high-incidence occupational diseases, such as cervical spondylosis, lumbago and sciatica, the Group encourages the staff to walk around and stretch out at the spare time by building a spacious and comfortable working environment. In addition, the Group has also provided sofa, high stools, swings and other facilities in the recreational area for the staff to alleviate fatigue and relax body and mind. The Group arranges the staff to take regular physical examination each year and adheres to the principle of "early detection, early treatment" to lower the risk of illness of our staff.

Figure 10: Spacious and Comfortable Staff Restaurant and Café

Figure 11: Private Baby Care Room

Figure 12: Staff's Yoga Room

Figure 13: Staff's Well-equipped Fitness Room

In 2017, the Group organized the "Baioo Cup" table tennis competition and badminton competition to encourage the staff to increase physical exercises and enhance physical fitness. Meanwhile, the Group proactively organized various staff activities to show care and concern for the staff, such as the third anniversary ceremony party of the Group's listing and the Ice Cold Summer Free Cold Drink Distribution.

Figure 14: "Baioo Cup" Table Tennis Competition

Figure 15: "Baioo Cup" Badminton Competition

The Group attaches great importance to the fire safety and closely works with property management companies each year in publicizing safety knowledge and holding fire evacuation drills. On 22 November 2017, the Group organized the staff to participate in the fire evacuation drill organized by the office property management company and the fire safety knowledge teach-in activity. Through this fire evacuation drill and the fire prevention teach-in, our staff has mastered office fire escape routes and the standard escape process, learned first aid skills and enhanced the overall fire safety awareness of the Group.

Figure 16: 2017 Group Fire Prevention Drill

Figure 17: Interpretation Activity of Fire Self-rescue Knowledge

In 2017, Baioo's administration department published three brochures in relation to the fire safety guide for office area and the fire prevention tips, which elaborate on the methods for using office firefighting apparatuses, the escape routes in fire conditions and the escape skills by means of pictures and texts.

(4) Labor rights and interests

The Group is in strict compliance with the Labor Law of the People's Republic of China and strongly opposes the child labor and the forced labor of any form.

The employment by the Group strictly complies with the principle of comprehensive investigation and merit-based recruitment and is based upon professional strengths and overall quality rather than upon age, geography, gender, race or religious faith as limiting factors.

The Group strictly implements the five-day workweek system with eight working hours per day stipulated. The Group does not advocate the overtime work, and if the overtime work is needed, such request should be reported to department supervisors for approval and filed with the human resource department for record. For the staff working overtime, the Group will arrange them to take leave in the working days or pay overtime allowance.

VI. SUPPLY CHAIN MANAGEMENT

In 2017, the Group seriously implemented the Management System on Choosing Suppliers and conducted a comprehensive appraisal and selection in seven aspects including operation and management, manufacturing ability, technical level, quality level, delivery capacity, price level, after-sale service of suppliers, so as to ensure that the Group can select quality suppliers to guarantee quality of products.

(1) Supplier Selection

As for potential suppliers, after the preliminary screening, the Group shall set up a special assessment team comprising of the principals of the Finance Department, related business departments and executive departments to conduct site inspection and comprehensive evaluation on potential suppliers. The results of assessment shall be recorded in the Comprehensive Evaluation Form for Suppliers, and the evaluation form shall be submitted to the management for approval after being signed for confirmation by each member of the team. The supplier only can be incorporated into supplier system after it is approved.

(2) Evaluation and Level-To-Level Management of Suppliers

The Group requires suppliers to provide latest quotations every year. Coupled with their quality level of supplies, delivery capacity, technical ability and service quality, we shall conduct a comprehensive evaluation and divide the suppliers into three levels based on their scores. As for superior suppliers, the Group shall give priority to them while conducting purchase transactions and increase their supply proportions appropriately. As for good suppliers, the Group shall keep normal transactions and maintain their supply proportions. As for the suppliers with unsatisfactory comprehensive performance, the Group shall cancel cooperation relationship and seek new suppliers as a substitute. As for the same kind of products, the Group shall choose two to three suppliers simultaneously. On one hand, the situation of demand over supply can be avoided. On the other hand, competitive mechanism will develop between suppliers to urge them to optimize the cost-performance ratio of their products.

The Group guarantees obtaining quality supply of goods and maintains its stable supply chain through implementing the mechanism of "survival of the fittest" on suppliers. Meanwhile, the Group maintains its active position in supply chain management and safeguards its interest through creating benign competition between suppliers.

VII. PRODUCT RESPONSIBILITY

The Group adheres to the corporate vision of "fun entertainment, healthy interaction, joyful companion" and insists on the long-term strategy of IP development. Currently, it has built three major product systems to devote itself to providing quality comics and game products to adolescents and providing early childhood education products which can enhance parent-child interaction for children and parents. The Group has complied with relevant laws and regulations on product responsibility that have a significant impact during the year.

Development of Comic IP: the Group cooperated with Tencent to establish Comics Incubation the XiXingJi IP Production Committee, utilized advantageous online platform resources in the industry to promote comics products of the Group, endeavored to attract readers during the growth stage of comics products and seize market share, devoted itself to producing comics IPs into related network dramas and films and building a pan-entertainment industry chain of comics IPs.

Further Development of Gaming IP: the Group adopted the strategy of "Further Developing IPs" for the game products with mature contents and stable users, animated IPs of game characters and story contents of games and consolidated the loyalty of existing game players through integration and innovation of resources. At the same time, it has attracted potential users in the comics market and strengthened the market competitiveness of superior products of the Group.

IP Incubation the Group expanded the market of early childhood education on the basis of existing adolescent user groups aged 6-16, launched the *Little Cloud Bay Bay Bear* parent-children interaction products which have a highlight of

"Promoting Communication" and committed itself to promoting and enhancing the awareness of the brands of Little Cloud Bay Bay Bear and BAIOO in the industry of early childhood education through incubating the IP image of Little Cloud Bay Bay Bear among children users.

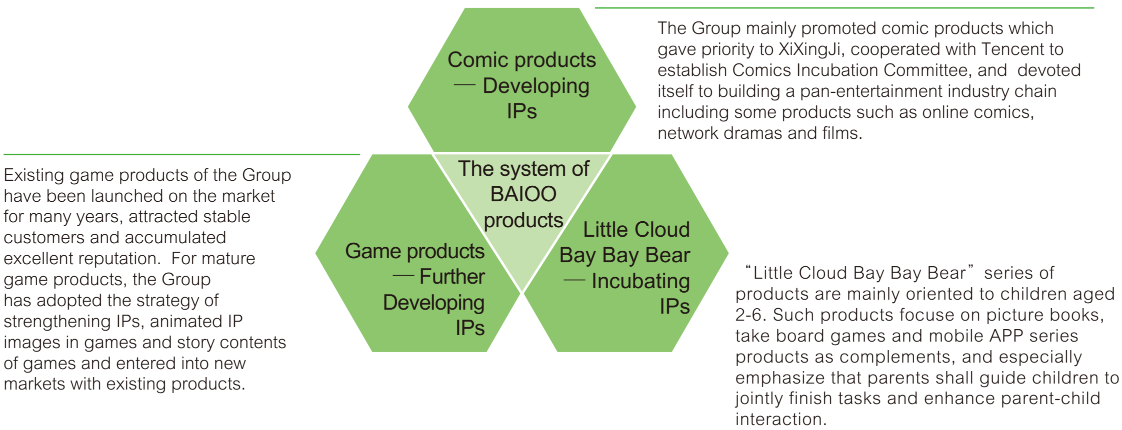


Figure 18. The Group's Product System

(1) Green and Healthy Network Experience

The Group strictly complies with the requirements of Interim Provisions on the Administration of Internet Culture issued by Ministry of Culture to conduct product information review, so as to ensure that there are no illegal, violent or pornographic contents in the information of games and communities and maintain green and healthy network communities. The Group has established three lines of defense for information review to timely identify and delete bad information published by users through three means including intelligent review, manual review and external supervision and safeguard the security and health of network communities.

✓ The first line of defense: intelligent review

The Group requires that the Research and Development Department shall embed a sensitive word library in the back-office system of 100bt.com to automatically examine whether the information published in the community by users contains sensitive words. After the system identifies and selects the sentences containing sensitive words, the information review team of the customer service center shall artificially judge whether the information contains illegal contents and delete them, if any, in a timely manner. Furthermore, the sensitive word library shall be updated based on the dynamic state of national current affairs to safeguard the information published by 100bt.com is secure and compliant.

✓ The second line of defense: manual review

The customer service center of the Group has established a special information review team to be responsible for reviewing the contents of published information within the prescribed time after the publishing operation of users and ensure that the contents of the information do not contain expressly forbidden contents such as the contents involving in endangering national unity, obscenity, gambling, violence in Interim Provisions on the Administration of Internet Culture. Such information only can be formally published in forums after it is reviewed manually. The Group prevents the propagation of illegal information in advance through manual review, so as to construct a green and healthy network community environment.

✓ The third line of defense: external supervision

The Group provides three communication channels including the hotline of customer service call center, online system reporting and complaint mailbox and favorably receives supervision and reporting of discovered illegal information by adolescent users and their parents and guardians.

The Group coordinates internal and external forces through establishing above three lines of defense and commits itself to creating a green and healthy network environment for users and protecting healthy growth of adolescent users.

The Group strictly complies with the Standards Regarding the Development of Anti-addiction System on Online Games of the State and actively guides adolescent users to cultivate a green habit of surfing the internet through two channels, namely the design of game contents and the restriction on game revenue. In term of the design of game contents, we update game tasks every week and control the time of completion for tasks within about 2-4 hours. In term of settings for game revenue, the revenue for players will reduce by half after they have been online for 2 hours accumulatively from Mondays to Fridays and the revenue for players will be zero after they have been online for 3 hours, so as to guide users to moderately use games and retain sufficient time for study and rest. Meanwhile, we assist the industry to realize sustainable development with green and healthy products of online games.

(2) Product Quality Assurance

Quality product is the basis for satisfying the demands of users. In 2017, the Group focused on strengthening the management of inspection and acceptance process of product research and development. Before the launching of products, inspection and acceptance of products shall be planned as a whole by the research and development department and shall be jointly involved in by eight departments including technology, operation, maintenance, business support, testing, administration, customer service and marketing functions. Each department shall assess products strictly according to its own standard of inspection and acceptance and complete the product acceptance form online. Upon inspection and acceptance, qualified products shall enter into the online publishing process and unqualified products shall be followed up by the project team and shall be reassessed for inspection and acceptance after unqualified items are handled properly.

The Group has revised the "Management Process of Development Quality" in 2017 to explicitly stipulate various quality testing, time points and responsible departments before and after the launching of products. The Group upgraded and improved the problem warning system in 2017, identified various abnormal conditions occurred during operation timely, collected relevant information and notified relevant technicians to handle related conditions, so as to guarantee the smooth operation of products and improve user experience.

(3) Concern on User's Demands

In order to satisfy changing demands of users for products, the Group will comprehensively collect and understand the suggestions and expectations of adolescent user group through actively conducting user surveys in various ways such as questionnaire, face-to-face communication, experience day during various stages of product research and, development and operation. Meanwhile, the Group also emphasizes on obtaining opinions of parents to guarantee that products can meet demands of all parties.

In addition, the customer service center also established a customer experience team, which shall be responsible for conducting user experience surveys in hot BBS organizations such as QQ groups and Post Bar to collect feedbacks and compile them into game experience weekly reports. We will collect users' opinions timely and explore potential demands of users through this channel.

Case sharing: Main achievements of "IP Incubation" for the year of 2017 — "Litter Cloud Bay Bay Bear" product series

The Group insists on taking "Concern on user demands and improving user experience" as the primary goal of research and development of products. During the earlier stage of launching the project of "Little Cloud Bear", research and development team conducted a demand survey on over 2000 families, including inviting families to participate in "Experience Day" to distribute hand-made samples to such families and collect experience feelings of families from distributed questionnaires as a significant reference for R&D and design of products.

Figure 19: Group photos of Little Cloud Bear Family Experience Day

The team of Little Cloud Bear absorbed the Group's consistent product design philosophy of "Green, Healthy and Happy", selected round corner design to replace square sharp corner of traditional picture books and carefully chose environment friendly paper and printing ink to ensure the safety and quality of products. After the completion of products, internal quality inspectors of BAIOO will conduct quality inspection. Meanwhile, the team also invited a third party testing and verification company to conduct quality verification on products of Little Cloud Bear. The verification report shows that products of Little Cloud Bear meet GB 6675-2014 national standard for toy safety.

(4) User Information and Privacy Protection

User Information Security and Privacy Protection System of the Group explicitly stipulates control measures and division of responsibilities of user information security.

The Group provides that it shall disclose its privacy right protection policy and personal information utilization policy to users in an explicit and obvious way and take necessary measures to protect the security of their personal information and data when it requires users to provide information and data associated with their personal status.

In addition, the Group provides privacy protection guidelines to users. For example, when users visit 100bt.com, the webpage will automatically display the tips of “Antitheft for Baitian Account Number” and the antitheft guide link to help users to enhance awareness of privacy protection and provide specific methods for privacy protection to them.

(5) Maintenance and Protection of Intellectual Property

The Legal Department of the Group is responsible for managing declaration and daily administration of intellectual property. As of 31 December 2017, the Group owns 4 patents of research and development and 103 copyrights.

Case: Cultivation of Intellectual Property

In order to explore innovation points in related technical schemes of the projects of the Group and develop corresponding patents application to make formal declaration and better accumulate intangible assets for the Group, the Legal Department organized an internal training on basic knowledge of patents and patents mining methods on 1 August 2017. This training invited over 20 persons to attend, including CTO of the Group, the principal of the technical center and chief programmers of all the project teams. This training is aimed at provide inspiration in respect of patents mining to technicians, and we hope attended colleagues to extract and identify some potential patents applicable to application from the respective projects conducted by them to realize greater value of technical innovation while protecting knowledge achievements of the Group.

(6) User Satisfaction and Complaint Management

The customer service center strictly governs operating process of customer service according to guidelines such as “Business Process and Work Specification of the Customer Service Centre”, “Handling Process and Specifications for Knotty User Complaints of the Customer Service Centre” and “Online Customer Service Specifications of the Customer Service Centre” and convene a regular meeting of the department to summarize feedbacks and complaints of users every week.

The Group mainly collects comments from customers through three channels including the 24-hour hotline, the online community communication system and feedback platform (the IM system embedded in the games) and email address for receiving complaints. Customer service representatives divide complaints into three levels of serious, more serious and most serious, and report them to leaders with different authority and rank respectively for handling and approval.

Customer service staff shall invite customers to give a grade on their service timely after the end of the service. The customer service center has established a special quality inspection position and conduct weekly follow-up surveys on the users who have given a mark of “quite unsatisfactory”. According to the statistics of the Group, the satisfaction degree of users for our service in 2017 was 96.6%.

In order to provide better service for users and facilitate customer service representatives to actively study business knowledge and working process, the Group has stipulated and strictly implement "Business Examination System of the Customer Service Centre" and assesses and evaluates the mastery degree of customer service staff on business requirements of the Group such as customer service specifications and telephone operation specifications in the forms of weekly examination and monthly examination, and assessment results shall be included in the performance evaluation for customer service staff. The customer service center has conducted professional trainings of customer service staff against weak points revealed during related assessments, so as to constantly improve service quality.

VIII. COMPLIANCE OPERATION AND ANTI-CORRUPTION

(1) Compliance Operation

The Group has obtained the Network Cultural Business Permit, Value-added Telecommunications Service Operating Permit of PRC, Online Publishing Service Licence according to relevant laws and has strictly complied with operating policies associated with the game industry.

In consideration that the game products of BAIOO have been put into service in some countries and regions other than Mainland China, such as Hong Kong, Macao, Taiwan, Japan, Korea and Thailand, the experts of the Legal Department of the Group fully researched relevant local laws and regulations before the launching of games and prepared a operation compliance risk report for each region. Meanwhile, the Group selected superior local operators to cooperate with them and made reference to opinions of local operators in respect of operations. After the launching of games, the Legal Department of the Group shall keep communication with local operators and follow up operation compliance timely to reduce the possibility of the occurrence of compliance risks.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Figures 20, 21, 22: Relevant Operating Permits of the Group

(2) Anti-corruption

The Group insists on pursuing ethics of "Honest and Self-disciplined" from top to bottom. The Group has developed Anti-fraud and Reporting Corruption Management System and the management is responsible for establishing and effectively implementing anti-fraud procedures; the Audit Department is the standing body for anti-fraud and is responsible for organizing and implementing anti-fraud work of the Group, undertaking the supervisory functions of anti-fraud and anti-corruption; the business departments are responsible for the anti-fraud work in our own department.

The Group is subject to internal and external reporting and supervision through various channels such as hotline, email and mail. The Audit Department shall preliminarily evaluate the authenticity of reporting contents after it receives related reporting and present such reporting events to the management or the board of Group based on the ranks of involved personal in two workdays; it shall coordinate with relevant functional departments to jointly conduct assessment to decide whether they require to carry out a comprehensive survey. After the occurrence of fraud cases, it will establish and implement remedies and prepare an assessment and improvement report of internal control to reinforce relevant management and control of the Group.

The Audit Department is responsible for training and publicity of anti-fraud and mainly conducting anti-fraud training on new employees in key positions and carrying out publicity of laws and regulations and honesty-credit moral education on the staff.

The Group was not subject to any concluded corruption case against the Group or any employee in 2017. The Group has complied with relevant laws and regulations on anti-corruption that have a significant impact on the Group during the year.

IX. COMMUNITY ENGAGEMENT

The Group deeply understands that dreams of each child is very precious and has been committed to make its contribution to this as an enterprise.

The Group officially established "BAIOO Volunteer League" in March 2017, totally recruiting 52 volunteers. Since its establishment, it has conducted four volunteer activities in aggregate. The Volunteer League adheres to the spirit of volunteer of "Devotion, Friendly Affection, Mutual Assistance, Progress" to care vulnerable groups and people who need help in the society and constantly pursue realizing corporate and personal social value.

On 26 April and 21 June 2017, the Volunteer League organized volunteers to go to Guangzhou Qizhi School to attend activities of interest-oriented classes, including lessons of interest-oriented classes such as craft classes, basketball classes and playing games. In such lessons, volunteers accompanied children to complete related course projects together. Their patience, face-to-face interaction and communication made children feeling more concern and love from the society. After the end of the course, volunteers gave a small gift to each child as the memorial.

During the night on 1 June 2017, BAIOO Volunteer League and Guangzhou Young Volunteers Association jointly conducted a party of International Children's Day for the children in leukemia inpatient ward of The First Affiliated Hospital Of Guangzhou Medical University. During the night, the colleagues of the project team of Little Cloud Bear brought wonderful performance for children. After the end of the activity, volunteers gave a picture book of Little Cloud Bear to each child as the holiday gift.

Figure 23: BAIOO Volunteer League Visiting Qizhi School and Presenting Souvenirs

Figure 24: BAIOO Volunteer League Visiting the Children patients in The First Affiliated Hospital Of Guangzhou Medical University

On 16 September 2017, BAIOO Volunteer League organized volunteers to go to Dongxi Village, Huaiji County, Zhaoqing City to conduct caring student activities. The Group totally donated 800 books, 4 sets of desktop computers, 4 sets of computer desks and chairs, 1 set of negotiating table, a batch of educational toys and wished to provide a perfect and safe learning environment for the children in Dongxi Village.

On the day of the event, volunteers organized "Love School" and "Garden Party" to communicate and interact with children in vivid and interesting activities.

Figure 25: BAIOO Volunteer League Conducting Caring Student Activities in Dongxi Village

Figure 26: The Photos for the Activity of "Garden Party"

Figure 27: The Photos for the Activity of "Love School"

X. INDUSTRY ASSOCIATIONS

As of 31 December 2017, the industry associations in which the Group joined and related memberships are as follows:

No.	Name of Association	Membership Level
1	Guangzhou Animation and Cartoon Association	Vice president (Baiman)
2	Software and Information Industry Association of Tianhe District of Guangzhou	Vice president
3	Copyright Society of China	Director
4	China Audio-video and Digital Publishing Association	Member of Working Committee on Game Publications
5	Guangdong Entertainment & Game Industry Association	Director
6	Guangdong Animation and Cartoon Association	Director
7	Game Culture Industry Alliance of Tianhe Intelligent City in Guangzhou	Director
8	Guangdong Software Industry Association	Director (Baiduo)
9	Guangdong Digital Publishing Association	Head Unit of Professional Committee of Online Games Animation
10	Guangzhou Software Industry Association	Member
11	Internet Society of China	Member
12	Guangzhou Industry Alliance of Cultural Listed Company	Member

XI. HONORS AND AWARDS IN THE YEAR OF 2017

As of 31 December 2017, the awards obtained by the Group are as follows:

No.	Award	Awarded by	Date of award
1	Excellent Bronze Award of The 11th Japanese International MANGA Award	Ministry of Foreign Affairs of Japan	1 December 2017
2	Works of the "Dynamic Golden Sheep" Excellent Works Support Plan of The 9th China International Film and Television Animation Copyright Protection and Trade Fair	The Organizing Committee of China International Film and Television Animation Copyright Protection and Trade Fair	1 November 2017
3	Best Scenario Manga Award of The 14th China Animation & Comic Competition Gold Dragon Award	The Organizing Committee of Golden Dragon Award of China International Comics Festival	1 September 2017
4	Guangzhou Excellent Software Enterprise	Guangzhou Software Industry Association	1 March 2017
5	Guangzhou Excellent Software Product	Guangzhou Software Industry Association	1 March 2017
6	The Most Influential Enterprise	Guangdong Game Industry Association	12 January 2017
7	Outstanding Contribution Award	Guangdong Game Industry Association	12 January 2017
8	The Most Popular Game	Guangdong Game Industry Association	12 January 2017

XII. INDEX OF THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE OF HKEX

ESG Indicators		Status of Disclosure	Corresponding section
A1 General disclosure	Policies on emissions of exhaust gas and greenhouse gas, emissions to water and land, generation of hazardous and non-hazardous waste and information on compliance with relevant laws and regulations which have a significant impact on the issuer.	Disclosed	Management of emissions
A1.1	The types of emissions and respective emission data.	Disclosed	2017 Key Environmental Performance Data
A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Disclosed	2017 Key Environmental Performance Data
A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Disclosed	2017 Key Environmental Performance Data
A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Disclosed	2017 Key Environmental Performance Data
A1.5	Description of measures to mitigate emissions and results achieved.	Disclosed	Green operation
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Disclosed	Management of emissions
A2 General disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Disclosed	Green operation
A2.1	Direct and/or indirect energy consumption by type in total intensity.	Disclosed	2017 Key Environmental Performance Data
A2.2	Water consumption in total intensity.	Disclosed	2017 Key Environmental Performance Data
A2.3	Description of the energy use efficiency initiatives and results achieved.	Disclosed	Green operation
A2.4	Description of any problems in obtaining the applicable water supply and enhancement of the water consumption whether there is any issue in sourcing water that is fit for purposes, water efficiency initiatives and results achieved.	Disclosed	Green operation

ESG Indicators		Status of Disclosure	Corresponding section
A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	N/A	
A3 General disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	Disclosed	Green operation Environmental protection education
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Disclosed	Green operation Environmental protection education
B1 General disclosure	Policies on remuneration and dismissal, recruitment and promotion, hours of work, holidays, equal opportunities, diversification, anti-discrimination and other treatments and benefits and information on compliance with relevant laws and regulations which have a significant impact on the issuer.	Disclosed	Employment management
B1.1	Total number of employees by gender, type of employment, age group and geographical region.	Undisclosed	
B1.2	Employee turnover rate by gender, age group and geographical region.	Undisclosed	
B2 General disclosure	Policies on provision of safe working conditions and protection of employees against occupational hazards and information on compliance with relevant laws and regulations which have a significant impact on the issuer.	Disclosed	Staff's health and safety
B2.1	Number and rate of work-related fatalities.	Undisclosed	
B2.2	Lost days due to work injury.	Undisclosed	
B2.3	Description of occupational health and safety measures adopted, as well as the relevant implementation and monitoring methods.	Disclosed	Staff's health and safety
B3 General disclosure	Policies on improving employees' knowledge and skills or discharging duties at work. Description of training activities.	Disclosed	Staff training and development
B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Undisclosed	
B3.2	The average training hours completed per employee by gender and employee category,	Undisclosed	

	ESG Indicators	Status of Disclosure	Corresponding section
B4 General disclosure	Policies on prevention of child labour or forced labour and information on compliance with relevant laws and regulations which have a significant impact on issuer.	Disclosed	Labor rights and interests
B4.1	Description of measures to review employment practices to avoid child labour and forced labour.	Disclosed	Labor rights and interests
B4.2	Description of steps taken to eliminate such practices when discovered.	Undisclosed	
B5 General disclosure	Policies on managing environmental and social risks of the supply chain.	Disclosed	Supply chain management
B5.1	Number of suppliers by geographical region.	Undisclosed	
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Disclosed	Supplier selection Evaluation and level-to-level management of suppliers
B6 General disclosure	Polices on health and safety, advertising, labeling and privacy matters and remedial methods for products and services provided, and information on compliance with relevant laws and regulations which have a significant impact on issuer.	Disclosed	Product responsibility
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	N/A	
B6.2	The number of complaints received on products and services, and methods of response.	Partly disclosed	User satisfaction and compliant management
B6.3	Description of practices relating to observing and protecting intellectual property rights.	Disclosed	Maintenance and protection of intellectual property
B6.4	Description of quality assurance process and product recall procedures.	Disclosed	Creating green and healthy network experience Product quality assurance
B6.5	Description of consumer data protection and privacy policies, as well as relevant execution and monitoring methods how they are implemented and monitored.	Disclosed	User information and privacy protection
B7 General disclosure	Policies on prevention of bribery, extortion, fraud and money laundering, and information on compliance with relevant laws and regulations which have a significant impact on issuer.	Disclosed	Compliance operations and anti-corruption

	ESG Indicators	Status of Disclosure	Corresponding section
B7.1	Number of conducted legal cases regarding corrupt practices brought the issuer or its employees and litigation results during the reporting period.	Disclosed	Anti-corruption
B7.2	Description of preventive measures and whistleblowing procedures, how they are implemented and monitored.	Disclosed	Anti-corruption
B8 General disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Disclosed	Community engagement
B8.1	Focus areas of contribution (for example, education, environmental matters, labour needs, health, culture, sports).	Disclosed	Community engagement
B8.2	Resources contributed (e.g. money or time) to the focus areas.	Partly disclosed	Community engagement

Independent Auditor's Report

pwc

羅兵咸永道

To the Shareholders of BAIOO Family Interactive Limited
(incorporated in the Cayman Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of BAIOO Family Interactive Limited (the "Company") and its subsidiaries (the "Group") set out on pages 106 to 192, which comprise:

- the consolidated balance sheet as at 31 December 2017;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Revenue recognition — provision of virtual items in online virtual world
- Impairment assessment of goodwill and trademark

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition — provision of virtual items in online virtual world Refer to notes 2.21(a) and 4.1(a) to the consolidated financial statements. Revenue from online virtual world for the year ended 31 December 2017 amounted to RMB 305,690,000, representing 87% of the Group's total revenue. Out of the total revenue from online virtual world, an amount of RMB 233,037,000 is related to provision of virtual consumable and durable items. Consumable items represent items that will be extinguished shortly after consumption by a specific player action. Therefore, revenue from consumable items is recognized when the items are consumed.	Our procedures, carried out on a sample basis, in relation to management's revenue recognition of provision of virtual items in online virtual world included: • Understood and evaluated the internal control of revenue cycle; and validated the identified key controls with respect to the timing of consumption of consumable and durable virtual items. We determined that we could rely on these controls for the purposes of our audit; • Tested the classification of consumable and durable items by comparing to the features of the corresponding virtual items in revenue recognition;

Key Audit Matter	How our audit addressed the Key Audit Matter
Durable items represent virtual items that are accessible and available to a player over an extended period of time, and the relating revenue is deferred and amortized over the life of the durable items. The Group has used paying players' relationship with the Group on an individual virtual world basis ("Player Relationship Period"), as the best estimate, to approximate the period during which paying players use, and thus the life of, durable virtual items. Revenue from durable virtual items of a specific virtual world is recognized on a time-proportion basis over the Player Relationship Period of that online virtual world. The determination of the Player Relationship Period for relevant online virtual world requires significant judgement and estimates. It is made taking into account all known and relevant information available to the Group at the time of assessment. Thus, specific audit focus was placed in this area.	• Evaluated management's judgements and estimations in deriving the Player Relationship Period by comparing to historical patterns on a sample basis; and • Recalculated the revenue recognition of different virtual items generated directly from the Group's information system based on respective Player Relationship Period, on a sample basis. Based on the above, we found that the judgement and estimates applied by management were supported by the evidence we obtained.
Impairment assessment of goodwill and trademark Refer to notes 4.1(b) and 16 to the consolidated financial statements. The goodwill and the acquired intangible asset -trademark, relating to the acquisition of Babababoei Trading Limited ("BTL") and its subsidiaries in 2015 which are engaged principally in operating superstores for baby and maternity products in Hong Kong, amounted to RMB33,306,000 and RMB14,377,000 respectively before the impairment assessment for goodwill and trademark. During the year ended 31 December 2017, decrease in revenue and profit of BTL and its subsidiaries was noted and this increased the impairment risk of the goodwill and the trademark.	Our procedures in relation to management's assessment included: • Evaluated the process by which management prepared its cash flow forecast of the cash generating unit associated with the goodwill and trademark; • Assessed the appropriateness of value-in-use calculation methodology adopted by management; • Tested the mathematical accuracy of the underlying value-in-use calculation;

Key Audit Matter	How our audit addressed the Key Audit Matter
In this regard, management performed the valuation of BTL, which is a standalone cash generated unit, with a value-in-use model in order to support management's estimates of the recoverable value of the goodwill and the trademark. The valuation is dependent on certain key assumptions included in the discounted cash flows. The determination of these estimates requires significant judgement by the management and thus, specific audit focus was placed in this area. After the valuation, the goodwill and the trademark was fully provided for impairment for the year ended 31 December 2017.	• Assessed the reasonableness of key assumptions, such as discount rate, gross margin, revenue growth rate and long-term growth rate, based on our knowledge of the business and industry and our in-house valuation specialist; and • Evaluated the reasonableness of the plan and forecast by reconciling the input data to supporting evidence, such as approved budgets, considered the reasonableness of these budgets, and compared those with industry and historical data. Based on the above, we found that the judgement and estimates applied by management was supported by the evidence we obtained.

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Audit Committee for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Zee, Ho Sum.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 March 2018

Consolidated Income Statement

		Year ended 31 December	
		2017	2016
	Note	**RMB'000**	RMB'000
Revenue	5	**350,530**	383,260
Cost of revenue	6	**(163,731)**	(170,870)
Gross profit		**186,799**	212,390
Selling and marketing expenses	6	**(80,724)**	(92,868)
Administrative expenses	6	**(62,419)**	(75,865)
Research and development expenses	6	**(61,452)**	(61,057)
Other income	7	**6,963**	15,395
Other gains — net	8	**6,787**	3,943
Impairment of goodwill and trademark	16	**(47,683)**	—
Operating (loss)/profit		**(51,729)**	1,938
Finance income	10	**34,969**	41,673
Finance costs	10	**(8,560)**	(589)
Finance income — net	10	**26,409**	41,084
Share of loss of an associate		**—**	(1,530)
(Loss)/profit before income tax		**(25,320)**	41,492
Income tax expense	11	**(5,089)**	(8,489)
(Loss)/profit for the year		**(30,409)**	33,003
Attributable to:			
— Shareholders of the Company		**(14,394)**	35,513
— Non-controlling interests		**(16,015)**	(2,510)
		(30,409)	33,003
(Losses)/earnings per share (expressed in RMB per share)	12		
— Basic		**(0.0052)**	0.0130
— Diluted		**(0.0052)**	0.0128

The notes on pages 113 to 192 are integral parts of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

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

The notes on pages 113 to 192 are integral parts of these consolidated financial statements.

Consolidated Balance Sheet

		As at 31 December	
		2017	2016
	Note	**RMB'000**	RMB'000
ASSETS			
Non-current assets			
Property and equipment	15	**30,096**	38,873
Intangible assets	16	**3,825**	53,849
Prepayments and other receivables	20	**3,200**	12,616
Deferred income tax assets	31	**4,579**	6,375
Long-term deposits	22	**—**	300,000
Financial assets at fair value through profit or loss	21	**6,556**	2,694
		48,256	414,407
Current assets			
Inventories	18	**9,618**	13,151
Trade receivables	19	**10,546**	9,877
Prepayments and other receivables	20	**20,639**	42,038
Financial assets at fair value through profit or loss	21	**300**	3,167
Short-term deposits	22	**634,000**	1,041,427
Cash and cash equivalents	22	**907,249**	214,216
Restricted cash	22	**—**	279,556
		1,582,352	1,603,432
Total assets		**1,630,608**	2,017,839
EQUITY			
Share capital	23	**9**	9
Share premium	23	**1,525,596**	1,567,040
Reserves	24	**18,161**	30,857
Accumulated losses	26	**(56,843)**	(42,449)
		1,486,923	1,555,457
Non-controlling interests		**1,851**	17,657
Total equity		**1,488,774**	1,573,114

		As at 31 December	
		2017	2016
	Note	**RMB'000**	RMB'000
LIABILITIES			
Non-current liabilities			
Long-term payable	10	**—**	6,423
Advances under government grants	27	**78**	678
Deferred revenue	28	**6,674**	6,367
Deferred income tax liabilities	31	**526**	3,296
		7,278	16,764
Current liabilities			
Trade payables	29	**8,491**	9,618
Other payables and accruals	30	**46,625**	43,661
Amounts due to related parties	35	**—**	250
Advances from customers and distributors	28	**36,026**	42,563
Advances under government grants	27	**600**	1,000
Deferred revenue	28	**38,979**	49,708
Income tax liabilities		**2,954**	2,253
Borrowing		**—**	278,056
Bank overdrafts		**881**	852
		134,556	427,961
Total liabilities		**141,834**	444,725
Total equity and liabilities		**1,630,608**	2,017,839

The notes on pages 113 to 192 are integral parts of these consolidated financial statements.

These consolidated financial statements on pages 106 to 192 were approved by the board of directors of the Company (the "Board") on 28 March 2018 and were signed on its behalf.

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Dai Jian

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Li Chong

Consolidated Statement of Changes in Equity

		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 at 1 January 2016		8	1,581,855	48,338	(77,962)	1,552,239	18,085	1,570,324
Comprehensive income								
Profit for the year		–	–	–	35,513	35,513	(2,510)	33,003
Other comprehensive income		–	–	939	–	939	417	1,356
Total comprehensive income		–	–	939	35,513	36,452	(2,093)	34,359
Transactions with owners, recognized directly in equity								
Share Option Scheme:								
– Exercise of share options		–	53	(26)	–	27	–	27
– Value of options to a vendor		–	—	151	–	151	–	151
Restricted Share Unit Scheme ("RSU Scheme")								
– Value of employee services	25	–	–	10,308	–	10,308	–	10,308
– Vesting of RSUs		1	28,966	(28,967)	–	–	–	–
Value of employee services for restricted shares of a subsidiary	25	–	–	114	–	114	63	177
Acquisition of a subsidiary		–	–	–	–	–	1,602	1,602
Final dividend of 2015		–	(41,484)	–	–	(41,484)	–	(41,484)
Buy-back and cancellation of shares	23	–	(2,350)	–	–	(2,350)	–	(2,350)
Total transactions with owners, recognized directly in equity		1	(14,815)	(18,420)	–	(33,234)	1,665	(31,569)
Balance at 31 December 2016		9	1,567,040	30,857	(42,449)	1,555,457	17,657	1,573,114

Consolidated Statement of Changes in Equity (Continued)

		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 at 1 January 2017		9	1,567,040	30,857	(42,449)	1,555,457	17,657	1,573,114
Comprehensive loss								
Loss for the year		–	–	–	(14,394)	(14,394)	(16,015)	(30,409)
Other comprehensive loss		–	–	(260)	–	(260)	(114)	(374)
Total comprehensive loss		–	–	(260)	(14,394)	(14,654)	(16,129)	(30,783)
Transactions with owners, recognized directly in equity								
Share Option Scheme:								
– Exercise of share options		–	18	(8)	–	10	–	10
– Forfeiture of options to a vendor		–	–	(151)	–	(151)	–	(151)
RSU Scheme:								
– Value of employee services	25	–	–	7,237	–	7,237	–	7,237
– Vesting of RSUs		–	19,901	(19,901)	–	–	–	–
Value of employee services for restricted shares of a subsidiary	25	–	–	387	–	387	323	710
Final dividend of 2016		–	(43,087)	–	–	(43,087)	–	(43,087)
Buy-back and cancellation of shares	23	–	(18,276)	–	–	(18,276)	–	(18,276)
Total transactions with owners, recognized directly in equity		—	(41,444)	(12,436)	—	(53,880)	323	(53,557)
Balance at 31 December 2017		9	1,525,596	18,161	(56,843)	1,486,923	1,851	1,488,774

The notes on pages 113 to 192 are integral parts of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Note	Year ended 31 December 2017 RMB'000	2016 RMB'000
Cash flows from operating activities			
Cash generated/(used in) from operations	33	**5,723**	(5,806)
Interest received		**13,212**	2,347
Income tax paid		**(5,243)**	(9,638)
Net cash generated/(used in) from operating activities		**13,692**	(13,097)
Cash flows from investing activities			
Acquisition of a subsidiary, net of cash acquired		**—**	347
Purchase of property and equipment and intangible assets		**(4,562)**	(28,967)
Payments for investment in an associate		**—**	(815)
Interest received from bank deposits		**44,860**	23,790
Investment in bank deposits		**(334,000)**	(1,001,427)
Maturity from bank deposits		**1,041,427**	1,015,991
Decrease in restricted cash		**279,556**	—
Increase in restricted cash		**—**	(279,556)
Net cash generated from/(used in) investing activities		**1,027,281**	(270,637)
Cash flows from financing activities			
Proceeds from short-term borrowing		**—**	278,056
Repayment of short-term borrowing		**(278,056)**	—
Buy-back and cancellation of ordinary shares		**(18,276)**	(2,350)
Exercise of share options		**10**	27
Interest paid		**(41)**	(589)
Dividend paid to the Company's shareholders		**(43,087)**	(41,484)
Net cash (used in)/generated from financing activities		**(339,450)**	233,660
Net increase/(decrease) in cash and cash equivalents		**701,523**	(50,074)
Cash and cash equivalents at beginning of the year		**213,364**	254,422
Foreign exchange (losses)/gains on cash and cash equivalents		**(8,519)**	9,016
Cash and cash equivalents at end of the year		**906,368**	213,364
Cash and cash equivalents comprises:			
Bank overdrafts		**(881)**	(852)
Cash and banks	22	**907,249**	214,216
Cash and cash equivalents		**906,368**	213,364

The notes on pages 113 to 192 are integral parts of these consolidated financial statements.

Notes to the Financial Statements

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 (collectively the "Group") are principally engaged in the development and operation of online virtual world business for children and certain offline businesses in the People's Republic of China (the "PRC"). With effect from 8 May 2015, the Group through a newly acquired business began to operate a chain of retail outlets in Hong Kong and an online store specializing in selling baby and maternity products.

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

These financial statements are presented in Renminbi ("RMB"), unless otherwise stated, and have been approved for issue by the Board of the Company on 28 March 2018.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRS") and the disclosure requirements of the Hong Kong Companies Ordinance Cap.622. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4 below.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.1 Changes in accounting policy and disclosure

(a) Amended standards adopted by the Group

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

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

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

The amendments to IAS 7 require disclosure of changes in liabilities arising from financing activities, see Note 33.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.1 Changes in accounting policy and disclosure (continued)

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

		Effective for annual periods beginning on or after
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 9	Financial Instruments	1 January 2018
IFRS 2 (Amendment)	Classification and Measurement of Share-based Payment Transactions	1 January 2018
IFRS 16	Leases	1 January 2019
IFRS 10 and IAS 28 (Amendment)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Note
Annual Improvements to 2015–2017 Cycle	Improvements to IFRSs	1 January 2019
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019

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

None of above new standards and amendments to standards and interpretations is expected to have a significant effect on the consolidated financial statements of the Group, except for the following:

<u>IFRS 9, 'Financial Instruments'</u>

Nature of change

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Impact

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

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.1 Changes in accounting policy and disclosure (continued)

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

IFRS 9, 'Financial Instruments' (continued)

The financial assets held by the Group include equity instruments that are currently classified as financial assets at fair value through profit or loss ("FVPL") which will continue to be measured on the same basis under IFRS 9. Accordingly, the Group does not expect the new guidance to affect the classification and measurement of these financial assets.

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

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. While the Group does not involve any hedging accounting, it does not expect a significant impact on the accounting for its hedging relationships.

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

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.1 Changes in accounting policy and disclosure (continued)

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

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

Date of adoption by Group

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

<u>IFRS 15, 'Revenue from Contracts with Customers'</u>

Nature of change

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

Impact

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

Date of adoption by group

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

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.1 Changes in accounting policy and disclosure (continued)

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

IFRS 16, 'Leases'

Nature of change

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

Impact

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

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

Date of adoption by Group

Mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

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

2 Summary of significant accounting policies (continued)

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement in the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognizes any non-controlling interests in the acquiree on an acquisition-by-acquisition basis. The non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognized amounts of the acquiree's identifiable net assets. All other components of the non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying amount of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in profit or loss.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IAS 39 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

2 Summary of significant accounting policies (continued)

2.2 Subsidiaries (continued)

2.2.1 Consolidation (continued)

(a) Business combinations (continued)

The excess of the consideration transferred, the amount of any non-controlling interests in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, the non-controlling interests recognized and previously held interest measured is lower than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the income statement.

Inter-company transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated. When necessary amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(b) Changes in ownership interests in subsidiaries

Transactions with the non-controlling interests that do not result in a loss of control are accounted for as equity transactions — that is, as transactions with the owners in their capacity as owners. The difference between the fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to the non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control over a subsidiary, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in relation to that entity are accounted for on the same basis as would be required if the Group had directly disposed of the related assets or liabilities. This means if a gain or loss previously recognized in other comprehensive income would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss and if a revaluation surplus previously recognized in other comprehensive income would be transferred directly to retained earnings on the disposal of the asset, the Group transfers the revaluation surplus directly to retained earnings.

2 Summary of significant accounting policies (continued)

2.2 Subsidiaries (continued)

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Associate

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognized in the income statement, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount adjacent to "share of loss of an associate" in the income statement.

2 Summary of significant accounting policies (continued)

2.3 Associate (continued)

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognized in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of an associate have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in an associate are recognized in the income statement.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"), who are responsible for allocating resources and assessing performance of the operating segments. The CODM has been identified as the executive directors that make strategic decisions.

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or of the valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within "finance income" or "finance costs". All other foreign exchange gains and losses are presented in the income statement within "other gains — net".

2 Summary of significant accounting policies (continued)

2.5 Foreign currency translation (continued)

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

i. assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

ii. income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

iii. all resulting currency translation differences are recognized in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognized in other comprehensive income.

2.6 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

2 Summary of significant accounting policies (continued)

2.6 Property and equipment (continued)

Depreciation on property and equipment is calculated using the straight-line method to allocate their cost to their residual values of zero over their estimated useful lives, as follows:

Servers	3 years
Office equipment	3 years
Motor vehicles	5 years
Leasehold improvements	Shorter of remaining term of the lease and the estimated useful lives of the assets

The depreciation method, residual values and useful lives of the assets are reviewed, and adjusted if appropriate, at the end of each reporting period.

Construction in progress representing leasehold improvements under construction is stated at cost less any impairment loss. Construction in progress is transferred to leasehold improvements when completed and ready for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "other gains — net" in the consolidated income statement.

2.7 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interests in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognized immediately as an expense and is not subsequently reversed.

2 Summary of significant accounting policies (continued)

2.7 Intangible assets (continued)

(b) Trademark

Trademarks acquired in a business combination are recognized at fair value at the acquisition date. Trademarks have a finite useful life and are carried at cost less accumulated amortization and impairment. Amortization is calculated using the straight-line method to allocate the cost of trademarks over their estimated useful lives of 5 to 15 years.

(c) Intellectual properties

Intellectual properties mainly include animation contents. They are initially recognized and measured at cost. Intellectual properties are amortized using the straight-line method over 5 years which reflects the estimated consumption patterns.

(d) Research and development expenditures

Research expenditure is recognized as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved online virtual worlds) are capitalized as intangible assets when recognition criteria are fulfilled. These criteria include: (1) it is technically feasible to complete the online virtual world products so that it will be available for use or sale; (2) management intends to complete the online virtual world products and use or sell it; (3) there is an ability to use or sell the online virtual world products; (4) it can be demonstrated how the online virtual world products will generate probable future economic benefits; (5) adequate technical, financial and other resources to complete the development and to use or sell the online virtual world products are available; and (6) the expenditure attributable to the online virtual world products during its development can be reliably measured. Other development expenditures that do not meet those criteria are recognized as expenses as incurred. The Group could not determine whether it was technically feasible to complete the online virtual world products so that it would be available for use or sale and could not determine whether the online virtual world products would generate probable future economic benefit or not during the development phase of an online virtual world. In addition, the Group could not reliably measure the expenditure attributable to each online virtual worlds during its development phase. Therefore, there were no development costs meeting these criteria and capitalized as intangible assets.

Development costs previously recognized as expenses are not recognized as assets in subsequent periods.

2 Summary of significant accounting policies (continued)

2.8 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortization and are tested at least annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each of the reporting dates.

2.9 Financial assets

2.9.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade receivables", "other receivables", "cash and cash equivalents", "short-term deposits", "restricted cash" and "long-term deposits" in the balance sheet (Notes 2.12 and 2.13).

2 Summary of significant accounting policies (continued)

2.9 Financial assets (continued)

2.9.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognized on the trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and are included in other income or other expenses. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

2.10 Impairment of financial assets

Assets carried at amortized cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the consolidated income statement.

2 Summary of significant accounting policies (continued)

2.11 Inventories

Inventories comprising merchandise held for direct sales and low value consumables are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.12 Trade receivables and other receivables

Trade receivables are amounts due from online payment channels and platforms for services performed to customers in the ordinary course of business. If collection of trade receivables and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. See Note 2.9 for further information about the Group's accounting for trade receivables and Note 2.10 for description of the Group's impairment policies.

2.13 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks and short-term highly liquid investments with original maturity of three months or less, and bank overdrafts. In the consolidated balance sheet, bank overdrafts are shown in current liabilities.

2.14 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.15 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2 Summary of significant accounting policies (continued)

2.16 Put option liability

Long-term payable of the Group is the put option liability. Put option is the financial instrument granted by the Group that the counterparty has the right to request the Group to purchase its own equity instruments for cash or other financial assets when certain conditions are met. If the Group does not have the unconditional right to avoid delivering cash or another financial assets under the put option, it has to recognize a financial liability at the present value of the estimated future cash outflows under the put option. The financial liability is initially recognized at fair value. Subsequently, if the Group revises its estimates of payments, the Group will adjust the carrying amount of the financial liability to reflect actual and revised estimated cash outflows. The Group will recalculate the carrying amount by computing the present value of revised estimated future cash outflows at the financial instrument's original effective interest rate and the adjustments will be recognized as income or expenses in the consolidated income statement. If the put option expires without delivery, the carrying amount of the liability is reclassified as equity.

The put option liability is classified as current liability unless the put option can only be exercised beyond 12 months after the end of the reporting period.

2.17 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liability unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.18 Current and deferred income tax

The income tax expense for the period comprises current and deferred income tax. Income tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the income tax is also recognized in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws, enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2 Summary of significant accounting policies (continued)

2.18 Current and deferred income tax (continued)

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Outside basis differences

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and the associate, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries and the associate only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income tax assets and liabilities relate to income tax levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2 Summary of significant accounting policies (continued)

2.19 Employee benefits

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organized by the relevant governmental authorities. The Group's liability in respect of these plans is limited to the contributions payable in each period. Contributions to these plans are expensed as incurred. Assets of the plans are held and managed by government authorities and are separate from those of the Group.

2.20 Share-based payments

(a) Equity-settled share-based payments transactions

The Group operates various equity-settled share-based compensation plans, including the Share Option Scheme and RSU Scheme, under which the Group receives services from employees as consideration for equity instruments (options or RSUs) of the Company. The fair value of the services received in exchange for the grant of the equity instruments is recognized as expense.

For share options and RSUs awarded to employees, the total amount to be expensed is determined by reference to the fair value of the equity instruments granted:

— including any market performance conditions;

— excluding the impact of any service and non-market performance vesting conditions; and

— including the impact of any non-vesting conditions.

Non-market performance and service conditions are included in assumptions about the quantum of share options and RSUs that are expected to vest. The total expense is recognized over the vesting period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, the Group revises its estimates of the number of shares under the share options and the number of RSUs that are expected to vest based on the non-market performance and service conditions. It recognizes the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

When the share options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

2 Summary of significant accounting policies (continued)

2.20 Share-based payments (continued)

(b) Share-based payments transactions among group entities

The grant by the Company of share options and/or RSUs to the employees or other service providers of the subsidiaries is treated as a capital contribution. The fair value of services received by the subsidiaries, measured by reference to the grant date fair value of the equity instruments issued, is recognized over the vesting period as an increase to investments in subsidiaries, with a corresponding credit to equity in the separate financial statements of the Company.

2.21 Revenue recognition

Online entertainment business

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

(a) Revenue from operation of online virtual worlds

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

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

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

2 Summary of significant accounting policies (continued)

2.21 Revenue recognition (continued)

Online entertainment business (continued)

(a) Revenue from operation of online virtual worlds **(continued)**

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

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

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

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

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

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

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

2 Summary of significant accounting policies (continued)

2.21 Revenue recognition (continued)

Online entertainment business (continued)

(b) ***Other key accounting policies in relation to revenue from online entertainment business*** **(continued)**

Prepaid cards expire on the expiration date pre-printed thereon, which is generally two years after the date of card production. Proceeds from expired prepaid cards that have never been activated are recognized as revenue upon expiration of the cards.

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

Retail business

The Group operates a chain of retail outlets and an online platform for selling baby and maternity products. Sales of goods are recognized when a group entity sells a product to the customer. Retail sales are usually in cash or by debit/credit card.

Other businesses

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

(a) Advertising revenue

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

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

(b) Licensing fees

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

(c) Computer graphic production revenue

Computer graphic production revenue is derived from the fulfillment of the order placed by the outside parties regarding computer graphic production. Revenues generated from computer graphic production are calculated and recognized based on the progress of the project.

2 Summary of significant accounting policies (continued)

2.22 Advances from customers and distributors and deferred revenue

Advances from customers and distributors are prepayments from prepaid card distributors or prepayments from Paying Players in the form of Aocoins that have not yet been consumed or converted into online virtual world tokens, and upon the consumption or conversion, are recognized as revenue according to the prescribed revenue recognition policies described above. Deferred revenue primarily consists of unused online virtual world tokens, unamortized prepaid membership subscription fees and unamortized revenue derived from the sales of durable virtual items. Deferred revenue balances which the Group expects to be recognized as revenue within one year are classified as current liabilities and the rest is classified as non-current liabilities.

2.23 Cost of revenue

Amounts recorded as cost of revenue relate to direct expenses incurred in order to generate revenue from online business and other businesses. Such costs are recorded as incurred. Cost of revenues consists primarily of (i) employee benefit expense, (ii) cost of inventories sold, (iii) bandwidth and server custody fees, (iv) distribution cost and payment handling fee; (v) depreciation and amortization of property and equipment and intangible assets, (vi) prepaid cards production cost, etc.

2.24 Interest income

Interest income mainly represents interest income from bank deposits and is recognized using the effective interest method.

2.25 Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants related to costs are included in current or non-current liabilities as advances from government grants and are deferred and recognized in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants related to property and equipment are included in non-current liabilities as advances from government grants and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

2.26 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

2.27 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

3 Financial risk management

3.1 Financial risk factors

The Group's activities exposed it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Risk management is carried out by the senior management of the Group approved by the Board.

(a) Market risk

(i) Foreign exchange risk

The Group's foreign exchange risk primarily arose from the cash and cash equivalents denominated in Hong Kong Dollar (HK$) and US dollar (US$) and long-term payables denominated in HK$ for the put option granted to the non-controlling interests. If RMB had strengthened/weakened by 100 basis points against HK$ and US$ with all other variables held constant, the post-tax profit for the year ended 31 December 2017 would have been approximately lower/higher by RMB1,071,000 (2016: approximately lower/higher by RMB1,492,000).

The Group does not hedge against any fluctuation in foreign currency.

(ii) Interest rate risk

For the years ended 31 December 2017 and 2016, management of the Group is of the opinion that interest rate risk (such as interest rate risk on bank deposits) was not material to the Group.

(b) Credit risk

The carrying amounts of deposits placed with banks, trade receivables and other receivables included in the financial statements represent the Group's maximum exposure to credit risk in relation to its financial assets. The objective of the Group's measures to manage credit risk is to control potential exposure to recoverability problem.

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

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

For trade receivables, a significant portion was due from online payment agencies and Third Party Platforms. If the strategic relationship with online payment agencies and Third Party Platforms are terminated or scaled-back; or if they experience financial difficulties in paying the Group, the Group's receivables might be adversely affected in terms of recoverability.

To manage this risk, the Group maintains frequent communications with online payment agencies and Third Party Platforms to ensure effective credit control. In view of the history of cooperation with online payment agencies and Third Party Platforms and the sound collection history of receivables due from them, management believes that the credit risk is low.

For other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience. No significant credit risk is noted.

(c) 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 analyzes 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.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(c) 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
At 31 December 2017						
Trade payables	**8,491**	**—**	**—**	**—**	**—**	**8,491**
Other payables and accruals (excluding other tax liabilities and staff costs and welfare accruals)	**21,572**	**—**	**—**	**—**	**—**	**21,572**
Bank overdrafts	**881**	**—**	**—**	**—**	**—**	**881**
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
Amounts due to related parties	250	—	—	—	—	250
Borrowing	278,473	—	—	—	—	278,473
Bank overdrafts	852	—	—	—	—	852
Long-term payable	—	—	—	9,374	—	9,374

3 Financial risk management (continued)

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders' value in the long term.

The Group monitors capital by regularly reviewing the capital structure and gearing ratio. This ratio is calculated as total liabilities divided by total assets. As part of this review, the directors of the Company consider the cost of capital and the risks associated with the issued share capital. The Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or repurchase the Company's shares. Besides, the Group's strategy was to maintain the gearing ratio within 40%.

The gearing ratios were as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Total liabilities	**141,834**	444,725
Total assets	**1,630,608**	2,017,839
Gearing ratio	**9%**	22%

3.3 Fair value estimation

Financial instruments are carried at fair value within a fair value hierarchy that categorizes, into three levels, inputs to valuation techniques used to measure the fair value. The three different levels are 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).

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 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	**—**	**—**	**6,856**	**6,856**

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.

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

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

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 year ended 31 December 2017.

	Financial assets at fair value through profit or loss RMB'000
At 1 January 2017	**5,861**
Gains recognized in profit or loss (Note 8)	**7,142**
Disposal of a derivative	**(6,147)**
At 31 December 2017	**6,856**
Changes in unrealised gains for the period included in profit or loss	**4,162**

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

The following table presents the changes in level 3 instruments for the year ended 31 December 2016.

	Financial assets at fair value through profit or loss RMB'000
At 1 January 2016	1,298
Gains recognized in profit or loss (Note 8)	4,563
At 31 December 2016	5,861
Changes in unrealised gains for the period included in profit or loss	4,563

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

Level 3 instruments mainly included an unlisted equity investment and derivatives. During the year ended 31 December 2017, fair value gain of RMB3,280,000 (2016: RMB3,167,000) related to derivatives and RMB3,862,000 (2016: RMB1,396,000) related to the unlisted investment were recognized. The Group invested in short-term structural deposits that contained derivatives. Such derivatives are recognised as financial assets at fair value through profit or loss. The fair value gain related to derivatives for the year ended 31 December 2017 comprised realised gain of RMB2,980,000 (2016: nil) and unrealised gain of RMB300,000 (2016: RMB4,563,000). The fair value gain related to the unlisted equity investment for the year ended 31 December 2017 were unrealised.

As these instruments were not traded in an active market, their fair value have been determined using various applicable valuation techniques, including comparable transactions approaches, equity allocation model and other option pricing models etc. As at 31 December 2017, major assumptions used in the valuation include volatility of 35%, risk free rate of 2.1%, and other exposure etc.

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, borrowing and long-term payable, approximated their respective fair value at each of the reporting dates.

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimates of Player Relationship Period for online business

As described in Note 2.21, the Group recognizes revenue from durable virtual items in self-developed online virtual worlds ratably over Player Relationship Period. The determination of Player Relationship Period for the relevant online virtual worlds are made based on the Group's best estimate that takes into account all known and relevant information at the time of assessment. Such estimates are subject to re-evaluation on a semi-annual basis. Any adjustments arising from changes in Player Relationship Period as a result of new information will be accounted for as a change in accounting estimates.

(b) Impairment estimation of goodwill and trademark

The Group tests whether goodwill and trademark have suffered any impairment, in accordance with the accounting policy stated in Note 2.7 and 2.8. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations (Note 16).

(c) Current income tax and deferred tax

Significant judgement is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional tax will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognized as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilized. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred tax assets and taxation in the periods in which such estimate is changed.

4 Critical accounting estimates and judgements (continued)

4.1 Critical accounting estimates and assumptions (continued)

(c) Current income tax and deferred tax (continued)

Deferred income tax is provided on temporary differences arising on distributions of retained earnings by subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Specifically, for the potential timing differences arising from the distribution of retained earnings of the Company's subsidiaries in the PRC to the Company, management has assessed the availability of distributable revenues (see Note 11(d)) and funds held by the Company and concluded that the PRC subsidiaries are unlikely to be required to distribute their retained earnings in the foreseeable future. As a result, no deferred tax liability on PRC withholding tax ("WHT") has been provided as at 31 December 2017 and 2016.

(d) Recognition of share-based compensation expenses

As mentioned in Note 25, the Group has granted share options and RSUs to its employees. The directors have used the binomial option-pricing model and discounted cash flow method to determine the total fair value of the share options and Pre-IPO RSUs granted, respectively, which is to be expensed over the vesting period. Significant estimates on assumptions, such as vesting period, underlying equity value, risk-free interest rate, expected volatility and dividend yield, are required to be made by the directors in applying the binomial option-pricing model and discounted cash flow method.

4.2 Critical judgements in applying the Group's accounting policies

(a) Subsidiaries arising from contractual arrangements

The Company's wholly-owned subsidiary, Baiduo (Guangzhou) Information Technology Limited ("Guangzhou WFOE"), has entered into a series of contractual arrangements (the "Contractual Arrangements") with Guangzhou Baitian Information Technology Limited ("Guangzhou Baitian") and its equity holders.

The Contractual Arrangements are irrevocable and enable Guangzhou WFOE, and ultimately the Group, to:

— exercise effective financial and operational control over Guangzhou Baitian;

— exercise equity holders' voting rights over Guangzhou Baitian;

— receive substantially all of the economic interest and returns generated by Guangzhou Baitian in consideration for the business support, technical and consulting services provided by Guangzhou WFOE, at Guangzhou WFOE's discretion;

— obtain an irrevocable and exclusive right to purchase the entire equity interest in Guangzhou Baitian from the equity holders;

— obtain a pledge over the entire equity interest in Guangzhou Baitian from its equity holders as collateral security for all of Guangzhou Baitian's payments due to Guangzhou WFOE and to secure performance of Guangzhou Baitian's obligations under the Contractual Arrangements, respectively.

4 Critical accounting estimates and judgements (continued)

4.2 Critical judgements in applying the Group's accounting policies (continued)

(a) Subsidiaries arising from contractual arrangements (continued)

The Company does not hold equity shares directly or indirectly in Guangzhou Baitian. However, as a result of the Contractual Arrangements, the Group has rights to variable returns from its involvement with Guangzhou Baitian and the ability to affect those returns through its power over Guangzhou Baitian and is considered to have control over Guangzhou Baitian. Consequently, the Company regards Guangzhou Baitian as an indirect subsidiary under IFRSs. The Group has included the financial position and results of Guangzhou Baitian in the consolidated financial statements.

Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over Guangzhou Baitian and uncertainties presented by the PRC legal system could impede the Group's beneficiary rights to the results, assets and liabilities of Guangzhou Baitian. The Group believes that the Contractual Arrangements are in compliance with the relevant PRC laws and regulations and are legally binding and enforceable.

5 Segment information

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

The Group determined that it has operating segments as follows:

— Online entertainment business

— Retail business

— Other businesses

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

The CODM assesses the performance of the operating segments mainly based on segment revenue and gross profit 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 are not included in the measure of the segments' performance.

There were no material inter-segment sales during years ended 31 December 2017 and 2016, respectively. The revenues from external customers reported to CODM are measured as segment revenue.

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

5 Segment information (continued)

The segment information provided to the Group's CODM for the reportable segments for the years ended 31 December 2017 and 2016 are as follows:

	Year ended 31 December 2017			
	Online entertainment business RMB'000	Retail business RMB'000	Other businesses RMB'000	Total RMB'000
Segment revenue	**305,690**	**40,853**	**3,987**	**350,530**
Gross profit	**165,843**	**18,704**	**2,252**	**186,799**
Depreciation (Note 15)	**7,444**	**1,777**	**136**	**9,357**
Amortization (Note 16)	**205**	**1,661**	**335**	**2,201**

	Year ended 31 December 2016			
	Online entertainment business RMB'000	Retail business RMB'000	Other businesses RMB'000	Total RMB'000
Segment revenue	324,357	55,108	3,795	383,260
Gross profit/(loss)	191,591	23,297	(2,498)	212,390
Depreciation (Note 15)	7,331	1,306	14	8,651
Amortization (Note 16)	193	1,276	251	1,720
Share of loss of an associate	(1,530)	—	—	(1,530)

The reconciliation of gross profit to profit before income tax is shown in the consolidated income statement.

5 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 the years ended 31 December 2017 and 2016, the geographical information on the total revenues is as follows:

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

There is no concentration risk in terms of customers (which include end users from online business and customers from other businesses) as no single external customer contributed more than 10% of the Group's total revenue for the years ended 31 December 2017 and 2016. However, revenue of the Group is mainly derived from self-developed online virtual worlds operations and the Group depends on the success of a limited number of online virtual worlds to generate revenue. As summarized in the table below, the online virtual worlds contributing more than 10% of the Group's total revenue account for 72.2% and 64.9% of the total revenue for the years ended 31 December 2017 and 2016, respectively. The percentage of revenue contributed by the following online virtual worlds is not presented for the periods when such amount is less than 10% of the Group's total revenue in a particular period.

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

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

6 Expenses by nature

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Employee benefit expenses (Note 9)	**163,949**	201,107
Distribution cost and payment handling fees	**53,346**	20,110
Promotion and advertising expenses	**41,673**	45,782
Operating lease rentals	**31,287**	38,240
Cost of inventories sold (Note 18)	**22,011**	32,400
Depreciation of property and equipment and amortization of intangible assets (Notes 15 and 16)	**11,558**	10,371
Bandwidth and server custody fees	**9,879**	18,527
Professional fees	**7,190**	8,422
Content expenses	**5,228**	5,327
Travelling and entertainment expenses	**5,050**	4,032
Auditor's remuneration	**3,800**	3,800
Impairment of prepayments and other receivables	**3,797**	—
Utilities and office expenses	**3,184**	4,872
Prepaid card production expenses	**603**	1,500
Others	**5,771**	6,170
Total cost of revenue, selling and marketing expenses, administrative expenses and research and development expenses	**368,326**	400,660

7 Other income

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Government grants	**6,447**	6,690
Sale of an online virtual world, net gain	**—**	8,551
Others	**516**	154
	6,963	15,395

8 Other gains — net

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Financial assets at fair value through profit or loss :		
— Fair value gains (Note 3.3)	**7,142**	4,563
Others	**(355)**	(620)
	6,787	3,943

9 Employee benefit expenses

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Wages, salaries and discretionary bonuses	**122,732**	147,280
Pension costs — defined contribution plans (Note (a))	**10,890**	12,061
Other social security costs, housing benefits and other employee benefits	**22,380**	31,281
Share-based compensation expenses	**7,947**	10,485
	163,949	201,107

(a) Pension costs — defined contribution plans

Employees of the Group companies in the PRC are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. For the year ended 31 December 2017, the Group contributes funds which are calculated on a fixed percentage of 14% (2016: 14%) of the employees' salary (subject to a floor and cap) as set by local municipal governments to each scheme locally to fund the retirement benefits of the employees.

(b) Five highest paid individuals

The five individuals whose emoluments were highest in the Group for the year include three (2016: two) directors whose emoluments are reflected in the analysis shown in Note 39. The emoluments paid and payable to the remaining two (2016: three) individuals during the year are as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Wages and salaries	**1,620**	2,250
Discretionary bonuses	**170**	595
Pension costs — defined contribution plans	**58**	79
Other social security costs, housing benefits and other employee benefits	**67**	110
Share-based compensation expenses	**1,005**	3,458
	2,920	6,492

9 Employee benefit expenses (continued)

(b) Five highest paid individuals (continued)

The emoluments fell within the following bands:

	Year ended 31 December	
	2017	2016
HKD1,000,000 to HKD1,500,000	**1**	—
HKD1,500,000 to HKD2,000,000	**1**	1
HKD2,000,000 to HKD2,500,000	**—**	2

10 Finance income — net

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

(a) Long-term payable was the present value of the amount payable to acquire the remaining equity interest under the put option granted to the non-controlling shareholder of BTL. The finance income from long-term payable represented change in carrying amount of long-term payable during the year in accordance with the revised estimated future cash outflows.

11 Income tax expense

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

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

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the statutory tax rate applicable to profits of the consolidated entities as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
(Loss)/profit before income tax	**(25,320)**	41,492
Tax calculated at income tax rates applicable to profits of the consolidated entities in their respective jurisdictions (Notes a, b, c)	**(5,786)**	2,915
Tax effects of:		
Tax losses for which no deferred income tax asset was recognized	**6,067**	6,023
Super deduction for research and development expenses (Note c)	**(2,374)**	(2,480)
Expenses not deductible for income tax purposes:		
— Share-based compensation	**1,288**	1,591
— Goodwill impairment	**5,496**	—
— Others	**398**	440
Income tax expense	**5,089**	8,489

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

11 Income tax expense (continued)

(a) Cayman Islands income tax

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

(b) Hong Kong profits tax

Hong Kong profits tax provision has been provided at the rate of 16.5% on the estimated assessable profits for the years ended 31 December 2017 and 2016.

(c) PRC corporate income tax

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

According to the relevant laws and regulations promulgated by the State Tax Bureau of the PRC that was effective from 2008 onwards, enterprises engaging in research and development activities are entitled to claim 150% of their eligible research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year ("Super Deduction"). The Group has considered the Super Deduction to be claimed for the group entities in ascertaining their assessable profits for the years ended 31 December 2017 and 2016.

(d) WHT

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

For the years ended 31 December 2017 and 2016, the Group did not have any plan to require its PRC subsidiaries to distribute their retained earnings to the Company as the Company's share premium is distributable under the Cayman Island laws. Accordingly, no deferred income tax liability on WHT was accrued as at the end of each reporting period (Note 31).

12 (Losses)/earnings per share

(a) Basic

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

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

(b) Diluted

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

For the years ended 31 December 2017, the Company had two categories of potential ordinary shares, the share options and the RSUs, which had to be considered for calculating diluted losses per share. No adjustment was made to basic losses per share to derive the diluted losses per share for the years ended 31 December 2017 as each of the types of potential ordinary shares was anti-dilutive.

For the years ended 31 December 2016, the Company had two categories of potential ordinary shares, the share options and the RSUs, which had to be considered for calculating diluted earnings per share. A calculation is done to determine the number of shares that could have been issued at fair value (determined as the average market price per share for the year) based on the total proceeds receivable upon exercising the outstanding share options and RSUs. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options and RSUs. The difference is added to the denominator as the number of shares issued for no consideration.

12 (Losses)/earnings per share (continued)

(b) Diluted (continued)

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

13 Net foreign exchange (losses)/gains

The exchange differences (charged)/credited to the consolidated income statement are included as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Finance (costs)/income — net (Note 10)	**(8,519)**	8,480
Other (losses)/gains — net	**(406)**	435
	(8,925)	8,915

14 Subsidiaries

The following is a list of the principal subsidiaries as at 31 December 2017:

Name of the company	Place of incorporation and kind of legal entity	Issued and fully paid share capital/ registered capital	Proportion of equity interest held by the Group (%)		Proportion of equity interest held by the non-controlling interests (%)		Principal activities and place of operation
			2017	2016	2017	2016	
Directly held by the Company							
Baitian Technology Limited ("Baitian Hong Kong")	Hong Kong, Limited liability company	HK$10,000	100%	100%	–	–	Investment holding, Hong Kong
Baioo Technology Limited ("Baitian BVI")	British Virgin Islands, Limited liability company	US$ 50,000	100%	100%	–	–	Investment holding, British Virgin Islands
Bababaobei Commerce Limited ("BCL")	British Virgin Islands, Limited liability company	US$ 50,000	92.5%	92.5%	7.5%	7.5%	Investment holding and sales of baby and maternity products online, the PRC
Indirectly held by the Company							
廣州百田信息科技有限公司 ("Guangzhou Baitian")	The PRC, Limited liability company	RMB10,010,000	100%	100%	–	–	Online interactive entertainment and education service for children, the PRC
百多（廣州）信息科技有限公司 ("Guangzhou WFOE")	The PRC, Limited liability company	US$ 500,000	100%	100%	–	–	Research and development of computer software, the PRC
Bumps To Babes Limited	Hong Kong, Limited liability company	HK$1,000	69.3%	69.3%	30.7%	30.7%	Sales of baby and maternity products, Hong Kong
巴巴寶貝（廣州）電子商務有限公司 ("Bababaobei GZ")	The PRC, Limited liability company	RMB40,000,000	92.5%	92.5%	7.5%	7.5%	Sales of baby and maternity products online, the PRC
廣州天梯網絡科技有限公司 ("Guangzhou Tianti")	The PRC, Limited liability company	RMB2,000,000	100%	100%	–	–	Software and information technology services, the PRC
廣州百漫文化傳播有限公司 ("Guangzhou Baiman")	The PRC, Limited liability company	RMB2,000,000	54.4%	64.0%	45.6%	36.0%	TV, film and other media production, the PRC
北京星門動漫科技有限公司 ("Beijing Xingmen")	The PRC, Limited liability company	RMB125,000	54.4%	64.0%	45.6%	36.0%	Advertisement production and animation design, the PRC
廣州小雲熊家庭互動教育有限公司 ("Xiaoyunxiong")(c)	The PRC, Limited liability company	RMB20,000,000	100%	–	–	–	Education service for children, The PRC
霍爾果斯百漫影業有限公司 ("Huoerguosi Baiman")(d)	The PRC, Limited liability company	RMB2,000,000	54.4%	–	45.6%	–	TV, film and other media production, the PRC

14 Subsidiaries (continued)

(a) Set out below is summarised financial information for the Bumps To Babes Limited that has non-controlling interests that are material to the group. The amounts disclosed for Bumps To Babes Limited is before inter-company eliminations.

Summarised balance sheet	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Current assets	**7,079**	12,388
Current liabilities	**15,264**	13,069
Current net liability	**(8,185)**	(681)
Non-current assets	**399**	56,383
Non-current liabilities	**—**	2,651
Non-current net assets	**399**	53,732
Net (liability)/asset	**(7,786)**	53,051
Accumulated non-controlling interests	**(2,390)**	8,560

Summarised statement of comprehensive income	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Revenue	**40,307**	50,003
Loss for the period	**(60,464)**	(3,158)
Other comprehensive loss	**(374)**	1,356
Total comprehensive loss	**(60,838)**	(1,802)
Loss attributable to non-controlling interests	**(10,950)**	(553)

14 Subsidiaries (continued)

Summarised cash flow	Year ended 31 December 2017 RMB'000	2016 RMB'000
Cash flows generated from operating activities	**239**	1,165
Cash flows used in investing activities	**(311)**	(1,930)
Cash flows used in financing activities	**(41)**	(37)
Net decrease in cash and cash equivalents	**(113)**	(802)

(b) Significant restrictions

Cash and cash equivalents and short-term deposits of the Group, amounting to RMB889,516,000 are held in China and are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the country, other than through normal dividends.

(c) The Group set up this company on 15 June 2017.

(d) The Group set up this company on 28 July 2017.

15 Property and equipment

	Servers RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2016						
Cost	24,942	4,989	3,237	6,272	7,839	47,279
Accumulated depreciation	(20,098)	(3,190)	(1,891)	(5,788)	—	(30,967)
Net book amount	4,844	1,799	1,346	484	7,839	16,312
Year ended 31 December 2016						
Opening net book amount	4,844	1,799	1,346	484	7,839	16,312
Acquisition of a subsidiary	—	59	—	—	—	59
Additions	2,270	2,847	26	1,441	24,442	31,026
Transfers	—	—	—	32,281	(32,281)	—
Depreciation charge	(3,949)	(1,541)	(378)	(2,783)	—	(8,651)
Disposals	—	(5)	—	—	—	(5)
Currency translation differences	—	33	48	51	—	132
Closing net book amount	3,165	3,192	1,042	31,474	—	38,873
At 31 December 2016						
Cost	27,194	7,110	3,245	40,066	—	77,615
Accumulated depreciation	(24,029)	(3,918)	(2,203)	(8,592)	—	(38,742)
Net book amount	3,165	3,192	1,042	31,474	—	38,873
Year ended 31 December 2017						
Opening net book amount	**3,165**	**3,192**	**1,042**	**31,474**	**—**	**38,873**
Additions	**—**	**1,110**	**—**	**573**	**—**	**1,683**
Depreciation charge	**(1,765)**	**(1,763)**	**(367)**	**(5,462)**	**—**	**(9,357)**
Disposals	**—**	**(57)**	**—**	**—**	**—**	**(57)**
Impairment loss	**—**	**(253)**	**—**	**(671)**	**—**	**(924)**
Currency translation differences	**—**	**(34)**	**(35)**	**(53)**	**—**	**(122)**
Closing net book amount	**1,400**	**2,195**	**640**	**25,861**	**—**	**30,096**

15 Property and equipment (continued)

	Servers RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
At 31 December 2017						
Cost	**21,777**	**7,607**	**3,026**	**27,544**	**—**	**59,954**
Accumulated depreciation	**(20,377)**	**(5,159)**	**(2,386)**	**(1,012)**	**—**	**(28,934)**
Accumulated impairment	**—**	**(253)**	**—**	**(671)**	**—**	**(924)**
Net book amount	**1,400**	**2,195**	**640**	**25,861**	**—**	**30,096**

Depreciation charge was included in the following categories in the consolidated income statement:

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Cost of revenue	**3,152**	4,360
Administrative expenses	**3,633**	2,577
Research and development expenses	**1,768**	1,293
Selling and marketing expenses	**804**	421
	9,357	8,651

16 Intangible assets

	Goodwill RMB'000	Trademark RMB'000	Intellectual properties RMB'000	Others RMB'000	Total RMB'000
At 1 January 2016					
Cost	33,306	16,932	—	754	50,992
Accumulated amortization	—	(753)	—	(236)	(989)
Net book amount	33,306	16,179	—	518	50,003
Year ended 31 December 2016					
Opening net book amount	33,306	16,179	—	518	50,003
Acquisition of a subsidiary	—	1,910	—	670	2,580
Additions	—	—	1,674	255	1,929
Amortization charge	—	(1,263)	(251)	(206)	(1,720)
Currency translation differences	—	1,057	—	—	1,057
Closing net book amount	33,306	17,883	1,423	1,237	53,849
At 31 December 2016					
Cost	33,306	19,988	1,674	1,679	56,647
Accumulated amortization	—	(2,105)	(251)	(442)	(2,798)
Net book amount	33,306	17,883	1,423	1,237	53,849
Year ended 31 December 2017					
Opening net book amount	**33,306**	**17,883**	**1,423**	**1,237**	**53,849**
Additions	**—**	**—**	**—**	**387**	**387**
Amortization charge	**—**	**(1,548)**	**(335)**	**(318)**	**(2,201)**
Currency translation differences	**—**	**(527)**	**—**	**—**	**(527)**
Impairment loss	**(33,306)**	**(14,377)**	**—**	**—**	**(47,683)**
Closing net book amount	**—**	**1,431**	**1,088**	**1,306**	**3,825**
At 31 December 2017					
Cost	**33,306**	**18,709**	**1,674**	**2,066**	**55,755**
Accumulated amortization	**—**	**(2,901)**	**(586)**	**(760)**	**(4,247)**
Accumulated impairment	**(33,306)**	**(14,377)**	**—**	**—**	**(47,683)**
Net book amount	**—**	**1,431**	**1,088**	**1,306**	**3,825**

16 Intangible assets (continued)

Amortization charge was included in the following categories in the consolidated income statement:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Selling and marketing expenses	**1,975**	1,263
Research and development expenses	**138**	253
Cost of revenue	**43**	168
Administrative expenses	**45**	36
	2,201	1,720

(a) Impairment test for goodwill and trademark

Goodwill of RMB33,306,000 is allocated to the Group's cash-generating units (CGUs) identified. The goodwill of the Group is related to acquisition of BTL and its subsidiary which are considered as one CGU for impairment test purpose, and this CGU also included an intangible asset of a trademark of RMB14,377,000. The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the retail sector in which the CGU operates.

During the year ended 31 December 2017, decrease in revenue and profit of BTL and its subsidiaries was noted and this increased the impairment risk of the goodwill and the trademark. Based on the renewed forecast, an impairment provision of RMB33,306,000 and RMB14,377,000 was made for goodwill and trademark, respectively.

16 Intangible assets (continued)

(a) Impairment test for goodwill and trademark (continued)

The key assumptions for BTL and its subsidiary are illustrated as follows.

	Year ended 31 December	
	2017	2016
Sales (% annual growth rate)	**3.2%**	16.2%
Gross margin (% of revenue)	**47.3%**	46.9%
Pre-tax discount rate	**14.4%**	14.4%
Long-term growth rate	**3.0%**	3.0%

Sales refers to the average annual growth rate over the five-year forecast period. It is based on past performance and management's expectations of market development.

Gross margin refers to the average margin as a percentage of revenue over the five-year forecast period. It is based on the current sales margin levels and management's expectations for the market development.

The discount rates used are pre-tax and reflect specific risks relating to the relevant operating segment.

17 Financial instruments by category

	As at 31 December 2017 RMB'000	2016 RMB'000
Assets as per balance sheet		
Loans and receivables:		
— Trade receivables (Note 19)	**10,546**	9,877
— Other receivables (excluding prepayments) (Note 20)	**17,699**	50,542
— Restricted cash (Note 22)	**—**	279,556
— Short-term deposits (Note 22)	**634,000**	1,041,427
— Long-term deposits (Note 22)	**—**	300,000
— Cash and cash equivalents (Note 22)	**907,249**	214,216
	1,569,494	1,895,618
Assets at fair value through the profit or loss:		
— Financial assets at fair value through profit or loss (Note 21)	**6,856**	5,861
	1,576,350	1,901,479
Liabilities as per balance sheet		
Financial liabilities at amortized cost:		
— Long-term payable (Note 10)	**—**	6,423
— Trade payables (Note 29)	**8,491**	9,618
— Other payables and accruals (excluding other tax liabilities and staff costs and welfare accruals) (Note 30)	**21,572**	20,816
— Amount due to related parties (Note 35(b))	**—**	250
— Borrowing	**—**	278,056
— Bank overdrafts	**881**	852
	30,944	316,015

18 Inventories

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Finished goods — cost	**16,255**	19,925
Less: allowance for impairment	**(6,637)**	(6,774)
	9,618	13,151

The inventories are mainly merchandise purchased for the Group's retail business.

The cost of inventories is recognised as expense and included in "cost of revenue" amounted to RMB22,011,000 for the year ended 31 December 2017 (2016: RMB32,400,000).

19 Trade receivables

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

As at 31 December 2017 and 2016, the fair values of trade receivables approximate their carrying amounts.

(a) Ageing analysis based on recognition date of the gross trade receivables at the respective balance sheet dates are as follows:

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

19 Trade receivables (continued)

(b) The receivables are due from online payment agencies and Third Party Platforms with whom the Group had not experienced any recoverability difficulties. The Group can call for collection on demand. As at 31 December 2017 and 2016, no significant balances were past due.

(c) There was no allowance for impairment of trade receivables as at 31 December 2017 and 2016.

(d) As at 31 December 2017 and 2016, trade receivables were denominated in RMB and their fair value approximated their carrying amounts.

(e) The maximum exposure to credit risk is the carrying amount of the net receivable balance. The Group does not hold any collateral as security.

(f) There was no concentration risk with respect to trade receivables as at 31 December 2017.

20 Prepayments and other receivables

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Included in non-current assets		
Interests receivable	**—**	4,974
Rental and other deposits	**6,486**	5,642
Receivable from sale of an online virtual world	**—**	2,000
	6,486	12,616
Less: allowance for impairment	**(3,286)**	—
	3,200	12,616
Included in current assets		
Interests receivable	**5,967**	24,372
Prepayments	**6,140**	4,112
Receivables from sale of an online virtual world	**2,000**	7,000
Rental and other deposits	**849**	353
Others	**6,194**	6,201
	21,150	42,038
Less: allowance for impairment	**(511)**	—
	20,639	42,038
	23,839	54,654

20 Prepayments and other receivables (continued)

As at 31 December 2017 and 2016, the carrying amounts of prepayments and other receivables were primarily denominated in RMB and approximated their fair values.

An allowance for impairment on rental deposit of RMB3,797,000 was made for the year ended 31 December 2017. As at 31 December 2016, there were no significant balances that were past due.

The maximum exposure to credit risk at each of the reporting dates is the carrying amount of each class of other receivables mentioned above. The Group does not hold any collateral as security.

21 Financial assets at fair value through profit or loss

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Included in non-current assets		
Unlisted equity security	**6,556**	2,694
Included in current assets		
Derivatives	**300**	3,167
	6,856	5,861

Changes in fair values of financial assets at fair value through profit or loss are recorded in 'other gains – net' in the consolidated income statement (Note 8).

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

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Short-term deposits (Note a)	**634,000**	1,041,427
Long-term deposits (Note b)	**—**	300,000
Restricted cash (Note c)	**—**	279,556
Cash and cash equivalents		
— Cash at banks and on hand (Note d)	**907,249**	214,216
	1,541,249	1,835,199
Maximum exposure to credit risk (Note f)	**1,540,985**	1,834,853

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

(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) 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 released.

(d) All cash in bank balances as at 31 December 2017 and 2016 were demand deposits in nature.

(e) The effective interest rate per annum for all bank balances and term deposits as at 31 December 2017 was approximately 1.9% (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.

22 Cash and cash equivalents, restricted cash, short-term deposits and long-term deposits (continued)

Cash and cash equivalents, restricted cash and term deposits are denominated in the following currencies:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
RMB	**1,425,650**	1,680,668
HK$	**90,414**	97,976
US$	**25,091**	56,462
Others	**94**	93
	1,541,249	1,835,199

23 Share capital and share premium

As at 31 December 2017, the total number of ordinary shares of the Company was 2,874,958,000 (2016: 2,900,676,000) shares which included 119,860,600 (2016: 146,443,950) shares held under the RSU Scheme.

	Number of shares	Nominal value of shares US$'000	Share Capital RMB'000	Share Premium RMB'000	Total RMB'000
Issued and fully paid:					
As at 1 January 2016	2,858,672,000	2	8	1,581,855	1,581,863
Share Option Scheme:					
— Exercise of share options	596,000	—	—	53	53
RSU Scheme:					
— Issuance of shares held for RSU Scheme	47,890,000	—	—	—	—
— Vesting of RSUs	—	—	1	28,966	28,967
2015 final dividend paid to equity holders of the Company (Note 32)	—	—	—	(41,484)	(41,484)
Buy-back and cancellation of shares	(6,482,000)	—	—	(2,350)	(2,350)
As at 31 December 2016	2,900,676,000	2	9	1,567,040	1,567,049

23 Share capital and share premium (continued)

	Number of shares	Nominal value of shares US$'000	Share Capital RMB'000	Share Premium RMB'000	Total RMB'000
Issued and fully paid:					
As at 1 January 2017	**2,900,676,000**	**2**	**9**	**1,567,040**	**1,567,049**
Share Option Scheme:					
– Exercise of share options	**160,000**	**–**	**–**	**18**	**18**
RSU Scheme:					
– Issuance of shares held for RSU Scheme	**6,100,000**	**–**	**–**	**–**	**–**
– Vesting of RSUs	**–**	**–**	**–**	**19,901**	**19,901**
2016 final dividend paid to equity holders of the Company (Note 32)	**–**	**–**	**–**	**(43,087)**	**(43,087)**
Buy-back and cancellation of shares	**(31,978,000)**	**–**	**–**	**(18,276)**	**(18,276)**
As at 31 December 2017	**2,874,958,000**	**2**	**9**	**1,525,596**	**1,525,605**

(a) The Company acquired 31,978,000 of its own shares through purchases from the stock market during the year ended 31 December 2017 for cash totaling HKD20,920,000 (equivalent to RMB18,276,000) and which was deducted from the share premium account. The shares were cancelled after the repurchase.

24 Reserves

	Other reserves RMB'000 (Note a)	Statutory reserves RMB'000 (Note b)	Share-based compensation reserve RMB'000 (Note 25)	Translation RMB'000	Total RMB'000
As at 1 January 2016	2,069	5,005	40,395	869	48,338
Value of employee services					
for restricted shares of a subsidiary	–	–	114	–	114
Share Option Scheme:					
– Exercise of share options	–	–	(26)	–	(26)
– Value of options to a vendor	–	–	151	–	151
RSU Scheme:					
– Value of employee services	–	–	10,308	–	10,308
– Vesting of RSUs	–	–	(28,967)	–	(28,967)
Currency translation difference	–	–	–	939	939
As at 31 December 2016	2,069	5,005	21,975	1,808	30,857
As at 1 January 2017	**2,069**	**5,005**	**21,975**	**1,808**	**30,857**
Value of employee services					
for restricted shares of a subsidiary	**–**	**–**	**387**	**–**	**387**
Share Option Scheme:					
– Exercise of share options	**–**	**–**	**(8)**	**–**	**(8)**
– Forfeiture of options to a vendor	**–**	**–**	**(151)**	**–**	**(151)**
RSU Scheme:					
– Value of employee services	**–**	**–**	**7,237**	**–**	**7,237**
– Vesting of RSUs	**–**	**–**	**(19,901)**	**–**	**(19,901)**
Currency translation difference	**–**	**–**	**–**	**(260)**	**(260)**
As at 31 December 2017	**2,069**	**5,005**	**9,539**	**1,548**	**18,161**

24 Reserves (continued)

(a) The reserves represent capital contribution injected by Guangzhou Baitian's shareholders into Guangzhou Baitian upon its establishment and the financial liability in respect of the put option granted to the 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 subsidiaries with limited liabilities incorporated in the PRC now comprising the Group, it is required to appropriate 10% of the annual net profits of the companies incorporated in the PRC now comprising the Group, 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 fund reaches 50% of the registered capital of the companies, any further appropriation is at the discretion of shareholders. The statutory surplus reserve fund 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.

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 need not be made.

25 Share-based payments

(a) Share Option Scheme

On 18 June 2010, the Board of the Company approved the establishment of the Pre-IPO Share Option Scheme with the objective to recognize and reward the contribution of eligible officers, employees, directors and other persons to the growth and development of the Group.

The options shall not become exercisable until after (i) the closing of an Initial Public Offering or a Change in Control Event (as defined below), whichever occurs first, and (ii) the relevant option holder shall have fully performed his or her reporting and registration obligations under the State Administration of Foreign Exchange in the People's Republic of China with respect to his or her holding of the Options or any Ordinary Shares.

Under this Share Option Scheme, IPO and Change in Control Event shall have the meaning as follows:

(i) IPO means the first firm commitment underwritten public offering of the Ordinary Shares of the Company on a recognized national or regional securities exchange.

25 Share-based payments (continued)

(a) Share Option Scheme (continued)

(ii) Change in Control Event ("Change in Control Event") means:

(a) Approval by the board and the shareholders of the Company of the dissolution or liquidation of the Company; or

(b) Consummation of either (i) any consolidation, amalgamation, scheme of arrangement or merger of the Company with or into any other person or other corporate reorganization, in which the current shareholders of the Company will own less than 50% of the surviving company's or companies' voting power, or any transaction to which the Company is a party in which in excess of 50% of the Company's voting power is transferred, (ii) any transaction related to a sale, transfer, lease or other disposition of all or substantially all of the assets of the Company, (iii) any transaction related to the sale, pledge, transfer or other disposition of all or substantially all of the Company's outstanding shares, in which the current shareholders of the Company will own less than 50% of the surviving company's or companies' voting power, or (iv) the exclusive licensing of all or substantially all of the Company's intellectual property to a third party.

The Group has no legal or constructive obligations to repurchase or settle the options in cash.

Movements in the number of shares under the options outstanding and their related weighted average exercise prices are as follows:

	Average exercise price in US$ per share under the option	Number of shares under the option
As at 1 January 2016	0.008	2,440,000
Exercised	0.007	(596,000)
Forfeited	0.005	(300,000)
As at 31 December 2016	0.009	1,544,000
As at 1 January 2017	**0.009**	**1,544,000**
Exercised	**0.007**	**(160,000)**
Forfeited	**0.005**	**—**
As at 31 December 2017	**0.009**	**1,384,000**

25 Share-based payments (continued)

(a) Share Option Scheme (continued)

On 10 April 2014, upon the completion of the IPO, the share options became exercisable.

Options exercised in 2017 resulted in 160,000 shares (2016: 596,000 shares) being issued at a weighted average price of HK$0.55 per share (2016: HK$0.42 per share).

The related weighted average share price at the time of exercise for share options exercised during the year was HK$0.55 (2016: HK$0.42) per share.

As at 31 December 2017, options granted over 962,000 and 422,000 shares will expire in 2020 and 2021 with exercise price of US$0.009 and US$0.009 per share, respectively.

The directors have used the Binomial option-pricing model to determine the fair value of the share options as at the grant date. Key assumptions, such as the discount rate and projections of future performance, are required to be determined by the directors with best estimates.

(b) RSU Scheme(s)

On 30 September 2013, the Board of the Company resolved and adopted the Pre-IPO RSU Scheme with the objective of recognizing the contributions by employees and giving incentives thereto in order to retain them for the continuing operation and development of the Group and attract suitable personnel for further development of the Group.

Pursuant to the resolution above, unless otherwise duly approved by the shareholders of the Company, the ordinary shares in aggregate underlying all RSUs under the Pre-IPO RSU Scheme shall not exceed 188,733,600 ordinary shares.

The Board of the Company or the compensation committee of the Board of the Company (the “Compensation Committee”) has the sole discretion to determine the vesting schedule and vesting criteria (if any) for any grant of RSUs to any grantees.

The Company granted 142,004,000 RSUs to certain employees and 600,000 RSUs to the Company’s Independent Non-Executive Directors under the Pre-IPO RSU Scheme. Each RSU is conditional on the grantee completing one to four years’ service and can be converted into one ordinary share upon vesting.

25 Share-based payments (continued)

(b) RSU Scheme(s) (continued)

On 18 March 2014, the Board of the Company resolved and conditionally adopted the Post-IPO RSU Scheme, which took effect on 10 April 2014, pursuant to which, the total number of shares underlying the RSUs that may be granted under the Post-IPO RSU Scheme was 2% of the total number of shares in issue on the listing date of 10 April 2014 which is subject to annual refreshment by shareholder approval.

The Post-IPO RSU Scheme is the share-based incentive scheme that the Company has in place to motivate its employees after its listing.

On 19 June 2015, at the annual general meeting of the Company, the shareholders approved an amendment to the Post-IPO RSU Scheme to increase the limit from 2% of the number of shares of the Company in issue on 10 April 2014 to 4% of the Company's issued share capital as of the approval date.

On 10 July 2015, the Company granted RSUs representing an aggregate of 65,780,000 shares to 110 grantees and 30,000,000 RSUs to Dr. Xu Gang, pursuant to the Post-IPO RSU Scheme. Each RSU is conditional on the grantee completing one to four years' service and can be converted into one ordinary share upon vesting.

On 10 November 2017, the Company granted RSUs representing an aggregate of 6,100,000 shares to 6 grantees, pursuant to the Post-IPO RSU Scheme. Each RSU is conditional on the grantee completing one to four years' service and can be converted into one ordinary share upon vesting.

25 Share-based payments (continued)

(b) RSU Scheme(s) (continued)

Movements in the number of RSUs outstanding are as follows:

	Number of RSUs
As at 1 January 2016	139,081,950
Forfeited	(39,646,350)
Vested	(41,893,200)
As at 31 December 2016	57,542,400
As at 1 January 2017	**57,542,400**
Granted	**6,100,000**
Forfeited	**(3,877,050)**
Vested	**(32,683,350)**
As at 31 December 2017	**27,082,000**

For the RSUs granted before the IPO, the directors used the discounted cash flow method to determine the underlying equity fair value of the Company and adopted an equity allocation method to determine the fair value of the RSUs as at the grant date.

The weighted average share price at the time of the conversion of RSUs into ordinary shares during the year ended 31 December 2017 was HK$0.55 (2016: HK$0.43) per share.

(c) On 21 September 2016, Guangzhou Baiman granted 15% of its restricted shares to its two employees. The fair value of the restricted shares at grant date was RMB3,543,000. The restricted shares are conditional on the grantees completing 5 years' service.

26 Accumulated losses

	RMB'000
As at 1 January 2016	(77,962)
Profit for the year	35,513
As at 31 December 2016	(42,449)
As at 1 January 2017	**(42,449)**
Loss for the year	**(14,394)**
As at 31 December 2017	**(56,843)**

27 Advances under government grants

This balance represented the government grants related to property and equipment to be credited to profit or loss on a straight-line basis over the expected useful lives of the related assets.

28 Advances from customers and distributors and deferred revenue

As at 31 December 2017 and 2016, advances from customers and distributors primarily consisted of prepayments from prepaid card distributors or prepayments from Paying Players in the form of Aocoins that have not yet been consumed or converted into online virtual world tokens. Deferred revenue primarily consisted of unused online virtual world tokens, unamortized prepaid membership subscription fees and unamortized revenue derived from the sales of durable virtual items.

Details of advances from customers and distributors and deferred revenue balances are analyzed in the table below.

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Included in non-current liabilities		
Membership subscription	**2,747**	2,756
Virtual worlds (Note a)	**3,927**	3,611
	6,674	6,367
Included in current liabilities		
Advances from customers and distributors	**36,026**	42,563
Membership subscription	**17,741**	26,535
Virtual worlds (Note a)	**21,132**	23,097
Others	**106**	76
	75,005	92,271
	81,679	98,638

(a) Deferred revenue of virtual worlds primarily consists of the unamortized durable virtual items, and online virtual world tokens held by Paying Players which have not yet been used to purchase virtual items. Deferred revenue will be recognized as revenue when all of the revenue recognition criteria are met. Revenue related to online virtual worlds, amounting to RMB233,037,000, was recognized in 2017 (2016: RMB222,062,000).

29 Trade payables

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

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

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

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

30 Other payables and accruals

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Staff costs and welfare accruals	**24,673**	22,257
Accruals for rental expenses	**14,468**	11,123
Professional service fees payable	**4,277**	3,506
Payables on leasehold improvements	**1,497**	3,989
Commission payable to distributors	**857**	820
Other tax liabilities (Note b)	**380**	588
Others	**473**	1,378
	46,625	43,661

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

(b) The balances represent liabilities relating to value-add tax and other related taxes in the PRC.

31 Deferred income tax

The analysis of deferred income tax assets and deferred income tax liabilities is as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Deferred income tax assets:		
— to be recovered after 12 months	**2,504**	1,914
— to be recovered within 12 months	**2,075**	4,461
	4,579	6,375

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Deferred income tax liabilities:		
— to be recovered after 12 months	**397**	2,968
— to be recovered within 12 months	**129**	328
	526	3,296

The gross movement on the deferred income tax account is as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
At beginning of the year	**3,079**	2,270
Acquisition of a subsidiary	**—**	(146)
Recognized in profit or loss (Note 11)	**951**	1,019
Currency translation differences	**23**	(64)
At end of the year	**4,053**	3,079

31 Deferred income tax (continued)

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets	Deferred revenue RMB'000	Advances under government grants RMB'000	Tax losses RMB'000	Others RMB'000	Total RMB'000
As at 1 January 2016	2,814	725	—	1,401	4,940
Recognized in profit or loss	374	(473)	1,292	(367)	826
Acquisition of a subsidiary	—	—	499	—	499
Currency translation differences	—	—	26	84	110
As at 31 December 2016	**3,188**	**252**	**1,817**	**1,118**	**6,375**
Recognized in profit or loss	**(429)**	**(150)**	**(1,790)**	**637**	**(1,732)**
Currency translation differences	**—**	**—**	**(27)**	**(37)**	**(64)**
As at 31 December 2017	**2,759**	**102**	**—**	**1,718**	**4,579**

Deferred income tax liabilities	Intangible assets acquired in business combination at fair value RMB'000
As at 1 January 2016	2,670
Acquisition of a subsidiary	645
Recognized in profit or loss	(193)
Currency translation differences	174
As at 31 December 2016	**3,296**
Recognized in profit or loss	**(2,683)**
Currency translation differences	**(87)**
As at 31 December 2017	**526**

31 Deferred income tax (continued)

Deferred income tax assets are recognized for tax losses carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The Group did not recognize deferred income tax assets of RMB13,655,000 and RMB7,588,000 in respect of losses amounting to RMB61,797,000 and RMB31,355,000 that can be carried forward against future taxable income for the years ended 31 December 2017 and 2016, respectively, as it is uncertain that future taxable income will be available in those subsidiaries against which the tax losses can be utilized. Tax losses amounting to RMB5,019,000, RMB24,140,000 and RMB11,524,000 will expire in 2020, 2021 and 2022, respectively. The remaining tax losses have no expiry date.

As at 31 December 2017 and 2016, no deferred income tax liability had been provided for in respect of the PRC withholding tax that would be payable on the unremitted earnings of approximately RMB678,812,000 and RMB638,452,000, respectively. Such earnings are expected to be retained by the PRC subsidiaries and not to be remitted to a foreign investor in the foreseeable future based on management's estimation of overseas funding requirements.

32 Dividend

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

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

33 Cash flow information

(a) Cash generated from operations

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
(Loss)/profit after income tax	**(30,409)**	33,003
Adjustments for:		
— Income tax expense (Note 11)	**5,089**	8,489
— Depreciation of property and equipment (Note 15)	**9,357**	8,651
— Amortization of intangible assets (Note 16)	**2,201**	1,720
— Impairment charge of property and equipment and intangible assets (Notes 15 and 16)	**48,607**	—
— Impairment charge of receivables (Note 20)	**3,797**	—
— Share-based compensation expenses	**7,796**	10,636
— Finance income – net (Note 10)	**(26,409)**	(41,084)
— Share of loss of an associate	**—**	1,530
— Fair value gains on financial assets at fair value through profit or loss (Note 8)	**(7,142)**	(4,563)
— Foreign exchange losses/(gains) on operating activities (Note 13)	**406**	(435)
Changes in working capital (excluding the effects of acquisition and currency translation differences on consolidation):		
— Inventories	**3,533**	3,126
— Trade receivables	**(669)**	(1,870)
— Prepayments and other receivables	**3,852**	(5,987)
— Trade payables	**(1,127)**	(2,076)
— Other payables and accruals	**4,800**	(945)
— Advances from customers and distributors	**(6,537)**	(15,278)
— Advances under government grants	**(1,000)**	(3,155)
— Deferred revenue	**(10,422)**	2,432
Cash generated from/(used in) operations	**5,723**	(5,806)

33 Cash flow information (continued)

(b) Net cash reconciliation

Net cash	2017 RMB'000	2016 RMB'000
Cash, cash equivalents and overdrafts	**906,368**	213,364
Short-term deposits	**634,000**	1,341,427
Borrowings — repayable within one year	**—**	(278,056)
Net cash	**1,540,368**	1,276,735
Cash and short-term deposits and overdrafts	**1,540,368**	1,554,791
Gross debt — fixed interest rates	**—**	(278,056)
Net cash	**1,540,368**	1,276,735

	Other assets		Liabilities from financing activities	
	Cash, cash equivalents and overdraft RMB'000	Short-term deposits RMB'000	Borrowings due within 1 year RMB'000	Total RMB'000
Net cash as at 31 December 2016	**213,364**	**1,341,427**	**(278,056)**	**1,276,735**
Cash flows	**701,523**	**(707,427)**	**278,056**	**272,152**
Foreign exchange adjustments	**(8,519)**	**—**	**—**	**(8,519)**
Net cash as at 31 December 2017	**906,368**	**634,000**	**—**	**1,540,368**

34 Commitments

(a) Operating lease commitments — group company as leasee

The Group leases buildings for daily operations under non-cancellable operating leases. The lease expenditure charged to profit or loss for the years ended 31 December 2017 and 2016 is disclosed in Note 6.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Not later than 1 year	**20,825**	29,699
Later than 1 year and not later than 5 years	**71,111**	74,482
Over 5 years	**59,148**	77,100
	151,084	181,281

35 Related party transactions

The ultimate parent and the ultimate controlling party of the Group is TMF (Cayman) Ltd. (incorporated in the Cayman Islands).

In addition to those disclosed elsewhere in the financial statements, the following transactions were carried out with related parties:

(a) Name and relationship with related parties

The following individual and entity are related parties of the Group that had balances and/or transactions with the Group for the years ended 31 December 2017 and 2016:

Name	Relationship
Mr. Dai Jian	Chairman
Mr. Deng Linghua	Chief Technology Officer ("CTO")
Xingmen	An associate of the Group before 20 September 2016

(b) Balances with related parties

(i) Amounts due to related parties

Name of related parties	As at 31 December	
	2017	2016
	RMB'000	RMB'000
— Mr. Dai Jian	**–**	200
— Mr. Deng Linghua	**–**	50
	–	250

The amounts due to related parties are unsecured, interest-free and repayable on demand.

35 Related party transactions (continued)

(c) Transactions with a related party

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Purchase of service:		
— Xingmen	—	722

(d) Key management personnel compensations

The compensations paid or payable to key management personnel for employee services are shown below:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Wages, salaries and bonuses	**6,945**	10,549
Pension costs – defined contribution plans	**235**	252
Other social security costs, housing benefits and other employee benefits	**318**	350
Share-based compensation expenses	**2,000**	(218)
	9,498	10,933

36 Contingencies

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

37 Subsequent event

On 2 March 2018, the Group decided to wind up its subsidiary, Bumps To Babes Limited, to cease its retail business in Hong Kong. A shareholders' and creditors' meeting of Bumps To Babes Limited was held on 22 March 2018, whereby the shareholders and creditors of Bumps To Babes Limited then resolved on, inter alia, the appointment of liquidators. The liquidators will realize the assets of Bumps To Babes Limited and distribute the proceeds, if any, to the creditors according to their statutory priority.

38 Balance sheet and reserve movement of the Company

Balance sheet of the Company	Note	As at 31 December 2017 RMB'000	2016 RMB'000
ASSETS			
Non-current assets			
Interests in subsidiaries		**250,124**	242,887
Financial assets at fair value through profit or loss		**6,556**	2,694
		256,680	245,581
Current assets			
Prepayments and other receivables		**5,458**	5,828
Amounts due from subsidiaries		**29,088**	28,960
Short-term deposits		**514,000**	336,434
Cash and cash equivalents		**156,703**	57,720
Restricted cash		**—**	279,556
		705,249	708,498
Total assets		**961,929**	954,079
EQUITY			
Share capital		**9**	9
Share premium		**1,525,596**	1,567,040
Reserves	a	**9,038**	21,861
Accumulated losses	a	**(649,676)**	(652,334)
Total equity		**884,967**	936,576
LIABILITIES			
Current liabilities			
Other payables and accruals		**1,339**	3,590
Amounts due to subsidiaries		**75,623**	13,913
		76,962	17,503
Total liabilities		**76,962**	17,503
Total equity and liabilities		**961,929**	954,079

38 Balance sheet and reserve movement of the Company (continued)

(a) Reserve movement of the Company

	Other reserve RMB'000	Accumulated losses RMB'000
At 1 January 2016	40,395	(651,720)
Loss for the year	—	(614)
Share Option Scheme:		
— Exercise of share options	(26)	—
— Value of options to a vendor	151	—
RSU Scheme:		
— Value of employee services	10,308	—
— Vesting of RSUs	(28,967)	—
At 31 December 2016	21,861	(652,334)
At 1 January 2017	**21,861**	**(652,334)**
Profit for the year	**—**	**2,658**
Share Option Scheme:		
— Exercise of share options	**(8)**	**—**
— Forfeit of options to a vendor	**(151)**	
RSU Scheme:		
— Value of employee services	**7,237**	**—**
— Vesting of RSUs	**(19,901)**	**—**
At 31 December 2017	**9,038**	**(649,676)**

39 Benefits and interests of directors (disclosures required by section 383 of the Hong Kong Companies Ordinance (Cap. 622), Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) and HK Listing Rules)

(a) Directors' and chief executives' emoluments

The remunerations of the directors and the chief executive for each of the years ended 31 December 2017 and 2016 are set out below:

Year ended 31 December 2017:

Name	Fees	Salaries	Discretionary bonus	Employer's contribution to retirement benefit scheme	Other social security costs, housing benefits and other employee benefits	Estimated money value of share-based compensation	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors							
Mr. Dai Jian (Chief Executive Officer ("CEO")) (i)	–	1,380	115	29	44	738	2,306
Mr. Wu Lili	–	600	50	80	108	–	838
Mr. Li Chong	–	1,440	120	29	44	–	1,633
Mr. Wang Xiaodong	–	1,200	100	29	44	–	1,373
Dr. Xu Gang (i)	–	150	–	9	12	257	428
Independent Non-Executive Directors							
Ms. Liu Qianli	328	–	–	–	–	7	335
Dr. Wang Qing	328	–	–	–	–	7	335
Mr. Ma Xiaofeng	321	–	–	–	–	7	328

39 Benefits and interests of directors (disclosures required by section 383 of the Hong Kong Companies Ordinance (Cap. 622), Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) and HK Listing Rules) (continued)

(a) Directors' and chief executives' emoluments (continued)

Year ended 31 December 2016:

Name	Fees RMB'000	Salaries RMB'000	Discretionary bonus RMB'000	Employer's contribution to retirement benefit scheme RMB'000	Other social security costs, housing benefits and other employee benefits RMB'000	Estimated money value of share-based compensation RMB'000	Total RMB'000
Executive Directors							
Mr. Dai Jian (Chief Executive Officer ("CEO")) (i)	—	1,380	50	26	42	2,113	3,611
Mr. Wu Lili	—	600	50	74	99	—	823
Mr. Li Chong	—	1,170	18	26	42	—	1,256
Mr. Wang Xiaodong	—	912	150	26	42	—	1,130
Dr. Xu Gang (i)	—	2,123	177	26	42	(411)	1,957
Independent Non-Executive Directors							
Ms. Liu Qianli	300	—	—	—	—	42	342
Dr. Wang Qing	300	—	—	—	—	42	342
Mr. Ma Xiaofeng	267	—	—	—	—	42	309

(i) Mr Dai Jian was appointed as the CEO of the Company and Dr. Xu Gang relinquished his position as the CEO (who was appointed on 5 March 2015) but would remain as an executive Director since 15 October 2016, Dr. Xu Gang subsequently resigned as an executive Director on 31 March 2017.

(b) Directors' termination benefits

No director's termination benefit subsisted at the end of the year or at any time during the year.

(c) Consideration provided to third parties for making available directors' services

No consideration provided to third parties for making available directors' services subsisted at the end of the year or at any time during the year.

39 Benefits and interests of directors (disclosures required by section 383 of the Hong Kong Companies Ordinance (Cap. 622), Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) and HK Listing Rules) (continued)

(d) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

No loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors subsisted at the end of the year or at any time during the year.

(e) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.