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# BAIOO Family Interactive Limited

## 百奧家庭互動有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2100)

### 2016 INTERIM RESULTS ANNOUNCEMENT

The board of directors (the “**Board**”) of BAIOO Family Interactive Limited (“**BAIOO**” or the “**Company**”) is pleased to announce the unaudited consolidated results of the Company, its subsidiaries and the PRC operating entity (the “**Group**”) for the six months ended 30 June 2016.

#### Financial Summary

#### INCOME STATEMENT HIGHLIGHT

	Unaudited		Period- on-period Change %
	Six months ended 30 June		
	2016	2015	
	RMB'000	RMB'000	
Revenue	187,644	183,930	2.0%
Gross profit	109,947	110,087	(0.1%)
Operating (loss)/profit	(18,220)	38,368	(147.5%)
Non-International Financial Reporting Standards (“ <b>IFRSs</b> ”) Measures			
— Adjusted Net Profit <sup>(1)</sup>	8,569	62,063	(86.2%)
— Adjusted EBITDA <sup>(2)</sup>	1,278	50,768	(97.5%)

Note:

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

## BALANCE SHEET HIGHLIGHT

	<b>Unaudited</b> <b>As of</b> <b>30 June</b> <b>2016</b> <i>RMB'000</i>	<b>Audited</b> <b>As of</b> <b>31 December</b> <b>2015</b> <i>RMB'000</i>
<b>Assets</b>		
Non-current assets	<b>493,480</b>	464,519
Current assets	<b>1,514,148</b>	1,288,471
<b>Total assets</b>	<b>2,007,628</b>	1,752,990
<b>Equity and liabilities</b>		
Total equity	<b>1,536,401</b>	1,570,324
Non-current liabilities	<b>19,510</b>	16,865
Current liabilities	<b>451,717</b>	165,801
Total liabilities	<b>471,227</b>	182,666
<b>Total equity and liabilities</b>	<b>2,007,628</b>	1,752,990

# Management Discussion and Analysis

## Business Overview

In the first half of 2016, BAIIO's continued strategic focused on audience engagement and the creation of 'fun' content began to pay off as user numbers on our virtual worlds continued to stabilize. Through BAIIO's account optimization initiatives, as well as a growing pipeline of interesting and engaging content, the Company was able to increase average quarterly active accounts ("QAAs") to 48.5 million in the first half of 2016, an improvement of 0.8% over 48.1 million of the same period of last year. Notably, our virtual world, Legend of Aoqi, continued to perform well, highlighting our proven ability to provide engaging game play. Product-wise, the Company has a number of planned mobile offerings, including games based on our well received comics in the second half of the year. In terms of our maternity business, Bumps to Babes, we continued to successfully expand our groundwork and consolidate our presence in the China market. Our retail segment, including Bumps to Babes and the associated e-commerce business, recorded total revenue of RMB26.7 million for the first half of 2016. Financially, we maintained an adjusted net profit of RMB8.6 million despite of many operating investments made including research and development focused on mobile and personal computer ("PC") products. Our strong cash and cash equivalents, term deposits and restricted cash balance net of borrowing and overdraft of RMB1,569.7 million at the end of the first half of the year also represents a sound financial standing of our Group.

With the stabilization in revenues, BAIIO decided to take advantage of various investment opportunities that materialized to expand our intellectual property ("IP") portfolio for long-term growth. Notably, the Company set up a new comic arm, Baiman Wenhua (「百漫文化」), which launched a number of web comic series, including XiXingJi (「西行紀」), an award-winning fantasy adventure story adapted from classic Chinese literature, and Zaowufaze (「造物法則」), a zombie-themed sci-fi comic rated as an "S" or "A+" by leading online comic websites. We acquired exclusive distribution and adaptation rights to this new IP, and we plan to create innovative new products for mobile devices. We also additionally invested in a number of mobile products that are still in development. We expect a number of these investments to contribute materially in the second half of 2016, which we anticipate will return BAIIO back to profitability and generate long-term value for the shareholders of the Company (the "Shareholders").

Other than the above mentioned, there has been no material changes in respect of such matters discussed in the Management Discussion and Analysis of the 2015 annual report of BAIIO for the year ended 31 December 2015 under the subject headed "Business Review".

## Industry Review

In the first half of 2016, despite slowing economic growth and increasing uncertainties from the Brexit vote, the gaming sector in China remained robust. According to the newest China Gaming Industry Report released by the China Digital Entertainment Expo & Conference, the revenue generated from the gaming sector in China from January to June 2016 rose to RMB78.8 billion, an increase of 30.1%, and the number of total gaming users reached 489 million, an increase of 6.7% from January to June 2016. We continue to see ample opportunities in the online children's entertainment sector, and our recent line of IP acquisitions will bolster our development pipeline for online and mobile offerings.

## Outlook for the Second Half of 2016

In the second half of 2016, we plan to launch a number of new self-developed products. In addition, we also have a number of cross-platform offerings that we have developed using our newly acquired IP. We believe that a number of these products will begin to contribute material revenue in the second half of 2016. In terms of our virtual world offerings, we have seen a measurable improvement in user metrics as a result of our ongoing retention and engagement initiatives, and we anticipate this uptick to continue in the second half of 2016. We are confident that the launches of these new products and continued improvement in existing business lines will drive BAIOO back into profitability in the second half of the year. Our long term growth story remains intact, and we will continue looking for additional opportunities to expand and grow our IP portfolio and product lines as appropriate in order to develop a solid foundation for sustained and long-term growth.

## OPERATION INFORMATION

The following table sets out QAAs, average quarterly paying accounts (“QPAs”) and average quarterly average revenue per quarterly paying accounts (“ARQPA”) for our online virtual worlds for the periods indicated below (Notes):

	Six months ended		Period-
	30 June	30 June	over-period
	2016 <sup>(1)</sup>	2015	change
	<i>(QAA &amp; QPA in millions, ARQPA in RMB)</i>		
average QAA <sup>(2)</sup>	<b>48.5</b>	48.1	0.8%
average QPA <sup>(3)</sup>	<b>2.0</b>	2.4	(16.7%)
average quarterly ARQPA <sup>(4)</sup>	<b>39.5</b>	34.3	15.2%

### Notes:

1. As of 30 June 2016, 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 and Amazing Combat.
2. The average QAA for online virtual worlds was approximately 48.5 million for the six months ended 30 June 2016, representing an increase of approximately 0.8% compared with the same period last year. This reflected our virtual worlds keep stable active user as we focus on fun, accessible and healthy content.
3. The average QPA for online virtual worlds was approximately 2.0 million for the six months ended 30 June 2016, representing a decrease of approximately 16.7% 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 RMB39.5 for the six months ended 30 June 2016, representing an increase of approximately 15.2% compared with the same period last year as a result of the increasing popularity of our online virtual world after our “fun” strategy implement.

## OVERALL BUSINESS AND FINANCIAL PERFORMANCE

The following table sets forth our interim condensed consolidated statements of comprehensive (loss)/income for the six months ended 30 June 2016 and 2015, respectively:

	<b>Unaudited</b>			
	<b>For the six months ended</b>			
	<b>30 June</b>	<b>% of</b>	<b>30 June</b>	<b>% of</b>
	<b>2016</b>	<b>Revenue</b>	<b>2015</b>	<b>Revenue</b>
	<b>RMB'000</b>		<b>RMB'000</b>	
<b>Revenue</b>	<b>187,644</b>	<b>100.0</b>	183,930	100.0
Online entertainment business	<b>160,748</b>	<b>85.7</b>	172,308	93.7
Retail Business	<b>26,684</b>	<b>14.2</b>	10,439	5.7
Other businesses	<b>212</b>	<b>0.1</b>	1,183	0.6
<b>Cost of revenue</b>	<b>(77,697)</b>	<b>(41.4)</b>	(73,843)	(40.1)
<b>Gross profit</b>	<b>109,947</b>	<b>58.6</b>	110,087	59.9
Selling and marketing expenses	<b>(47,643)</b>	<b>(25.4)</b>	(26,483)	(14.5)
Administrative expenses	<b>(53,609)</b>	<b>(28.6)</b>	(33,165)	(18.0)
Research and development expenses	<b>(33,244)</b>	<b>(17.7)</b>	(15,533)	(8.4)
Other income	<b>3,959</b>	<b>2.1</b>	3,460	1.9
Other gains — net	<b>2,370</b>	<b>1.3</b>	2	0.0
<b>Operating (loss)/profit</b>	<b>(18,220)</b>	<b>(9.7)</b>	38,368	20.9
Finance income — net	<b>15,294</b>	<b>8.1</b>	23,836	12.9
Share of profit of an associate	<b>11</b>	<b>0.0</b>	—	—
<b>(Loss)/profit before income tax</b>	<b>(2,915)</b>	<b>(1.6)</b>	62,204	33.8
Income tax expense	<b>(4,060)</b>	<b>(2.1)</b>	(8,749)	(4.7)
<b>(Loss)/profit for the period</b>	<b>(6,975)</b>	<b>(3.7)</b>	53,455	29.1
Other comprehensive income, net of tax	<b>427</b>	<b>0.2</b>	—	—
<b>Total comprehensive (loss)/income for the period</b>	<b>(6,548)</b>	<b>(3.5)</b>	53,455	29.1
<b>Other financial data</b>				
Adjusted net profit <sup>(1)</sup> (unaudited)	<b>8,569</b>	<b>4.6</b>	62,063	33.7
Adjusted EBITDA <sup>(2)</sup> (unaudited)	<b>1,278</b>	<b>0.7</b>	50,768	27.6

Notes:

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

## Revenue

Our revenue for the six months ended 30 June 2016 was RMB187.6 million, representing a 2.0% increase from RMB183.9 million for the six months ended 30 June 2015.

*Online Entertainment Business:* Our online entertainment business revenue for the six months ended 30 June 2016 was RMB160.7 million, a 6.7% decrease from RMB172.3 million for the six months ended 30 June 2015. This was primarily due to our strategy of moving away from heavy monetization and focus on fun purpose to attract more users.

*Retail Business (Note):* Revenue from retail business for the six months ended 30 June 2016 was RMB26.7 million, a 156.7% increase from RMB10.4 million for the six months ended 30 June 2015, primarily due to additional revenue generated from the sales of baby and maternity products by Bumps to Babes, which we acquired on 8 May 2015.

*Other Businesses:* Revenue from other businesses for the six months ended 30 June 2016 was RMB0.2 million, a 83.3% decrease from RMB1.2 million for the six months ended 30 June 2015, mainly reflected the decrease of the revenue generated from the advertisement compared with six months ended 30 June 2015.

*Note:*

In light of the expansion of our retail business, we separate it from the “other businesses” segment in our financial statements from 2016 onwards. Comparative figures have been reclassified to conform to the new presentation.

## Cost of Revenue

Our cost of revenue for the six months ended 30 June 2016 was RMB77.7 million, a 5.3% increase from RMB73.8 million for the six months ended 30 June 2015.

*Online Entertainment Business:* Our online entertainment business’ cost for the six months ended 30 June 2016 was RMB60.5 million, a 8.9% decrease from RMB66.4 million for the six months ended 30 June 2015. The decrease was primarily driven by the decrease in employee benefit expenses and prepaid card production fees, partly offset by the increase in payment of third party revenue sharing.

*Retail Business:* Cost of Retail business for the six months ended 30 June 2016 was RMB14.9 million, a 129.2% increase from RMB6.5 million for the six months ended 30 June 2015. The increase mainly reflected increase in cost of goods sold as a result of baby and maternity product sales following the Bumps to Babes acquisition on May 2015.

*Other Businesses:* Cost of other businesses for the six months ended 30 June 2016 was RM2.3 million, a 155.6% increase from RMB0.9 million for the six months ended 30 June 2015. The increase primarily reflected increase in employee benefit expenses.

## **Gross Profit**

As a result of the foregoing, our gross profit for the six months ended 30 June 2016 was RMB109.9 million, compared with RMB110.1 million for the six months ended 30 June 2015. Gross profit margin was 58.6% for the six months ended 30 June 2016, compared with 59.9% for the six months ended 30 June 2015. The lower gross profit margin was mainly due to the lower gross profit margins of baby and maternity products that were sold by Bumps to Babes.

## **Selling and Marketing Expenses**

Our selling and marketing expenses for the six months ended 30 June 2016 were RMB47.6 million, a 79.6% increase from RMB26.5 million for the six months ended 30 June 2015. This was primarily due to (i) additional employee benefit expenses and operating retail lease rental expenses incurred following the Bumps to Babes acquisition and (ii) higher marketing spending on promotional programs.

## **Administrative Expenses**

Our administrative expenses for the six months ended 30 June 2016 were RMB53.6 million, a 61.4% increase from RMB33.2 million for the six months ended 30 June 2015. This was primarily the result of (i) a RMB7.8 million increase in employee benefit expenses due to increase in administrative headcount; (ii) an RMB9.1 million of one-time expense arising from relocation to a newly rented office space; (iii) a RMB0.9 million increase in utility and office expenses and (iv) a RMB1.2 million increase in professional fees.

## **Research and Development Expenses**

Our research and development expenses for the six months ended 30 June 2016 were RMB33.2 million, a 114.2% increase from RMB15.5 million for the six months ended 30 June 2015. This was primarily driven by increases in expenses for the research and development projects for new mobile and PC games development as well as development of an e-commerce platform.

## **Other Income**

The Company recognized RMB4.0 million in other income for the six months ended 30 June 2016, compared with RMB3.5 million for the six months ended 30 June 2015. The other income was generated as a result of our fulfillment of certain performance conditions attached to government grants.

## **Other Gains — net**

The Company recognized RMB2.4 million in fair value gains on financial assets at fair value through profit or loss in the first half of 2016, compared with RMB2,000 in foreign exchange gains for the six months ended 30 June 2015.

## **Operating (Loss)/profit**

As a result of the foregoing, our operating loss for the six months ended 30 June 2016 was RMB18.2 million, compared with operating profit of RMB38.4 million for the six months ended 30 June 2015.

## **Finance Income — net**

We had net finance income of RMB15.3 million for the six months ended 30 June 2016, compared with net finance income of RMB23.8 million for the six month ended 30 June 2015. Finance income for the six months ended 30 June 2016 was primarily attributable to (i) RMB12.3 million in interest income on short-term and long-term deposits; (ii) RMB1.2 million in interest income on cash in bank balances and (iii) RMB2.5 million in exchange gains related to non-RMB cash on hands.

## **(Loss)/profit before Income Tax**

As a result of the foregoing, we had a loss of RMB2.9 million for the six months ended 30 June 2016, compared with a profit of RMB62.2 million for the six months ended 30 June 2015.

## **Income Tax Expense**

Our income tax expense for the six months ended 30 June 2016 was RMB4.1 million, a 52.9% decrease from RMB8.7 million for the six months ended 30 June 2015. This was primarily due to the decrease of assessable profit.

## **(Loss)/profit for the Period**

As a result of the foregoing, we had a loss of RMB7.0 million for the six months ended 30 June 2016, compared with a profit of RMB53.5 million for the six months ended 30 June 2015.

## **Non-IFRS Measure — Adjusted Net Profit/EBITDA**

Our adjusted net profit for the six months ended 30 June 2016 was RMB8.6 million, representing a 86.2% decrease from RMB62.1 million for the six months ended 30 June 2015. Our adjusted EBITDA for the six months ended 30 June 2016 was RMB1.3 million, representing a 97.4% decrease from RMB50.8 million for the six months ended 30 June 2015.

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

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2016</b>	<b>2015</b>
	<b>RMB'000</b>	<b>RMB'000</b>
(Loss)/profit for the period	<b>(6,975)</b>	53,455
Add:		
Share-based compensation	<b>15,544</b>	8,608
Adjusted net profit	<b>8,569</b>	62,063
Add:		
Depreciation and amortization	<b>3,943</b>	3,792
Finance income-net	<b>(15,294)</b>	(23,836)
Income tax	<b>4,060</b>	8,749
Adjusted EBITDA	<b>1,278</b>	50,768

## **LIQUIDITY AND FINANCIAL RESOURCES**

In the first half of 2016, 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:

	<b>Unaudited</b>	<b>Audited</b>
	<b>As of</b>	<b>As of</b>
	<b>30 June</b>	<b>31 December</b>
	<b>2016</b>	<b>2015</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Total liabilities	<b>471,227</b>	182,666
Total assets	<b>2,007,628</b>	1,752,990
Gearing ratio <sup>(3)</sup>	<b>23%</b>	10%

Notes:

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

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

As of 30 June 2016, our cash and cash equivalents consisted of cash in bank and cash on hand, which amounted to RMB247.7 million, compared with RMB254.6 million as of 31 December 2015. We had short-term deposits of RMB941.1 million as of 30 June 2016, representing bank deposits which we intend to hold for over three months but less than one year. We also had long-term deposits of RMB380.0 million as of 30 June 2016, representing bank deposits with an expected maturity of over one year but less than two years. The effective interest rate per annum for all bank balances and deposits as of 30 June 2016 was 1.7%, compared with 2.7% as of 31 December 2015. Our policy is to place our cash in interest-bearing principal-protected demand or deposits with reputable PRC or international banks.

### Restricted Cash

As of 30 June 2016, the Group had restricted cash balance of RMB279.6 million, representing our deposit placed in a bank as collateral for a one-year banking facility. The banking facility was granted to Guangzhou Baitian Information Technology Ltd., our PRC operating entity.

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

<b>Group</b>	<b>Unaudited As of 30 June 2016 RMB'000</b>	<b>Audited As of 31 December 2015 RMB'000</b>
RMB	<b>1,738,620</b>	1,455,632
HK\$	<b>100,208</b>	146,282
US\$	<b>9,569</b>	8,623
Others	<b>1</b>	92
<b>Total</b>	<b><u>1,848,398</u></b>	<b><u>1,610,629</u></b>

### Bank Loans and Other Borrowings

The Group had a borrowing of RMB278.1 million and overdrafts of RMB0.7 million as of 30 June 2016, which are shown in current liabilities. The borrowing of RMB278.1 million, with the interest rate of demand deposit, will mature in the first half of 2017. The Group had a banking facility of RMB280.6 million as of 30 June 2016, including a RMB278.1 million borrowing facility, RMB1.7 million overdraft facility and a RMB0.8 million rental guarantee. The Group has a RMB1.0 million undrawn overdraft facility.

### Treasury Policies

As of 30 June 2016, the Group had conservative treasury policies in terms of cash and financial management. The Group does not use any financial instruments for hedging purposes.

## Foreign Currency Risk

As of 30 June 2016, RMB109.8 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 as well as leasehold improvement and intangible assets such as computer software. In the first half of 2016, our total capital expenditures were RMB17.1 million, compared with RMB2.3 million in the first half of 2015. The following table sets out our expenditures for the periods indicated:

	<b>Unaudited</b>	
	<b>For the six months ended</b>	
	<b>2016</b>	<b>2015</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Capital Expenditures		
— Purchase of property and equipment	<b>15,210</b>	2,152
— Purchase of intangible assets	<b>1,886</b>	109
	<hr/>	<hr/>
Total	<b><u>17,096</u></b>	<b><u>2,261</u></b>

## Contingent Liabilities

As of 30 June 2016 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.

## Material Acquisitions and Future Plans for Major Investment

The Group had no material acquisition or disposal of subsidiaries or associated companies during the six months ended 30 June 2016.

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

## Employees and Staff Costs

As of 30 June 2016, the Group had 835 full-time employees, 94.6% of whom are based in Guangzhou. The following table sets forth the number of full-time employees by function as of 30 June 2016:

	As of 30 June 2016	
	Number of Employees	% of Total
Operations	374	44.8
Development and research	227	27.2
Sales and marketing	164	19.6
General and administration	70	8.4
Total	<u>835</u>	<u>100.0</u>

In addition to salary, we also provide various incentives, including share-based awards, such as share options and restricted shares units (“RSUs”) granted pursuant to the share incentive schemes of the Company, and performance-based bonuses to better motivate our employees. As required by the PRC law, we contribute to housing funds and maintain mandatory social insurance plans for our employees, covering pension, medical, unemployment, work injury and maternity leave. We are required by the PRC law to make contributions to these social insurance plans at specified percentages of the compensation of each employee, up to a maximum amount as may be specified by the local government from time to time. Such social insurance plans include defined contribution retirement benefit plans organized by the relevant governmental authorities. Forfeited contributions by the Group to these plans may not be used by the Group to reduce the existing level of contributions. The total amount of contributions we made for employee social insurance plans in the first half of 2016 were approximately RMB16.1 million, compared with RMB12.7 million in the first half of 2015. We incurred staff costs of approximately RMB114.7 million and RMB85.3 million, for the six months ended 30 June 2016 and 2015, representing 61.1% and 46.4% 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 2,044,000 share options and 39,005,850 RSUs outstanding as of 30 June 2016.

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 114,238,000 shares, representing approximately 4.0% of our share capital as of the date of the AGM (as defined below). As of 30 June 2016, 95,780,000 RSUs have been granted to senior management members and employees of the Group pursuant to the Post-IPO RSU Scheme and there were a total of 77,560,000 RSUs outstanding as of 30 June 2016.

## **Dividend**

At the Company's annual general meeting on 27 May 2016 ("AGM"), the then Shareholders approved the Board-recommended final dividend of HK\$0.018 (equivalent to approximately RMB0.015) per share for the year ended 31 December 2015. The final dividend was paid to the then Shareholders on 27 June 2016.

The Board did not propose any interim dividend for the six months ended 30 June 2016 (for the six months ended 30 June 2015: Nil).

## **CHANGES SINCE 31 DECEMBER 2015**

There were no other significant changes in the Group's financial position or from the information disclosed under management discussion and analysis in the annual report of our Company for the year ended 31 December 2015.

# INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

		<b>Unaudited</b>	
		<b>Six months ended 30 June</b>	
		<b>2016</b>	<b>2015</b>
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	3	<b>187,644</b>	183,930
Cost of revenue		<b>(77,697)</b>	(73,843)
<b>Gross profit</b>		<b>109,947</b>	110,087
Selling and marketing expenses		<b>(47,643)</b>	(26,483)
Administrative expenses		<b>(53,609)</b>	(33,165)
Research and development expenses		<b>(33,244)</b>	(15,533)
Other income		<b>3,959</b>	3,460
Other gains – net		<b>2,370</b>	2
<b>Operating (loss)/profit</b>	4	<b>(18,220)</b>	38,368
Finance income		<b>15,969</b>	27,207
Finance costs		<b>(675)</b>	(3,371)
Finance income-net		<b>15,294</b>	23,836
Share of profit of an associate		<b>11</b>	—
<b>(Loss)/profit before income tax</b>		<b>(2,915)</b>	62,204
Income tax expense	5	<b>(4,060)</b>	(8,749)
<b>(Loss)/profit for the period</b>		<b>(6,975)</b>	53,455
<b>Attributable to:</b>			
— Shareholders of the Company		<b>(5,448)</b>	53,382
— Non-controlling interests		<b>(1,527)</b>	73
		<b>(6,975)</b>	53,455
<b>(Losses)/earnings per share</b> (expressed in RMB per share)			
— Basic	6	<b>(0.0020)</b>	0.0198
— Diluted		<b>(0.0020)</b>	0.0195

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE (LOSS)/INCOME

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2016</b>	<b>2015</b>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>(Loss)/profit for the period</b>	<b>(6,975)</b>	<b>53,455</b>
<b>Other comprehensive income</b>		
<i>Items that may be reclassified to profit or loss</i>		
Currency translation differences	<u>427</u>	<u>—</u>
<b>Total comprehensive (loss)/income for the period</b>	<u><b>(6,548)</b></u>	<u><b>53,455</b></u>
<b>Attributable to:</b>		
— Shareholders of the Company	<b>(5,152)</b>	<b>53,382</b>
— Non-controlling interests	<u><b>(1,396)</b></u>	<u><b>73</b></u>
	<u><b>(6,548)</b></u>	<u><b>53,455</b></u>

# INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited As at 30 June 2016 RMB'000	Audited As at 31 December 2015 RMB'000
	<i>Note</i>		
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property and equipment		41,182	16,312
Intangible assets		51,458	50,003
Investment in an associate		3,667	3,656
Prepayments and other receivables		9,676	9,608
Deferred income tax assets		4,873	4,940
Long-term deposits		380,000	380,000
Financial assets at fair value through profit or loss		2,624	—
		<u>493,480</u>	<u>464,519</u>
<b>Current assets</b>			
Inventories		16,074	16,277
Trade receivables	8	7,005	6,161
Prepayments and other receivables		21,598	34,106
Financial assets at fair value through profit or loss		1,073	1,298
Short-term deposits		941,121	975,991
Cash and cash equivalents		247,721	254,638
Restricted cash		279,556	—
		<u>1,514,148</u>	<u>1,288,471</u>
<b>Total assets</b>		<u><u>2,007,628</u></u>	<u><u>1,752,990</u></u>
<b>EQUITY</b>			
Share capital		8	8
Share premium		1,552,913	1,581,855
Reserves		50,201	48,338
Accumulated losses		(83,410)	(77,962)
		<u>1,519,712</u>	<u>1,552,239</u>
Non-controlling interests		<u>16,689</u>	<u>18,085</u>
<b>Total equity</b>		<u><u>1,536,401</u></u>	<u><u>1,570,324</u></u>

		<b>Unaudited</b>	Audited
		<b>As at</b>	As at
		<b>30 June</b>	31 December
		<b>2016</b>	2015
	<i>Note</i>	<b>RMB'000</b>	<b>RMB'000</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred revenue		5,560	2,842
Deferred income tax liabilities		2,628	2,670
Advances from government grants		778	1,560
Long-term payable		10,544	9,793
		<u>19,510</u>	<u>16,865</u>
<b>Current liabilities</b>			
Trade payables	9	13,318	11,467
Other payables and accruals		45,511	38,865
Amount due to related parties		—	1,075
Advances from customers and distributors		51,011	57,828
Advance from government grant		1,000	3,273
Deferred revenue		59,489	50,801
Income tax liabilities		2,672	2,276
Borrowing		278,056	—
Bank overdrafts		660	216
		<u>451,717</u>	<u>165,801</u>
<b>Total liabilities</b>		<u><u>471,227</u></u>	<u><u>182,666</u></u>
<b>Total equity and liabilities</b>		<u><u>2,007,628</u></u>	<u><u>1,752,990</u></u>

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

## 1 Basis of preparation

This interim condensed consolidated financial information for the six months ended 30 June 2016 has been prepared in accordance with International Accounting Standard (“IAS”) 34, ‘Interim financial reporting’. The interim condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with IFRSs.

## 2 Accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2015, as described in those annual financial statements.

### (i) Amendments to standards adopted by the Group as at 1 January 2016

The following amendments to standards are mandatory for the Group’s financial year beginning 1 January 2016. The adoption of these amendments to standards does not have any material impact on the Group.

IAS 1 (Amendment)	Disclosure Initiative
IFRS 14	Regulatory Deferral Accounts
IFRS 11 (Amendment)	Accounting for Acquisitions of Interests in Joint Operations
IAS 16 and IAS 38 (Amendment)	Clarification of Acceptable Methods of Depreciation and Amortization
IAS 16 and IAS 41 (Amendment)	Agriculture: Bearer Plants
IAS 27 (Amendment)	Equity Method in Separate Financial Statements
IFRS 10, IFRS 12 and IAS 28 (Amendment)	Investment Entities: Applying the Consolidation Exception
IFRSs (Amendment)	Annual Improvements 2012–2014 Cycle

There are no other amended standards that are effective for the first time for this interim period that could be expected to have a material impact on the Group.

### (ii) Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

### 3 Segment information

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

In light of the expansion of the Group's retail business, the retail revenue previously included in the "Other businesses" segment has been separately presented as the "Retail business" segment in this interim condensed financial information. The "Online business" has been renamed as "Online entertainment business". The comparative figures have also been reclassified to conform to the new presentation. The above changes in segment information were taken to better reflect the current operations of the Group, as well as the resource allocation and future business developments of the Group.

As a result of this evaluation, the Group determined that it has operating segments as follows:

- Online entertainment business
- Retail business (including the associated e-commerce business)
- Other businesses

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

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

There were no material inter-segment sales during six months ended 30 June 2016 and 2015, respectively. The revenues from external customers reported to CODM are measured as segment revenue.

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

The segment revenue provided to the Group's CODM for the reportable segments for the six months ended 30 June 2016 and 2015, respectively, are as follows:

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

	<b>Unaudited</b>			
	<b>Six months ended 30 June 2015</b>			
	<b>Online entertainment business</b>	<b>Retail business</b>	<b>Other businesses</b>	<b>Total</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Segment Revenue	172,308	10,439	1,183	183,930
Gross Profit	105,910	3,941	236	110,087
Depreciation	3,509	51	—	3,560
Amortization	55	177	—	232

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

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

For six months ended 30 June 2016 and 2015, the geographical information on the total revenue is as follows:

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2016</b>	<b>2015</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Revenue		
— Mainland China	<b>160,960</b>	173,491
— Hong Kong	<b>26,684</b>	10,439
	<hr/>	<hr/>
Total	<b>187,644</b>	183,930
	<hr/> <hr/>	<hr/> <hr/>

There is no concentration risk in terms of customers (which include end users from online entertainment business and customers from retail business as well as other businesses) as no single external customer contributed more than 10% of the Group's total revenue for the six months ended 30 June 2016 and 2015, respectively. However, revenue of the Group is mainly derived from self-developed online virtual worlds operations and the Group depends on the success of a limited number of online virtual worlds to generate revenue. As summarized in the table below, the online virtual worlds contributing more than 10% of the Group's total revenue account for 67.3% and 86.3% of the total revenue for the six months ended 30 June 2016 and 2015, 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.

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2016</b>	<b>2015</b>
Legend of Aoqi	<b>44.7%</b>	43.4%
Aola Star	<b>22.6%</b>	28.9%
Aobi Island	<b>N/A</b>	14.0%

As at 30 June 2016, the total non-current assets, other than financial instruments and deferred tax assets, located in Mainland China and other areas were RMB45,766,000 (31 December 2015: RMB19,811,000) and RMB52,899,000 (31 December 2015: RMB50,983,000), respectively.

#### 4 Operating (loss)/profit

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

	Unaudited	
	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Operating items</b>		
Employee benefit expenses	114,747	85,262
Promotion and advertising expenses	23,783	22,725
Bandwidth and server custody fees	10,045	9,504
Operating lease rentals in respect of office premises	22,033	6,864
Cost of inventories sold	15,063	6,212
Professional fees	5,120	3,901
Depreciation of property and equipment and amortization of intangible assets	3,943	3,792
Prepaid card production fee	1,051	2,090

#### 5 Income tax expense

The income tax expense of the Group for the six months ended 30 June 2016 and 2015 is analysed as follows:

	Unaudited	
	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax	4,058	4,144
Deferred income tax	2	4,605
Income tax expense	<u>4,060</u>	<u>8,749</u>

The high effective income tax rate for the six months ended 30 June 2016 was mainly because no deferred tax asset was recognized on the tax losses of the e-commerce business due to the uncertainty of the utilization of the tax losses.

##### (a) Cayman Islands income tax

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

(b) Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits for the six months ended 30 June 2016 and 2015.

(c) PRC enterprise income tax (“EIT”)

The Group’s subsidiaries and PRC operating entity in the PRC are subject to corporate income tax at the rate of 25% except Guangzhou Baitian Information Technology Limited (“**Guangzhou Baitian**”), which was qualified as “High and New Technology Enterprise” (“**HNTE**”) in 2011 and was entitled to a preferential income tax rate of 15% on its estimated assessable profits for the six months ended 30 June 2016 and 2015, respectively.

According to the relevant laws and regulations promulgated by the State Tax Bureau of the PRC that was effective from 2008 onwards, enterprises engaging in research and development activities are entitled to claim 150% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year (“**Super Deduction**”). The Group has made its best estimate for the Super Deduction to be claimed for its entities in ascertaining their assessable profits for the six months ended 30 June 2016 and 2015, respectively.

(d) PRC withholding tax (“WHT”)

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

For the six months ended 30 June 2016 and 2015, respectively, the Group does not have any plan to require its PRC subsidiaries to distribute their retained earnings to the Company as the Company’s share premium is distributable under the Cayman Islands Law. Accordingly, no deferred income tax liability on WHT was accrued as at the end of each of the reporting periods.

## 6 (Losses)/earnings per share

### (a) Basic

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

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2016</b>	<b>2015</b>
(Losses)/earnings attributable to shareholders of the Company ( <i>RMB'000</i> )	<b>(5,448)</b>	53,382
Weighted average number of ordinary shares in issue less shares held for pre-IPO and post-IPO RSU Schemes	<u><b>2,727,638,392</b></u>	<u>2,693,563,914</u>
Basic (losses)/earnings per share (in RMB/share)	<u><b>(0.0020)</b></u>	<u>0.0198</u>

### (b) Diluted

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

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

For the six months ended 30 June 2015, 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 period) 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.

Unaudited  
Six months  
ended  
30 June 2015

## Earnings

Earnings attributable to shareholders of the Company (*RMB'000*) 53,382

## Weighted average number of ordinary shares

Weighted average number of ordinary shares in issue less shares held for pre-IPO RSU Scheme 2,693,563,914

Adjustments for:

— Share options 3,412,650

— RSUs 46,142,340

Weighted average number of ordinary shares for diluted earnings per share 2,743,118,904

Diluted earnings per share (in RMB/share) 0.0195

## 7 Dividend

**Unaudited**  
**Six months ended 30 June**  
**2016**                      **2015**  
***RMB'000***                      ***RMB'000***

Final dividend of HK\$0.018 (2015: HK\$0.035) per ordinary share ( <i>Note a</i> )	<b>43,352</b>	77,577
Less: Dividend for shares held for the RSU Schemes	<u><b>(1,868)</b></u>	<u>(3,162)</u>
	<u><u><b>41,484</b></u></u>	<u><u>74,415</u></u>

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

A 2014 final dividend of HK\$0.035 (equivalent to approximately RMB0.028) per ordinary share, totalling HK\$98,373,000 (equivalent to approximately RMB77,577,000), was approved in the Company's annual general meeting on 19 June 2015 and was paid on 17 July 2015.

(b) The Company did not declare an interim dividend for the six months ended 30 June 2016 (2015: nil).

## 8 Trade receivables

	<b>Unaudited</b> <b>As at</b> <b>30 June</b> <b>2016</b> <i>RMB'000</i>	<b>Audited</b> <b>As at</b> <b>31 December</b> <b>2015</b> <i>RMB'000</i>
Receivables from third parties	<b>7,005</b>	6,161
Less: Allowance for impairment	<u>—</u>	<u>—</u>
	<b><u>7,005</u></b>	<b><u>6,161</u></b>

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

As at 30 June 2016, the ageing analysis of trade receivables is as follows:

	<b>Unaudited</b> <b>As at</b> <b>30 June</b> <b>2016</b> <i>RMB'000</i>	<b>Audited</b> <b>As at</b> <b>31 December</b> <b>2015</b> <i>RMB'000</i>
0–30 days	<b>4,196</b>	4,234
31–60 days	<b>506</b>	168
61–90 days	<b>653</b>	22
91–180 days	<b>755</b>	1,737
Over 180 days	<b>895</b>	—
	<b><u>7,005</u></b>	<b><u>6,161</u></b>

## 9 Trade payables

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

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

	<b>Unaudited</b> <b>As at</b> <b>30 June</b> <b>2016</b> <i>RMB'000</i>	Audited As at 31 December 2015 <i>RMB'000</i>
0–30 days	<b>9,039</b>	7,043
31–60 days	<b>2,367</b>	3,405
61–180 days	<b>502</b>	647
181–365 days	<b>1,254</b>	372
1–2 years	<b>156</b>	—
	<b>13,318</b>	11,467

### **Audit Committee and Review of Financial Statements**

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters. The Audit Committee has also reviewed the Group's unaudited Interim Condensed Consolidated Financial Information for the six months ended 30 June 2016. Based on this review and discussions with the management, the Audit Committee was satisfied that the financial statements were prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting".

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

### **Compliance with the Model Code for Securities Transactions by Directors**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Model Code**") as its own securities dealing code to regulate all dealings by directors of securities in the Company and other matters covered by the Model Code. The Company has made specific enquiry with all directors of the Company (the "**Directors**") and the Directors have confirmed that they had complied with all relevant requirements as set out in the Model Code during the period under review.

### **Compliance with the Corporate Governance Code**

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

The Company has applied the principles and complied with all applicable code provisions of the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange during the period from 1 January 2016 to 30 June 2016.

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

At the Company's annual general meeting on 19 June 2015, the then Shareholders granted a repurchase mandate to the Board to repurchase Shares (which should not exceed 10% of the issued share capital of the Company as at 19 June 2015) from time to time as the Board thinks fit until the next annual general meeting of the Company which took place on 27 May 2016. At that AGM, the then Shareholders granted a repurchase mandate to the Board to repurchase Shares (which should not exceed 10% of the issued share capital of the Company as at 27 May 2016) from time to time as the Board thinks fit until the next annual general meeting of the Company.

During the six months ended 30 June 2016, the Company repurchased a total of 4,022,000 Shares on the Stock Exchange at an aggregate consideration (before expenses) of HK\$1,784,010. All the repurchased Shares were subsequently cancelled.

Particulars of the repurchases are as follows:

<b>Month</b>	<b>Number of Shares repurchased</b>	<b>Purchase price</b>		<b>Aggregate consideration (before expenses) (HK\$)</b>
		<b>Highest (HK\$)</b>	<b>Lowest (HK\$)</b>	
April	1,618,000	0.445	0.415	698,460
May	1,500,000	0.480	0.450	694,520
June	904,000	0.440	0.425	391,030
	<u>4,022,000</u>			<u>1,784,010</u>

Save as disclosed above, the Group did not purchase, sell or redeem any of the listed securities of the Company during the six months ended 30 June 2016.

### **Interim Dividend**

The Directors do not recommend the payment of dividend for the six months ended 30 June 2016.

## **Publication of 2016 Interim Results and Interim Report**

The interim results announcement is published on the Company's website (<http://www.baioo.com.hk>) and the website of Hong Kong Exchanges and Clearing Limited (<http://www.hkex.com.hk>). The interim report of the Company for the six months ended 30 June 2016 will be dispatched to the Shareholders and available on the above websites in due course.

By order of the Board  
**BAIOO Family Interactive Limited**  
**DAI JIAN**  
*Chairman and Executive Director*

Hong Kong, 26 August 2016

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

### **Executive Directors:**

Mr. DAI Jian (*Chairman*)

Mr. WU Lili

Mr. LI Chong

Mr. WANG Xiaodong

Dr. XU Gang (*Chief Executive Officer*)

### **Independent Non-executive Directors:**

Ms. LIU Qianli

Dr. WANG Qing

Mr. MA Xiaofeng