Contents

Corporate Information	2
Company Profile	4
Financial Summary	5
Chairman Letter	6
Definitions and Glossaries	9
Management Discussion and Analysis	14
Biographies of the Directors and Senior Management	25
Directors' Report	30
Corporate Governance Report	60
Environmental, Social and Governance Report	72
Independent Auditor's Report	87
Consolidated Income Statement	93
Consolidated Statement of Comprehensive Income	94
Consolidated Balance Sheet	95
Consolidated Statement of Changes in Equity	97
Consolidated Statement of Cash Flows	99
Notes to the Financial Statements	100

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Dai Jian *(Chairman)*
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

AUDIT COMMITTEE

Ms. Liu Qianli *(Chairperson)*
Dr. Wang Qing
Mr. Ma Xiaofeng

NOMINATION COMMITTEE

Mr. Dai Jian *(Chairperson)*
Mr. Ma Xiaofeng
Ms. Liu Qianli

REMUNERATION COMMITTEE

Dr. Wang Qing *(Chairperson)*
Mr. Ma Xiaofeng
Mr. Wu Lili

CHIEF EXECUTIVE OFFICER

Mr. Dai Jian

ACTING CHIEF FINANCIAL OFFICER

Ms. Chen Xiao Hong

COMPANY SECRETARY

Ms. Ngai Kit Fong

AUTHORIZED REPRESENTATIVES

Mr. Wu Lili
Ms. Ngai Kit Fong

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
22/F, Prince's Building
Central
Hong Kong

COMPANY'S WEBSITE

www.baioo.com.hk

STOCK CODE

2100

HEADQUARTERS IN THE PRC

34 Floor, Goldchi Building
120 Huangpu W Ave, Tianhe
Guangzhou, Guangdong
China 510623

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG SHARE REGISTRAR

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

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL BANKS

China Merchants Bank Guangzhou, Ti Yu 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 children's web game and mobile game developers in China.

Our website, 100bt.com (「百田網」), serves as an all-in-one platform for proprietary content that is designed for children aged 6 through 14 to explore virtual worlds, purchase virtual currency, interact with other users, access communities related to e-learning and cartoons, and participate in a variety of other activities. Users of the platform can register a single account, represented by a unique "Duoduo" ID, to access all of our products and services.

Since we commenced operations, we have developed, launched and currently operate the following eight virtual worlds in web-based platforms: *Aobi Island, Aola Star, Dragon Knights, Light of Aoya, Legend of Aoqi, Clashes of Aoqi, Magic Fighter,* and *Super Badilong*. Our virtual worlds allow children to play various games and fun-learning activities while exploring each virtual world and its storyline, and interacting with other users. New episodes containing new games, activities and storyline updates are released each week for each virtual world to provide users with a continuous, engaging experience. As a result, our virtual worlds have won numerous industry awards and gained strong brand awareness and loyalty among children in China.

To expand our intellectual property ("**IP**") portfolio for long-term growth, we have set up a new comic arm which currently operates various IP of online comic series, such as *Zaowufaze* (「造物法則」) comic and *XiXingJi* (「西行紀」). *Zaowufaze* is a zombie-themed sci-fi online comic series rated as an "S" or "A+" by leading online comic websites and it has accumulated over 1.1 billion click-views and over 740,000 clicks-to-collection since its launch in August 2015. *XiXingJi* is an award-winning fantasy adventure story adapted from classic Chinese literature and has accumulated over 2.7 billion click-views and over 1.0 million clicks-to-collection since its launch in April 2016.

The Group continues to offer a healthy pipeline of products for personal computers ("**PC(s)**") and mobile devices in 2016. We launched three new products in 2016. In March 2016, we launched, *Super Badilong* (「超凡巴迪龍」), formally known as *Monster Mobile* (「妖怪手機」), a browser-based virtual world targeting children aged 7 to 14, featuring adventure, life-simulation, and role-playing, which started monetization through the sale of virtual items in September 2016. In addition, we launched *Three Kingdoms* (「可以，這很三國」) in October 2016, a mobile game based on the famous Three Kingdoms era of Chinese history with unique and innovative gameplay targeting all age groups. Leveraging our popular web comic IP, we also released the MMORPG of *Zaowufaze* (「造物法則」) in December 2016, in response to the increasing demand from the comic fans. The Group will continue to pursue potential cooperation with well-known comic IPs while leveraging its newly acquired IP portfolio to develop engaging products and drive improvement on operating metrics through focusing on "fun" in 2017.

For our baby and maternity product business, we formed a strategic partnership with Hong Kong's leading maternity product provider, Bumps to Babes Limited ("**Bumps to Babes**"). Such new venture has expanded Bumps to Babes into China as a one-stop-shop for parents to purchase safe, trusted and premium baby products via e-commerce. Its e-commerce platform, BumpsBB (www.bumpsbb.com), was launched in the fourth quarter of 2015. Currently, over 4,000 of the top-selling maternity items on BumpsBB are sourced from a range of reputable overseas suppliers, and can be shipped across China at affordable prices.

Financial Summary

INCOME STATEMENT HIGHLIGHT

	Year ended 31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**383,260**	387,105	506,193	454,996	203,243
Gross profit	**212,390**	236,634	347,738	348,881	138,123
Operating profit	**1,938**	56,299	199,852	248,158	88,233
Non-International Financial Reporting Standards ("IFRSs") Measures					
— Adjusted Net Profit[1] (unaudited)	**43,639**	124,556	243,977	226,800	77,714

Note:

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

BALANCE SHEET HIGHLIGHT

	As at 31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets					
Non-current assets	**414,407**	464,519	19,654	37,860	16,624
Current assets	**1,603,432**	1,288,471	1,664,139	496,803	194,739
Total assets	**2,017,839**	1,752,990	1,683,793	534,663	211,363
Equity and Liabilities					
Total equity/(deficits)	**1,573,114**	1,570,324	1,509,674	(19,430)	(9,002)
Non-current liabilities	**16,764**	16,865	3,305	352,045	120,483
Current liabilities	**427,961**	165,801	170,814	202,048	99,882
Total liabilities	**444,725**	182,666	174,119	554,093	220,365
Total Equity and Liabilities	**2,017,839**	1,752,990	1,683,793	534,663	211,363

Chairman Letter

Dear Shareholders,

In 2016, China's internet industry continued to develop and evolve. According to a report released by the China Internet Network Information Center, as of the end of 2016, the number of internet users in China reached 731 million, which is equivalent to the total population of the Europe, while mobile phone users reached 695 million. Mobile phones have quickly become the primary way that many Chinese users access the internet. This year, in response to challenging market conditions, our Company continued to execute its revamped strategic plan. In particular, we focused on the most important thing of all - making our products "fun", and we worked to consolidate our businesses around our existing virtual worlds. This helped to stabilize our operations and return our Company to profitability over the course of 2016. We also established a long-term strategic plan that focuses on IP development and affirmed our future direction and business focus.

BAIOO'S VISION

In 2009, as a new father, I found the Company which is committed to providing children and young generation in China with safe and entertaining products that they could play as they grow. Our commitment remains the same to this day. We help children and adolescents from age of 3 to 16 to find friendship and healthy social interaction, build better physical and mental health, and develop independent personalities. As a leading internet company, we strive to create timeless IPs that younger generation will fall in love with and parents can trust, and we look forward to leveraging these IPs across our platform through games, comics, social activities, picture books, toys, cartoons, movies and other new and exciting channels, which we believe will help BAIOO create its own history in China.

IP-CENTERED STRATEGIES

At present, we are focused on the following development strategies: strengthening game IPs, developing comic IPs and incubating new early childhood education IPs. At its most basic, having solid IPs allows us to create storylines that appeal to humans on an emotional level, and then we want to use our IPs to foster positive and healthy values among the next generation of our youth. This gives us a great foundation to follow through on our strategies. Building on such basis, we believe we can further expand our user base as we continue to broaden our use of various social tools that help to foster both user interaction and user satisfaction. For example, our social app of *Circle Forum* (「百田圈圈」) allows users to share, interact and communicate their experiences with others on our platform.

Firstly, one of our main priorities as we work to optimize our existing PC and mobile games is to focus on ensuring that our products are “fun”. The more fun our games provide, the more users we attract and retain, which facilitates us to incubate and adapt the IPs on top of our existing virtual worlds. Over the past eight years, we have created a number of successful IPs, such as virtual characters from our classic games, such as *Aobi Island* (「奧比島」) *and Legend of Aoqi* (「奧奇傳説」), and we adapted these into new games, products and storylines. At the same time, we have utilized certain well-established IPs to launch new products. For example, we launched a comic adaptation mobile game called *Zaowufaze* (「造物法則」) in 2016. We will also consider launching derivative products from other IPs that we acquire from comics, fictions, films and televisions, and then increase the exposure of our IPs through other channels to promote our gaming and online entertainment business.

Our second strategy is leveraging comic IPs, and we set up a special comic production platform, Baiman Culture. Currently our website, 100bt.com (「百田網」), has become one of the most popular informational entertainment destinations for children and young generation. We will promote our proprietary comic series IPs, including the highly acclaimed comics, *XiXingJi* (「西行紀」) and *Zaowufaze* (「造物法則」), and the newest release, *Juexingzhe* (「絕行者」), by making full use of our entertainment destination to strengthen our image of developing comic IPs and to provide a variety of peripheral information on our animations and comics. We will also license out our IPs to expand and develop the universe of animations and games that use our characters in order to broaden our reach and expand our revenue streams. New projects will continue to be developed based upon our high quality IPs. We may consider acquiring more IPs in order to attract new users.

Lastly, in addition to games, comics and animations, we also plan to further explore other potential fields of entertainment, and in particular, interactive early childhood educational products, such as children’s picture books, board games and smart products targeting age of 3 to 6. The number of births in China was 16.55 million and 17.86 million in 2015 and in 2016, respectively. This stable trend on top of such a huge base of population, coupled with the fact that Chinese parents attach great importance to and vigorously invest in their children’s learning and development, provides a great opportunity in the early childhood education market. Lately, we learned that there was a lack of sufficient teaching materials for young children in China and young children strongly identify with their favorite cartoon characters. Accordingly, we believe that we have a strong opportunity to create contents that can both educate and entertain kids. Over one and a half years of development, we have successfully created and launched our proprietary IP of *Little Cloud Bear Bei Bei* (「小雲熊北北」) in 2016, with the picture book series based on such IP to be launched in the first half of 2017, targeting children aged 3 to 6. Such interactive series combines online and offline products, original characters, supporting toys and puzzles, and materials that can help parents and educators teach. We are currently in negotiation with a number of well-known internet companies to explore potential cooperation to develop other complementary products based on the IP of *Little Cloud Bear Bei Bei*, in order to provide innovative products and technologies for our success in the early childhood education market.

OUTLOOK

We have explored certain business attempts since our listing on the Hong Kong Stock Exchange in 2014. We have returned to where we started and reestablished our focus on creating IPs that revolves around “fun”. At present, our existing virtual worlds operate stably, and we have a strong pipeline of early childhood interactive education products targeting age of 3 to 6 which are about to be launched and cater to an underserved market. As we look ahead, we believe our IP-centered strategies based upon high quality and “fun” IPs will facilitate us in building a sustainable and profitable business in the long term.

ACKNOWLEDGEMENTS

On behalf of our management team, I would like to express my gratitude to our staff. It is their passion, curiosity and innovative spirit that bring life and energy to the Company. At the same time, I also would like to express my thanks to our shareholders. Thank you for your support.

DAI Jian
Chairman, Chief Executive Officer and Executive Director
BAIOO Family Interactive Limited
29 March 2017

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 and owned as to 64% by Guangzhou Baitian and as to 36% by independent third parties
"Guangzhou Baitian" or "PRC Operating Entity"	Guangzhou Baitian Information Technology Ltd.* (廣州百田信息科技有限公司), a Company incorporated on 2 June 2009 and existing under the laws of the PRC. As of the date hereof, Mr. DAI Jian, Mr. WU Lili, Mr. LI Chong, Mr. CHEN Ziming and Mr. WANG Xiaodong hold 46.92%, 28.37%, 12.9%, 7.08% and 4.73% equity interests in Guangzhou Baitian, respectively
"Guangzhou Tianti"	Guangzhou Tianti Internet Techonology Limited* (廣州天梯網絡科技有限公司), a company with limited liability incorporated on 9 July 2015 under the laws of the PRC, a direct wholly-owned subsidiary of Guangzhou Baitian
"Guangzhou WFOE"	Baiduo (Guangzhou) Information Technology Limited* (百多(廣州)信息科技有限公司), a company incorporated on 29 October 2013 under the laws of the PRC, an indirect wholly-owned subsidiary of the Company
"independent third party"	any entity or party which is not connected (as defined in the Listing Rules) to our Directors, substantial shareholders or chief 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

Definitions and Glossaries

"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
"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

* 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
"QAAs"	quarterly active accounts, which is the number of active accounts for our virtual worlds in the relevant quarter. A quarterly active account is defined as a registered account that was accessed at least once during a quarter. An account that logged into two virtual worlds in the same quarter is counted as two QAAs. Average QAAs for a particular period is the average of the QAAs in each quarter during that period
"QPAs"	quarterly paying accounts, which is the number of paying accounts in the relevant quarter. An account that paid subscription fees or for virtual items in two virtual worlds in the same quarter is counted as two QPAs. Average QPAs for a particular period is the average of the QPAs in each quarter during that period

Management Discussion and Analysis

BUSINESS OVERVIEW

In the year ended 31 December 2016 ("**FY2016**"), BAIOO continued to focus on stabilizing the operating metrics of the Company's online virtual worlds, while expanding into the mobile sphere through leveraging existing and newly acquired intellectual properties ("**IP(s)**"). The Company continued to strategically improve audience engagement and user retention and create 'fun' content during FY2016, and through these efforts, BAIOO was able to return to profitability over the course of 2016. BAIOO achieved revenue of RMB383.3 million for FY2016, with gross profit of RMB212.4 million, a decrease of 1.0% and 10.2% from the year ended 31 December 2015 ("**FY2015**"), respectively.

In FY2016, the Company's average QAAs achieved 45.5 million, a decrease of 7.3% compared to FY2015, its average QPAs achieved approximately 2.0 million, a decrease of 13.0% compared to the FY2015, and its average quarterly ARQPAs achieved RMB 41.5, an increase of approximately 8.9% compared to FY2015.

In addition, BAIOO successfully released a number of new products for mobile devices and personal computers ("**PC(s)**") on the market during FY2016, including a MMORPG of Zaowufaze (「造物法則」), one of BAIOO's most popular comic IPs. These new products attracted a wide range of users not just because of unique gameplay, but also as a result of the virtual characters the Group created and effectively integrated into the specific products. Towards the end of FY2016 and in early 2017, the Company's mobile game products also successfully entered overseas markets, including Hong Kong, Macao, and Southeast Asia. With the growing fan base of its IPs, the Company will seize opportunities to expand its current offerings from PC and mobile games to a number of multimedia adaptations, including online comics, online/TV cartoon series, movies and other forms of media works. The Group will continue to pursue potential cooperation with other well-known comic IPs while leveraging its newly developed IP portfolio to create engaging products and drive improvement in operating metrics through focusing on "fun" in 2017.

In terms of the baby and maternity product business, the Company continued to generate solid cash flow from the five retail stores of Bumps to Babes located in Hong Kong in FY2016. However, given the keen competition in China's baby and maternity e-commerce market, the management has concluded that the newly established e-commerce platform BumpsBB.com would not yield reasonable profits despite its unique advantage in product sourcing. As a result, BAIOO intends to maintain the e-commerce platform but will halt further investments into such segment.

Industry Analysis

As the competition in China's Internet and mobile Internet industries continued to grow tighter, the PRC government increased more measures to regulate such sectors. Most notably, the Cyberspace Administration of China (中華人民共和國國家互聯網信息辦公室) recently published a series of policies on cybersecurity for minors. These draft measures, among others, require online-game operators to prevent anyone below 18 years old from accessing online games during the period from midnight to 8 a.m. and they also called for increasing the number of websites warning minors about unsuitable content. The above proposed measures, set out in the draft policies 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 Company is of the view that it has relevant measures in place on internet safety for children, which are in line with the requirements set out in the draft policies, and believes if such measures are implemented, they will have remote impact on the Company's daily operations and strategy.

Despite these stricter policies, China's Internet and mobile Internet industries continued to grow at a breakneck pace during 2016. According to the latest report on the Chinese Game Industry (《中國遊戲產業報告》) released by the Game Publishers Association Publications Committee (GPC) of the China Audio-video and Digital Publishing Association (中國音數協遊戲工委), the revenue generated from the gaming sector in China in 2016 rose to RMB165.57 billion, an increase of 17.7% year-on-year, of which the mobile gaming market contributed significant market share of RMB81.92 billion, an increase of 59.2% year-on-year. The total number of gaming users reached 566 million, an increase of 5.9% year-on-year. The robust growth in revenue shows that there is still significant potential in China's gaming market, particularly for mobile devices.

OUTLOOK FOR YEAR 2017

In 2017, BAIOO will remain committed to further improving user retention and producing fun and engaging content for children on all its products, while executing its development strategies: strengthening game IPs, developing comic IPs and incubating new early childhood education IPs.

Over the past eight years, the Company has created a number of successful IPs, such as virtual characters from our classic virtual worlds, namely Aobi Island (「奥比島」) and Legend of Aoqi (「奥奇傳說」). Going forward, the Company will strengthen its efforts in developing and launching adaptive products including comics, fictions, films and televisions. The Company will also leverage other channels to increase the exposure of its IPs and enhance the image of those IPs for its online entertainment business to strengthen its existing IPs. Meanwhile, the Company will utilize certain well-established IPs to launch a number of new products catering to varied game genres and user types.

In terms of developing comic IPs, BAIOO will make full use of its 100bt.com platform to promote IPs from existing comic books, including the highly acclaimed XiXingJi (「西行紀」) and Zaowufaze (「造物法則」), and the newest release, Juexingzhe (「絕行者」), and provide a variety of peripheral information on the animation and comic offerings through the platform. New projects will continue to center on high quality IPs, and the Company may consider acquiring more IPs to attract new users.

At the same time, in response to the unmet demand in the China's early childhood education market, the Company will launch a new product line to address the family education and entertainment needs for children aged 3 to 6 after years of development. Through an IP-based strategy revolving around the cartoon character "Little Cloud Bear Bei Bei" (「小雲熊北北」), BAIOO plans to launch a series of innovative gaming products, from online to offline, including a well-designed drawing book product and interactive toys. Given BAIOO's insights on the young children market and its solid research and development capabilities in IP development and children narrative creation, the management of the Company is confident that BAIOO can capture the huge market opportunities in the early childhood education area, and looks forward to creating business synergies with its existing virtual worlds and comics segments with an even larger user base.

OPERATION INFORMATION

The following table sets out average QAAs, average QPAs and average quarterly ARQPAs for our online virtual worlds in web-based platforms for the years indicated below:

	For the Year Ended		
	31 December 2016[1]	31 December 2015	Year-over-year change
	(QAA & QPA in millions, ARQPA in RMB)		
average QAA[2]	**45.5**	49.1	(7.3%)
average QPA[3]	**2.0**	2.3	(13.0%)
average quarterly ARQPA[4]	**41.5**	38.1	8.9%

Notes:

(1) In FY2016, our online virtual worlds under commercial operation in web-based platforms included Aobi Island, Aola Star, Dragon Knights, Light of Aoya, Legend of Aoqi, Clashes of Aoqi, Magic Fighter, Amazing Combat and Super Badilong.

(2) The average QAA for online virtual worlds was 45.5 million for FY2016, representing a decrease of 7.3% year-on-year. This reflected shifting user trends from PCs to mobile devices.

(3) The average QPA for online virtual worlds was 2.0 million for FY2016, representing a decrease of 13.0% year-on-year as a result of our strategy of moving away from heavy monetization and focusing on fun purpose to attract more users.

(4) The average quarterly ARQPA for online virtual worlds was RMB41.5 for FY2016, representing an increase of 8.9% year-on-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 consolidated statements of comprehensive income for the years ended 31 December 2016 and 2015, respectively:

	For the year ended			
	31 December 2016 RMB'000	% of Revenue	31 December 2015 RMB'000	% of Revenue
Revenue	383,260	100.0	387,105	100.0
Online entertainment business	324,357	84.6	344,745	89.1
Retail business	55,108	14.4	34,656	9.0
Other businesses	3,795	1.0	7,704	1.9
Cost of revenue	(170,870)	(44.6)	(150,471)	(38.9)
Gross profit	212,390	55.4	236,634	61.1
Selling and marketing expenses	(92,868)	(24.2)	(70,924)	(18.3)
Administrative expenses	(75,865)	(19.8)	(72,777)	(18.8)
Research and development expenses	(61,057)	(15.9)	(46,338)	(12.0)
Other income	15,395	4.0	10,429	2.7
Other gains/(losses) — net	3,943	1.0	(725)	(0.2)
Operating profit	1,938	0.5	56,299	14.5
Finance income — net	41,084	10.7	59,070	15.3
Share of loss of an associate	(1,530)	(0.4)	(344)	(0.1)
Profit before income tax	41,492	10.8	115,025	29.7
Income tax expense	(8,489)	(2.2)	(15,595)	(4.0)
Profit for the year	33,003	8.6	99,430	25.7
Other comprehensive income, net of tax	1,356	0.4	1,254	0.3
Total comprehensive income for the year	34,359	9.0	100,684	26.0
Other financial data				
Adjusted net profit(1) (unaudited)	43,639	11.4	124,556	32.2
Adjusted EBITDA(2) (unaudited)	21,415	5.6	89,219	23.0

Notes:

(1) Adjusted net profit consists of profit for the year plus share-based compensation and fair value loss of convertible redeemable preferred shares.

(2) Adjusted EBITDA consists of adjusted net profit less finance income — net, plus income tax, depreciation of fixed assets and amortization of intangible assets.

Management Discussion and Analysis

Revenue

Our revenue for the year ended 31 December 2016 was RMB383.3 million, representing a decrease by 1.0% from RMB387.1 million for the year ended 31 December 2015.

Online Entertainment Business: Our online entertainment business revenue for the year ended 31 December 2016 was RMB324.4 million, a decrease by 5.9% from RMB344.7 million for the year ended 31 December 2015. This was primarily due to our strategy of moving away from heavy monetization and focus on fun purpose to attract more users and reflected the shifting trends from PCs to mobile device.

Retail Business:* Revenue from the retail business for the year ended 31 December 2016 was RMB55.1 million, an increase by 59.0% from RMB34.7 million for the year ended 31 December 2015, primarily due to additional revenue generated from the sales of baby and maternity products by Bumps to Babes, which we acquired in May 2015.

Other Businesses: Revenue from the other businesses for the year ended 31 December 2016 was RMB3.8 million, a decrease by 50.7% from RMB7.7 million for the year ended 31 December 2015, primarily due to decrease of the revenue generated from advertisement.

Note:

* In light of the expansion of our retail business, we separate it from the "other businesses" segment in our financial statement from FY2016 onward. Comparative figures have been reclassified to conform the new presentation.

Cost of Revenue

Our cost of revenue for the year ended 31 December 2016 was RMB170.9 million, representing an increase by 13.6% from RMB150.5 million for the year ended 31 December 2015.

Online Entertainment Business: Our online entertainment business cost for the year ended 31 December 2016 was RMB132.8 million, an increase by 4.2% from RMB127.4 million for the year ended 31 December 2015. The increase was primarily driven by the increase in payment of third party revenue sharing and partly offset by the decrease in employee benefit expenses and prepaid card production fees.

Retail Business: Cost of the retail business for the year ended 31 December 2016 was RMB31.8 million, an increase by 70.1% from RMB18.7 million for the year ended 31 December 2015. The increase mainly reflected increase in cost of goods sold as a result of baby and maternity product sales following the acquisition of Bumps to Babes in May 2015.

Other Businesses: Cost of the other businesses for the year ended 31 December 2016 was RMB 6.3 million, an increase by 43.2% from RMB4.4 million for the year ended 31 December 2015. The increase primarily reflected increase in employee benefit expenses.

Gross Profit

As a result of the foregoing, our gross profit for the year ended 31 December 2016 was RMB212.4 million, compared with RMB236.6 million for the year ended 31 December 2015. Gross profit margin was 55.4% for the year ended 31 December 2016, compared with 61.1% for the year ended 31 December 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 year ended 31 December 2016 were RMB92.9 million, an increase by 31.0% from RMB70.9 million for the year ended 31 December 2015. This was primarily due to additional employee benefit expenses and operating lease rental expenses incurred following the Bumps to Babes acquisition.

Administrative Expenses

Our administrative expenses for the year ended 31 December 2016 were RMB75.9 million, an increase by 4.3% from RMB72.8 million for the year ended 31 December 2015. This was primarily the result of (i) approximately RMB7.6 million decrease in employee benefit expenses; (ii) RMB10.5 million increase in rental expenses mainly due to the one-off expense arising from relocation to a newly rented office space and (iii) RMB1.7 million increase in utility and office expenses.

Research and Development Expenses

Our research and development expenses for the year ended 31 December 2016 were RMB61.1 million, an increase by 32.0% from RMB46.3 million for the year ended 31 December 2015. This was primarily driven by increases in expenses for the research and development projects for new mobile and PC online virtual worlds development and development of an e-commerce platform.

Other Income

The Company recognized RMB15.4 million in other income for the year ended 31 December 2016, an increase by 48.1% from RMB10.4 million for the year ended 2015. The increase was mainly driven by the sale of an online virtual world of Amazing Combat (「特戰英雄」) and partly offset by the decrease in government grants.

Other Gains/(Losses) — net

Our other gains — net for the year ended 31 December 2016 were RMB3.9 million, compared with RMB0.7 million in foreign exchange losses for the year ended 31 December 2015. This was primarily due to fair value gains from variable element of the floating interest rate in the bank structure deposit.

Operating Profit

As a result of the foregoing, our operating profit for the year ended 31 December 2016 was RMB1.9 million, compared with operating profit of RMB56.3 million for the year ended 31 December 2015.

Finance Income — net

We had net finance income of RMB41.1 million for the year ended 31 December 2016, compared with net finance income of RMB59.1 million for the year ended December 2015. The finance income for the year ended 31 December 2016 was primarily attributable to (i) RMB29.3 million in interest income on bank deposits and other term deposits; (ii) RMB3.9 million in finance income on the long-term payable and (iii) RMB8.5 million in exchange gains related to non-RMB bank deposits.

Profit before Income Tax

As a result of the foregoing, we had a profit before income tax of RMB41.5 million for the year ended 31 December 2016, compared with a profit before income tax of RMB115.0 million for the year ended 31 December 2015.

Income Tax Expense

Our income tax expense for the year ended 31 December 2016 was RMB8.5 million, a decrease by 45.5% from RMB15.6 million for the year ended 31 December 2015. This was primarily due to the decrease of assessable profit.

Profit for the Year

As a result of the foregoing, we had a profit of RMB33.0 million for the year ended 31 December 2016, compared with a profit of RMB99.4 million for the year ended 31 December 2015.

Adjusted Net Profit/EBITDA (Unaudited)

Our adjusted net profit for the year ended 31 December 2016 was RMB43.6 million, representing a decrease by 65.0% from RMB124.6 million for the year ended 31 December 2015. Our adjusted EBITDA for the year ended 31 December 2016 was RMB21.4 million, representing a 76.0% decrease from RMB89.2 million for the year ended 31 December 2015.

The following table reconciles our adjusted net 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	
	2016	2015
	RMB'000	RMB'000
Profit for the year	**33,003**	99,430
Add:		
Share-based compensation	**10,636**	25,126
Adjusted net profit	**43,639**	124,556
Add:		
Depreciation and amortization	**10,371**	8,138
Finance income-net	**(41,084)**	(59,070)
Income tax	**8,489**	15,595
Adjusted EBITDA	**21,415**	89,219

LIQUIDITY AND CAPITAL RESOURCES

In FY2016, 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 2016 RMB'000	As of 31 December 2015 RMB'000
Total liabilities	**444,725**	182,666
Total assets	**2,017,839**	1,752,990
Gearing ratio*	**22%**	10%

Note:

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

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

As of 31 December 2016, our cash and cash equivalents consisted of cash in bank and cash on hand, which amounted to RMB214.2 million, compared with RMB254.6 million as of 31 December 2015. We had short-term deposits of RMB1,041.4 million as of 31 December 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 RMB300.0 million as of 31 December 2016, representing bank deposits with an expected maturity of over one year but less than two years.

As of 31 December 2016, the Group had restricted cash balance of RMB279.6 million, representing the cash deposit place in a bank as collateral for the one-year banking facility, which was granted to our controlled entity in the PRC.

The effective interest rate per annum for cash in bank balances and deposits as of 31 December 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.

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

Group	As of 31 December 2016 RMB'000	As of 31 December 2015 RMB'000
RMB	**1,680,668**	1,455,632
HK$	**97,976**	146,282
US$	**56,462**	8,623
Others	**93**	92
	1,835,199	1,610,629

Bank Loans and Other Borrowings

The Group had a borrowing of RMB278.1 million and overdrafts of RMB0.9 million as of 31 December 2016, which are shown in current liabilities. The Group had a banking facility of RMB280.8 million as of 31 December 2016, including a borrowing facility of RMB278.1 million, an overdraft facility of RMB1.8 million and a rental guarantee of RMB0.9 million. The Group has RMB1.8 million undrawn facility as of 31 December 2016.

Treasury Policies

As of 31 December 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 31 December 2016, our financial resources of RMB154.5 million were held in deposits in non-RMB currencies. Since there are no cost-effective hedges against the fluctuations of the RMB, there is a risk that we may experience a loss as a result of any foreign currency exchange rate fluctuations in connection with our cash in bank balances.

Capital Expenditures and Investments

Our capital expenditures consist of leasehold improvement, purchases of property and equipment such as servers and computers and intangible assets such as computer software. During the year ended 31 December 2016, our total capital expenditures were RMB29.0 million, compared with RMB11.9 million in the year ended 31 December 2015. The following table sets out our capital expenditures for the periods indicated:

	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Capital Expenditures		
— Purchase of property and equipment	27,038	11,587
— Purchase of intangible assets	1,929	270
Total	28,967	11,857

Contingent Liabilities

As of 31 December 2016, the Group did not have any material contingent liabilities, guarantees or litigation against it.

Charges on Assets

During the year ended 31 December 2016, the Group pledged RMB279.6 million of cash to a bank to secure a short-term banking facility granted to the Group.

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 2016, the Group had 697 full-time employees, 86.9% of whom are based in Guangzhou. The following table sets forth the number of full-time employees by function as of 31 December 2016:

	As of 31 December 2016	
	Number of Employees	% of Total
Operations	325	46.7
Development and research	203	29.1
Sales and Marketing	90	12.9
General and administration	79	11.3
Total	697	100

In addition to salary, we also provide various incentives, including share-based awards, such as share options and restricted shares units ("**RSUs**") granted pursuant to the share incentive schemes of the Company, and performance-based bonuses to better motivate our employees. As required by the PRC law, we contribute to housing funds and maintain mandatory social insurance plans for our employees, covering pension, medical, unemployment, work injury and maternity leave. We are required by the PRC laws 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 during the year ended 31 December 2016 was RMB34.8 million, compared with RMB28.4 million in the year ended 2015. We incurred staff costs of RMB201.1 million and RMB190.5 million, for the years ended 31 December 2016 and 2015, representing 52.5% and 49.2% 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. As of 31 December 2016, there were a total of 1,544,000 share options outstanding under the pre-IPO share option scheme of the Company and 14,366,400 RSUs outstanding under the pre-IPO RSU scheme of the Company, respectively.

We will continue to grant RSUs to our employees to incentivize them pursuant to the post-IPO RSU scheme of the Company (the "**Post-IPO RSU Scheme**"). As of 31 December 2016, there were a total of 43,176,000 RSUs outstanding under the Post-IPO RSU Scheme.

Dividend

At the Company's annual general meeting (the "**AGM**") held on 27 May 2016, the then shareholders of the Company (the "**Shareholder(s)**") approved the Board's recommended special dividend of HK$0.018 (equivalent to RMB0.015) per ordinary share of the Company (the "**Share(s)**") for the year ended 31 December 2015. Such dividend was paid to the then Shareholders on 27 June 2016.

The Board is pleased to recommend the payment of a special dividend of HK$0.018 (equivalent to RMB0.016) per Share for the year ended 31 December 2016 out of our share premium account, subject to the approval of the Shareholders at the forthcoming AGM to be held on 29 June 2017. The proposed dividend will be payable on or about 27 July 2017.

CHANGES SINCE 31 DECEMBER 2016

There were no other significant changes in the Group's financial position or from the information disclosed under management discussion and analysis in this annual results announcement for the year ended 31 December 2016.

Biographies of the Directors and Senior Management

DIRECTORS

Executive Directors

DAI Jian (戴堅), aged 49, 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 16 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.

XU Gang (徐剛), aged 45, was appointed as our Executive Director in November 2015 and Dr. XU resigned on 31 March 2017. Dr. XU was our Chief Executive Officer from March 2015 to mid-October 2016. He was responsible for the overall management, corporate development and strategic planning of our Group.

Dr. XU has more than 20 years of experience in the telecommunication industry and the mobile internet. Prior to joining the Group, he held various management positions at a number of subsidiaries of China Mobile Communications Corporation ("**CMCC**") since 1996. During his service at CMCC, he planned and executed a number of key initiatives involving new business setup, technology innovation, business development, marketing and brand building. In 2003, Dr. XU was involved in the development of monthly package brands GoTone ("全球通"), MZone ("動感地帶"), and Easy Own ("神州行") in Guangdong Province and helped drive a number of significant achievements in terms of user base and revenue growth of CMCC. In 2005, Dr. XU built a business unit that focused on developing CMCC's internet business-to-business services. Dr. XU then joined Guangdong Mobile Communication Co. Ltd. Zhuhai Branch in 2010 as General Manager. In this position, he managed more than 1,100 team members. Since 2012, he was the Deputy General Manager of the Marketing Department of CMCC, where he was responsible for formulating overall marketing strategies in China.

Since 21 October 2016, Dr. XU has served as General Manager (公司總經理) of Beijing Active Technology Co., Ltd.* (北京活躍科技股份有限公司), whose securities are listed on the NEEQ.

Dr. XU obtained a doctorate degree in communication and information systems from South China University of Technology in 2008, an EMBA degree from Jinan University in 2007, and both a bachelor's and master's degree in communication and information systems from Xidian University in 1993 and 1996 respectively.

WU Lili (吳立立), aged 49, 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 16 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 48, 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 16 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 51, 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 18 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 41, was appointed as our Independent Non-Executive Director on 18 March 2014.

Ms. LIU has over 13 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 48, was appointed as our Independent Non-Executive Director on 18 March 2014.

Dr. WANG has over 16 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 53, 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 are listed on the NEEQ.

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 49, 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 48, 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 51, 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 41, 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 17 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 50, 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 51, 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 26 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 2016.

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 provision of the baby and maternity products business and other businesses in the PRC. Details of the principal activities of the principal members of the Group are set out in note 14 in 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 in 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 2016.

BUSINESS REVIEW AND KEY FINANCIAL PERFORMANCE INDICATORS

A review of the business of the Group during the year ended 31 December 2016 (including particulars of important events affecting the Company that have occurred during the year ended 31 December 2016, an analysis of the Group's performance during the year ended 31 December 2016 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 in 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 2016 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$0.018 (equivalent to approximately RMB0.016) per Share for the year ended 31 December 2016, subject to the approval of the Shareholders at the AGM to be held on Thursday, 29 June 2017. The proposed dividend is expected to be payable on Thursday, 27 July 2017 to the Shareholders whose names appear on the Register of Members as of Thursday, 6 July 2017.

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 Monday, 26 June 2017 to Thursday, 29 June 2017, 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 Friday, 23 June 2017.

In addition, subject to the Shareholders' approval of the proposed special dividend at the AGM, the Register of Members will be closed from Wednesday, 5 July 2017 to Thursday, 6 July 2017, 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 transfer 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 Tuesday, 4 July 2017.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The total net proceeds from the Company's initial public 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 2016, 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

Details of movements in the property and equipment of the Group during the year ended 31 December 2016 are set out in note 15 in 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 in 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

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 ("**AGM**") 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 would 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 year ended 31 December 2016, the Company repurchased a total of 6,482,000 Shares on the Stock Exchange at an aggregate consideration (before expenses) of HK$2,782,860. All the repurchased Shares were subsequently cancelled.

Particulars of the repurchases during the year ended 31 December 2016 are as follows:

Month	Number of Shares repurchased	Purchase price Highest (HK$)	Lowest (HK$)	Aggregate consideration (before expenses) (HK$)
April 2016	1,618,000	0.445	0.415	698,460
May 2016	1,500,000	0.480	0.450	694,520
June 2016	904,000	0.440	0.425	391,030
July 2016	2,460,000	0.415	0.395	998,850
Total	6,482,000			2,782,860

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 2016.

RESERVES

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2016 are set out in note 24 in 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 2016, the Company had no distributable reserves.

CHARITABLE CONTRIBUTIONS

The Group had no charitable contributions during the year ended 31 December 2016.

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 2016, 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 51.4% of our total cash proceeds from these sales.

The top source of cash proceeds from these sales for the year ended 31 December 2016 was our online payment channel and accounted for 23.1% of our total cash proceeds from these sales.

None of the Directors, their 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 2016.

For the year ended 31 December 2016, charges from the five largest suppliers accounted for 14.9% of our cost of revenues.

The charges from the largest supplier accounted for 5.4% of our cost of revenues.

None of the Directors, any of their 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 2016.

For the year ended 31 December 2016, there was no material dispute between the Group and its suppliers and/or customers.

DIRECTORS

The Directors during the year ended 31 December 2016 and up to the date of this annual report are:

Executive Directors

Mr. DAI Jian (Chairman) (appointed as Chief Executive Officer on 15 October 2016)
Mr. WU Lili
Mr. LI Chong
Mr. WANG Xiaodong
Dr. XU Gang (relinquished as Chief Executive Officer on 15 October 2016; resigned as executive Director 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 the article 84(1) of Articles of Association, Mr. DAI Jian, Ms. LIU Qianli and Dr. WANG Qing will retire by rotation at the forthcoming AGM and, being eligible, offer themselves for re-election.

The Board recommended the re-appointment of the retiring 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	
DAI Jian	Appointed as the Chief Executive Officer on 15 October 2016.
LI Chong	The annual remuneration of Mr. LI has been adjusted to RMB1.56 million since October 2016.
WANG Xiaodong	The annual remuneration of Mr. WANG has been adjusted to RMB1.3 million since October 2016.
XU Gang	Relinquished as the Chief Executive Officer on 15 October 2016 and resigned as executive Director on 31 March 2017. The annual remuneration of Dr. XU has been adjusted to RMB1.36 million since October 2016. Dr. XU has been appointed as the General Manager (公司總經理) of Beijing Active Technology Co., Ltd. 北京活躍科技股份有限公司, a company listed on the NEEQ since 21 October 2016.

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 40 in 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 2016.

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 2016.

DIRECTORS' EMOLUMENTS

Details of the remuneration of the Directors and those of the five highest paid individuals for the year ended 31 December 2016 are set out in note 40 and note 9 in 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 2016.

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 2016. 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 2016.

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 2016.

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

As at 31 December 2016, 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[10]
DAI Jian[1]	Chairman, executive Director and Chief Executive Officer[11]	The Company	Founder of a discretionary trust Interest of controlled corporation	749,460,000(L)[9]	25.84%(L)
		The Company	Beneficial owner	10,000,000(L)	0.34%(L)
WU Lili[2]	Executive Director	The Company	Founder of a discretionary trust Interest of controlled corporation	447,112,000(L)	15.41%(L)
LI Chong[3]	Executive Director	The Company	Founder of a discretionary trust Interest of controlled corporation	203,304,000(L)	7.01%(L)
WANG Xiaodong[4]	Executive Director	The Company	Founder of a discretionary trust Interest of controlled corporation	74,544,000(L)	2.57%(L)
XU Gang[5]	Executive Director[11]	The Company	Beneficial owner	12,000,000(L)	0.41%(L)
LIU Qianli[6]	Independent Non-Executive Director	The Company	Beneficial owner	200,000(L)	0.01%(L)
WANG Qing[7]	Independent Non-Executive Director	The Company	Beneficial owner	200,000(L)	0.01%(L)
MA Xiaofeng[8]	Independent Non-Executive Director	The Company	Beneficial owner	200,000(L)	0.01%(L)

Notes:

(1) Mr. DAI established DAE Trust on 27 December 2013 for the benefit of himself and his family members, and acts as its settlor and protector. The trustee of DAE Trust is TMF (Cayman) Ltd., an independent third party and sole shareholder of DAE Holding Investments Limited, a trust holding company owns 100% of equity interest in Stmoritz Investment Limited. In addition, Mr. DAI is interested in 10,000,000 RSUs granted to him under the Pre-IPO RSU Scheme entitling him to receive 10,000,000 Shares subject to vesting. As at 31 December 2016, 6,250,000 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 3,750,000 Shares underlying the RSUs are held by ZEA Holding Limited ("**ZEA**"), as the nominee of The Core Services Limited, the trustee of a trust established by the Company under the Pre-IPO RSU Scheme.

(2) Mr. WU established WHZ Trust on 27 December 2013 for the benefit of himself and his family members, and acts as its settlor and protector. The trustee of WHZ Trust is TMF (Cayman) Ltd., an independent third party and sole shareholder of WHEZ Holding Ltd., a trust holding company owns 100% of equity interest in Bright Stream Holding Limited.

(3) Mr. LI established The Zhen Family Trust on 27 December 2013 for the benefit of himself and his family members, and acts as its settlor and protector. The trustee of The Zhen Family Trust is TMF (Cayman) Ltd., an independent third party and sole shareholder of Golden Water Management Limited, a trust holding company owns 100% of equity interest in LNZ Holding Limited.

(4) Mr. WANG established WSW Family Trust on 27 December 2013 for the benefit of himself and his family members, and acts as its settlor and protector. The trustee of WSW Family Trust is TMF (Cayman) Ltd., an independent third party and sole shareholder of Charlotte Holding Limited, a trust holding company owns 100% of equity interest in Angel Wang Holding Limited.

(5) Dr. XU was previously interested in 30,000,000 RSUs granted to him under the Post-IPO RSU Scheme entitling him to receive 30,000,000 Shares subject to vesting. 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 his cessation in acting such position and 6,000,000 unvested RSUs remain effective subject to vesting on 5 March 2017. As at 31 December 2016, 6,000,000 RSUs granted to Dr. XU were vested in accordance with the vesting schedule as specified under the relevant grant letter and the rules relating to the Post-IPO RSU Scheme. Such 6,000,000 Shares underlying the RSUs are held by Baiduo Investment Holding Limited.

(6) Ms. LIU is interested in 200,000 RSUs granted to her under the Pre-IPO RSU Scheme entitling her to receive 200,000 Shares subject to vesting. As at 31 December 2016, 120,000 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. Such 80,000 Shares underlying the RSUs are held by ZEA.

(7) Dr. WANG is interested in 200,000 RSUs granted to him under the Pre-IPO RSU Scheme entitling him to receive 200,000 Shares subject to vesting. As at 31 December 2016, 120,000 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. Such 80,000 Shares underlying the RSUs are held by ZEA.

(8) Mr. MA is interested in 200,000 RSUs granted to him under the Pre-IPO RSU Scheme entitling him to receive 200,000 Shares subject to vesting. As at 31 December 2016, 120,000 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. Such 80,000 Shares underlying the RSUs are held by ZEA.

(9) The Letter "L" denotes the person's Long position in such Shares.

(10) These percentages are calculated on the basis of 2,900,676,000 Shares in issue as at 31 December 2016.

(11) Dr. XU Gang resigned from his position as the chief executive officer of the Company effective on 15 October 2016 and Mr. DAI Jian resumed such position on the same day. Dr. XU subsequently resigned as an executive Director on 31 March 2017.

Save as disclosed above, as at 31 December 2016, 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 2016, 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	1,499,888,000(L)[7]	51.71%(L)
DAE Holding Investments Limited[2]	Trust holding company	749,460,000(L)	25.84%(L)
Stmoritz Investment Limited[2]	Registered owner	749,460,000(L)	25.84%(L)
DAI Jian[2] [5]	Founder of a discretionary trust Interest of controlled corporation	749,460,000(L)	25.84%(L)
Bright Stream Holding Limited[3]	Registered owner	447,112,000(L)	15.41%(L)
WHEZ Holding Ltd.[3]	Trust holding company	447,112,000(L)	15.41%(L)
WU Lili[3]	Founder of a discretionary trust Interest of controlled corporation	447,112,000(L)	15.41%(L)
LNZ Holding Limited[4]	Registered owner	203,304,000(L)	7.01%(L)
Golden Water Management Limited[4]	Trust holding company	203,304,000(L)	7.01%(L)
LI Chong[4]	Founder of a discretionary trust Interest of controlled corporation	203,304,000(L)	7.01%(L)
The Core Trust Company Limited[6]	Trustee of a trust	192,860,000(L)	6.65%(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 749,460,000 Shares held by Stmoritz Investment Limited (without taking into account any Shares to be issued upon exercise of any share options and/or any vesting of the RSUs under the Pre-IPO Share Option Scheme, Pre-IPO RSU Scheme and/or Post-IPO RSU Scheme) pursuant to Part XV of the SFO.

(3) The entire share capital of Bright Stream Holding Limited is wholly-owned by WHEZ Holding Ltd. and ultimately owned by TMF (Cayman) Ltd. as the trustee of the WHZ Trust, which is a discretionary trust set up by Mr. WU on 27 December 2013 for the benefit of himself and his family members, and Mr. WU is a settlor and protector. Mr. WU (as founder of the WHZ Trust), WHEZ Holding Ltd. and TMF (Cayman) Ltd. are taken to be interested in 447,112,000 Shares held by Bright Stream Holding Limited (without taking into account any Shares to be issued upon exercise of any share options and/or any vesting of the RSUs under the Pre-IPO Share Option Scheme, Pre-IPO RSU Scheme and/or Post-IPO RSU Scheme) pursuant to Part XV of the SFO.

(4) The entire share capital of LNZ Holding Limited is owned by Golden Water Management Limited, which is wholly-owned by TMF (Cayman) Ltd. as the trustee of The Zhen Family Trust, which is a discretionary trust set up by Mr. LI on 27 December 2013 for the benefit of himself and his family members, and Mr. LI is a settlor and protector. Mr. LI (as founder of The Zhen Family Trust), Golden Water Management Limited and TMF (Cayman) Ltd. are taken to be interested in 203,304,000 Shares held by LNZ Holding Limited (without taking into account any Shares to be issued upon exercise of any share options and/or any vesting of the RSUs under the Pre-IPO Share Option Scheme, Pre-IPO RSU Scheme and/or Post-IPO RSU Scheme) pursuant to Part XV of the SFO.

(5) Mr. DAI is interested in 10,000,000 RSUs granted to him under the Pre-IPO RSU Scheme entitling him to receive 10,000,000 Shares subject to vesting. As at 31 December 2016, 6,250,000 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 3,750,000 Shares underlying the RSUs are held by ZEA.

(6) The Core Trust Company Limited is the trustee to administer the Pre-IPO Share Option Scheme, the Pre-IPO RSU Scheme and the Post-IPO RSU Scheme.

(7) The Letter "L" denotes the person's Long position in such Shares.

(8) These percentages are calculated on the basis of 2,900,676,000 Shares in issue as at 31 December 2015.

Save as disclosed above, as at 31 December 2016, 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 three 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 2016, 300,000 options have been cancelled. As at 31 December 2016, there were a total of 1,544,000 Options outstanding. If all the outstanding Options are exercised, there would be a dilution effect on the issued share capital of the Company of approximately 0.05% as at 31 December 2016. 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 2016, 596,000 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 2016

Name of Grantees	Nature	Number of Shares represented by Options as at 1 January 2016	Date of grant	Exercise price (US$)	Exercised during the year	Lapsed during the year	Number of Shares represented by Options as at 31 December 2016	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										
2 employees	Options	596,000	20 June 2010	0.0045	296,000	300,000	—	Note 1	Note 2	—
15 employees	Options	1,322,000	20 June 2010	0.0090	300,000	—	1,022,000	Note 1	Note 2	0.04%
2 employees	Options	522,000	15 January 2011	0.0090	—	—	522,000	Note 1	Note 2	0.02%
	Sub-total	2,440,000		—	596,000	300,000	1,544,000			0.05%
Total	Options	2,440,000		—	596,000	300,000	1,544,000			0.05%

Note:

(1) The vesting period of the Options under the Pre-IPO Share Option Scheme is 36 months from the date of grant of such Options.

(2) The exercise period of the Options under the Pre-IPO Share Option Scheme is 10 years after the date of grant of such Options.

(3) Approximate percentage of issued Shares of the Company is calculated by dividing the Options held by the relevant grantees by the issued and outstanding Shares of the Company (as enlarged by the exercise in full of all the Options granted under the Pre-IPO Share Option Scheme) as at 31 December 2016.

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 Provisions) 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 in 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 2016, there were a total of 14,366,400 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 0.50% as at 31 December 2016.

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 2016, 111,716,000 Shares have been issued and allotted to the Pre-IPO RSU Nominee and 30,600,000 Shares have been issued and allotted to the New RSU Nominee, respectively.

2) Post-IPO RSU Scheme

As at 31 December 2016, there were a total of 43,176,000 RSUs outstanding under the Post-IPO RSU Scheme. If all the outstanding RSUs under the Post-IPO RSU Scheme are vested according to the relevant vesting schedules, there would be a dilution effect on the issued share capital of the Company of approximately 1.49% as at 31 December 2016.

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. For the year ended 31 December 2016, 47,890,000 Shares have been issued and allotted to Baiduo Investment Holding Limited.

Movements of the RSUs under the Pre-IPO RSU Scheme and the Post-IPO RSU Scheme during the year ended 31 December 2016

Name of Grantees	Nature	Number of Shares underlying the RSUs as at 31 December 2015	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 2016	Vesting Schedule	Approximate percentage of issued Shares of the Company(7)
(1) Pre-IPO RSU Scheme										
(a) Directors										
DAI Jian (戴堅)	RSUs	8,000,000	—	18 February 2014	—	4,250,000	—	3,750,000	Note 1	0.13%
LIU Qianli (劉千里)	RSUs	140,000	—	17 March 2014	—	60,000	—	80,000	Note 2	0.00%
WANG Qing (王慶)	RSUs	140,000	—	17 March 2014	—	60,000	—	80,000	Note 2	0.00%
MA Xiaofeng (馬肖風)	RSUs	140,000	—	17 March 2014	—	60,000	—	80,000	Note 2	0.00%
	Sub-total	8,420,000	—		—	4,430,000	—	3,990,000		0.14%
(b) Senior management member(s) of the Company										
YEUNG Ka Hong Carl(8) (楊家康)	RSUs	5,250,000	—	1 October 2013	—	2,250,000	3,000,000	—	Note 1	—
	RSUs	8,000,000	—	18 February 2014	—	3,500,000	4,500,000	—	Note 1	—
CHEN Xiao Hong(9) (陳小紅)	RSUs	1,260,000	—	1 October 2013	—	720,000	—	540,000	Note 1	0.02%
	RSUs	640,000	—	18 February 2014	—	340,000	—	300,000	Note 1	0.01%
	Sub-total	15,150,000	—		—	6,810,000	7,500,000	840,000		0.03%
(c) Other grantees (other than the grantees disclosed in paragraphs 1a and 1b above)										
202 employees	RSUs	27,487,950	—	1 October 2013	—	13,039,950	5,485,350	8,962,650	Note 1	0.31%
7 employees	RSUs	2,024,000	—	18 February 2014	—	925,250	525,000	573,750	Note 1	0.02%
	Sub-total	29,511,950	—		—	13,965,200	6,010,350	9,536,400		0.33%
	Total	53,081,950	—		—	25,205,200	13,510,350	14,366,400		0.50%

Name of Grantees	Nature	Number of Shares underlying the RSUs as at 31 December 2015	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 2016	Vesting Schedule	Approximate percentage of issued Shares of the Company[7]
(2) Post-IPO RSU Scheme										
(a) Director(s)										
XU Gang (徐剛)	RSUs	30,000,000	—	10 July 2015[3]	—	6,000,000	18,000,000	6,000,000	Note 3	0.21%
(b) Senior management member(s) of the Company										
Yeung Ka Hong Carl[8] (楊家康)	RSUs	3,200,000	—	10 July 2015	—	—	3,200,000	—	Note 4	0.00%
DENG Linghua (鄧凌華)	RSUs	8,000,000	—	10 July 2015	—	2,000,000	—	6,000,000	Note 4	0.21%
CHEN Xiao Hong[9] (陳小紅)	RSUs	2,000,000	—	10 July 2015	—	400,000	—	1,600,000	Note 6	0.06%
	Subtotal	13,200,000	—		—	2,400,000	3,200,000	7,600,000		0.26%
(c) Grantees holding RSUs representing more than 5,000,000 Shares (other than the grantees disclosed in paragraphs 2a and 2b above)										
XUE Gang (薛剛)	RSUs	5,000,000	—	10 July 2015	—	1,000,000	—	4,000,000	Note 5	0.14%
(d) Other grantees (other than the grantees disclosed in paragraphs 2a, 2b and 2c above)										
95 employees	RSUs	37,800,000	—	10 July 2015	—	7,288,000	4,936,000	25,576,000	Note 6	0.88%
	Total	86,000,000	—		—	16,688,000	26,136,000	43,176,000		1.49%

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; and
- 20% of the RSUs on 5 March 2017.

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 his cessation in acting such position and 6,000,000 unvested RSUs remain effective subject to vesting 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) The RSUs granted to the subjected RSU grantee under the Post-IPO RSU Scheme shall be vested in accordance with the vesting schedule as follow:

- 20% of the RSUs on 10 July 2016;
- 20% of the RSUs on 10 July 2017; and
- 7.50% of the RSUs shall vest over 8 three consecutive months periods starting at the end of 3 month period after 10 July 2017 until 100% is vested.

(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 July 2015.

(7) Approximate percentage of issued Shares of the Company is calculated by dividing the RSUs held by the relevant grantees by the issued and outstanding Shares of the Company (as enlarged by the vest in full of all the RSUs granted under the Pre-IPO RSU Scheme and the Post-IPO RSU Scheme, respectively) as at 31 December 2016.

(8) Mr. YEUNG Ka Hong Carl ("**Mr. Yeung**") was previously interested in 7,500,000 RSUs under the Pre-IPO RSU Scheme and 3,200,000 RSUs under the Post-IPO RSU Scheme granted to Mr. Yeung which remain unvested, entitling him to receive a total of 10,700,000 Shares subject to vesting. All the outstanding RSUs lapsed upon Mr. Yeung's resignation from all of his positions in the Company effective on 15 October 2016.

(9) Ms. CHEN Xiao Hong was appointed as Acting Chief Financial Officer of the Company effective on 15 October 2016.

Further details of the Pre-IPO RSU Scheme and the Post-IPO RSU Scheme are set out in note 25 in 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 2016, none of the above conditions has been met and no Consultant Option was exercised.

Save as disclosed above, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year or subsisted at the end of the year ended 31 December 2016.

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 2016 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 37 in 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 2016. 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 2016. 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 46 to 54 of the Company's 2015 Annual Report and page 70 of the Company's interim report (the "**2016 Interim Report**") for the six months ended 30 June 2016 regarding the Contractual Arrangements 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 2016.

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 2016, the following entity 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 2016			
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 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 17 August 2015 and 11 August 2015, respectively, Beijing Xingmen acquired the whole equity interest in Beijing Guli and Beijing Fenghuo Tianyuan, 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. None of Guangzhou Tianti, Guangzhou Baiman, Beijing Xingmen, Beijing Guli or Beijing Fenghuo Tianyuan is not a party to any of the Contractual Arrangements. For details, please see note 14 in 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 2016 RMB'000	Year ended 31 December 2015 RMB'000
Revenue	**322,004**	352,450
Profit for the year	**55,485**	80,241

	As at 31 December 2016 RMB'000	As at 31 December 2015 RMB'000
Total assets	**1,157,961**	827,300

For the year ended 31 December 2016, the revenue and profit subject to the Contractual Arrangements amounted to approximately 84.0% (2015: 91.0%) and 168.1% (2015: 80.7%) of the revenue and profit for the year of the Group, respectively.

As at 31 December 2016, the total assets subject to the Contractual Arrangements amounted to approximately 57.4% (2015: 47.2%) of the total assets of the Group.

Transactions carried out during the year ended 31 December 2016, which have been eliminated in the consolidated financial statements of the Group, are set out as follows:

- For the year ended 31 December 2016, the service fees provided by Guangzhou WFOE to Guangzhou Baitian pursuant to the Contractual Arrangements amounted to RMB4,271,845 (2015: RMB3,640,777).

4) Contractual Arrangements in place

For the year ended 31 December 2016, 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 2016, 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 2016.

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 2015 Annual Report and "Other Information — Compliance with the Qualification Requirement" in the 2016 Interim Report, respectively.

5) **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 2016.

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 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 through the internet. The Group complied with the New Internet Publication Regulations in all material respects during the year ended 31 December 2016.

Draft Regulation on Internet Safety for Children

In August 2016, the Cyberspace Administration of China (中華人民共和國國家互聯網資訊辦公室) (the "**CAC**") published a draft of proposed strengthening of policies (the "**Draft Policy**") on internet safety for children (《未成年人網絡保護條例(草案徵求意見稿)》) under the age of 18. 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 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 2016.

6) **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.

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

As at 31 December 2016, 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.

8) **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.

9) 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.

10) 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 2016 (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 2016, 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.

11) 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 2016 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 in 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 2016 are set out in note 37 in 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 2016.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year ended 31 December 2016, 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 in the section headed "Notes to the Financial Statements" of this annual report.

EVENTS AFTER THE YEAR ENDED 31 DECEMBER 2016

There was no subsequent events between the end of reporting period and the date of this annual report that would cause material impact on the Group.

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.

TRADEMARK DISPUTE

Reference is made to the section headed "Trademark Dispute" in the 2016 Interim Report and the announcement of the Company dated 25 May 2016.

In May 2016, following the preliminary approval of the Trademark Office of the Administration for Industry and Commerce (the "**Trademark Office**") in December 2015 and a three-month publication period afterwards, the Company received official approval for its trademark registration application (application number: 14537068) from the Trademark Office whereby the Company was granted the "Aola Star" trademark registration and obtained exclusive rights to the use of the "Aola Star" trademark for ten years for certain purposes, among others, providing online games on the Internet.

MATERIAL LITIGATION AND COMPLIANCE MATTERS

For the year ended 31 December 2016, 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 2016 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 a children's online entertainment service provider, 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 2016.

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.

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 2016.

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 2017 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
29 March 2017

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 2016 (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 provisions A.2.1 and E.1.2 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. Following the resignation of Dr. Xu Gang from his position as the chief executive officer of the Company ("**CEO**") effective on 15 October 2016, Mr. Dai Jian, the chairman of the Company ("**Chairman**"), currently acts as the CEO. Mr. Dai, as one of the founders of the Group, is instrumental to the Group's growth and business expansion since 2009. The Board believes that vesting the roles of both Chairman and CEO in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board further believes that the balance of power and authority for the present arrangement will not be impaired and is adequately ensured by the current Board which comprises experienced and high calibre individuals with sufficient number thereof being independent non-executive Directors.

Code provision E.1.2

Code provision E.1.2 of the CG Code stipulates that the chairman of the board of a listed issuer should attend the annual general meeting. Mr. Dai Jian, the Chairman, was unable to attend the Company's annual general meeting held on 27 May 2016 (the "**2016 AGM**") due to other business commitments. Nevertheless, the Chairman appointed Dr. Xu Gang, an executive Director and the then CEO of the Company, who is well versed in all business activities and operations of the Group, as his delegate to attend and chair the 2016 AGM on behalf of Mr. Dai Jian and to respond to shareholders' questions. Mr. Dai will use his best endeavours to attend upcoming annual general meetings of the Company.

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, appointed on 15 October 2016, and Chairman of Nomination Committee)*
Mr. WU Lili *(Member of Remuneration Committee)*
Mr. LI Chong
Mr. WANG Xiaodong
Dr. XU Gang *(resigned as Chief Executive Officer on 15 October 2016 and resigned as Executive Director on 31 March 2017)*

Independent Non-executive Directors:

Ms. LIU Qianli *(Chairman of Audit Committee and Member of Nomination Committee)*
Dr. WANG Qing *(Chairman 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	A, C
Mr. WANG Xiaodong	B, C
Dr. XU Gang	C
Independent Non-Executive Directors	
Ms. LIU Qianli	B
Dr. WANG Qing	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 chairman), 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 chairman), 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 2016 are set out in note 40 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 chairman), 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 set out in the table below:

	Board	Nomination Committee	Remuneration Committee	Audit Committee	AGM
Executive Directors					
Mr. DAI Jian	4/4	2/2	—	—	0/1
Mr. WU Lili	4/4	—	2/2	—	0/1
Mr. LI Chong	3/4	—	—	—	1/1
Mr. WANG Xiaodong	3/4	—	—	—	1/1
Dr. XU Gang	4/4	—	—	—	1/1
Independent Non-Executive Directors					
Ms. LIU Qianli	4/4	2/2	—	2/2	0/1
Dr. WANG Qing	4/4	—	2/2	2/2	0/1
Mr. MA Xiaofeng	3/4	1/2	1/2	1/2	0/1

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

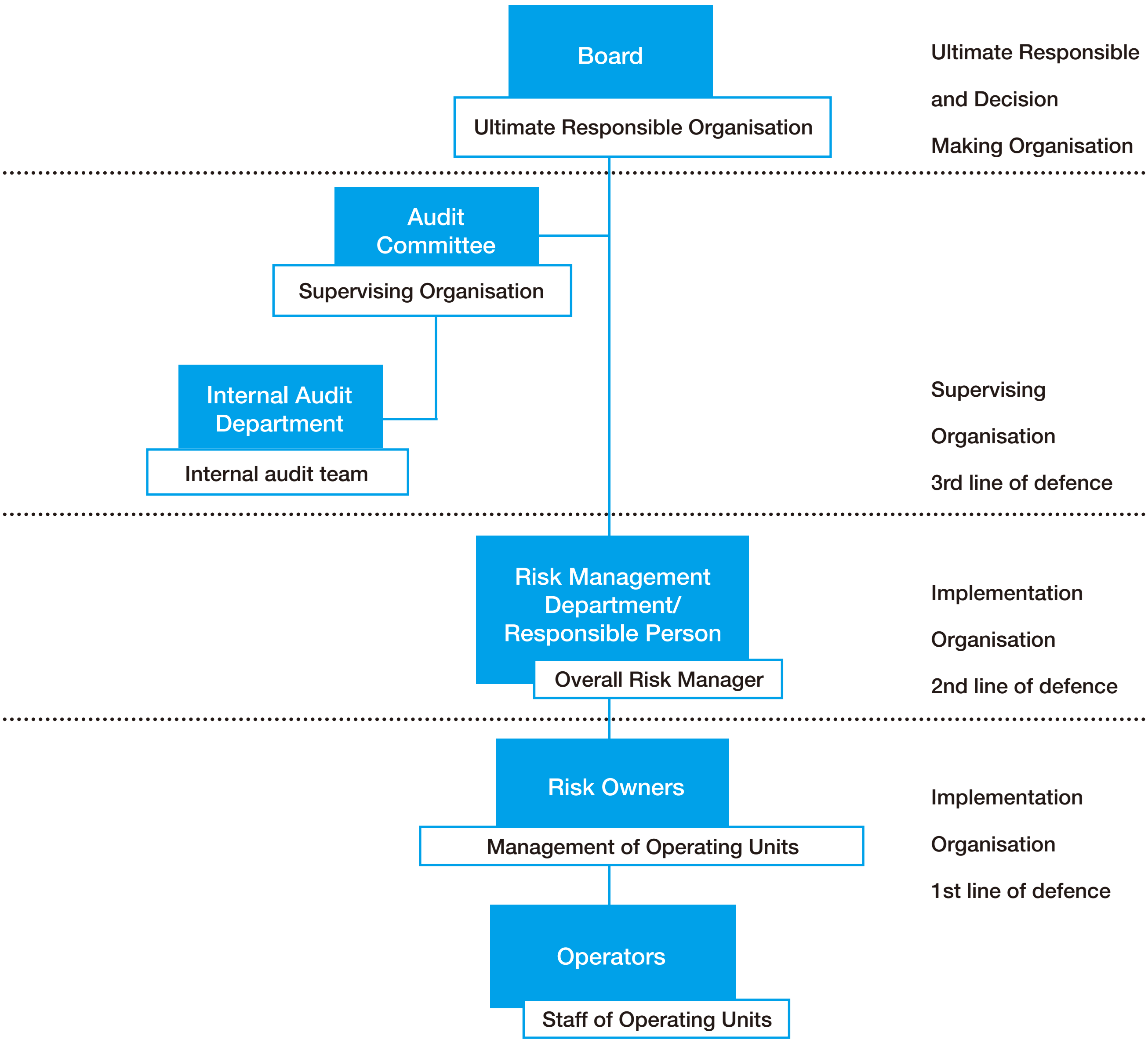
The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against 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 2016.

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 2016, 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 XIVA 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 announcements and its website;

- has included in its code of conduct a strict prohibition on unauthorized use of confidential or inside information; and

- 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 2016.

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 REMUNERATION

The remuneration paid/payable to the external auditor of the Company, PricewaterhouseCoopers, was RMB3,800,000 in respect of audit services for the Review Period.

COMPANY SECRETARY

Mr. YEUNG Ka Hong Carl was the in-house company secretary (who was then also the Chief Financial Officer and Chief Strategy Officer) until 15 October 2016. Following Mr. YEUNG's resignation, Ms. NGAI Kit Fong of Tricor Services Limited, an external service provider, remains in office as the sole 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 special general meeting, 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 requsitionist(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 requistionist(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. The Chairman of the Board was unable to attend the annual general meeting held on 27 May 2016 due to a business engagement. He will use his best endeavours to attend all future shareholders' meetings of the Company. Nevertheless, the Chairman of the Board has appointed a director as his delegate to chair the said annual general meeting, and the chairman of all independent board committee (or their delegates as appropriate) were available to meet shareholders and answer enquiries.

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.

CHANGE IN CONSTITUTIONAL DOCUMENTS

The Company has not made any significant changes to its constitutional documents during the Review Period.

Environmental, Social and Governance Report

1) ABOUT THIS REPORT

To demonstrate our commitment to sustainable development, the Company has prepared its first Environmental, Social and Governance Report (the “Report”). This Report has been prepared in accordance with the Environmental, Social and Governance Reporting Guide (the “Guide”) in Appendix 27 to the Listing Rules of the Hong Kong Stock Exchange, covering two major areas, including the environment and society.

This Report covers a period from 1 January 2016 to 31 December 2016, part of the contents may trace back to previous years. The scope of the Report mainly includes the platform and interactive virtual world of portal website, 100bt.com, operated by Guangzhou Baitian, given its important profits contribution to our Group, which is a fairly representation.

The Company undertakes that there are no false records, misleading statements or material omissions in this report, and ensures that the accuracy, authenticity and integrity of the contents in this report.

2) STAKEHOLDERS’ PARTICIPATION AND COMMUNICATION

The Company has developed the Environmental, Social and Governance (“ESG”) Policy to define ESG management responsibilities and frameworks, ESG risk management and operational principles, and standardize ESG management and operational principles in the day-to-day operations of the Company so as to ensure the implementation of sustainable development concepts.

We believe that fulfilling social responsibility, protecting the environment, working with our partners to promote economic development, and building a harmonious society, is an important basis for Internet companies to create long-term values, we will implement these sustainable development concepts in each operating environment, and communicate and collaborate with stakeholders to improve our performance in environment, society and governance.

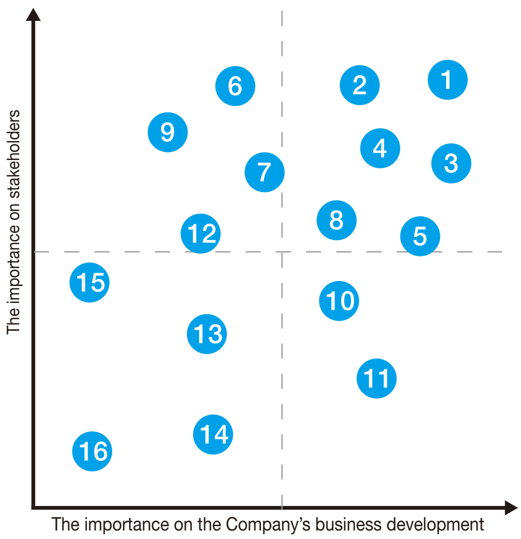
Stakeholder	Stakeholders’ Appeal and Expectation	BAIOO’s Response and Feedback	Main Communication Channels
Shareholders and investors	Scientific governance, efficient management; Product innovation, continuous profitability; Open and transparent corporate information disclosure.	Establishing a scientific and rational enterprise governance structure and risk monitoring system; Improving user satisfaction through continuous innovation, continuously creating long - term value and benefits; Standardized and comprehensive information disclosure system.	Shareholders’ general meeting; Investors’ meeting; Media press conference; Annual report and interim report; Enterprise official website announcement.

Stakeholder	Stakeholders' Appeal and Expectation	BAIOO's Response and Feedback	Main Communication Channels
Government	Compliance and business integrity: Implementation of national policies; Paying taxes on time; Social welfare investment.	Accepting the supervision and management of the government; Responding to the government's policies and summons; Discharging the tax obligations on time; Actively participating in social welfare activities.	Establishing the legal department to deal with compliance matters; Organizing staff to learn and implement new policies; Participating in seminars and forums held by regulatory authorities.
Industry association	Treating opponents with respect, fair competition; Mutual support and common development; Compliance with industry standards and specifications.	Becoming a member of the relevant industry associations; Participating in the Internet industry selection activities; Multi-party cooperation, actively promoting the development of the industry.	Participating in industry conferences; Promoting project cooperation; Jointly organizing activities.
Employees	Safe and healthy working environment; Basic salary and welfare; Fair promotion and career development; Enhancing the sense of belonging and identity.	Safe and healthy office environment and recreational facilities; Competitive salaries and benefits in the industry; Fair, open selection and promotion procedures; Diversified cultural, sports, and team building activities.	Enterprise journals; Open appeal channels for staff; Supporting staff to join trade unions.
Partners	Business integrity and ethics; Fair and open tendering; Achieving mutual benefit and win-win situation.	Standardizing the tender procedures, complying with business ethics, and avoiding vicious competition; Fulfilling the obligations of the contract, and achieving mutual benefit and win-win situation.	Telephone communication; Regular visits; Dealer and supplier evaluation.

Stakeholder	Stakeholders' Appeal and Expectation	BAIOO's Response and Feedback	Main Communication Channels
Users	Internet personal privacy protection; Thoughtful, high-quality service experience; Green, healthy game products.	Gradually improving the privacy policy and information security precautions; Diversified channels of complaints, inviting users to participate in game experience activities; Taking a variety of anti-obsession measures, and providing parental care services.	User interview; Questionnaires; Customer services; User or fan interaction.
The public	Promoting employment; Protecting the environment; Participating in the construction of a harmonious society.	Providing fair and equal employment opportunities; Advocating green, low-carbon office concept; Through the game products and offline activities to promote the culture of "equality, unity, happiness, and learning".	Diversified recruitment channels such as graduate recruitment, social recruitment, and internal referral; Practicing energy-saving and environmental enterprise management measures; Hosting parent-child activities to promote community and family harmony.

3) MATERIALITY ASSESSMENT

We commissioned the independent third-party professional institutions to organize and conduct the 2016 Annual Environmental, Social and Governance Materiality Survey in order to learn about the internal and external stakeholders' expectations and appeals, and determine the matrix of important issues of BAIOO in environmental, social and governance aspects. This materiality matrix helps us to identify the areas that the Company is required to focus on and improve in the environmental, social and governance aspects, and to make continuous, authentic, transparent, targeted disclosures in this annual report and gradually improve the quality of the Report.



Serial number	ESG issues (by degree of importance)
1	Health and safety of products
2	User privacy protection
3	Safeguarding and protecting intellectual property rights
4	Employee health and care
5	Employee promotion and training
6	Prevention of child labor and forced labor
7	Contribution to the community
8	Employee recruitment, remuneration and benefits
9	User experience, user complaint handling
10	Anti- corruption / bribery
11	Social impact assessment of suppliers
12	Reasonable promotion and marketing
13	Effective use of energy (water, electricity, etc.)
14	Environmental performance assessment of suppliers
15	Waste gas and greenhouse gas emissions
16	Impact on the environment and natural resources

4) PRODUCT RESPONSIBILITY

Health and Safety of the Products

As an Internet content and service provider for children, we always adhere to guiding users to "use a healthy network, and healthily use the network" via our interesting, intelligent and green products, We have won the "Top Ten Most Popular Green Enterprise Award" issued by the Internet Film and Television Center of the Central Committee of Communist Youth League and news.youth.cn.

We are committed to the design of healthy and safe virtual world game products for children aged 6 to 14. We strictly abide by the Network Protection Regulations on Minors (Draft for Comment) issued by PRC National Internet Information Office, and other relevant laws and regulations, and we have taken the following measures to avoid juvenile users obsessing with the games, receiving unhealthy information, and harming their physical and mental health:

Top Ten Most Popular Green Enterprise Award

- The products have been reviewed by the regulatory authorities to ensure that they meet the relevant requirements of the PRC;
- Setting up content and language filtering functions within the products to create a green and healthy network environment;
- Strict restrictions on minors' on-line time per day to avoid excessive indulgence and harming their physical and mental health;
- Our product contents mostly focus on "equality, unity, happiness, and study", which are designed to guide juvenile users and help them maintain a positive and healthy attitude towards life.

Case Study: Parental monitoring program for online game minors

As a children community Internet provider, we take the initiative to join the parental monitoring program for online game minors that guided by the Ministry of Culture and launched by a number of online game companies, the program provides parents with online game monitoring services. We provide parental monitoring services to strengthen the parents' monitoring on their children who playing online games, and to guide their children to develop healthy habits of playing online game, by working with the parents, we build a safe and healthy network education and entertainment environment.

Promotion and Marketing of the Products

The Company strictly follows the Advertising Law of the PRC and other national laws and regulations to implement the promotion and marketing of the Company and the products, unify and standardize company name, product information, rationally use logos and identifiers, and make great efforts to establish a good corporate brand image.

Users Privacy Protection

The Company has established the Confidentiality System and Information Security Management System to clarify the Company's standard procedures and guidelines on user privacy protection. According to the Company's requirements, we regularly enter into the Confidentiality Agreement with our staff, any employee who is involved in disclosing the Company's secrets and users' information will be held accountable. At the same time, we have taken the following measures to implement information security management:

- Encrypting the transmission and storage of users' sensitive information and data;
- Setting up firewalls and devices to prevent illegal intrusion of users' database;
- Conducting safety test before products going online to circumvent users' information disclosure risks;
- Improving the security level of users' data through cooperation with China Telecom and Ali Cloud;
- Standardizing the Company's users' data management, and strictly implementing the data using authorization application process; and
- Periodically reviewing users' authorization of database system to prevent unauthorized personnel from operating illegally.

Users Complaint Handling

The Company has established a product user complaint handling mechanism, and opened 7 * 24-hour customer service hotline, complaints mail, user feedback platform, product built-in instant messaging system, home visits, and other user complaint and suggestion channels. We will be based on the impact and severity of customer complaints to implement customer complaint grading measures, so as to make clear the responsible department of complaints at different levels and the processing timeframe, and to enhance product service's efficiency and quality.

Protection of the Intellectual Property Rights of the Products

In accordance with the Patent Law of the PRC, the Copyright Law of PRC, and relevant laws and regulations of the PRC, the Company has formulated an intellectual property protection system, and established a special department to handle filing, registering, transferring, infringement disputes and other matters concerning Internet domain names, trademarks, patents, software copyrights, protect the Company's ownership of benefits in original animations, games and other contents, and stimulate the initiative of the Company's original content creators.

Along with the development of the Company's business, we promptly exert forward-looking protection on the Company's intellectual property rights, always monitor the market trends, and take the necessary actions against any infringement of the Company's intellectual property rights.

We actively make use of the influence of our excellent cultural products, through combination and innovation, we provide children and teenagers with a wide range of high-quality Internet education, entertainment, animation services and products. In recent years, we have secured the adaptation rights of novel TunTianJi (「吞天記」), comic books *Zaowufaze* (「造物法則」) and *XiXingJi* (「西行紀」).

5) SUPPLY CHAIN MANAGEMENT

The Company has established a supplier management system to standardize supplier selection, assessment, information management and bidding process, and to implement the management and control and comprehensively improve the environmental and social risk management level of the supply chain through the following measures:

- Prioritizing high-quality suppliers with brand awareness and better public praise, and seeking to achieve a long-term cooperative relationship;

- Conducting qualification review and on-site investigation to ensure that the suppliers comply with the requirements of product quality, business ethics and others.;

- For major procurement suppliers, implementing fair and transparent bidding and tendering methods, signing contracts according to the laws, and creating a good faith cooperation atmosphere;

- Regularly and comprehensively assessing the performance of suppliers (i.e product quality, business ethics, social responsibilities), conducting in-depth cooperation with high-quality suppliers according to the assessment results, and sifting out substandard suppliers; and

- Regularly visiting and communicating with suppliers via phone to learn about their demands and expectations, establishing mutually beneficial and win-win relationship.

We strictly adhere to business ethics, implement open and transparent supplier selection and evaluation mechanism, and establish win-win cooperation and sustainable development relationship with suppliers.

6) EMPLOYMENT RELATIONS

We always adhere to the business philosophy of Dream, Friendship and Growth, and provide staff with a secure and diversified platform that helps their career development.

Labor Standards

The Company has complied with the Labor Law of the PRC, the Labor Contract Law of the PRC and the relevant local labor laws and regulations, and signed labor contracts with employees and prohibited to use child labor and forced labor.

Employee Recruitment

Based on the principles of recruitment: open recruitment, equal competition, recruit employees on a selective basis, internal recruitment prior to external recruitment, post staffing management, the Company has established and implemented the Recruitment Management Approach to standardize employee recruitment process and improve the selection mechanism of talents. Combined with the Company's business and talent requirements, we develop various channels such as campus recruitment, general recruitment, and internal recommendation, to obtain high-quality human resources.

We respect human rights, adhere to the principle of equality and mutual respect, and the employees' benefit package regarding employment, salary, welfares, trainings, promotion, termination of the contract, retirement, and others, are not to be treated differently because of race, nationality, religion beliefs, age, disability, gender, and etc.

Employee remuneration and benefits

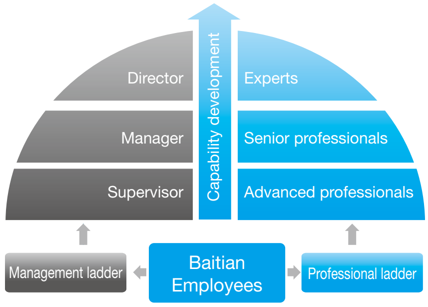
We provide employees with competitive remuneration and benefits, and timely adjust their remuneration and benefits according to market changes and employee annual assessment, so as to protect the basic rights and interests of employees.

In terms of remuneration management, the Company has complied with the Labor Law of the PRC and related legal provisions, and established clear-cut salary calculation standard and employee attendance system. The Company implements annual performance-oriented assessment on the staff based on their job performance, working performance and job description, and timely adjusts their remuneration according to the assessment results.

In terms of welfares, we have formulated a variety of welfare incentive policies on the basis of providing employees with five insurances and one housing fund according to the laws, including commercial insurance, double pay at year end, annual medical examination, annual company trip, holiday welfares, national legal holidays and so on.

Employee Promotion and Training

We attach great importance to the career development of employees, and have set up a sound Double Ladder development mechanism to provide employees with a broad development platform and a clear career development channel.



The Company is committed to providing equal employment and development opportunities; it selects and promotes the appropriate candidates for appointment based the employees' job responsibilities, individual competence, job performance, and the Company's practical needs.

Our trainings and classes always adhere to the business-related, growth-orientated and development-centered concepts; we advocate employees growing together and sharing with the Company, and we expect employees learning actively, communicating and exchanging ideas with the Company. The Company's current trainings are basically divided into induction training and on-the-job training:

- Induction training includes fresh graduate training and new staff training, aiming at providing new employees with trainings on corporate culture, organizational structure and basic system.

- On-the-job training includes internal skills training, staff assignment special training and regular classroom lecture training, aiming at enhancing the overall competence and working skills of the staff.

Case Study: Fresh graduate training

On 8 July 2016, the 2016 Baitian Fresh Graduate Training Camp was launched; the training lasted four days. The training is divided into three parts: classroom teaching, design competition and outdoor development. Rich training contents not only help new employees have a deep understanding of the development of the Company, but also build the trust among them through a variety of collective activities, and help them actively adapt to the office life.

Group photo of the Fresh Graduate Training Camp

Case Study: Management training

From 21 to 22 May 2016, we organized the Stability Lesson of the management training series. It is the series' fourth lesson, the other three are Start-up Lesson, Intelligence Lesson and Development Lesson.

The theme of this lesson is Five Habits of Effectiveness, which aims to foster managers' awareness of management and help them develop good habits. Through the active and interesting classroom teaching, the trainees have a deeper understanding of Time Management, Emphasis on Contribution, Focusing on the Future and Effective Decisions.

The Photo of Progressing-Winning Training

Employee Health and Care

The Company strictly complies with the national and local labor protection regulations, offers staff with workplaces in line with national labor standards, and takes a variety of employee health management measures to effectively protect the safety and health of employees at work:

- Good office environment: comfortable office areas, personalized meeting rooms, restaurant, gym, coffee lounges; and

- Employee health management: providing food and beverage benefits, overtime transport subsidies and annual physical examination, hence offering effective protection for the health of employees;

We attach great importance to the sound development of the physical and mental health of employees, and actively organize a variety of cultural & sports activities and team building activities, enriching the employees' leisure life while cultivating their optimistic and healthy living habits, so as to help them stay away from occupational hazards.

Case Study: BAIOO yoga class

BAIOO carries out a yoga class every night 18:30–19:30 at the yoga room of BAIOO fitness center, all the employees of the Group are welcome to join the class, professional yoga teachers are invited to teach so as to improve the physical fitness of employees.

Yoga class photo

Case Study: BAIOO annual basketball game

On 29 August 2016, BAIOO annual Solidarity Cup basketball game officially kicked off, a total of nine teams, nearly 100 attendees, participated in the competition, which enriched the Group's employees' leisure life, strengthened their physique, and played a positive role in the solidarity of the Company.

Solidarity Cup promotion poster

7) ANTI-CORRUPTION

The Company strictly complies with various laws and regulations with respect to corruption, bribery, extortion, fraud and money laundering, such as Criminal Law of the PRC and Anti-Unfair Competition Law of the PRC, and has developed Anti-fraud and Reporting Corruption Management System to standardize the Company's anti-fraud processes. We have set up the Audit Department as a special management agency for anti-fraud work, which is responsible for organizing and implementing cross-sector anti-fraud work within the Company, including:

- Assessing annual fraud risks and carrying out corporate anti-fraud activities;

- Reviewing and evaluating the establishment and implementation of the Company's anti-fraud control mechanism; and

- Receiving anti-fraud report and registering related case information, organizing the investigation of anti-fraud cases, issuing settlement opinions and reporting to the management, the audit committee, and the board of directors.

At the same time, we encourage employees to maintain their integrity and morality in the Company's daily operations and personal contacts, and to establish a clean and self-disciplined working style. We carry out anti-corruption education and trainings for employees through various forms such as propagation and implement of corporate policies, employee manual, and network publicity, clarify the responsibilities of employees in anti-fraud, and stimulate the staff to improve their level and skills of anti-fraud.

8) ENVIRONMENTAL PROTECTION

Emissions and Use of Resources

The Company strictly complies with the related laws and regulations with respect to emissions, resource utility and environmental protection, and deals with a small amount of wastewater and rubbish arising from our business operations strictly in accordance with national and regional emissions management requirements. The Company does not directly produce waste gas and hazardous wastes and greenhouse gases in the process of operations. We devote to reducing the indirect emissions of greenhouse gases through proactively adopting environmentally friendly and energy-saving office facilities and advocating the concept of low carbon and environmental protection travelling among our staff. We have adopted the following measures to practice energy conservation and environmental protection in the Company's daily operations:

- Installing energy-saving LED lighting equipments and split inverter air conditioners to reduce the energy consumption in the Company's daily operations;

- Strictly controlling the environmental indicators of office decoration materials, inspecting the materials' pollution index, to avoid air pollution and hazard;

- Implementing electronic operating, uniformly controlling staff's printing, copying, and faxing, to reduce paper waste;
- Print supplies are maintained and recycled by outsourced suppliers to improve resource utilization; and
- Designated personnel checking on the reasonable use of air conditioning and lighting in office areas during the working hours every day, and making sure the electronic equipments and water equipments are shut down during non-working hours.

At the same time, we have established the Office 5S Management System, which strictly stipulates the use of electronic equipment and water and power resources, we also actively advocate the green low-carbon office concept within the staff through repeated slide shows of the Office 5S Management System in public areas, so as to achieve efficient use of resources.

Impact on the Environment and Natural Resources

The environment and natural resources aspect specified in the Guide does not apply, since the business operations of the Company has minimal impact on the environment and natural resources.

9) COMMUNITY INVESTMENT

We attach great importance to the embodiment of corporate and social values, and have actively advocated and established the new culture of green Internet for children: Equality, Unity, Happiness, and Study. We combine the advantages of the Company's main business and utilize the Internet platform to organize a variety of online and offline public welfare activities, which promote the healthy growth of children and build up a harmonious family relationship.

Case Study: BAIOO Wonderful Playground

BAIOO opens its 35th floor every Saturday to the public, in which, it holds the BAIOO Wonderful Playground – a public welfare parent-child interaction activity, which provide families with tutoring and counseling services concerning reading, games, and companionship, free of charge. The activity advocates parents should spend more time with their children, and guides parents to teach their children correctly so as to enable them to grow up healthy and sound.

Case Study: BAIOO public welfare storytelling activity

We send employees from time to time to Dongguan Chuangsi International Residence Kindergarten to tell children stories, help children learn to care for others, and help others.

Case Study: Aobi Island Supermodel Fashion Public Welfare Festival

On 8 April 2016, the Aobi Island network community held a week-long Supermodel Fashion Public Welfare Festival, children in the online community can participate in the virtual public welfare activities like this, and they can raise money for the orphanage children in the simulation background so as to cultivate their care and love for others, and establish social responsibility consciousness.

10) AWARDS

No.	Award	Awarded by	Date of award	Receiving Party
1	2014–2016 China Internet Industry Self-discipline Contribution Award	Internet Society of China	01/07/2016	Guangzhou Baitian
2	2016 China Internet Top 100 Enterprise	Internet Society of China, Information Centre of the Ministry of Industry and Information Technology	01/07/2016	Guangzhou Baitian
3	The Most Influential Enterprise	Guangdong Game Industry Association	01/01/2017	Guangzhou Baitian
4	Outstanding Contribution Award			Guangzhou Baitian
5	The Most Popular Game			Legend of Aoqi

Reference Indexes of the Guide of The Hong Kong Stock Exchange

Main categories in the Guide of the Stock Exchange		Relevant aspects of each category	Reference section indexes of the disclosure content
A. Environment		A1. Emissions	Emissions and Use of Resources
		A2. Use of Resources	Emissions and use of Resources
		A3. Environment and natural resources	Impact on the environment and natural resources
B. Society	Employment and labor practices	B1. Employment	Employee recruitment Employee remuneration and benefits
		B2. Health and safety	Employee health and care
		B3. Development and training	Employee promotion and training
		B4. Labor standards	Labor standards
	Operating practices	B5. Supply chain management	Supply chain management
		B6. Product responsibility	Product responsibility
		B7. Anti-corruption	Anti-corruption
	Community	B8. Community investment	Community investment

Independent Auditor's Report

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 93 to 182, which comprise:

- the consolidated balance sheet as at 31 December 2016;
- 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 2016, 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 2.24(a) and 4.1(a) to the consolidated financial statements. Revenue from online virtual world for the year ended 31 December 2016 amounted to RMB324,357,000, representing 85% of the Group's total revenue. Out of the total revenue from online virtual world, an amount of RMB222,062,000 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;

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 was supported by the evidence we obtained, and no material exceptions were noted.
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 Bababaobei Trading Limited ("BTL") in 2015 which is engaged principally in operating superstores for baby and maternity products in Hong Kong, amounted to RMB33,306,000 and RMB16,069,000, respectively, as of 31 December 2016. The total amounts represented 12% of the Group's total non-current assets. During the year ended 31 December 2016, decrease in revenue and profit of BTL 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; • Assessed the competency, capability and objectivity of the independent external valuer by considering their qualification and relationship with the Group; • Assessed the appropriateness of value-in-use calculation methodology adopted by management;

Key Audit Matter	How our audit addressed the Key Audit Matter
In this regard, management has engaged an independent external valuer to perform 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.	• Tested the mathematical accuracy of the underlying value-in-use calculation; • 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; • 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; and • Assessed the reasonableness of the sensitivity analysis. Based on the above, we found that the judgement and estimates applied by management was supported by the evidence we obtained, and no material exceptions were noted.

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, 29 March 2017

Consolidated Income Statement

	Note	Year ended 31 December 2016 RMB'000	2015 RMB'000
Revenue	5	**383,260**	387,105
Cost of revenue	6	**(170,870)**	(150,471)
Gross profit		**212,390**	236,634
Selling and marketing expenses	6	**(92,868)**	(70,924)
Administrative expenses	6	**(75,865)**	(72,777)
Research and development expenses	6	**(61,057)**	(46,338)
Other income	7	**15,395**	10,429
Other gains/(losses) — net	8	**3,943**	(725)
Operating profit		**1,938**	56,299
Finance income	10	**41,673**	59,723
Finance costs	10	**(589)**	(653)
Finance income — net	10	**41,084**	59,070
Share of loss of an associate		**(1,530)**	(344)
Profit before income tax		**41,492**	115,025
Income tax expense	11	**(8,489)**	(15,595)
Profit for the year		**33,003**	99,430
Attributable to:			
— Shareholders of the Company		**35,513**	98,909
— Non-controlling interests		**(2,510)**	521
		33,003	99,430
Earnings per share (expressed in RMB per share)	12		
— Basic		**0.0130**	0.0366
— Diluted		**0.0128**	0.0359

The notes on pages 100 to 182 are integral parts of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Profit for the year	**33,003**	99,430
Other comprehensive income		
Items that may be reclassified to profit or loss		
Currency translation differences	**1,356**	1,254
Total comprehensive income for the year	**34,359**	100,684
Attributable to:		
— Shareholders of the Company	**36,452**	99,778
— Non-controlling interests	**(2,093)**	906
	34,359	100,684

The notes on pages 100 to 182 are integral parts of these consolidated financial statements.

Consolidated Balance Sheet

	Note	As at 31 December 2016 RMB'000	2015 RMB'000
ASSETS			
Non-current assets			
Property and equipment	15	**38,873**	16,312
Intangible assets	16	**53,849**	50,003
Investment in an associate		**—**	3,656
Prepayments and other receivables	20	**12,616**	9,608
Deferred income tax assets	33	**6,375**	4,940
Long-term deposits	22	**300,000**	380,000
Financial assets at fair value through profit or loss	21	**2,694**	—
		414,407	464,519
Current assets			
Inventories	18	**13,151**	16,277
Trade receivables	19	**9,877**	6,161
Prepayments and other receivables	20	**42,038**	34,106
Financial assets at fair value through profit or loss	21	**3,167**	1,298
Short-term deposits	22	**1,041,427**	975,991
Cash and cash equivalents	22	**214,216**	254,638
Restricted cash	22	**279,556**	—
		1,603,432	1,288,471
Total assets		**2,017,839**	1,752,990
EQUITY			
Share capital	23	**9**	8
Share premium	23	**1,567,040**	1,581,855
Reserves	24	**30,857**	48,338
Accumulated losses	26	**(42,449)**	(77,962)
		1,555,457	1,552,239
Non-controlling interests		**17,657**	18,085
Total equity		**1,573,114**	1,570,324

Consolidated Balance Sheet

	Note	As at 31 December 2016 RMB'000	2015 RMB'000
LIABILITIES			
Non-current liabilities			
Long-term payable	27	**6,423**	9,793
Advances under government grants	28	**678**	1,560
Deferred revenue	29	**6,367**	2,842
Deferred income tax liabilities	33	**3,296**	2,670
		16,764	16,865
Current liabilities			
Trade payables	30	**9,618**	11,467
Other payables and accruals	31	**43,661**	38,865
Amounts due to related parties	37	**250**	1,075
Advances from customers and distributors	29	**42,563**	57,828
Advances under government grants	28	**1,000**	3,273
Deferred revenue	29	**49,708**	50,801
Income tax liabilities		**2,253**	2,276
Borrowing	32	**278,056**	—
Bank overdrafts		**852**	216
		427,961	165,801
Total liabilities		**444,725**	182,666
Total equity and liabilities		**2,017,839**	1,752,990

The notes on pages 100 to 182 are integral parts of these consolidated financial statements.

These consolidated financial statements on pages 93 to 182 were approved for issue by the board of directors of the Company (the "Board") on 29 March 2017 and were signed on its behalf.

....

Dai Jian **Li Chong**

Consolidated Statement of Changes in Equity

		Attributable to shareholders of the Company						
		Share Capital	Share premium	Reserves	Accumulated losses	Total	Non-controlling interest	Total equity
	Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2015		8	1,636,621	49,916	(176,871)	1,509,674	–	1,509,674
Comprehensive income								
Profit for the year		–	–	–	98,909	98,909	521	99,430
Other comprehensive income		–	–	869	–	869	385	1,254
Total comprehensive income		–	–	869	98,909	99,778	906	100,684
Transactions with owners, recognized directly in equity								
Share Option Scheme:								
– Exercise of share options		–	175	(101)	–	74	–	74
Restricted Share Unit Scheme ("RSU Scheme"):								
– Value of employee services	25	–	–	25,126	–	25,126	–	25,126
– Vesting of RSUs		–	19,531	(19,531)	–	–	–	–
Acquisition of a subsidiary		–	–	–	–	–	17,823	17,823
Final dividend of 2014		–	(74,472)	–	–	(74,472)	–	(74,472)
Recognition of a financial liability in respect of the put option granted to the non-controlling interest		–	–	(7,941)	–	(7,941)	(644)	(8,585)
Total transactions with owners, recognized directly in equity		–	(54,766)	(2,447)	–	(57,213)	17,179	(40,034)
Balance at 31 December 2015		8	1,581,855	48,338	(77,962)	1,552,239	18,085	1,570,324

Consolidated Statement of Changes in Equity

		Attributable to shareholders of the Company						
		Share Capital	Share premium	Reserves	Accumulated losses	Total	Non-controlling interest	Total equity
	Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	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	25	–	–	151	–	151	–	151
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	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		–	(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

The notes on pages 100 to 182 are integral parts of these consolidated financial statements.

Consolidated Statement of Cash Flows

		Year ended 31 December	
		2016	2015
	Note	**RMB'000**	RMB'000
Cash flows from operating activities			
Cash (used in)/generated from operations	35	**(5,806)**	62,029
Interest received		**2,347**	1,218
Income tax paid		**(9,638)**	(9,968)
Net cash (used in)/generated from operating activities		**(13,097)**	53,279
Cash flows from investing activities			
Acquisition of a subsidiary, net of cash acquired		**347**	(35,522)
Purchase of property and equipment and intangible assets		**(28,967)**	(11,857)
Payments for investment in an associate		**(815)**	(3,185)
Interest received from bank deposits		**23,790**	52,270
Repayment from bank deposits		**1,015,991**	688,209
Investment in bank deposits		**(1,001,427)**	(680,000)
Increase in restricted cash		**(279,556)**	–
Net cash (used in)/generated from investing activities		**(270,637)**	9,915
Cash flows from financing activities			
Proceeds from short-term borrowings		**278,056**	–
Buy-back of ordinary shares		**(2,350)**	–
Exercise of share options		**27**	74
Interest paid		**(589)**	–
Dividend paid to the Company's shareholders		**(41,484)**	(74,472)
Net cash generated from/(used in) financing activities		**233,660**	(74,398)
Net decrease in cash and cash equivalents		**(50,074)**	(11,204)
Cash and cash equivalents at beginning of the year		**254,422**	259,367
Foreign exchange gains on cash and cash equivalents		**9,016**	6,259
Cash and cash equivalents at end of the year		**213,364**	254,422
Cash and cash equivalents comprises:			
Bank overdrafts		**(852)**	(216)
Cash and banks	22	**214,216**	254,638
Cash and cash equivalents		**213,364**	254,422

The notes on pages 100 to 182 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 29 March 2017.

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 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) ***New and amended standards adopted by the Group***

The following new standards and amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2016:

IAS 1 (Amendment)	Disclosure Initiative
IFRS 11 (Amendment)	Accounting for Acquisitions of Interests in Joint Operations
IFRS 14	Regulatory Deferral Accounts
IAS 16 and IAS 38 (Amendment)	Clarification of Acceptable Methods of Depreciation and Amortization
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

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

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 and amended standards not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these consolidated financial statements.

		Effective for annual periods beginning on or after
IAS 7 (Amendment)	Statement of Cash Flows	1 January 2017
IAS 12 (Amendment)	Income Taxes	1 January 2017
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

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 the following:

<u>IFRS 9, ‘Financial instruments’</u>

The new standard 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.

While the Group has yet to undertake a detailed assessment of the classification and measurement of financial assets, equity investment and derivative currently measured at fair value through profit or loss which would likely continue to be measured on the same basis under IFRS 9, and hence there will be no change to the accounting for these assets.

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 and amended standards not yet adopted (continued)

IFRS 9, 'Financial instruments' (continued)

Accordingly, the Group does not expect the new guidance to have a significant impact on the classification and measurement of its 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 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 impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in an earlier recognition of credit losses.

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.

IFRS 9 must be applied for financial years commencing on or after 1 January 2018. The Group does not intend to adopt IFRS 9 before its mandatory date.

IFRS 15, 'Revenue from contracts with customers'

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.

Management is currently assessing the effects of applying the new standard on the Group's financial statements and has identified the following areas that are likely to be affected:

- revenue from service - the application of IFRS 15 may result in the identification of separate performance obligations which could affect the timing of the recognition of revenue.

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 and amended standards not yet adopted (continued)***

IFRS 15, 'Revenue from contracts with customers' (continued)

- accounting for certain costs incurred in fulfilling a contract - certain costs which are currently expensed may need to be recognized as an asset under IFRS 15, and

- rights of return IFRS 15 requires separate presentation on the balance sheet of the right to recover the goods from the customer and the refund obligation.

At this stage, the Group is not able to estimate the impact of the new rules on the Group's financial statements. The Group will make more detailed assessments of the impact over the next twelve months.

IFRS 15 is mandatory for financial years commencing on or after 1 January 2018. At this stage, the Group does not intend to adopt the standard before its effective date.

IFRS 16, 'Leases'

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

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As of 31 December 2016, the Group has non-cancellable operating lease commitments of RMB181,281,000 (Note 36(b)). However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

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

The new standard is 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.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

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 interest in the acquiree on an acquisition-by-acquisition basis. The non-controlling interest 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 interest 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. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

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 cost". All other foreign exchange gains and losses are presented in the income statement within "other gains/(losses) — 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 Summary of significant accounting policies (continued)

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.

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/(losses) — net" in the consolidated income statement.

2 Summary of significant accounting policies (continued)

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.

(b) Trademark

Separately acquired trademarks are shown at historical cost. 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. 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.

2 Summary of significant accounting policies (continued)

2.7 Intangible assets (continued)

(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.

2.8 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 Summary of significant accounting policies (continued)

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 2.13 and 2.14).

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. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2 Summary of significant accounting policies (continued)

2.11 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.

2.12 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 Summary of significant accounting policies (continued)

2.13 Trade receivables and other receivables

Trade receivables are amounts due from customers for services performed 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 2.11 for description of the Group's impairment policies.

2.14 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.

2.15 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.

2.16 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)

2.17 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 the current liability unless the put option can only be exercised 12 months after the end of the reporting period.

2.18 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.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

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.

2.19 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

2 Summary of significant accounting policies (continued)

2.19 Borrowing costs (continued)

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Borrowing costs include interest expense, finance charges in respect of finance lease and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. The exchange gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the entity had borrowed funds in its functional currency, and the borrowing costs actually incurred on foreign currency borrowings. Such amounts are estimated based on interest rates on similar borrowings in the entity's functional currency.

2.20 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)

2.20 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 or 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.

2.21 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 Summary of significant accounting policies (continued)

2.22 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 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 options and restricted share units 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 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 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.

(b) Share-based payments transactions among group entities

The grant by the Company of options and/or RSUs over its equity instruments to the employees or other service providers of the subsidiaries is treated as a capital contribution. The fair value of consulting and employee services received, measured by reference to the grant date fair value, 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 Summary of significant accounting policies (continued)

2.23 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2.24 Revenue recognition

Online entertainment businesses

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.

2 Summary of significant accounting policies (continued)

2.24 Revenue recognition (continued)

Online entertainment businesses (continued)

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

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

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

Revenue earned from the sale of virtual items is recognized by applying the item-based model. 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.

2 Summary of significant accounting policies (continued)

2.24 Revenue recognition (continued)

Online entertainment businesses (continued)

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

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 in 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.

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.

2 Summary of significant accounting policies (continued)

2.24 Revenue recognition (continued)

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.

2.25 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 are classified as non-current liabilities.

2 Summary of significant accounting policies (continued)

2.26 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.

2.27 Interest income

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

2.28 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.

2.29 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.

2.30 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 HK$ and 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 2016 would have been approximately lower/higher by RMB1,492,000 (2015: post-tax profit for the year lower/higher by RMB1,383,000).

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

(ii) Interest rate risk

For the years ended 31 December 2016 and 2015, 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 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**
At 31 December 2015						
Trade payables	11,467	–	–	–	–	11,467
Other payables and accruals (excluding other tax liabilities and staff costs and welfare accruals)	9,543	–	–	–	–	9,543
Amounts due to related parties	1,075	–	–	–	–	1,075
Bank overdrafts	216	–	–	–	–	216
Long-term payable	–	–	12,686	–	–	12,686

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	
	2016	2015
	RMB'000	RMB'000
Total liabilities	**444,725**	182,666
Total assets	**2,017,839**	1,752,990
Gearing ratio	**22%**	10%

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 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 following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2015.

	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	—	—	1,298	1,298

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 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**
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period, under "Other gains/(losses) — net"	**4,563**
Changes in unrealised gains or losses for the period included in profit or loss at the end of the reporting period	**4,563**

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 2015.

	Financial assets at fair value through profit or loss RMB'000
At 1 January 2015	—
Addition	1,298
At 31 December 2015	1,298

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

The valuation of the level 3 instruments mainly included investments in unlisted companies and derivative. As these instruments are not traded in an active market, their fair value have been determined using various applicable valuation techniques, including discounted cash flows, comparable transactions approaches, and other option pricing models etc. Major assumptions used in the valuation include historical financial results, assumptions about future growth rates, estimate of weighted average cost of capital, recent market transactions, estimate discount for marketing 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 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 2.24, 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

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

As at 31 December 2016, for the goodwill arising from acquiring Bababaobei Trading Limited ("BTL"), if the budgeted gross margin is lower by 1 percentage point, with other variables being held constant, the recoverable amount of goodwill would be lower than its carrying amount, and the Group would recognize an impairment of goodwill of RMB 4.3 million. If the budgeted revenue growth rate is lower to 14.4% from 16.2%, with other variables being held constant, the recoverable amount of goodwill would be lower than its carrying amount, and the Group would recognize an impairment of goodwill by RMB 1.2 million.

(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.

4 Critical accounting estimates and judgements (continued)

4.1 Critical accounting estimates and assumptions (continued)

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

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.

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 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 2016 and 2015.

(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 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.

(e) Estimation of the put option liability

The Group granted a put option to the non-controlling interests owner whereby he has the right to request the Group to repurchase his equity interests in the non-wholly owned subsidiary. The repurchase price was determined by reference to the revenue or profit to be generated by the subsidiary in future periods. The Group will initially recognize a financial liability at the present value of the estimated future cash outflows under the put option arrangement, and at the end of each subsequent period, the Group will revisit their estimations. If the Group revises its estimate of this liability, the Group will adjust the carrying amount of the financial liability to reflect revised estimated cash outflows and the adjustments will be recognized as income or expenses in the consolidated income statement.

4 Critical accounting estimates and judgements (continued)

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 returns generated by Guangzhou Baitian in consideration for the business support, technical and consulting services provided by Guangzhou WFOE, at Guangzhou WFOE's discretion, respectively;

— 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.

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.

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, including the associated e-commerce business, in these consolidated financial statements. 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

— Other businesses

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

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

There were no material inter-segment sales during years ended 31 December 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 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 2016 and 2015 are as follows:

	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)**

	Year ended 31 December 2015			
	Online entertainment business RMB'000	Retail business RMB'000	Other businesses RMB'000	Total RMB'000
Segment revenue	344,745	34,656	7,704	387,105
Gross profit	217,390	15,941	3,303	236,634
Depreciation (Note 15)	6,981	292	—	7,273
Amortization (Note 16)	135	730	—	865
Share of loss of an associate	(344)	—	—	(344)

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 year ended 31 December 2016, the geographical information on the total revenues is as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Revenue		
— Mainland China	**334,842**	352,615
— Hong Kong	**48,418**	34,490
Total	**383,260**	387,105

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 years ended 31 December 2016 and 2015, respectively. However, revenue of the Group is mainly derived from self-developed online virtual world operations and the Group depends on the success of a limited number of online virtual worlds to generate revenue. As summarized in the table below, the online virtual worlds contributing more than 10% of the Group's total revenue account for 64.9% and 88.0% of the total revenue for the each of the years ended 31 December 2016 and 2015. The percentages of revenue contributed by the following online virtual worlds are not presented for the years when such amount is less than 10% of the Group's total revenue in a particular year.

	Year ended 31 December	
	2016	2015
Legend of Aoqi	**41.3%**	45.6%
Aola Star	**23.6%**	29.8%
Aobi Island	**N/A**	12.6%

As at 31 December 2016, the total non-current assets, other than financial instruments and deferred tax assets, located in Mainland China and Hong Kong were RMB40,779,000 (31 December 2015: RMB19,811,000) and RMB51,943,000 (31 December 2015: RMB50,983,000), respectively.

6 Expenses by nature

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Employee benefit expenses (Note 9)	**201,107**	190,530
Promotion and advertising expenses	**45,782**	50,090
Operating lease rentals in respect of office premises	**38,240**	17,858
Cost of inventories sold (Note 18)	**32,400**	19,905
Distribution cost and payment handling fees	**20,110**	2,331
Bandwidth and server custody fees	**18,527**	19,404
Depreciation of property and equipment and amortization of intangible assets (Notes 15 and 16)	**10,371**	8,138
Professional fees	**8,422**	9,400
Content expenses	**5,327**	798
Utilities and office expenses	**4,872**	3,268
Travelling and entertainment expenses	**4,032**	4,170
Auditor's remuneration		
— Audit services	**3,800**	3,800
— Non-audit services	**—**	700
Prepaid card production expenses	**1,500**	3,373
Others	**6,170**	6,745
Total cost of revenue, selling and marketing expenses, administrative expenses and research and development expenses	**400,660**	340,510

7 Other income

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Sale of an online virtual world	**8,551**	—
Government grants	**6,690**	10,402
Others	**154**	27
	15,395	10,429

8 Other gains/(losses) — net

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Financial assets at fair value through profit or loss :		
— Fair value gains	**4,563**	—
Others	**(620)**	(725)
	3,943	(725)

9 Employee benefit expenses

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Wages, salaries and discretionary bonuses	**147,280**	131,825
Pension costs — defined contribution plans (Note (a))	**12,061**	9,895
Other social security costs, housing benefits and other employee benefits	**31,281**	23,684
Share-based compensation expenses	**10,485**	25,126
	201,107	190,530

(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 2016, the Group contributes funds which are calculated on a fixed percentage of 14% (2015: 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.

9 Employee benefit expenses (continued)

(b) Five highest paid individuals

The five individuals whose emoluments were highest in the Group for the year include two (2015: two) directors whose emoluments are reflected in the analysis shown in Note 40. The emoluments paid and payable to the remaining three (2015: three) individuals during the year are as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Wages and salaries	**2,250**	4,014
Discretionary bonuses	**595**	1,416
Pension costs — defined contribution plans	**79**	72
Other social security costs, housing benefits and other employee benefits	**110**	102
Share-based compensation expenses	**3,458**	10,419
	6,492	16,023

The emoluments fell within the following bands:

	Year ended 31 December	
	2016	2015
HKD1,000,000 to HKD2,000,000	**1**	—
HKD2,000,000 to HKD3,000,000	**2**	—
HKD3,000,000 to HKD5,000,000	**—**	2
HKD9,000,000 to HKD10,000,000	**—**	—
HKD10,000,000 to HKD12,000,000	**—**	1

10 Finance income — net

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Finance income:		
— Interest income on bank deposits and other term deposits	**29,287**	53,464
— Finance income on long-term payable	**3,906**	—
— Net foreign exchange gains	**8,480**	6,259
	41,673	59,723
Finance costs:		
— Interest expense	**(589)**	(653)
Finance income — net	**41,084**	59,070

11 Income tax expense

The income tax expense of the Group for the years ended 31 December 2016 and 2015 is analyzed as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Current income tax	**9,508**	13,021
Deferred income tax (Note 33)	**(1,019)**	2,574
Income tax expense	**8,489**	15,595

11 Income tax expense (continued)

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	
	2016	2015
	RMB'000	RMB'000
Profit before income tax	**41,492**	115,025
Tax calculated at income tax rates applicable to profits of the consolidated entities in their respective jurisdictions (Note a, b, c)	**2,915**	14,114
Tax effects of:		
Tax losses for which no deferred income tax asset was recognized	**6,023**	392
Super deduction for research and development expenses (Note c)	**(2,480)**	(3,027)
Expenses not deducted for income tax purposes:		
— Share-based compensation	**1,591**	3,769
— Others	**440**	347
Income tax expense	**8,489**	15,595

The high effective income tax rate for the year ended 31 December 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.

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 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 2016 and 2015.

(c) PRC enterprise 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 and 2014 and was entitled to a preferential income tax rate of 15% on its estimated assessable profits for the years ended 31 December 2016 and 2015.

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 made its best estimate for the Super Deduction to be claimed for the Group's entities in ascertaining their assessable profits for the years ended 31 December 2016 and 2015.

(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 2016 and 2015, 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 33).

12 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	
	2016	2015
Profit attributable to shareholders of the Company (RMB'000)	**35,513**	98,909
Weighted average number of ordinary shares in issue less shares held for RSU Scheme	**2,736,805,178**	2,699,943,341
Basic earnings per share (in RMB/share)	**0.0130**	0.0366

(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 2016 and 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 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 Earnings per share (continued)

(b) Diluted (continued)

	Year ended 31 December	
	2016	2015
Earnings		
Profit attributable to shareholders of the Company and profit used to determine diluted earnings per share (RMB'000)	**35,513**	98,909
Weighted average number of ordinary shares		
Weighted average number of ordinary shares in issue less shares held for RSU Scheme	**2,736,805,178**	2,699,943,341
Adjustments for:		
— Share options	**1,709,979**	2,863,711
— RSUs	**36,488,018**	51,160,438
Weighted average number of ordinary shares for diluted earnings per share	**2,775,003,175**	2,753,967,490
Diluted earnings per share (in RMB/share)	**0.0128**	0.0359

13 Net foreign exchange gains

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

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Finance income — net (Note 10)	**8,480**	6,259
Other gains/(losses) — net	**435**	(722)
	8,915	5,537

14 Subsidiaries

The following is a list of the principal subsidiaries as at 31 December 2016:

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
Directly held by the Company					
Baitian Technology Limited ("Baitian Hong Kong")	Hong Kong, Limited liability company	HK$10,000	100%	–	Investment holding, Hong Kong
Baioo Technology Limited ("Baitian BVI")	British Virgin Islands, Limited liability company	US$ 50,000	100%	–	Investment holding, British Virgin Islands
Babababaobei Commerce Limited ("BCL")	British Virgin Islands, Limited liability company	US$ 50,000	92.5%	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%	–	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%	–	Research and development of computer software, the PRC
Bumps To Babes Limited	Hong Kong, Limited liability company	HK$1,000	69.3%	30.7%	Sales of baby and maternity products, Hong Kong
巴巴寶貝（廣州）電子商務有限公司 ("Babababaobei GZ")	The PRC, Limited liability company	RMB40,000,000	92.5%	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%	–	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	64%	36%	TV, film and other media production, the PRC
北京星門動漫科技有限公司 ("Beijing Xingmen")(c)	The PRC, Limited liability company	RMB125,000	64%	36%	Advertisement production and animation design, the PRC

14 Subsidiaries (continued)

(a) The directors of the Company considered that the non-controlling interests of any non-wholly owned subsidiaries are not significant to the Group. Therefore, no summarized financial information of the relevant subsidiaries is presented separately.

(b) Significant restrictions

Cash and cash equivalents, short-term deposits and long-term deposits of the Group, amounting to RMB785,158,000 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 obtained control of this company on 20 September 2016.

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 2015						
Cost	23,161	4,135	941	5,670	–	33,907
Accumulated depreciation	(14,938)	(2,784)	(355)	(4,887)	–	(22,964)
Net book amount	8,223	1,351	586	783	–	10,943
Year ended 31 December 2015						
Opening net book amount	8,223	1,351	586	783	–	10,943
Acquisition of a subsidiary	—	314	667	—	–	981
Additions	1,841	1,040	278	589	7,839	11,587
Depreciation charge	(5,220)	(924)	(230)	(899)	–	(7,273)
Currency translation differences	—	18	45	11	–	74
Closing net book amount	4,844	1,799	1,346	484	7,839	16,312
At 31 December 2015						
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**

15 Property and equipment (continued)

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

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Cost of revenue	**4,360**	5,149
Administrative expenses	**2,577**	1,085
Research and development expenses	**1,293**	790
Selling and marketing expenses	**421**	249
	8,651	7,273

16 Intangible assets

	Goodwill RMB'000	Trademark RMB'000	Intellectual property RMB'000	Others RMB'000	Total RMB'000
At 1 January 2015					
Cost	—	—	—	573	573
Accumulated amortization	—	—	—	(190)	(190)
Net book amount	—	—	—	383	383
Year ended 31 December 2015					
Opening net book amount	—	—	—	383	383
Acquisition of a subsidiary	33,306	15,938	—	—	49,244
Additions	—	—	—	270	270
Amortization charge	—	(730)	—	(135)	(865)
Currency translation differences	—	971	—	—	971
Closing net book amount	33,306	16,179	—	518	50,003
At 31 December 2015					
Cost	33,306	16,932	—	754	50,992
Accumulated amortization and impairment	—	(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**

16 Intangible assets (continued)

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

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Selling and marketing expenses	**1,263**	730
Research and development expenses	**253**	12
Cost of revenue	**168**	93
Administrative expenses	**36**	30
	1,720	865

(a) Impairment test for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified. The goodwill of the Group is related to acquisition of BTL which is considered as one CGU for impairment test purpose, and this CGU also included an intangible asset of a trademark. 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.

16 Intangible assets (continued)

(a) Impairment test for goodwill (continued)

The key assumptions for BTL are illustrated as follows.

	Year ended 31 December	
	2016	2015
Sales (% annual growth rate)	**16.2%**	9.6%
Gross margin (% of revenue)	**46.9%**	46.1%
Pre-tax discount rate	**14.4%**	13.3%
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	
	2016	2015
	RMB'000	RMB'000
Assets as per balance sheet		
Loans and receivables:		
— Trade receivables (Note 19)	**9,877**	6,161
— Other receivables (excluding prepayments) (Note 20)	**50,542**	37,507
— Restricted cash (Note 22)	**279,556**	—
— Short-term deposits (Note 22)	**1,041,427**	975,991
— Long-term deposits (Note 22)	**300,000**	380,000
— Cash and cash equivalents (Note 22)	**214,216**	254,638
	1,895,618	1,654,297
Assets at fair value through the profit & loss:		
— Financial assets at fair value through profit or loss (Note 21)	**5,861**	1,298
	1,901,479	1,655,595
Liabilities as per balance sheet		
Financial liabilities at amortized cost:		
— Long-term payable (Note 27)	**6,423**	9,793
— Trade payables (Note 30)	**9,618**	11,467
— Other payables and accruals (excluding other tax liabilities and staff costs and welfare accruals) (Note 31)	**20,816**	9,543
— Amount due to related parties (Note 37(b))	**250**	1,075
— Borrowing (Note 32)	**278,056**	—
— Bank overdrafts	**852**	216
	316,015	32,094

18 Inventories

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

The cost of inventories recognized as expense and included in "cost of revenue" amounted to RMB32,400,000 for the year ended 31 December 2016 (2015: RMB19,905,000).

19 Trade receivables

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Receivables from third parties	**9,877**	6,161
Less: allowance for impairment	**—**	—
	9,877	6,161

As at 31 December 2016 and 2015, 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	
	2016	2015
	RMB'000	RMB'000
0–30 days	**5,326**	4,234
31–60 days	**2,279**	168
61–90 days	**880**	22
91–180 days	**854**	1,737
181–365 days	**538**	—
	9,877	6,161

(b) The receivables are due from online payment agencies and Third Party Platforms with whom the Group had not experienced any recoverability difficulties. As at 31 December 2016 and 2015, no significant balances were past due.

(c) There was no allowance for impairment of trade receivables as at 31 December 2016 and 2015.

(d) As at 31 December 2016 and 2015, trade receivables were denominated in RMB.

19 Trade receivables (continued)

(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 2016.

20 Prepayments and other receivables

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Included in non-current assets		
Interests receivable	**4,974**	4,725
Rental and other deposits	**5,642**	4,060
Receivable from sale of an online virtual world	**2,000**	—
Prepayments	**—**	823
	12,616	9,608
Included in current assets		
Interests receivable	**24,372**	21,471
Prepayments	**4,112**	5,384
Receivables from sale of an online virtual world	**7,000**	—
Rental and other deposits	**353**	737
Others	**6,201**	6,514
	42,038	34,106
Less: allowance for impairment of other receivables	**—**	—
	54,654	43,714

20 Prepayments and other receivables (continued)

As at 31 December 2016 and 2015, the carrying amounts of prepayments and other receivables were primarily denominated in RMB and approximated their fair values. As at 31 December 2016 and 2015, 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	
	2016	2015
	RMB'000	RMB'000
Included in non-current assets		
Unlisted equity security	**2,694**	—
Included in current assets		
Derivative	**3,167**	—
Compound financial instrument	**—**	1,298
	3,167	1,298
	5,861	1,298

Financial assets at fair value through profit or loss are presented within 'operating activities' as part of changes in working capital in the consolidated statement of cash flows (Note 35).

Changes in fair values of financial assets at fair value through profit or loss are recorded in 'other gains/(losses) — 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	
	2016	2015
	RMB'000	RMB'000
Short-term deposits (Note a)	**1,041,427**	975,991
Long-term deposits (Note b)	**300,000**	380,000
Restricted cash (Note c)	**279,556**	—
Cash and cash equivalents		
— Cash at bank and on hand (Note d)	**214,216**	254,638
	1,835,199	1,610,629
Maximum exposure to credit risk (Note f)	**1,834,853**	1,610,508

(a) Short-term deposits represent the Group's deposit placed in a bank with an expected maturity of over three months but less than one year. The structured deposit disclosed in Note 22(c) was included in short-term deposits.

(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 year.

(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 the meantime, the Group drew the loan amounting to RMB278,056,000 and made a short-term structured deposit of the same amount with the bank. The borrowing is denominated in RMB with floating interest rate, which was 0.3% as at 31 December 2016, the same as the interest rate of the relevant pledged deposit. The interest rate of the structured deposits includes a fixed rate of 1.75% and a variable element of 2.2% which is dependent upon the value of future gold price. The variable element is accounted for as a derivative and recorded as "financial assets at fair value through profit or loss".

(d) All cash in bank balances were demand deposits in nature.

(e) The effective interest rate per annum for cash in bank balances and term deposits was approximately 1.7% (2015: 2.7%).

(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	
	2016	2015
	RMB'000	RMB'000
RMB	**1,680,668**	1,455,632
HK$	**97,976**	146,282
US$	**56,462**	8,623
Others	**93**	92
	1,835,199	1,610,629

23 Share capital and share premium

As at 31 December 2016, the total number of issued ordinary shares of the Company was 2,900,676,000 (2015: 2,858,672,000) shares which included 146,443,950 (2015: 140,447,150) 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 2015	2,808,546,000	2	8	1,636,621	1,636,629
Share Option Scheme:					
— Exercise of share options	2,236,000	–	–	175	175
RSU Scheme:					
— Issuance of shares held for RSU Scheme	47,890,000	–	–	–	–
— Vesting of RSUs	–	–	–	19,531	19,531
2014 final dividend payable to equity holders of the Company (Note 34)	–	–	–	(74,472)	(74,472)
As at 31 December 2015	2,858,672,000	2	8	1,581,855	1,581,863

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 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 payable to equity holders of the Company (Note 34)	–	–	–	(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

(a) The Company acquired 6,482,000 of its own shares through purchases on the Hong Kong Stock Exchange during the year ended 31 December 2016. The total amount paid to acquire the shares was HKD2,783,000 (equivalent to RMB2,350,000) and was deducted from the share premium. 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 2015	10,010	5,005	34,901	–	49,916
Share Option Scheme:					
– Exercise of share options	–	–	(101)	–	(101)
RSU Scheme:					
– Value of employee services	–	–	25,126	–	25,126
– Vesting of RSUs	–	–	(19,531)	–	(19,531)
Recognition of a financial liability in respect of the put option granted to the non-controlling interests	(7,941)	–	–	–	(7,941)
Currency translation difference	–	–	–	869	869
As at 31 December 2015	2,069	5,005	40,395	869	48,338
As at 1 January 2016	**2,069**	**5,005**	**40,395**	**869**	**48,338**
Value of employee services for restricted shares	**–**	**–**	**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**

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 interest with a right to require the Group to acquire the remaining equity interest in the non-wholly owned subsidiary.

(b) In accordance with the relevant laws and regulations in the PRC and the Articles of Association of the companies incorporated in the PRC now comprising the Group, 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 2015	0.006	4,676,000
Exercised	0.005	(2,236,000)
As at 31 December 2015	0.008	2,440,000
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**

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 2016 resulted in 596,000 shares (2015: 2,236,000 shares) being issued at a weighted average price of HK$0.42 per share (2015: HK$0.73 per share).

The related weighted average share price at the time of exercise for share options exercised during the year was HK$0.42 (2015: HK$0.73) per share.

As at 31 December 2016, options granted over 1,022,000 and 522,000 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 27 May 2016, at the annual general meeting of the Company, the shareholders approved an amendment to the Post-IPO RSU Scheme to increase the limit to 4% of the Company's issued share capital as of the approval date.

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 2015	106,541,200
Granted	95,780,000
Forfeited	(35,860,800)
Exercised	(27,378,450)
As at 31 December 2015	139,081,950
As at 1 January 2016	**139,081,950**
Forfeited	**(39,646,350)**
Exercised	**(41,893,200)**
As at 31 December 2016	**57,542,400**

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 related weighted average share price at the time of the conversion of RSUs into ordinary shares during the year was HK$0.43 (2015: HK$0.55) 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 RMB668,000. The restricted shares are conditional on the grantees completing 5 years' service.

(d) On 20 April 2016, the Company granted 10,000,000 share options with exercise price of HK$0.70 per share to a vendor for the 3-year consultancy service. The share options become exercisable when the market capitalization of the Company exceed certain amount. The fair value of the share options at grant date was RMB636,000.

26 Accumulated losses

	RMB'000
As at 1 January 2015	(176,871)
Profit for the year	98,909
As at 31 December 2015	(77,962)
As at 1 January 2016	**(77,962)**
Profit for the year	**35,513**
As at 31 December 2016	**(42,449)**

27 Long-term payable

Long-term payable as at 31 December 2016 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.

28 Advances under government grants

(a) Advances under government grants included in current liabilities

Certain conditions are required to fulfill before the Group is entitled to government grants. Since some of the attached conditions are related to certain key performance indicators for the financial year 2017, as at 31 December 2016, the Group was uncertain whether all attached conditions can be met. Accordingly, the cash received was recorded as advances under government grants.

(b) Advances under government grants included in non-current liabilities

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.

29 Advances from customers and distributors and deferred revenue

As at 31 December 2016 and 2015, 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	
	2016	2015
	RMB'000	RMB'000
Included in non-current liabilities		
Membership subscription	**2,756**	1,654
Virtual worlds (Note a)	**3,611**	1,188
	6,367	2,842
Included in current liabilities		
Advances from customers and distributors	**42,563**	57,828
Membership subscription	**26,535**	29,247
Virtual worlds (Note a)	**23,097**	21,446
Others	**76**	108
	92,271	108,629
	98,638	111,471

(a) Deferred revenue of virtual worlds primarily consists of the unamortized durable virtual items, where the Group continues to have obligations as described in Note 2.25, 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 RMB222,062,000, was recognized in 2016 (2015: RMB227,541,000).

30 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	
	2016	2015
	RMB'000	RMB'000
0–30 days	**4,043**	7,043
31–60 days	**2,188**	3,405
61–180 days	**3,005**	647
181–365 days	**382**	372
	9,618	11,467

(a) As at 31 December 2016 and 2015, the fair value of trade payables approximated their carrying amounts.

31 Other payables and accruals

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Staff costs and welfare accruals	**22,257**	28,190
Accruals for rental expenses	**11,123**	—
Payables on leasehold improvements	**3,989**	—
Professional service fees payable	**3,506**	4,681
Commission payable to distributors	**820**	2,365
Other tax liabilities (Note b)	**588**	1,132
Others	**1,378**	2,497
	43,661	38,865

(a) As at 31 December 2016 and 2015, 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.

32 Borrowing

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Bank borrowing repayable within 1 year	**278,056**	—

Movement in borrowing is analysed as follows:

	RMB'000
Year ended 31 December 2016	
Opening net book amount	**—**
Proceeds from bank borrowing	**278,056**
Closing net book amount	**278,056**

The borrowing with floating interest rate, which was 0.3% as at 31 December 2016, was denominated in RMB and secured by the restricted cash of the Group of RMB279,556,000 (2015: Nil) (Notes 22(c)).

The exposure of the Group's borrowing to interest rate changes and the contractual repricing dates at the end of the year are as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
6 months or less	**278,056**	—

The carrying amount of the borrowing approximated its fair value due to its short maturity as at 31 December 2016.

33 Deferred income tax

The analysis of deferred income tax assets and deferred income tax liabilities is as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Deferred income tax assets:		
— to be recovered after 12 months	**1,914**	302
— to be recovered within 12 months	**4,461**	4,638
	6,375	4,940

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Deferred income tax liabilities:		
— to be recovered after 12 months	**2,968**	2,484
— to be recovered within 12 months	**328**	186
	3,296	2,670

The gross movement on the deferred income tax account is as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
At beginning of the year	**2,270**	7,595
Acquisition of a subsidiary	**(146)**	(2,630)
Recognized in profit or loss (Note 11)	**1,019**	(2,574)
Currency translation differences	**(64)**	(121)
At end of the year	**3,079**	2,270

33 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	Accumulated loss RMB'000	Others RMB'000	Total RMB'000
As at 1 January 2015	3,472	272	—	3,851	7,595
Recognized in profit or loss	(658)	453	—	(2,490)	(2,695)
Currency translation differences	—	—	—	40	40
As at 31 December 2015	**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**

Deferred income tax liabilities	Intangible assets acquired in business combination at fair value RMB'000
As at 1 January 2015	—
Acquisition of a subsidiary	2,630
Recognized in profit or loss	(121)
Currency translation differences	161
As at 31 December 2015	**2,670**
Acquisition of a subsidiary	**645**
Recognized in profit or loss	**(193)**
Currency translation differences	**174**
As at 31 December 2016	**3,296**

33 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 RMB7,588,000 and RMB1,565,000 in respect of losses amounting to RMB31,355,000 and RMB7,251,000 that can be carried forward against future taxable income for the years ended 31 December 2016 and 2015, 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 RMB166,000, RMB5,357,000 and RMB26,587,000 will expire in 2019, 2020 and 2021, respectively. The remaining tax losses have no expiry date.

As at 31 December 2016 and 2015, 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 RMB638,452,000 and RMB581,135,000, 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.

34 Dividend

The dividends paid in 2016 and 2015 were RMB41,484,000 and RMB74,472,000 respectively. The Board proposed a special dividend in respect of the year ended 31 December 2016 of HK$0.018 (equivalent to approximately RMB0.016) per ordinary share out of the share premium account, totaling approximately RMB43,992,000. Such dividend is to be approved by the shareholders at the annual general meeting ("AGM") on 29 June 2017. These financial statements do not reflect this dividend payable as a liability as at 31 December 2016.

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Proposed/final special dividend of HK$0.018 equivalent to approximately RMB0.016 (2015: HK$0.018) per ordinary share	**46,332**	43,352
Less: Dividend for shares held for the RSU Schemes	**(2,340)**	(1,868)
	43,992	41,484

35 Cash generated from operations

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Profit after income tax	**33,003**	99,430
Adjustments for:		
— Income tax expense (Note 11)	**8,489**	15,595
— Depreciation of property and equipment (Note 15)	**8,651**	7,273
— Amortization of intangible assets (Note 16)	**1,720**	865
— Share-based compensation expenses	**10,636**	25,126
— Finance income — net (Note 10)	**(41,084)**	(59,070)
— Share of loss of an associate	**1,530**	344
— Fair value gains on financial assets at fair value through profit or loss (Note 8)	**(4,563)**	—
— Foreign exchange (gains)/losses on operating activities (Note 13)	**(435)**	722
Changes in working capital (excluding the effects of acquisition and currency translation differences on consolidation):		
— Inventories	**3,126**	(4,876)
— Trade receivables	**(1,870)**	401
— Prepayments and other receivables	**(5,987)**	(8,859)
— Financial assets at fair value through profit or loss	**—**	(1,298)
— Trade payables	**(2,076)**	3,995
— Other payables and accruals	**(945)**	1,473
— Advances from customers and distributors	**(15,278)**	(15,836)
— Advances under government grants	**(3,155)**	3,023
— Deferred revenue	**2,432**	(6,279)
Cash (used in)/generated from operations	**(5,806)**	62,029

36 Commitments

(a) Capital commitments

Capital expenditure contracted for at the end of the year but not yet incurred is as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Leasehold improvement	**–**	18,324

(b) 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 2016 and 2015 is disclosed in Note 6.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Not later than 1 year	**29,699**	13,923
Later than 1 year and not later than 5 years	**74,482**	62,880
Over 5 years	**77,100**	95,176
	181,281	171,979

37 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 2016 and 2015:

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	
	2016	2015
	RMB'000	RMB'000
— Mr. Dai Jian	**200**	200
— Mr. Deng Linghua	**50**	—
— Xingmen	**—**	875
	250	1,075

The amounts due to related parties are unsecured, interest-free and repayable on demand.

37 Related party transactions (continued)

(c) Transactions with a related party

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Purchase of service:		
— Xingmen	**722**	187

(d) Key management personnel compensations

The compensations paid or payable to key management personnel for employee services are shown below:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Wages, salaries and bonuses	**10,549**	10,991
Pension costs — defined contribution plans	**252**	211
Other social security costs, housing benefits and other employee benefits	**350**	292
Share-based compensation expenses	**(218)**	19,118
	10,933	30,612

38 Contingencies

The Group did not have any material contingent liabilities as at 31 December 2016 and 2015.

39 Balance sheet and reserve movement of the Company

Balance sheet of the Company	Note	As at 31 December 2016 RMB'000	2015 RMB'000
ASSETS			
Non-current assets			
Interests in subsidiaries		**242,887**	232,578
Financial assets at fair value through profit or loss		**2,694**	—
		245,581	232,578
Current assets			
Prepayments and other receivables		**5,828**	13,111
Amounts due from subsidiaries		**28,960**	21,852
Short-term deposits		**336,434**	652,991
Financial assets at fair value through profit or loss		**—**	1,298
Cash and cash equivalents		**57,720**	63,777
Restricted cash		**279,556**	—
		708,498	753,029
Total assets		**954,079**	985,607
EQUITY			
Share capital		**9**	8
Share premium		**1,567,040**	1,581,855
Reserves	a	**21,861**	40,395
Accumulated losses	a	**(652,334)**	(651,720)
Total equity		**936,576**	970,538
LIABILITIES			
Current liabilities			
Other payables and accruals		**3,590**	4,932
Amounts due to subsidiaries		**13,913**	10,137
		17,503	15,069
Total liabilities		**17,503**	15,069
Total equity and liabilities		**954,079**	985,607

The balance sheet of the Company was approved by the Board on 29 March 2017 and were signed on its behalf.

....

Dai Jian Li Chong

39 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 2015	34,901	(670,337)
Profit for the year	—	18,617
Share Option Scheme:		
— Exercise of share options	(101)	—
RSU Scheme:		
— Value of employee services	25,126	—
— Vesting of RSUs	(19,531)	—
At 31 December 2015	40,395	(651,720)
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)**

40 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 2016 and 2015 are set out below:

Year ended 31 December 2016:

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	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

40 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 2015:

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	—	1,380	136	25	41	3,892	5,474
Mr. Wu Lili	—	1,082	82	68	74	—	1,306
Mr. Li Chong	—	1,080	90	25	41	—	1,236
Mr. Wang Xiaodong	—	816	146	24	41	—	1,027
Dr. Xu Gang (i)	—	1,828	254	21	34	6,024	8,161
Non-executive Director							
Mr. Ji Yue (ii)	—	—	—	—	—	—	—
Independent Non-Executive Directors							
Ms. Liu Qianli	283	—	—	—	—	89	372
Dr. Wang Qing	283	—	—	—	—	89	372
Mr. Ma Xiaofeng	227	—	—	—	—	89	316

(i) Mr Dai Jian was appointed as the CEO of the Company and Dr. Xu Gang relinquished his position as the CEO but will remain as an executive Director since 15 October 2016. Dr Xu Gang was appointed as the CEO of the Company on 5 March 2015.

(ii) Mr. Ji Yue resigned from non-executive director of the Company on 20 November 2015.

(b) 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.