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(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2100)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

The board (the “**Board**”) of directors (the “**Directors**”) of BAIIOO Family Interactive Limited (“**BAIOO**” or the “**Company**”) is pleased to announce the audited consolidated results of the Company, its subsidiaries and its controlled entity in the PRC (the “**Group**”) for the year ended 31 December 2018 together with comparative figures of last year, as follows:

Financial Summary

INCOME STATEMENT HIGHLIGHT

	For the year ended 31 December		Year-over-year change%
	2018 RMB'000	2017 RMB'000 (Restated) ⁽¹⁾	
Continuing operations			
Revenue	284,489	309,677	(8.1%)
Gross profit	171,677	168,095	2.1%
Operating profit	106,710	12,611	746.2%
Non-International Financial Reporting Standards (“IFRS”) Measures			
— Adjusted Net Profit/(Loss) ⁽²⁾ (unaudited)	112,721	(22,613)	598.5%
— Adjusted EBITDA ⁽³⁾ (unaudited)	111,928	(32,375)	445.7%

Notes:

- Due to the discontinuance of our retail business as part of our strategy, our retail business has been classified as discontinued operation, and the related revenue, expenses and tax are presented as a single amount in the consolidated income statement as “Loss for the year from discontinued operations”. Comparative figures have been reclassified to conform with the new presentation.
- Adjusted net profit/(loss) consists of profit/(loss) for the year plus share-based compensation. Adjusted net profit/(loss) eliminates the effect on non-cash share-based compensation expenses. The term of adjusted net profit/(loss) is not defined under the IFRS. The use of adjusted net profit/(loss) has material limitations as an analytical tool, as adjusted net profit/(loss) does not include all items that impact our net profit/(loss) for the year.
- Adjusted EBITDA means adjusted net profit/(loss) less finance income-net, plus income tax, depreciation of property and equipment and amortization of intangible assets.

BALANCE SHEET HIGHLIGHT

	As at 31 December	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Assets		
Non-current assets	130,164	48,256
Current assets	1,529,229	1,582,352
Total assets	<u>1,659,393</u>	<u>1,630,608</u>
Equity and liabilities		
Total equity	1,530,801	1,488,774
Non-current liabilities	17,182	7,278
Current liabilities	111,410	134,556
Total liabilities	<u>128,592</u>	<u>141,834</u>
Total equity and liabilities	<u>1,659,393</u>	<u>1,630,608</u>

Management Discussion and Analysis

BUSINESS OVERVIEW

In 2018 (“FY2018”), BAIIO continued to deliver steady operating metrics across the Company’s products for personal computers (“PCs”) and mobile devices. The Company also effectively deployed its intellectual property (“IP”) and original content creation-centered strategies to develop new products and expand its ongoing product pipeline.

In an effort to strengthen the Company’s gaming IP, BAIIO continued to generate ‘fun’ content and maintain its focus on increasing audience engagement for popular titles, particularly the award-winning comic-adapted mobile game Zaowufaze (「造物法則」). During the year, Zaowufaze was well received in both China and overseas, and in particular, we saw rising user loyalty among the “nijigen” (「二次元」) communities.

For the Company’s web-based virtual worlds, both Aola Star (「奧拉星」) and Legend of Aoqi (「奧奇傳說」) continued to enjoy a long life cycle with stable performance. The Company will continue to update the current virtual worlds by releasing new episodes every week in order to retain user loyalty. With a strong user base, the Company expects that PC users of Aola Star (「奧拉星」) will convert into mobile users once the mobile version is released.

Helix Waltz (「螺旋圓舞曲」), a new female dress-up drama game launched in the third quarter of 2018 quickly attracted many new users and became a hit among young women. To ensure smooth gameplay, the game’s development team is now optimizing the game to further improve the user experience.

INDUSTRY TRENDS

Although China’s gaming industry continued to grow, the growth rate has recently started to slow down. According to the latest China Gaming Industry Report released by the Game Publishers Association Publications Committee (GPC) of the China Audio-Video and Digital Publishing Association (中國音數協遊戲工委), the sales revenue generated by the gaming sector in China in 2018 grew by 5.3% year-over-year, which compared with a much faster pace of 23.0% in 2017. In particular, the growth rate of mobile game segment decreased to 15.4%. Overall, user numbers surpassed 600 million for the first time.

The report noted that the slowdown was caused by changing user preferences, challenging user acquisition, and less appealing new products. To overcome these challenges, BAIIO decided to leverage its strengths in IP-centered content creation and focus on several specific niche segments, namely female-oriented games, pet raising and collection games, and comic-adapted “nijigen” (「二次元」) games, that cater for the needs of certain user groups. BAIIO believes that there are significant market opportunities in these segments and that the Company is well positioned to address the user demand with a solid product pipeline.

OUTLOOK FOR 2019

Looking out to 2019 (“**FY2019**”), BAIOO will launch three major mobile titles that fall into three different genres to strengthen its market position. Among these games, Shiwuyu (「食物語」) is a highly-anticipated award-winning mobile game that is primarily designed for women and features traditional Chinese cuisine. The Company plans to market and distribute this game in collaboration with a top gaming company in China and should benefit from the strong support of its industry-leading distribution platform.

Zaowufaze II (「造物法則二」), a sequel title leveraging BAIOO’s proprietary comic IP, will also be released in 2019 and is expected to leverage on the popularity of the original franchise. It will be run by the same operation team, which has deep user insights into the “nijigen” (「二次元」) communities and rich experiences in marketing and promotion.

The Company will also respond to the general trend of users migrating from PCs to mobile devices by releasing Aola Star Mobile (「奧拉星手遊」), the latest adaption of BAIOO’s classic virtual world IP. The original web-based Aola Star has accumulated as many as 200 million registered users since its launch in 2010. In addition, the Company also released the comic Aola Star: Parallel Universe (「奧拉星・平行宇宙」) in mid-2018. This free-to-read online comic is gaining popularity among teenagers and recorded over 300,000 click-to-collection across different online comic platforms. Currently, over 4.1 million users are participating in the reservation of Aola Star Mobile (「奧拉星手遊」) without any promotion activities from the Company, and the Company is confident that it will become a hit mobile title that will be able to leverage Aola Star’s (「奧拉星」) strong existing fan base.

With a strong and diversified mobile game pipeline, BAIOO is confident that it will be able to capture more opportunities over 2019 and the years ahead. The Company looks forward to creating more business synergies with its existing virtual worlds and comic segments with an even larger user base.

OPERATION INFORMATION

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

	For the year ended		
	31 December 2018⁽¹⁾	31 December 2017	Year-over-year Change
	<i>(QAA & QPA in millions, ARQPA in RMB)</i>		
average QAA ⁽²⁾	15.5	23.8	(34.9%)
average QPA ⁽³⁾	1.1	1.4	(21.4%)
average quarterly ARQPA ⁽⁴⁾	60.8	55.2	10.1%

Notes:

1. As of 31 December 2018, our online virtual worlds under commercial operation included Aobi Island, Aola Star, Dragon Knights, Light of Aoya, Legend of Aoqi, Clashes of Aoqi, Magic Fighter, Super Badilong, Aoyi Alliance, Three Kingdoms, Zaowufaze, Tuntianji and Helix Waltz.
2. The average QAA for online virtual worlds was approximately 15.5 million for the year ended 31 December 2018, representing a decrease of approximately 34.9% compared with the year ended 31 December 2017. This was primarily due to the trend of users migrating from PCs to mobile devices.
3. The average QPA for online virtual worlds was approximately 1.1 million for the year ended 31 December 2018, representing a decrease of approximately 21.4% compared with the year ended 31 December 2017 as a result of a shift to mobile.
4. The average quarterly ARQPA for online virtual worlds was approximately RMB60.8 for the year ended 31 December 2018, representing an increase of approximately 10.1% compared with the year ended 31 December 2017. The increase was primarily due to the Company’s mobile game products shifting to an older user base that has greater paying power.

OVERALL BUSINESS AND FINANCIAL PERFORMANCE

The following table sets forth our consolidated statements of comprehensive income/(loss) for the years ended 31 December 2018 and 2017, respectively:

	31 December 2018 RMB'000	For the year ended		31 December 2017 RMB'000 (Restated) ⁽¹⁾	% of Revenue
		% of Revenue	% of Revenue		
Revenue	284,489	100.0	309,677	100.0	
Online entertainment business	282,115	99.2	305,690	98.7	
Other businesses	2,374	0.8	3,987	1.3	
Cost of revenue	(112,812)	(39.7)	(141,582)	(45.7)	
Gross profit	171,677	60.3	168,095	54.3	
Selling and marketing expenses	(69,249)	(24.3)	(57,380)	(18.5)	
Administrative expenses	(50,450)	(17.7)	(50,739)	(16.4)	
Research and development expenses	(81,386)	(28.6)	(61,407)	(19.8)	
Net impairment losses on financial assets	(1,047)	(0.4)	—	—	
Other income	6,576	2.3	6,845	2.2	
Other gains — net	15,574	5.5	7,197	2.3	
Gain on disposal of a subsidiary	115,015	40.4	—	—	
Operating profit	106,710	37.5	12,611	4.1	
Finance income — net	27,332	9.6	19,619	6.3	
Share of loss of an associate	(7,087)	(2.5)	—	—	
Profit before income tax	126,955	44.6	32,230	10.4	
Income tax expense	(17,933)	(6.3)	(5,775)	(1.9)	
Profit for the year from continuing operations	109,022	38.3	26,455	8.5	
Discontinued operations					
Loss for the year from discontinued operations	(1,374)	(0.5)	(56,864)	(18.3)	
Profit/(loss) for the year	107,648	37.8	(30,409)	(9.8)	

	For the year ended			
	31 December 2018 RMB'000	% of Revenue	31 December 2017 RMB'000 (Restated)⁽¹⁾	% of Revenue
Other comprehensive income/(loss), net of tax	276	0.1	(374)	(0.1)
Total comprehensive income/(loss) for the year	107,924	37.9	(30,783)	(9.9)
Other financial data				
Adjusted net profit/(loss) ⁽²⁾ (unaudited)	112,721	39.6	(22,613)	(7.3)
Adjusted EBITDA ⁽³⁾ (unaudited)	111,928	39.3	(32,375)	(10.5)

Notes:

1. Due to the discontinuance of our retail business as part of our strategy, our retail business has been classified as discontinued operation, and the related revenue, expenses and tax are presented as a single amount in the consolidated income statement as “Loss for the year from discontinued operations”. Comparative figures have been reclassified to conform with the new presentation.
2. Adjusted net profit/(loss) consists of profit/(loss) for the year plus share-based compensation. Adjusted net profit/(loss) eliminates the effect on non-cash share-based compensation expenses. The term of adjusted net profit/(loss) is not defined under the IFRS. The use of adjusted net profit/(loss) has material limitations as an analytical tool, as adjusted net profit/(loss) does not include all items that impact our net profit/(loss) for the year.
3. Adjusted EBITDA consists of adjusted net profit/(loss) less finance income-net, plus income tax, depreciation of property and equipment and amortization of intangible assets.

Revenue

Our revenue for the year ended 31 December 2018 was RMB284.5 million, representing an 8.1% decrease from RMB309.7 million for the year ended 31 December 2017.

Online Entertainment Business: Our revenue from online entertainment business for the year ended 31 December 2018 was RMB282.1 million, representing a 7.7% decrease from RMB305.7 million for the year ended 31 December 2017. This was primarily due to users’ preference shifting to mobile games. However, we believe our core users remained loyal to our key PC game titles.

Other Businesses: Our revenue from other businesses for the year ended 31 December 2018 was RMB2.4 million, representing a 40.0% decrease from RMB4.0 million for the year ended 31 December 2017. The decrease mainly reflected the decrease of the revenue generated from advertisement.

Cost of Revenue

Our cost of revenue for the year ended 31 December 2018 was RMB112.8 million, a 20.3% decrease from RMB141.6 million for the year ended 31 December 2017.

Online Entertainment Business: Our cost of online entertainment business cost for the year ended 31 December 2018 was RMB111.7 million, representing a 20.1% decrease from RMB139.8 million for the year ended 31 December 2017. The decrease was driven by a decrease in employee benefit expenses and staff cost, less in payment of third party revenue sharing as well as a decline in bandwidth and server custody fees.

Other Businesses: Our cost of other businesses for the year ended 31 December 2018 was RMB1.1 million, representing a 35.3% decrease from RMB1.7 million for the year ended 31 December 2017. The decrease primarily reflected a decline in employee benefit expenses.

Gross Profit

As a result of the foregoing, our gross profit for the year ended 31 December 2018 was RMB171.7 million, compared with RMB168.1 million for the year ended 31 December 2017. Gross profit margin was 60.3% for the year ended 31 December 2018, compared with 54.3% for the year ended 31 December 2017.

Selling and Marketing Expenses

Our selling and marketing expenses for the year ended 31 December 2018 were RMB69.2 million, representing a 20.6% increase from RMB57.4 million for the year ended 31 December 2017. This was primarily due to the increasing expenses from various marketing and promotional programs.

Administrative Expenses

Our administrative expenses for the year ended 31 December 2018 were RMB50.5 million, representing a 0.4% decrease from RMB50.7 million for the year ended 31 December 2017.

Research and Development Expenses

Our research and development expenses for the year ended 31 December 2018 were RMB81.4 million, a 32.6% increase from RMB61.4 million for the year ended 31 December 2017. This increase was primarily due to greater research and development expenses and staff cost because of more new mobile games under development.

Net Impairment Losses on Financial Assets

We recorded net impairment losses on financial assets of RMB1.0 million for the year ended 31 December 2018, which was primarily due to the expected credit losses for accounts receivable. This compares with nil for the year ended 31 December 2017.

Other Income

The Company recognized RMB6.6 million in other income for the year ended 31 December 2018, representing a 2.9% decrease from RMB6.8 million for the year ended 31 December 2017.

Other Gains — net

The Company recognized RMB15.6 million in fair value gains on financial assets at fair value through profit and loss for the year ended 31 December 2018, compared with RMB7.2 million for the year ended 31 December 2017. This mainly reflects the net increase in the fair value of our investment portfolio.

Gain on Disposal of a Subsidiary

We had a gain on disposal of a subsidiary of RMB115.0 million as investment income for the year ended 31 December 2018 compared with nil for the year ended 31 December 2017. This was mainly attributable to the gain on a disposal of a 7% equity interest in the Group's subsidiary, Guangzhou Baiman Culture Communications Company Limited (“**Guangzhou Baiman**”), and the re-measurement of the retained non-controlling investment.

Operating Profit

As a result of the foregoing, our operating profit for the year ended 31 December 2018 was RMB106.7 million, compared with RMB12.6 million for the year ended 31 December 2017.

Finance Income — net

We had net finance income of RMB27.3 million for the year ended 31 December 2018, compared with net finance income of RMB19.6 million for the year ended December 2017. Finance income for the year ended 31 December 2018 was primarily attributable to (i) RMB23.8 million in interest income on bank deposits and other term deposits; and (ii) RMB2.8 million in exchange gain related to non-Renminbi bank deposit.

Share of Loss of an Associate

We recorded a share of loss of an associate of RMB7.1 million for the year ended 31 December 2018 due to a loss at the start-up period from an investee company. This compares with nil for the year ended 31 December 2017.

Profit before Income Tax

As a result of the foregoing, we had a profit of RMB127.0 million for the year ended 31 December 2018, compared with a profit of RMB32.2 million for the year ended 31 December 2017.

Income Tax Expense

Our income tax expense for the year ended 31 December 2018 was RMB17.9 million, representing a 208.6% increase from RMB5.8 million for the year ended 31 December 2017. This was primarily due to the increase in assessable profit.

Profit for the Year from Continuing Operations

We had a profit of RMB109.0 million for the year ended 31 December 2018, compared with a profit of RMB26.5 million for the year ended 31 December 2017.

Loss for the Year from Discontinued Operations

We had a loss of RMB1.4 million for the year ended 31 December 2018, compared with a loss of RMB56.9 million for the year ended 31 December 2017.

Profit/(loss) for the Year

As a result of the foregoing, we had a profit of RMB107.6 million for the year ended 31 December 2018, compared with a loss of RMB30.4 million for the year ended 31 December 2017.

Non-IFRS Measures — Adjusted Net Profit/EBITDA

Our adjusted net profit for the year ended 31 December 2018 was RMB112.7 million, compared with an adjusted net loss of RMB22.6 million for the year ended 31 December 2017. Our adjusted EBITDA for the year ended 31 December 2018 was RMB111.9 million, compared with a loss of RMB32.4 million for the year ended 31 December 2017.

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

	Unaudited	
	For the year ended	
	31 December	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Profit/(loss) for the year	107,648	(30,409)
Add:		
Share-based compensation	<u>5,073</u>	<u>7,796</u>
Adjusted net profit/(loss)	112,721	(22,613)
Add:		
Depreciation and amortization	8,888	11,558
Finance income — net	(27,614)	(26,409)
Income tax	<u>17,933</u>	<u>5,089</u>
Adjusted EBITDA	<u><u>111,928</u></u>	<u><u>(32,375)</u></u>

LIQUIDITY AND CAPITAL RESOURCES

In FY2018, 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 2018 RMB'000	As of 31 December 2017 RMB'000
Total liabilities	128,592	141,834
Total assets	1,659,393	1,630,608
Gearing ratio ⁽¹⁾	8%	9%

Note:

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

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

As of 31 December 2018, our cash and cash equivalents consisted of cash in bank and cash on hand, which amounted to RMB1,145.7 million, compared with RMB907.2 million as of 31 December 2017. We had short-term deposits of RMB222.5 million as of 31 December 2018, which are bank deposits we intend to hold for over three months but less than one year, compared with RMB634.0 million as of 31 December 2017. We also had structural deposit with embedded derivative of RMB100.0 million which was classified as “financial assets at fair value through profit or loss” due to the application of IFRS9 since 1 January 2018.

As of 31 December 2018, the Group had no restricted cash.

The effective interest rate per annum for cash in bank balances and deposits as of 31 December 2018 was 1.8%, compared with 1.9% as of 31 December 2017. Our policy is to place our cash in interest-bearing principal-protected demand or deposits with reputable PRC or international banks.

Our cash and cash equivalents, short-term deposits, long-term deposits and structural deposits classified as “financial assets at fair value through profit or loss” are denominated in the following currencies:

Group	As of 31 December 2018 RMB'000	As of 31 December 2017 RMB'000
RMB	1,404,412	1,425,650
HK\$	39,423	90,414
US\$	24,216	25,091
Others	100	94
	<u>1,468,151⁽¹⁾</u>	<u>1,541,249</u>

Note:

- (1) The cash balance as of 31 December 2018 included the structural deposit with embedded derivative of RMB100.0 million which was classified as “financial assets at fair value through profit or loss” due to the application of IFRS9 since 1 January 2018.

Bank Loans and Other Borrowings

The Group had no bank loans or other borrowings as of 31 December 2018.

Treasury Policies

As of 31 December 2018, the Group had conservative treasury policies in terms of cash and financial management. The Group does not use any financial instruments for hedging purposes.

Foreign Currency Risk

As of 31 December 2018, RMB63.7 million of our financial resources were held in deposits in non-RMB currencies. Since there are no cost-effective hedges against the fluctuations of the RMB, there is a risk that we may experience a loss as a result of any foreign currency exchange rate fluctuations in connection with our cash in bank balances.

Capital Expenditures and Investments

Our capital expenditures consist of purchases of property and equipment such as servers and computers and intangible assets such as licenses. In the year ended 31 December 2018, our total capital expenditures were RMB12.6 million, compared with RMB4.6 million in the year ended 31 December 2017. The following table sets out our expenditures for the years indicated:

	For the year ended	
	31 December	
	2018	2017
	RMB'000	RMB'000
Capital Expenditures		
— Purchase of property and equipment	8,445	4,175
— Purchase of intangible assets	4,133	387
	<hr/>	<hr/>
Total	<u>12,578</u>	<u>4,562</u>

Contingent Liabilities

As of 31 December 2018, the Group did not have any material contingent liabilities, guarantees or litigation against it.

Charges on Assets

As of 31 December 2018, there were no charges on the Group's assets.

Material Acquisitions and Future Plans for Major Investment

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

Employees and Staff Costs

As of 31 December 2018, the Group had 618 full-time employees. The following table sets forth the number of full-time employees by function as of 31 December 2018:

	As of 31 December 2018	
	Number of	% of Total
	Employees	
Operations	245	39.6
Development and research	257	41.6
Sales and Marketing	56	9.1
General and administration	60	9.7
	<hr/>	<hr/>
Total	<u>618</u>	<u>100</u>

In addition to salary, we also provide various incentives, including share-based awards, such as share options and restricted shares units (“RSUs”) granted pursuant to the share incentive schemes of the Company, and performance-based bonuses to better motivate our employees. As required by the PRC law, we contribute to housing funds and maintain mandatory social insurance plans for our employees, covering pension, medical, unemployment, work injury and maternity leave. We are required by the PRC law to make contributions to these social insurance plans at specified percentages of the compensation of each employee, up to a maximum amount as may be specified by the local government from time to time. Such social insurance plans include defined contribution retirement benefit plans organized by the relevant governmental authorities. Forfeited contributions by the Group to these plans may not be used by the Group to reduce the existing level of contributions. The total amount of contributions we made for employee social insurance plans in the year ended 31 December 2018 were approximately RMB31.7 million, compared with RMB30.7 million in the year ended of 2017. We incurred staff costs of approximately RMB160.9 million and RMB163.9 million, for the year ended 31 December 2018 and 2017, representing 56.6% and 52.9% of our revenue for those periods respectively.

We also grant share options and RSUs to our employees to incentivize them to contribute to our growth. Pursuant to the Pre-IPO Share Option Scheme and the Pre-IPO RSU Scheme, there were a total of 1,344,000 Pre-IPO share options and no shares of Pre-IPO RSUs outstanding as of 31 December 2018.

We will continue to grant RSUs to our employees to incentivize them pursuant to the Post-IPO RSU Scheme. The maximum aggregate number of the Shares underlying all the RSUs which we may grant pursuant to the Post-IPO RSU Scheme is 57,025,280 shares, representing approximately 2.0% of our share capital as of the date of the AGM (as defined below). Pursuant to the Post-IPO RSU Scheme and there were a total of 6,371,500 RSUs outstanding as at 31 December 2018.

Dividend

At the Company’s annual general meeting (“AGM”) on 29 June 2018, the then shareholders of the Company (the “Shareholders”) approved the Board’s recommendation to declare a special dividend of HK\$0.021 (equivalent to approximately RMB0.017) per share for the year ended 31 December 2017. The special dividend was paid to shareholders on 31 July 2018.

The Board is pleased to recommend the payment of a special dividend of HK\$0.021 (equivalent to RMB0.018) per share for the year ended 31 December 2018 out of our share premium account, subject to the approval of the Shareholders at the forthcoming AGM to be held on Friday, 28 June 2019. The proposed dividend will be payable on Wednesday, 31 July 2019 to the Shareholders of whose names appear on the register of members of the Company (the “Register of Members”) on Wednesday, 10 July 2019.

CHANGES SINCE 31 DECEMBER 2018

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 2018.

CONSOLIDATED INCOME STATEMENT

		Year ended 31 December	
		2018	2017
	Note	RMB'000	RMB'000 (Restated)
Continuing operations			
Revenue	3	284,489	309,677
Cost of revenue	4	<u>(112,812)</u>	<u>(141,582)</u>
Gross profit		171,677	168,095
Selling and marketing expenses	4	(69,249)	(57,380)
Administrative expenses	4	(50,450)	(50,739)
Research and development expenses	4	(81,386)	(61,407)
Net impairment losses on financial assets		(1,047)	—
Other income		6,576	6,845
Other gains — net		15,574	7,197
Gain on disposal of a subsidiary	9	<u>115,015</u>	<u>—</u>
Operating profit		106,710	12,611
Finance income	5	27,399	28,503
Finance costs	5	<u>(67)</u>	<u>(8,884)</u>
Finance income — net	5	27,332	19,619
Share of loss of an associate		<u>(7,087)</u>	<u>—</u>
Profit before income tax		126,955	32,230
Income tax expense	6	<u>(17,933)</u>	<u>(5,775)</u>
Profit for the year from continuing operations		<u>109,022</u>	<u>26,455</u>
Discontinued operations			
Loss for the year from discontinued operations	8	<u>(1,374)</u>	<u>(56,864)</u>
Profit/(loss) for the year		<u><u>107,648</u></u>	<u><u>(30,409)</u></u>

		Year ended 31 December	
		2018	2017
	<i>Note</i>	RMB'000	<i>RMB'000</i> <i>(Restated)</i>
Attributable to:			
— Shareholders of the Company			
Continuing operations		113,052	31,899
Discontinued operations		(977)	(46,293)
		<u>112,075</u>	<u>(14,394)</u>
— Non-controlling interests			
Continuing operations		(4,030)	(5,444)
Discontinued operations		(397)	(10,571)
		<u>(4,427)</u>	<u>(16,015)</u>
		<u>107,648</u>	<u>(30,409)</u>
Earnings per share for profit from continuing operations			
attributable to shareholders of the Company			
(expressed in RMB per share)			
	7		
Basic earnings per share		0.0413	0.0116
Diluted earnings per share		0.0411	0.0115
		<u>0.0411</u>	<u>0.0115</u>
Earnings/(losses) per share for profit attributable			
to shareholders of the Company			
(expressed in RMB per share)			
	7		
Basic earnings/(losses) per share		0.0409	(0.0052)
Diluted earnings/(losses) per share		0.0408	(0.0052)
		<u>0.0408</u>	<u>(0.0052)</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i> <i>(Restated)</i>
Profit/(loss) for the year	107,648	(30,409)
Other comprehensive income/(loss)		
<i>Items that may be reclassified to profit or loss</i>		
Currency translation differences of discontinued operation	<u>276</u>	<u>(374)</u>
Total comprehensive income/(loss) for the year	<u>107,924</u>	<u>(30,783)</u>
Attributable to:		
— Shareholders of the Company	112,268	(14,654)
— Non-controlling interests	<u>(4,344)</u>	<u>(16,129)</u>
	<u>107,924</u>	<u>(30,783)</u>
Total comprehensive income/(loss) attributable to Shareholders of the Company arising from:		
— Continuing operations	113,055	31,899
— Discontinued operations	<u>(787)</u>	<u>(46,553)</u>
	<u>112,268</u>	<u>(14,654)</u>

CONSOLIDATED BALANCE SHEET

	As at 31 December	
	2018	2017
<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
ASSETS		
Non-current assets		
Property and equipment	28,230	30,096
Intangible assets	3,934	3,825
Investment in an associate	87,780	—
Prepayments and other receivables	3,266	3,200
Deferred income tax assets	—	4,579
Financial assets at fair value through profit or loss	6,954	6,556
	<u>130,164</u>	<u>48,256</u>
Current assets		
Inventories	2,265	9,618
Contract costs	1,135	—
Trade receivables	16,977	10,546
Prepayments and other receivables	18,043	20,639
Amount due from a related party	22,168	—
Financial assets at fair value through profit or loss	100,490	300
Short-term deposits	222,465	634,000
Cash and cash equivalents	1,145,686	907,249
	<u>1,529,229</u>	<u>1,582,352</u>
Total assets	<u><u>1,659,393</u></u>	<u><u>1,630,608</u></u>
EQUITY		
Share capital	9	9
Share premium	1,457,324	1,525,596
Reserves	11,350	18,161
Retained earnings/(accumulated losses)	55,154	(56,843)
Capital and reserves attributable to Shareholders of the Company	<u>1,523,837</u>	<u>1,486,923</u>
Non-controlling interests	6,964	1,851
Total equity	<u><u>1,530,801</u></u>	<u><u>1,488,774</u></u>

		As at 31 December	
		2018	2017
	<i>Note</i>	RMB'000	RMB'000
LIABILITIES			
Non-current liabilities			
Contract liabilities		7,954	—
Deferred revenue		—	6,674
Deferred income tax liabilities		9,228	526
Advances under government grants		—	78
		<u>17,182</u>	<u>7,278</u>
Current liabilities			
Trade payables	<i>11</i>	11,065	8,491
Other payables and accruals		38,874	46,625
Advances from customers and distributors		16,338	36,026
Advances under government grants		78	600
Contract liabilities		44,098	—
Deferred revenue		—	38,979
Income tax liabilities		918	2,954
Bank overdrafts		39	881
		<u>111,410</u>	<u>134,556</u>
Total liabilities		<u>128,592</u>	<u>141,834</u>
Total equity and liabilities		<u><u>1,659,393</u></u>	<u><u>1,630,608</u></u>

1 Basis of preparation

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

2 Changes in accounting policy and disclosure

2.1 *New standards, amendments to existing standards and interpretations adopted by the Group*

The Group has applied the following new standards, amendments to existing standards and interpretations for the first time for its annual reporting period commencing 1 January 2018:

IFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions
IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRIC 22	Foreign Currency Transactions and Advance Consideration
IAS 28 (Amendment)	Investments in Associates and Joint Ventures
Annual Improvements to IFRSs 2014–2016 Cycle	Improvements to IFRSs

Save for the impact of adoption of IFRS 9 and IFRS 15 set out in Note 2.3, the adoption of other new and amended standards and interpretations did not have material impact on the consolidated financial statements of the Group.

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

		Effective for annual periods beginning on or after
IAS 19 (Amendments)	Employee Benefits	1 January 2019
IAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures	1 January 2019
IFRS 10 and IAS 28 (Amendment)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Note
IFRS 16	Leases	1 January 2019
Annual Improvements to IFRSs 2015–2017 Cycle	Improvements to IFRSs	1 January 2019
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019

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

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

IFRS 16, 'Leases'

Nature of change

IFRS 16 was issued in January 2016. It will result in almost all leases being recognized on the consolidated 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.

Impact

The Group has set up a project team which has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Group's operating leases.

As at the reporting date, the Group has non-cancellable operating lease commitments of RMB126,793,000. Of these commitments, approximately RMB520,000 relate to short-term leases which will be recognized on a straight-line basis as expense in the consolidated income statement.

For the remaining lease commitments the Group expects to recognize right-of-use assets of approximately RMB111,757,000 and lease liabilities of the same amount on 1 January 2019. Net current assets will be RMB15,971,000 lower due to the presentation of a portion of the liability as a current liability.

The Group expects that net profit after tax will decrease by approximately RMB548,000 for 2019 as a result of adopting the new rules.

Operating cash flows will increase and financing cash flows will decrease by approximately RMB11,683,000 as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

The Group's activities as a lessor are not material and hence the Group does not expect any significant impact on the financial statements. However, some additional disclosures will be required from next year.

Date of adoption by the Group

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

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

2.3 Changes in accounting policies

This note explains the impact of the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers on the Group's financial information.

Impact on the financial information

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

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

	31 December 2017 <i>RMB'000</i>	IFRS 9 <i>RMB'000</i>	IFRS 15 <i>RMB'000</i>	1 January 2018 <i>RMB'000</i> <i>(Restated)</i>
Consolidated balance sheet (extract)				
Current assets				
Contract costs	—	—	2,908	2,908
Financial assets at fair value through profit or loss	300	100,000	—	100,300
Short-term deposits	634,000	(100,000)	—	534,000
Total assets	<u>1,630,608</u>	<u>—</u>	<u>2,908</u>	<u>1,633,516</u>
Non-current liabilities				
Contract liabilities	—	—	6,674	6,674
Deferred revenue	6,674	—	(6,674)	—
Current liabilities				
Contract liabilities	—	—	50,196	50,196
Advances from customers and distributors	36,026	—	(8,309)	27,717
Deferred revenue	38,979	—	(38,979)	—
Total liabilities	<u>141,834</u>	<u>—</u>	<u>2,908</u>	<u>144,742</u>
Net assets	<u>1,488,774</u>	<u>—</u>	<u>—</u>	<u>1,488,774</u>

Adoption of IFRS 9, 'Financial Instruments'

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

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies in the financial information.

Classification and measurement

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

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

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

Impairment of financial assets

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

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

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

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

Adoption of IFRS 15, ‘Revenue from Contracts with Customers’

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

2.4 *Discontinued operations*

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

3 **Segment information**

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

The Group determined that it has operating segments as follows:

- Online entertainment business
- Other businesses

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

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

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

The Company is domiciled in the Cayman Islands while the Group mainly operates its business in the PRC and Hong Kong. For the years ended 31 December 2018 and 2017, the geographical information on the total revenues is as follows:

	Year ended 31 December	
	2018 <i>RMB'000</i>	2017 <i>RMB'000</i> <i>(Restated)</i>
Continuing operations		
— Mainland China	268,677	309,677
— Hong Kong	15,812	—
	<hr/>	<hr/>
Revenue from continuing operations	284,489	309,677
Discontinued operations		
— Mainland China	—	1,182
— Hong Kong	5,248	39,671
	<hr/>	<hr/>
Revenue from discontinued operations	5,248	40,853
Total	289,737	350,530
	<hr/> <hr/>	<hr/> <hr/>

There is no concentration risk in terms of customers (which include end users from online business and customers from other businesses) as no single external customer contributed more than 10% of the Group's total revenue for the years ended 31 December 2018 and 2017. However, revenue of the Group is mainly derived from self-developed online virtual worlds operations and the Group depends on the success of a limited number of online virtual worlds to generate revenue. As summarized in the table below, the online virtual worlds contributing more than 10% of the Group's total revenue account for 78.9% and 72.2% of the total revenue for the years ended 31 December 2018 and 2017, respectively. The percentage of revenue contributed by the following online virtual worlds is not presented for the years when such amount is less than 10% of the Group's total revenue in a particular period.

	Year ended 31 December	
	2018	2017
Legend of Aoqi	32.8%	28.6%
Aola Star	30.7%	25.9%
Zaowufaze	15.4%	17.7%

As at 31 December 2018, the total non-current assets, other than financial assets and deferred tax assets, located in Mainland China and Hong Kong were RMB119,914,000 (31 December 2017: RMB33,522,000) and RMB30,000 (31 December 2017: RMB399,000), respectively.

4 Expenses by nature

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000 (Restated)
Employee benefit expenses	158,708	153,034
Promotion and advertising expenses	53,173	40,483
Distribution costs and payment handling fees	35,122	52,455
Operating lease rentals	18,556	18,030
Content expenses	9,897	5,228
Depreciation of property and equipment and amortization of intangible assets	8,754	8,120
Bandwidth and server custody fees	7,597	9,897
Professional fees	7,506	6,943
Travelling and entertainment expenses	4,604	4,867
Auditor's remuneration	3,927	3,800
Utilities and office expenses	1,948	2,044
Others	4,105	6,207
Total cost of revenue, selling and marketing expenses, administrative expenses and research and development expenses	313,897	311,108

5 Finance income — net

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000 (Restated)
Finance income:		
— Interest income from bank deposits and other term deposits	23,823	28,503
— Net foreign exchange gains	2,810	—
— Interest income on loans to Guangzhou Baiman	766	—
	27,399	28,503
Finance costs:		
— Net foreign exchange loss	—	(8,884)
— Interest expense	(67)	—
	(67)	(8,884)
Finance income — net	27,332	19,619

6 Income tax expense

The income tax expense of the Group for the years ended 31 December 2018 and 2017 is analyzed as follows:

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000 (Restated)
Current income tax	4,188	6,040
Deferred income tax	13,745	(951)
Income tax expense	17,933	5,089
Income tax expense is attributable to:		
Profit from continuing operations	17,933	5,775
Loss from discontinued operations	—	(686)
	17,933	5,089

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	
	2018 RMB'000	2017 RMB'000
Profit from continuing operations before income tax expense	126,955	32,230
Loss from discontinued operations before income tax expense	(1,374)	(57,550)
Profit/(loss) before income tax	125,581	(25,320)
Share of loss of an associate	(7,087)	—
	118,494	(25,320)
Tax calculated at income tax rates applicable to profits/(losses) of the consolidated entities in their respective jurisdictions (<i>Notes a, b, c</i>)	15,732	(5,786)
Tax effects of:		
Tax losses for which no deferred income tax asset was recognized	7,925	6,067
Super deduction for research and development expenses (<i>Note c</i>)	(5,743)	(2,374)
Income not subject to tax	(1,182)	(13)
Expenses not deductible for income tax purposes:		
— Share-based compensation	1,172	1,288
— Goodwill impairment	—	5,496
— Others	29	411
Income tax expense	17,933	5,089

(a) *Cayman Islands income tax*

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

(b) *Hong Kong profits tax*

Hong Kong profits tax provision has been provided at the rate of 16.5% on the estimated assessable profits for the years ended 31 December 2018 and 2017.

(c) *PRC corporate income tax*

The Group's subsidiaries in the PRC are subject to corporate income tax at the rate of 25% except Guangzhou Baitian and Baidu. Guangzhou Baitian was qualified as "High and New Technology Enterprise" in 2011, 2014 and 2017 and was entitled to a preferential income tax rate of 15% on its estimated assessable profits for the years ended 31 December 2018 and 2017. Baidu was qualified as "Small Low-Profit Enterprise" in 2018 and was entitled to a preferential income tax rate of 10% on its estimated assessable profits for the year ended 31 December 2018 (2017: 25%).

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 additional tax deducting amount of the qualified research and development expenses has been increased from 150% to 175%, effective from 2018 to 2020, according to a new tax incentives policy promulgated by the State Tax Bureau of the PRC in September 2018. The Group has considered the Super Deduction to be claimed for the group entities in ascertaining their assessable profits for the year ended 31 December 2018 and 2017.

(d) *Withholding Tax ("WHT")*

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

For the years ended 31 December 2018 and 2017, the Group did not have any plan to require its PRC subsidiaries to distribute their retained earnings to the Company. Accordingly, no deferred income tax liability on WHT was accrued as at the end of each reporting period.

7 Earnings/(losses) per share

(a) Basic

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

Basic earnings per share is calculated by dividing the profit from continuing operations attributable to 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	
	2018	2017
Profit from continuing operations attributable to shareholders of the Company (<i>RMB'000</i>)	113,052	31,899
Weighted average number of ordinary shares in issue less shares held for RSU Scheme	<u>2,738,003,867</u>	<u>2,755,781,015</u>
Basic earnings per share (<i>in RMB/share</i>)	<u><u>0.0413</u></u>	<u><u>0.0116</u></u>

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

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	
	2018	2017
Profit/(loss) attributable to shareholders of the Company (<i>RMB'000</i>)	112,075	(14,394)
Weighted average number of ordinary shares in issue less shares held for RSU Scheme	<u>2,738,003,867</u>	<u>2,755,781,015</u>
Basic earnings/(losses) per share (<i>in RMB/share</i>)	<u><u>0.0409</u></u>	<u><u>(0.0052)</u></u>

(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 year ended 31 December 2018, 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.

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

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

	Year ended 31 December	
	2018	2017
Earnings		
Profit from continuing operations attributable to shareholders of the Company and profit used to determine diluted earnings per share (<i>RMB'000</i>)	113,052	31,899
Weighted average number of ordinary shares		
Weighted average number of ordinary shares in issue less shares held for RSU Scheme	2,738,003,867	2,755,781,015
Adjustments for:		
— RSUs	8,860,616	28,699,433
— Share options	1,148,237	1,334,622
Weighted average number of ordinary shares in issue less shares held for RSU Scheme	2,748,012,720	2,785,815,070
Diluted earnings per share (<i>in RMB/share</i>)	0.0411	0.0115

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

**Year ended
31 December
2018**

Earnings

Profit attributable to shareholders of the Company and profit used to determine diluted earnings per share (<i>RMB'000</i>)	112,075
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Weighted average number of ordinary shares

Weighted average number of ordinary shares in issue less shares held for RSU Scheme	2,738,003,867
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Adjustments for:

— RSUs	8,860,616
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— Share options	1,148,237
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Weighted average number of ordinary shares in issue less shares held for RSU Scheme	2,748,012,720
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Diluted earnings per share (<i>in RMB/share</i>)	0.0408
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8 Discontinued operations

(a) Description

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

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

Financial information relating to retail business for the three months ended 31 March 2018 is set out below (2017: year ended 31 December 2017).

(b) *Financial performance and cash flow information*

The financial performance and cash flow information presented are for the three months ended 31 March 2018 and the year ended 31 December 2017.

		Year ended 31 December	
		2018	2017
	<i>Note</i>	RMB'000	RMB'000
Revenue	3	5,248	40,853
Expenses		(15,322)	(104,901)
Other income		—	118
Other losses		(123)	(410)
Finance income — net		282	6,790
Loss before income tax from discontinued operations		(9,915)	(57,550)
Income tax expense		—	686
Loss after income tax from discontinued operations		(9,915)	(56,864)
Gain on winding up of Bumps after income tax	(c)	8,541	—
Loss from discontinued operations		(1,374)	(56,864)
Loss from discontinued operations attribute to:			
— Shareholders of the Company		(977)	(46,293)
— Non-controlling interests		(397)	(10,571)
		(1,374)	(56,864)
Currency translation differences of discontinued operations		276	(374)
Other comprehensive income/(loss) of discontinued operations		276	(374)
Total comprehensive loss of discontinued operations		(1,098)	(57,238)
Net cash outflow from operating activities		(991)	(64,590)
Net cash outflow from investing activities		(27)	(251)
Net cash outflow from financing activities		(38)	(42)
Net decrease in cash generated by the subsidiaries		(1,056)	(64,883)

	Year ended 31 December	
	2018	2017
	RMB	RMB
Basic losses per share from discontinued operations attributable to shareholders of the Company	(0.0004)	(0.0168)
Diluted losses per share from discontinued operations attributable to shareholders of the Company	(0.0004)	(0.0168)

(c) *Details of winding up of Bumps*

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Consideration received or receivable	—	—
Carrying amount of net liabilities disposed	6,800	—
Reclassification of foreign currency translation reserve	1,741	—
Gain on winding up of Bumps after income tax	8,541	—
Outflow of cash arising from winding up of Bumps:		

	Year ended 31 December 2018 RMB'000
Cash and cash equivalents disposed	<u>(47)</u>
Net cash outflow from winding up of Bumps	<u>(47)</u>

9 Disposal of a subsidiary

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

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

	Year ended 31 December 2018 RMB'000
Assets and liabilities disposed of	
Total assets	8,895
Total liabilities	(21,295)
Less: non-controlling interest	<u>6,252</u>
Net liabilities disposed of	<u><u>(6,148)</u></u>
Consideration received	14,000
Recognition of investment in an associate at fair value	94,867
Net liabilities disposed of	<u>6,148</u>
Gain on disposal of a subsidiary	<u><u>115,015</u></u>
Inflow of cash arising from disposal of a subsidiary:	
Cash received	14,000
Cash and cash equivalents disposed of	<u>(995)</u>
Net cash inflow from disposal of a subsidiary	<u><u>13,005</u></u>

The gain on disposal of the subsidiary was mainly attributable to a valuable proprietary intellectual property owned by Guangzhou Baiman, which is anticipated to generate economic benefits in the future through production of comic and animation products, games and souvenirs.

The Group's remaining interest in Guangzhou Baiman at the date of disposal was determined by reference to the consideration and the valuation performed by a professional valuer, Avista Business Consulting (Shanghai) Co., Ltd.. The key assumptions used for the valuation, over a ten-year forecast period, are set out below. They are estimated based on the historical sales and margin level, and management's expectation of the business and market development in future.

Average annual sales revenue (RMB'000)	120,998
Average gross profit margin (% of revenue)	45.7%
Post-tax discount rate	20%
Long-term growth rate	3%

10 Trade receivables

	As at 31 December	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Receivables from third parties	18,024	10,546
Less: allowance for impairment	<u>(1,047)</u>	<u>—</u>
	<u>16,977</u>	<u>10,546</u>

As at 31 December 2018 and 2017, 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 is as follows:

	As at 31 December	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
0–30 days	9,087	4,406
31–60 days	1,640	1,454
61–90 days	2,765	992
91–180 days	850	1,533
181–365 days	<u>3,682</u>	<u>2,161</u>
	<u>18,024</u>	<u>10,546</u>

- (b) The receivables are due from online payment agencies and Third Party Platforms with whom the Group had not experienced any recoverability difficulties. The Group can call for collection on demand.
- (c) The Group applies the simplified approach to provide for ECL prescribed by IFRS 9. As at 31 December 2018, a provision of RMB1,047,000 was made against the gross amounts of trade receivables (2017: nil).
- (d) As at 31 December 2018 and 2017, trade receivables were denominated in RMB and their fair value approximated their carrying amounts.
- (e) The maximum exposure to credit risk is the carrying amount of the net receivable balance. The Group does not hold any collateral as security.
- (f) There was no concentration risk with respect to trade receivables as at 31 December 2018.

11 Trade payables

Trade payables primarily relate to the purchase of services for server custody, distribution cost and the revenue sharing collected by the Group's own platforms which is payable to cooperated game developers according to the respective cooperation agreements.

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

	As at 31 December	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
0–30 days	5,499	1,830
31–60 days	3,762	2,189
61–180 days	974	3,351
181–365 days	830	1,121
	<u>11,065</u>	<u>8,491</u>

(a) As at 31 December 2018 and 2017, the fair value of trade payables approximated their carrying amounts.

12 Dividend

The dividends paid in 2018 and 2017 were RMB48,472,000 and RMB43,087,000 respectively. The Board of Directors of the Company proposed a special dividend of HK\$0.021 (equivalent to approximately RMB0.018) per ordinary share out of the share premium account, totalling approximately RMB48,487,000. Such dividend is to be approved by the shareholders at the annual general meeting (“AGM”) on 28 June 2019. These financial statements do not reflect this dividend payable as a liability as at 31 December 2018.

	Year ended 31 December	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Proposed special dividend of HK\$0.021 equivalent to approximately RMB0.018 (2017: HK\$0.021) per ordinary share	50,309	48,976
Less: Dividend for shares held for the RSU Schemes	<u>(1,822)</u>	<u>(2,039)</u>
	<u>48,487</u>	<u>46,937</u>

Audit Committee and Review of Financial Statements

The audit committee of the Company (the “**Audit Committee**”) has reviewed the accounting principles and practices adopted by the Group and discussed with the management regarding auditing, risk management, internal control and financial reporting matters. The Audit Committee has also reviewed the Group’s results for the year ended 31 December 2018. Based on its review and discussions with the management, the Audit Committee was satisfied that the Group’s audited consolidated financial statements were prepared in accordance with applicable accounting standards and fairly present the Group’s financial position and results for the year ended 31 December 2018.

Review of Preliminary Announcement

The figures set out in the preliminary announcement in respect of the Group’s consolidated balance sheet, consolidated statement of comprehensive income, consolidated income statement and the related notes thereto to the audited consolidated financial statements of the Group for the year ended 31 December 2018 have been agreed by the Company’s external auditor, PricewaterhouseCoopers (“**PwC**”), Certified Public Accountants, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by PwC in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by PwC on the preliminary announcement.

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules 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 year ended 31 December 2018.

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 with the Employees Written Guidelines by the employees was noted by the Company during the year ended 31 December 2018.

Corporate Governance Code

The Company is committed to maintaining a high standard of corporate governance, the principles of which serve to uphold a high standard of ethics, transparency, responsibility and integrity in all aspects of business and to ensure that its affairs are conducted in accordance with applicable laws and regulations. The Company has adopted the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 to the Listing Rules as its own code of corporate governance.

Throughout the year ended 31 December 2018, the Company has applied the principles and complied with all the code provisions as set out in the CG Code, save and except for code provision A.2.1 with details set out below.

Code provision A.2.1

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

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

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

During the year ended 31 December 2018, the Company repurchased a total of 67,806,000 Shares on the Stock Exchange at an aggregate consideration (before expenses) of HK\$34,049,490. All the repurchased Shares were subsequently cancelled. Particulars of the repurchases during the year ended 31 December 2018 are as follows:

Month	Number of Share repurchased	Purchase price per share		Aggregate consideration (before expenses) (HK\$)
		Highest (HK\$)	Lowest (HK\$)	
January	7,000,000	0.530	0.500	3,644,240
March	1,756,000	0.470	0.455	820,930
May	7,368,000	0.600	0.520	4,224,860
June	13,070,000	0.590	0.550	7,557,680
August	2,200,000	0.490	0.465	1,056,520
September	11,692,000	0.490	0.460	5,605,880
October	16,654,000	0.475	0.425	7,545,720
November	5,800,000	0.460	0.435	2,583,800
December	2,266,000	0.460	0.435	1,009,860
Total	67,806,000			34,049,490

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 2018.

Annual General Meeting and Closure of Register of Members

The AGM is scheduled to be held on Friday, 28 June 2019. The notice of AGM will be published and dispatched to the Shareholders in the manner as required by the Listing Rules in due course. The Register of Members will be closed from Tuesday, 25 June 2019 to Friday, 28 June 2019 (both days inclusive), during which period no transfer of Shares will be effected, in order to determine the identity of the Shareholders who are entitled to attend and vote at the AGM. To be entitled to attend and vote at the AGM, unregistered holders of Shares shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong (the "Hong Kong Share Registrar"), Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Monday, 24 June 2019.

Special Dividend and Closure of Register of Members

The Board recommended the payment of a special dividend of HK\$0.021 (equivalent to RMB0.018) per Share for the year ended 31 December 2018, subject to the approval of the Shareholders at the AGM, be payable on Wednesday, 31 July 2019 to the Shareholders whose names appear on the Register of Members on Wednesday, 10 July 2019.

The Register of Members will be closed from Monday, 8 July 2019 to Wednesday, 10 July 2019, both days inclusive, for the purpose of ascertaining the shareholders' entitlement to the proposed special dividend. In order to qualify for the proposed special dividend, all transfers of Shares accompanied by the relevant Share certificates and transfer forms must be lodged with the Hong Kong Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Friday, 5 July 2019.

Publication of 2018 Annual Results and Annual Report

The annual results announcement is published on the Company's website (<http://www.baioo.com.hk>) and the website of Hong Kong Exchanges and Clearing Limited (<http://www.hkexnews.hk>). The annual report of the Company for the year ended 31 December 2018 will be dispatched to the Shareholders and available on the above websites in due course.

By order of the Board

BAIOO Family Interactive Limited

DAI JIAN

Chairman, Chief Executive Officer and Executive Director

Hong Kong, 28 March 2019

As at the date of this announcement, the directors of the Company are:

Executive Directors:

Mr. DAI Jian (Chairman and Chief Executive Officer)

Mr. WU Lili

Mr. LI Chong

Mr. WANG Xiaodong

Independent Non-executive Directors:

Ms. LIU Qianli

Dr. WANG Qing

Mr. MA Xiaofeng