

The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Joint Sponsors pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.



羅兵咸永道

March 28, 2014

The Directors
BAIOO Family Interactive Limited
Deutsche Securities Asia Limited
Citigroup Global Markets Asia Limited

Dear Sirs,

We report on the financial information of BAIOO Family Interactive Limited (the "Company") and its subsidiaries (together, the "Group"), which comprises the consolidated balance sheets as at December 31, 2011, 2012 and 2013, the balance sheets of the Company as at December 31, 2011, 2012 and 2013, the consolidated income statements, the consolidated statements of comprehensive income/(loss), the consolidated statements of changes in deficits and the consolidated statements of cash flows for each of the years ended December 31, 2011, 2012 and 2013 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of the Company and is set out in Sections I to III below for inclusion in Appendix I to the prospectus of the Company dated March 28, 2014 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company was incorporated in the Cayman Islands on September 25, 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. As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in Note 1(b) of Section II below. All of these companies are private companies.

No audited financial statements have been prepared by the Company as it is not required to issue audited financial statements under the statutory requirement of Cayman Islands. The audited financial statements of the other companies now comprising the Group as at the date of this report for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles generally accepted in their place of incorporation. The details of the statutory auditors of these companies are set out in Note 1(b) of Section II.

The directors of the Company have prepared the consolidated financial statements of the Company for the Relevant Periods, in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "Underlying Financial Statements"). The directors of the Company are responsible for the preparation of the Underlying Financial Statements that give a true and fair view in accordance with IFRSs. PricewaterhouseCoopers Zhong Tian LLP (普華永道中天會計師事務所(特殊普通合夥)) has audited the Underlying Financial Statements in accordance with International Standards on Auditing ("ISAs") issued by the International Auditing and Assurance Standards Board (the "IAASB") pursuant to separate terms of engagement with the Company. The financial information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon.

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Directors' responsibility for the financial information

The directors of the Company are responsible for the preparation of the financial information that gives a true and fair view in accordance with IFRSs, and for such internal control as the directors determine is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

Reporting accountant's responsibility

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.

Opinion

In our opinion, the financial information gives, for the purpose of this report, a true and fair view of the state of affairs of the Company as at December 31, 2011, 2012 and 2013 and of the state of affairs of the Group as at December 31, 2011, 2012 and 2013 and of the Group's results and cash flows for the Relevant Periods then ended.

I. FINANCIAL INFORMATION

The following is the financial information of the Group prepared by the directors of the Company as at December 31, 2011, 2012 and 2013, and for each of the years ended December 31, 2011, 2012 and 2013 (the "Financial Information").

CONSOLIDATED INCOME STATEMENTS

	Section II Note	Year ended December 31,		
		2011 RMB'000	2012 RMB'000	2013 RMB'000
Revenue	5	83,241	203,243	454,996
Cost of revenue	6	(31,928)	(65,120)	(106,115)
Gross profit		51,313	138,123	348,881
Selling and marketing expenses	6	(12,330)	(30,012)	(47,644)
Administrative expenses	6	(6,672)	(11,095)	(33,247)
Research and development expenses	6	(10,490)	(9,153)	(28,546)
Other income	7	500	107	1,551
Other gains — net	8	1,964	263	7,163
Operating profit		24,285	88,233	248,158
Finance income	10	690	2,755	7,656
Finance costs	10	—	—	(17)
Finance income — net	10	690	2,755	7,639
Fair value loss				
— Derivative financial instruments	30	(536)	—	—
— Convertible redeemable preferred shares	30	(18,688)	(71,214)	(237,228)
Profit before income tax		5,751	19,774	18,569
Income tax expense	11	(3,045)	(13,484)	(38,788)
Profit/(loss) for the year		<u>2,706</u>	<u>6,290</u>	<u>(20,219)</u>
Attributable to:				
— Equity holders of the Company		<u>2,706</u>	<u>6,290</u>	<u>(20,219)</u>
Earnings/(loss) per share (expressed in RMB per share)	12			
— Basic		<u>0.0017</u>	<u>0.0040</u>	<u>(0.0128)</u>
— Diluted		<u>0.0017</u>	<u>0.0040</u>	<u>(0.0128)</u>
Dividend	13	—	—	—

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)

	Section II Note	Year ended December 31,		
		2011 RMB'000	2012 RMB'000	2013 RMB'000
Profit/(loss) for the year		2,706	6,290	(20,219)
Other comprehensive income		—	—	—
Total comprehensive income/(loss) for the year ...		<u>2,706</u>	<u>6,290</u>	<u>(20,219)</u>
Attributable to:				
— Equity holders of the Company		<u>2,706</u>	<u>6,290</u>	<u>(20,219)</u>

CONSOLIDATED BALANCE SHEETS

	Section II Note	As at December 31,		
		2011 RMB'000	2012 RMB'000	2013 RMB'000
ASSETS				
Non-current assets				
Property and equipment	14	7,263	9,463	13,106
Intangible assets	16	23	150	217
Prepayments and other receivables	19	175	1,015	5,427
Restricted cash	20	—	—	10,000
Deferred income tax assets	31	2,739	5,996	9,110
		<u>10,200</u>	<u>16,624</u>	<u>37,860</u>
Current assets				
Trade receivables	18	2,694	3,370	3,855
Prepayments and other receivables	19	2,948	601	12,016
Short-term deposits	20	—	—	200,000
Cash and cash equivalents	20	64,187	190,768	280,932
		<u>69,829</u>	<u>194,739</u>	<u>496,803</u>
Total assets		<u><u>80,029</u></u>	<u><u>211,363</u></u>	<u><u>534,663</u></u>
EQUITY				
Share capital	21	5	5	5
Reserves	22	13,022	15,943	25,734
Accumulated losses		(28,529)	(24,950)	(45,169)
Total deficits		<u><u>(15,502)</u></u>	<u><u>(9,002)</u></u>	<u><u>(19,430)</u></u>
LIABILITIES				
Non-current liabilities				
Advance from government grant	25	1,500	—	—
Deferred revenue	26	110	537	2,083
Convertible redeemable preferred shares	30	48,939	119,946	349,962
		<u>50,549</u>	<u>120,483</u>	<u>352,045</u>
Current liabilities				
Trade payables	27	479	1,244	3,501
Other payables and accruals	28	8,396	22,712	55,178
Income tax liabilities		5,174	4,927	6,204
Advances from customers	26	16,235	37,566	73,161
Advance from government grant	25	—	1,500	—
Deferred revenue	26	14,698	31,933	57,867
Borrowing	29	—	—	6,137
		<u>44,982</u>	<u>99,882</u>	<u>202,048</u>
Total liabilities		<u><u>95,531</u></u>	<u><u>220,365</u></u>	<u><u>554,093</u></u>
Total deficits and liabilities		<u><u>80,029</u></u>	<u><u>211,363</u></u>	<u><u>534,663</u></u>
Net current assets		<u><u>24,847</u></u>	<u><u>94,857</u></u>	<u><u>294,755</u></u>
Total assets less current liabilities		<u><u>35,047</u></u>	<u><u>111,481</u></u>	<u><u>332,615</u></u>

BALANCE SHEETS — COMPANY

	Section II Note	As at December 31,		
		2011 RMB'000	2012 RMB'000	2013 RMB'000
ASSETS				
Non-current assets				
Interests in subsidiaries	15	727	937	10,728
Current assets				
Prepayments and other receivables		—	5	3,666
Amount due from a subsidiary	15, 34	9,003	9,003	9,003
Cash and cash equivalents	20	634	523	55
		9,637	9,531	12,724
Total assets		<u>10,364</u>	<u>10,468</u>	<u>23,452</u>
EQUITY				
Share capital	21	5	5	5
Reserves	22	718	928	10,719
Accumulated losses	24	(39,958)	(111,071)	(351,667)
Total deficits		<u>(39,235)</u>	<u>(110,138)</u>	<u>(340,943)</u>
LIABILITIES				
Non-current liabilities				
Convertible redeemable preferred shares	30	48,939	119,946	349,962
Current liabilities				
Other payables and accruals	28	660	660	14,433
Total liabilities		<u>49,599</u>	<u>120,606</u>	<u>364,395</u>
Total deficits and liabilities		<u>10,364</u>	<u>10,468</u>	<u>23,452</u>
Net current assets/(liabilities)		<u>8,977</u>	<u>8,871</u>	<u>(1,709)</u>
Total assets less current liabilities		<u>9,704</u>	<u>9,808</u>	<u>9,019</u>

CONSOLIDATED STATEMENTS OF CHANGES IN DEFICITS

	Section II Note	Attributable to equity holders of the Company			
		Share Capital RMB'000	Reserves RMB'000	Accumulated losses RMB'000	Total deficits RMB'000
Balance at January 1, 2011		5	10,514	(28,941)	(18,422)
Comprehensive income					
Profit for the year		—	—	2,706	2,706
Other comprehensive income		—	—	—	—
Total comprehensive income		—	—	2,706	2,706
Profit appropriations to statutory reserves	22	—	2,294	(2,294)	—
Total contributions by owners of the Company recognized directly in equity					
Pre-IPO Share Option Scheme	22	—	214	—	214
Balance at December 31, 2011		<u>5</u>	<u>13,022</u>	<u>(28,529)</u>	<u>(15,502)</u>
Balance at January 1, 2012		5	13,022	(28,529)	(15,502)
Comprehensive income					
Profit for the year		—	—	6,290	6,290
Other comprehensive income		—	—	—	—
Total comprehensive income		—	—	6,290	6,290
Profit appropriations to statutory reserves	22	—	2,711	(2,711)	—
Total contributions by owners of the Company recognized directly in equity					
Pre-IPO Share Option Scheme	22	—	210	—	210
Balance at December 31, 2012		<u>5</u>	<u>15,943</u>	<u>(24,950)</u>	<u>(9,002)</u>
Balance at January 1, 2013		5	15,943	(24,950)	(9,002)
Comprehensive loss					
Loss for the year		—	—	(20,219)	(20,219)
Other comprehensive income		—	—	—	—
Total comprehensive loss		—	—	(20,219)	(20,219)
Total contributions by owners of the Company recognized directly in equity					
Pre-IPO Share Option Scheme	22	—	237	—	237
Pre-IPO Restricted Share Unit Scheme	22	—	9,554	—	9,554
Balance at December 31, 2013		<u>5</u>	<u>25,734</u>	<u>(45,169)</u>	<u>(19,430)</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Section II Note	Year ended December 31,		
		2011 RMB'000	2012 RMB'000	2013 RMB'000
Cash flows from operating activities				
Cash generated from operations	32	42,948	147,782	341,395
Interest received		569	992	2,787
Income tax paid		—	(16,988)	(40,625)
Net cash generated from operating activities		<u>43,517</u>	<u>131,786</u>	<u>303,557</u>
Cash flows from investing activities				
Purchase of property and equipment and intangible assets . . .		(6,489)	(6,955)	(10,316)
Purchase of short-term investments		(60,000)	(600,000)	(390,000)
Proceeds from short-term investments upon maturity		60,000	600,000	390,000
Investment in short-term deposits		—	—	(200,000)
Interest received from short-term investments		121	1,763	1,608
Increase in restricted cash		—	—	(10,000)
Net cash used in investing activities		<u>(6,368)</u>	<u>(5,192)</u>	<u>(218,708)</u>
Cash flows from financing activities				
Proceeds from short-term borrowing		—	—	6,137
Payments of issuance costs of convertible redeemable preferred shares		(298)	—	—
Payments of listing expenses		—	—	(769)
Net cash (used in)/generated from financing activities		<u>(298)</u>	<u>—</u>	<u>5,368</u>
Net increase in cash and cash equivalents		36,851	126,594	90,217
Cash and cash equivalents at beginning of the year		27,390	64,187	190,768
Exchange losses on cash and cash equivalents		(54)	(13)	(53)
Cash and cash equivalents at end of the year		<u>64,187</u>	<u>190,768</u>	<u>280,932</u>

II. NOTES TO THE FINANCIAL INFORMATION**1 General information, reorganization and basis of presentation****(a) General information**

BAIOO Family Interactive Limited (the “Company” or “Baioo”), previously known successively as Baitian Information Limited, Baitian Family Interactive Limited and BYO Family Interactive Limited, was incorporated in the Cayman Islands on September 25, 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 in preparation for a listing of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing”). Pursuant to a board resolution dated September 27, 2013, the Company changed its name from Baitian Information Limited to Baitian Family Interactive Limited. Pursuant to board resolutions dated December 12, 2013 and January 8, 2014, respectively, the Company further changed its name to BYO Family Interactive Limited and then to BAIOO Family Interactive Limited. The address of the Company’s registered office is Marquee Place, Suite 300, 430 West Bay Road, P.O. Box 32052, Grand Cayman KY1-1208, Cayman Islands, British West Indies.

The Company and its subsidiaries (collectively the “Group”) are principally engaged in the development and operation of online virtual worlds business for children and certain offline businesses (the “Listing Business”) in the People’s Republic of China (the “PRC”).

Assuming all outstanding convertible redeemable preferred shares are converted into ordinary shares of the Company as at December 31, 2013, Mr. DAI Jian (“Mr. Dai”), Mr. WU Lili (“Mr. Wu”), Mr. LI Chong (“Mr. Li”), Mr. Chen Ziming (“Mr. Chen”) and Mr. Wang Xiaodong (“Mr. Wang”) (collectively as the “Shareholders”) collectively own 79.76% of equity interests in the Company through their respective wholly-owned companies namely STMORITZ INVESTMENT LIMITED, Bright Stream Holding Limited, LNZ Holding Limited, Lele Happy Holding Limited and Angel Wang Holding Limited (collectively as “Founder Companies”).

The Financial Information is presented in Renminbi (“RMB”), unless otherwise stated.

(b) History and reorganization of the Group

Prior to the reorganization of the Group, Mr. Dai, Mr. Wu, Mr. Li, Mr. Kan Wei (“Mr. Kan”), Mr. Chen and Mr. Wang (collectively, the “Founders”) authorized Altratek Limited and its subsidiaries (“Altratek”) owned by, among others, Mr. Dai, Mr. Wu, Mr. Kan and Mr Li, to conduct research activities (“Early Stage Research”) on online virtual worlds business for children.

Prior to the incorporation of the Company and completion of the Group’s reorganization (as explained below), the Listing Business was carried out through one domestic operating company, incorporated in the PRC, namely Guangzhou Baitian Information Technology Ltd. (“Guangzhou Baitian”). On June 2, 2009, Guangzhou Baitian was incorporated in Guangzhou, the PRC, and the initial shareholders were Ms. Dai Ping (Ms. Dai), Mr. Wu, Mr. Li, Mr. Kan, Mr. Chen and Mr. Wang. Ms. Dai held equity interest in Guangzhou Baitian on behalf of Mr. Dai under a trust agreement. All shares held by Ms. Dai in Guangzhou Baitian were subsequently transferred to Mr. Dai on November 24, 2011.

On September 25, 2009, the Company was incorporated in the Cayman Islands with an authorized share capital of US\$50,000, consisting of 50,000,000 ordinary shares of par value of US\$0.001 each. 4,487, 2,602, 1,183, 828, 650 and 250 ordinary shares were allocated and issued to STMORITZ INVESTMENT LIMITED, Bright Stream Holding Limited, LNZ Holding Limited, KS Global Holding Limited, Lele Happy Holding Limited and Angel Wang Holding Limited, respectively. The aforementioned companies are 100% held by Mr. Dai, Mr. Wu, Mr. Li, Mr. Kan, Mr. Chen and Mr. Wang, respectively.

In July 2009, Altratek transferred all of its tangible assets consisting primarily of computers and servers used in Early Stage Research to Guangzhou Baitian for a consideration of RMB1,408,000. On November 10, 2009, the actual costs and expenses arising from research and development for the Early Stage Research incurred by Altratek amounting to RMB12,368,000 were reimbursed by the Company in cash on May 24, 2010.

On October 20, 2009, Baitian Technology Limited (“Baitian Hong Kong”) was incorporated in Hong Kong as a wholly-owned subsidiary of the Company. Since then, it became the holding company for the Group’s PRC incorporated subsidiaries.

On January 13, 2010, Mr. Kan transferred his entire equity interest in Guangzhou Baitian to the other five founders. On January 20, 2010, Mr. Kan collectively transferred all his equity interest in the Company held through KS Global Holding Limited to the other five founders. Since then, Ms. Dai, Mr. Wu, Mr. Li, Mr. Chen and Mr. Wang held equity interests of 46.92%, 28.37%, 12.90%, 7.08% and 4.73%, respectively, in both Guangzhou Baitian and the Company.

On March 9, 2010, Baitian (Beijing) Information Technology Limited (“Beijing Baitian”) was established by Baitian Hong Kong as a wholly foreign-owned enterprise in the PRC. In March 2010, Beijing Baitian signed a series of contractual agreements with Guangzhou Baitian and its equity holders (the “Original Contractual Arrangements”), under which Beijing Baitian acquired effective control over Guangzhou Baitian and became entitled to variable returns from its involvement in Guangzhou Baitian accordingly.

On March 31, 2010, the Company issued convertible redeemable preferred shares to an institutional investor (Note 30).

In preparation for the Listing, the Group underwent group restructuring, pursuant to which the beneficial interests in Guangzhou Baitian engaged in the Listing Business were transferred to Baiduo (Guangzhou) Information Technology Limited (“Guangzhou WFOE”). The group restructuring involved the steps described in the next paragraph.

On October 29, 2013, Guangzhou WFOE was established by Baitian Hong Kong as a wholly foreign-owned enterprise in the PRC. Pursuant to a series of contractual agreements (the “Contractual Arrangements”) signed among Guangzhou WFOE, Guangzhou Baitian and its equity holders on December 4, 2013, Guangzhou WFOE acquired effective control over Guangzhou Baitian and became entitled to variable returns from its involvement in Guangzhou Baitian. On the same date, the Original Contractual Arrangements were terminated. Accordingly, upon completion of the group restructuring, Guangzhou Baitian became a subsidiary of Guangzhou WFOE for accounting purpose. Further details of the Contractual Arrangements are set out in Note 4.2(b) below. After the group restructuring, the Company continues to be the holding company of the Listing Business.

On December 27, 2013, Mr. Dai, Mr. Wu, Mr. Li, Mr. Chen and Mr. Wang, established their respective family trusts of which TMF (Cayman) Ltd. acting as the trustee. On the same day, Mr. Dai, Mr. Wu, Mr. Li, Mr. Chen and Mr. Wang transferred 100% equity interests in the Founder Companies, respectively, by way of gift at nil consideration to the respective trust holding companies. The family trusts are discretionary trusts, the beneficiaries of which are Mr. Dai, Mr. Wu, Mr. Li, Mr. Chen and Mr. Wang themselves and their respective family members. Pursuant to the family trusts, TMF (Cayman) Ltd. and each of the trust holding companies hold the equity interests in the Founder Companies on trust for the benefit of Mr. Dai, Mr. Wu, Mr. Li, Mr. Chen and Mr. Wang.

As at the date of this report, the Company had direct or indirect interests in the following subsidiaries:

Name of the company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Effective equity interest held as at			Principal activities and place of operation	Note
			December 31, 2011	December 31, 2012	December 31, 2013		
Directly held by the Company			December 31, 2011				
Baitian Technology Limited ("Baitian Hong Kong")	Incorporated on October 20, 2009 in Hong Kong	HK\$10,000	100%	100%	100%	Investment holding, Hong Kong	(1)
Indirectly held by the Company			December 31, 2012				
百田(北京)信息科技有限公司* (Baitian (Beijing) Information Technology Limited, "Beijing Baitian")	Incorporated on March 9, 2010 in the PRC	RMB8,528,500	100%	100%	100%	Research and development of computer software, the PRC	(2)
廣州百田信息科技有限公司* (Guangzhou Baitian Information Technology Limited, "Guangzhou Baitian")	Incorporated on June 2, 2009 in the PRC	RMB10,010,000	100%	100%	100%	Online interactive entertainment and education service for children, the PRC	(3)
百多(廣州)信息科技有限公司* (Baiduo (Guangzhou) Information Technology Limited, "Guangzhou WFOE")	Incorporated on October 29, 2013 in the PRC	US\$ 500,000	Not applicable	Not applicable	100%	Research and development of computer software, the PRC	(4)

All companies now comprising the Group have adopted December 31, as their financial year end date.

The Group's major subsidiaries are incorporated in the PRC and the majority of their transactions are denominated in Renminbi ("RMB"). The conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. As at December 31, 2011, 2012 and 2013, other than the restriction from exchange control regulations, there is no significant restriction on the Group's ability to access or use the assets and settle the liabilities of the Group.

Notes:

- (1) The statutory financial statements for each of the years ended December 31, 2011 and 2012 were audited by PricewaterhouseCoopers, Hong Kong. As of the date of this report, the statutory financial statements for the year ended December 31, 2013 are not available.
 - (2) The statutory financial statements for each of the years ended December 31, 2011 and 2012 were audited by Beijing Zhongyong Zhaoyang Certified Public Accountants* (北京中永昭陽會計師事務所). As of the date of this report, the statutory financial statements for the year ended December 31, 2013 are not available.
 - (3) The statutory financial statements for each of the years ended December 31, 2011 and 2012 were audited by Guangdong Zhengzhongzhujiang Certified Public Accountants* (廣東正中珠江會計師事務所有限公司). As of the date of this report, the statutory financial statements for the year ended December 31, 2013 are not available.
 - (4) No statutory financial statements were available for each of the years ended December 31, 2011 and 2012 as it was newly incorporated in 2013. As of the date of this report, the statutory financial statements for the year ended December 31, 2013 are not available.
- * The English names of certain companies and auditors referred herein have been translated from their Chinese names by management as they do not have official English names.

(c) *Basis of presentation*

Throughout the Relevant Periods, the Listing Business was carried out by Guangzhou Baitian. Immediately prior to and upon the group restructuring, both Guangzhou Baitian and the Listing Business are under the effective control of Beijing Baitian and Guangzhou WFOE, and ultimately the Company, through the Original Contractual Arrangements and Contractual Arrangements, respectively. The group restructuring was merely to transfer the beneficial interests in Guangzhou Baitian engaged in the Listing Business from Beijing Baitian to Guangzhou WFOE. The financial information of the companies now comprising the Group (including Guangzhou Baitian) is presented on a consolidated basis for all periods presented under IFRS.

Intercompany transactions, balances and unrealized gains/losses on transactions between Group companies are eliminated on consolidation.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied throughout the Relevant Periods, unless otherwise stated.

2.1 Basis of preparation

The Financial Information of the Group has been prepared in accordance with IFRSs. The Financial Information has 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 Information in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in Note 4 below.

As at December 31, 2011, 2012 and 2013, the total deficits in equity of the Group were primarily due to the Group recognizing losses from designating the derivative and liability components of the convertible redeemable preferred shares as a financial liability at fair value through profit or loss. The directors of the Company are of the view that this would not have a significant adverse impact on the Group's cash or working capital position considering that in the event of redemption, the financial liability of convertible redeemable preferred shares will be settled by payment in cash to the holders at 100% of the original issuance price of US\$3,250,000 (equivalent to approximately RMB22,185,000) plus any declared but unpaid dividends (Note 30).

2.1.1 Changes in accounting policy and disclosures

(a) *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 January 1, 2013, and have not been applied in preparing the Financial Information:

- IFRS 9, "Financial instruments", addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial

instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

- Amendments to IAS 32 "Financial instruments: presentation" on asset and liability offsetting, these amendments are to the application guidance in IAS 32, "Financial instruments: Presentation," and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.
- Amendments to IAS 36 "Impairment of assets" on recoverable amount disclosures for non-financial assets, these amendments require additional disclosure of fair value information should the recoverable amount of impaired assets be based on fair value less costs of disposal. In addition, it removes the requirements of disclosing recoverable amounts in annual impairment test of goodwill and intangible assets with indefinite useful lives if not impaired.
- IFRIC 21, "Levies", sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when should a liability be recognized.
- IFRS 7 and IFRS 9 (Amendments) "Mandatory effective date and transition disclosures" delay the effective date to annual periods beginning on or after January 1, 2015, and also modify the relief from restating prior periods. As part of this relief, additional disclosures on transition from IAS 39 to IFRS 9 are required.

The Group is in the process of making an assessment of the impact of the above standards, amendments to standards and interpretation on the financial statements of the Group in their initial applications. The adoption of the above is not expected to have a material impact on the financial statements of the Group.

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.

2.2 Subsidiaries

2.2.1 Consolidation

Subsidiaries are all entities (including structured entities) 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 fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

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.

(a) Business combinations

Except for the reorganization (Note 1(b)), 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, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

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 profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest 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, non-controlling interest 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.

(b) *Changes in ownership interests in subsidiaries*

Transactions with 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 non-controlling interests are also recorded in equity.

(c) *Disposal of subsidiaries*

When the Group ceases to have control, 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 respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities, resulting in the amounts previously recognized in other comprehensive income being reclassified to profit or loss.

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 of the investee's net assets including goodwill.

2.3 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.

2.4 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the Financial Information 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 functional currency of the Company and each of the other Group entities is RMB.

(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 the profit or loss. Foreign exchange gains and losses are presented in the consolidated income statement within "other gains — net".

2.5 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.

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 2.7).

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

2.6 Intangible assets

(a) Computer software

Acquired computer software is capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives (5 years), and recorded in amortization within operating expenses in the consolidated income statements.

(b) 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 game products) are capitalized as intangible assets when recognition criteria are fulfilled. These criteria include: (1) it is technically feasible to complete the online virtual world product so that it will be available for use or sale; (2) management intends to complete the online virtual world product and use or sell it; (3) there is an ability to use or sell the online virtual world product; (4) it can be demonstrated how the online virtual world product 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 product are available; and (6) the expenditure attributable to the online virtual world product during its development can be reliably measured. Other development expenditures that do not meet those criteria are recognized as expenses as incurred. During the Relevant Periods, the Group could not determine whether it was technically feasible to complete the online virtual world product so that it would be available for use or sale and could not determine whether the online virtual world product would generate probable future economic benefit or not during the development phase of a online virtual world. In addition, during the Track Record Period, the Group could not reliably measure the expenditure attributable to each online virtual world 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. Capitalized development costs are amortized from the point at which the assets are ready for use on a straight-line basis over their useful lives.

2.7 Impairment of non-financial assets

Assets that have an indefinite useful life, for example, goodwill, are not subject to amortization and are tested 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.

2.8 Financial assets

2.8.1 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 derivative financial instruments arising from the issuance of convertible redeemable preferred shares (Note 30). Derivative financial instruments 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', 'restricted cash' and 'short-term deposits' in the balance sheet (Notes 2.11 and 2.12).

2.8.2 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.

2.9 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.

2.10 Impairment of financial assets

Assets carried at amortized cost

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

2.11 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.

2.12 Cash and cash equivalents

In the consolidated statements 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.

2.13 Share capital and premium

Ordinary shares are classified as equity. Convertible redeemable preferred shares are classified as liabilities (Note 2.17).

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.

2.14 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.

2.15 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 borrowing 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.

2.16 Borrowing cost

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.

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.

2.17 Convertible redeemable preferred shares

Convertible redeemable preferred shares are classified as financial liabilities. The conversion options which are not settled by exchanging a fixed amount of cash in the Company's functional currency for a fixed number of the Company's ordinary shares lead to a derivative component. Convertible redeemable preferred shares comprise a derivative component, a liability component and, as a result of any discretionary dividends, an equity component.

At initial recognition, the derivative and liability components are measured at fair value. Any excess of the proceeds over the amount initially recognized for the derivative and liability components is attributed to the equity component. This amount is recognized in equity and is not remeasured subsequent to initial recognition. When discretionary dividends to the convertible redeemable preferred shares are declared by the directors, the amount of such dividends is debited directly to equity, net of any related income tax benefit (if applicable). Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the derivative and liability components are designated as a financial liability at fair value through profit or loss, with changes in fair value being recorded in profit or loss.

The convertible redeemable preferred shares are classified as non-current liabilities unless the Group has an obligation to settle the liability within 12 months after the end of the reporting period.

2.18 Current and deferred income tax

The income tax expense for the period comprises current and deferred income tax. Income tax is recognized in the 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.

(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 Information. 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, 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.

(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.

2.19 Employee benefits

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

2.20 Share-based payments**(a) *Equity-settled share-based payments transactions***

The Group operates various equity-settled share-based compensation plans, including the Pre-IPO Share Option Scheme and Pre-IPO Restricted Share Unit Scheme, under which the Group receives services from employees or other service providers as consideration for equity instruments (options or restricted share units) 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.

For share options and restricted share units awarded to counterparties other than employees, the total amount to be expensed is determined by reference to the fair value of the service unless such fair value could not be estimated reliably. In such case, the expense will be measured indirectly by reference to the fair value of the equity instruments granted at the date when such counterparties render services.

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 restricted share units 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 the 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 restricted share units 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.

2.21 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.

2.22 Revenue recognition

Online business

The Group earns revenue primarily through development and operation of online virtual world business. 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. In addition, the Group also earns revenue from operating several third party developed online games.

(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. Players purchase the Group's virtual currency (namely, Aocoin) and online virtual world tokens ("Paying Players") 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 Group collects the payments made by Paying Players through various payment channels.

The Group provides such services to players via an online entertainment platform 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 by 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 world.

(b) *Revenue from other online games*

In addition to self-developed online virtual worlds' operation, the Group operates third party developers' games through cooperation with game developers. The revenue from the virtual items sold is shared between the Group and game developers, which is pre-determined in individual revenue sharing arrangements.

The games operated on the Group's platform are hosted, maintained and updated by the game developers, while the Group mainly provides access to the game and technical support throughout the period in which the players play the game. The Group has evaluated and determined it is not the primary obligor in the services rendered to the Paying Players from its platform. Accordingly, the Group records its revenue, net of the portion of sharing of revenues with the game developers.

For purposes of determining when the service has been provided to the Paying Players, the Group has determined that an implied obligation exists to the Paying Players to continue providing access to the games such that the Paying Players can utilize the virtual items purchased by online virtual world tokens. The Group does not have access to the data on the consumption details and the types of virtual items purchased by the Paying Players, given that games are hosted, managed and administered by the game developers. However, the Group maintains individual Paying Player's purchase history of online virtual world tokens which are used to exchange for virtual items. As such, the Group has adopted a policy to recognize revenues for both consumable and durable items purchased through online virtual world tokens over the Player Relationship Period on a game-by-game basis.

(c) *Other key accounting policies in relation to revenue from online business*

In determining the Player Relationship Period related to the recognition of revenue from sales of durable virtual items of the Group's self-developed online virtual worlds and revenue derived from third party developed games, 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 as of the date of reassessment and the most updated estimated user relationship period would be applied for each virtual world or game for revenue recognition prospectively.

When the Group launches a new virtual world/game on its platform, it estimates the Player Relationship Period based on other similar types of virtual world/game of the Group or third party developers, taking into account the virtual world/game profile, target audience and its appeal to Paying Players of different demographic groups, until the new virtual world/game establishes its 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 by way of payments through online payment channels. The Group has evaluated the roles and responsibilities in delivery of 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.

For the prepaid cards sold through distributors, the Group is unable to make a reasonable estimate of the gross revenue because the distributors have the discretion to determine the actual price to the end users in a predetermined range. Accordingly, such revenue is recognized based on the net amount received from the distributors. For payments received via online payment channels, the online payment channels charge the Group payment handling fees at pre-agreed charge rates over the total payments received and the Group recorded the charge in "cost of revenue".

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.

Certain multiple-element arrangements exist in the Group's online business. Where such arrangements exist, the amount of revenue allocated to each element is based upon the relative fair values of the various elements.

The cost of providing free virtual items as a result of promotional activities was insignificant for each of the Relevant Periods presented.

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.

Customers can purchase multiple advertising spaces with different display periods in the same contract. When such multiple-element arrangements exist, the amount of revenue allocated to each element is based upon the relative fair values of the various elements. The fair values of each element are determined based on the stand-alone selling price of each of the elements in the Group's standard advertising price list. The Group recognizes revenue on the elements delivered and defers the recognition of revenue for the fair value of the undelivered elements until the remaining obligations have been satisfied. Where all of the elements within an arrangement are delivered uniformly over the agreement period, the revenues are recognized on a straight line basis over the contract period.

(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 cases where the licensing fee is charged based on period of usage by the licensees, the Group recognizes the revenue from licensing fee ratably over the usage period.

Business tax and value-added tax ("VAT")

The Group is subject to business tax at a rate of 3% and related surcharges on revenue earned for online business, while 5% of business tax rate and related surcharges for other businesses prior to November 1, 2012. Revenues are net of business tax and related surcharges.

On January 1, 2012, a pilot program (the "Pilot Program") was launched in Shanghai for a transition of imposing value-added tax ("VAT") on revenues derived from certain pilot industries (the "Pilot Industries") other than business taxes. Starting from November 1, 2012, the Pilot Program was expanded from Shanghai to eight other cities and provinces in the PRC, including Beijing and Guangdong provinces, where the Group's subsidiaries are established and have operations therein.

Revenues from the Group's other businesses and revenue from third party developed web games are within the scope of Pilot Industries and these revenues became subject to VAT at a rate of 6% effective from November 1, 2012 and December 1, 2012, respectively. The Group hence recognizes revenues from other business and third party developed web games net of VAT thereafter.

2.23 Advances from customers and deferred revenue

Advances from customers 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.

2.24 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) bandwidth and server custody fees, (iii) depreciation and amortization of property and equipment and intangible assets, (iv) prepaid cards production cost, etc.

2.25 Interest income

Interest income mainly represents interest income from bank deposits and short-term investments and is recognized using effective interest method.

2.26 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 the 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 the profit or loss on a straight-line basis over the expected lives of the related assets.

2.27 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 the profit or loss on a straight-line basis over the period of the lease.

2.28 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's and the Company's financial information 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, interest rate risk and price 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 of Directors.

(a) Market risk**(i) Foreign currency risk**

The Group mainly operates in the PRC and is exposed to foreign currency, primarily with respect to US\$ and HK\$, arising from future commercial transactions and recognized assets and liabilities denominated in a currency other than RMB, which is the functional currency of the Company and its subsidiaries now comprising the Group.

The foreign exchange rates are subject to the rules and regulations of foreign exchange control promulgated by the PRC government. The Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rates. To manage the foreign currency risk arising from future commercial transactions and recognized assets and liabilities, the Group may use forward contracts to hedge its foreign currency risk when the Group determines a significant exchange risk exists.

As at December 31, 2011, 2012 and 2013, the Group did not have significant foreign currency risk from the operations, and did not hedge against any fluctuation in foreign currency.

(ii) Interest rate risk

During the Relevant Periods, management of the Group is of the opinion that interest rate risk (such as interest rate risk on bank deposits and short-term borrowing) was not material to the Group and the Company.

(iii) Price risk

The Group is exposed to price risk in respect of Series A convertible redeemable preferred shares (the "Series A Preferred Shares") carried at fair value with changes in fair value recognized in the profit or loss. The fair value of Series A Preferred Shares is affected by changes in the Group's total fair value. The Group is not exposed to commodity price risk.

As at December 31, 2011, 2012 and 2013, if the Group's equity value had increased/decreased by 5% with all other variables being held constant, profit before income tax for the year would have been approximately RMB864,000, RMB3,556,000 and RMB11,861,000 lower/higher, respectively.

(b) Credit risk

The carrying amounts of deposits placed with banks, trade receivables, other receivables included in the Financial Information 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 PRC and reputable international financial institutions outside the PRC. There has been no recent history of default in relation to these financial institutions.

The table below shows the cash and cash equivalents, short-term deposits and restricted cash balances of the major counterparties with or without external credit ratings as at December 31, 2011, 2012 and 2013 as follows:

	As at December 31,		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
Counterparties with external credit rating*			
Aa2	1,065	947	425
A1	70	232	324
Baa3(**)	54,737	181,243	481,870
Ba1	14	13	14
	<u>55,886</u>	<u>182,435</u>	<u>482,633</u>
Counterparties without external credit rating			
China Minsheng Banking Corp., Ltd	8,298	8,288	8,271
Others	3	24	24
	<u>8,301</u>	<u>8,312</u>	<u>8,295</u>
Restricted cash, short-term deposits and cash and cash equivalents	<u>64,187</u>	<u>190,747</u>	<u>490,928</u>

* Rating sourced from Moody's.

** Balance with Baa3 rating represents cash and cash equivalent balance placed in China Merchants Bank, a reputable and listed bank in the PRC.

For trade receivables, a significant portion at the end of each of the Relevant Periods was due from advertising agencies. If the strategic relationship with the advertising agencies is 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 the advertising agencies to ensure the effective credit control. In view of the history of cooperation with the advertising agencies and the sound collection history of receivables due from them, management believes that the credit risk inherent in the Group's outstanding trade receivable balances due from advertising agencies is low.

For other receivables, management make periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience.

(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 and the Company'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.

<u>Group</u>	<u>Less than 1 year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 3 years</u>	<u>Between 3 and 4 years</u>	<u>Between 4 and 5 years</u>	<u>Total</u>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At December 31, 2011						
Trade payables	479	—	—	—	—	479
Other payables and accruals (excluding other tax liabilities)	7,218	—	—	—	—	7,218
Convertible redeemable preferred shares	—	—	—	20,478	—	20,478
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At December 31, 2012						
Trade payables	1,244	—	—	—	—	1,244
Other payables and accruals (excluding other tax liabilities)	21,732	—	—	—	—	21,732
Convertible redeemable preferred shares	—	—	20,428	—	—	20,428
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At December 31, 2013						
Trade payables	3,501	—	—	—	—	3,501
Other payables and accruals (excluding other tax liabilities)	53,670	—	—	—	—	53,670
Borrowing	6,248	—	—	—	—	6,248
Convertible redeemable preferred shares	—	19,815	—	—	—	19,815
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Company						
At December 31, 2011						
Other payables and accruals (excluding other tax liabilities)	660	—	—	—	—	660
Convertible redeemable preferred shares	—	—	—	20,478	—	20,478
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At December 31, 2012						
Other payables and accruals (excluding other tax liabilities)	660	—	—	—	—	660
Convertible redeemable preferred shares	—	—	20,428	—	—	20,428
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At December 31, 2013						
Other payables and accruals (excluding other tax liabilities)	14,433	—	—	—	—	14,433
Convertible redeemable preferred shares	—	19,815	—	—	—	19,815
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

As at December 31, 2011, 2012 and 2013, Series A-1 convertible redeemable preferred shares (the "Series A-1 Preferred Shares") were classified as non-current liability because the Group believes it has no obligation to settle the liability arising from the attached redemption right within 12 months after the end of each reporting period. The maximum exposure of this redemption is the contractual redemption price which is equal to 100% of the issue price, plus any declared but unpaid dividends on such shares (Note 30).

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 (including share capital, capital reserves and Series A-1 Preferred Shares on an as-if converted basis) by regularly reviewing the capital structure and gearing ratio. This ratio is calculated as total liabilities (excluding convertible redeemable preferred shares) divided by total assets. As a 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 a gearing ratio within 35% to 60%. The gearing ratios were as follows:

	As at December 31,		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
Total liabilities (excluding convertible redeemable preferred shares)	46,592	100,419	204,131
Total assets	80,029	211,363	534,663
Gearing ratio	58%	48%	38%

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).

The following table presents the Group and the Company's assets and liabilities that are measured at fair value as at December 31, 2011.

<u>Group and Company</u>	<u>Level 1</u> <u>RMB'000</u>	<u>Level 2</u> <u>RMB'000</u>	<u>Level 3</u> <u>RMB'000</u>	<u>Total</u> <u>RMB'000</u>
Recurring fair value measurements:				
Liabilities:				
Financial liabilities at fair value through profit or loss				
— Convertible redeemable preferred shares	—	—	48,939	48,939

The following table presents the Group and the Company's assets and liabilities that are measured at fair value as at December 31, 2012.

<u>Group and Company</u>	<u>Level 1</u> <u>RMB'000</u>	<u>Level 2</u> <u>RMB'000</u>	<u>Level 3</u> <u>RMB'000</u>	<u>Total</u> <u>RMB'000</u>
Recurring fair value measurements:				
Liabilities:				
Financial liabilities at fair value through profit or loss				
— Convertible redeemable preferred shares	—	—	119,946	119,946

The following table presents the Group and the Company's assets and liabilities that are measured at fair value as at December 31, 2013.

<u>Group and Company</u>	<u>Level 1</u> RMB'000	<u>Level 2</u> RMB'000	<u>Level 3</u> RMB'000	<u>Total</u> RMB'000
Recurring fair value measurements:				
Liabilities:				
Financial liabilities at fair value through profit or loss				
— Convertible redeemable preferred shares	—	—	349,962	349,962

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.

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 during the Relevant Periods.

The fair value changes in the carrying amounts of level 3 instruments for the years ended December 31, 2011, 2012 and 2013 are presented in Note 30.

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

Except for Series A-1 Preferred Shares, the carrying amounts of financial assets including cash and cash equivalents, short-term deposits, trade and other receivables; and financial liabilities including trade payables and other payables and accruals and borrowing, approximated their respective fair value due to their short maturity at each of the reporting dates.

4 Critical accounting estimates and judgments

Estimates and judgments 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 2.22, the Group recognizes revenue from durable virtual items in self-developed online virtual worlds and revenue from third party developed games ratably over Player Relationship Period. The determination of Player Relationship Period for the relevant game is 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) *Current income tax and deferred tax*

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

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

Deferred income tax is provided on temporary differences arising on investments in 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. As for the potential timing differences arising from the declaration of distributable profits of the Company's subsidiaries in the PRC, management made assumption of the future dividend declaration plan with reference to future use of fund and the Company's expansion plan and concluded that the distributable profits will not be declared in foreseeable future. As a result, no deferred tax liability should be provided as of December 31, 2011, 2012 and 2013.

(c) *Fair value of convertible redeemable preferred shares*

The Series A Preferred Shares issued by the Company are not traded in an active market and the respective fair value is determined by using valuation techniques. The directors have used the discounted cash flow method to determine the underlying equity value of the Company and adopted an equity allocation method to determine the fair value of the Series A Preferred Shares. Under the equity allocation method, the Company determines the underlying value of the Company as a whole and allocates the equity value to ordinary shares, preferred shares, share options and restricted share units. Key assumptions adopted in the valuation, such as discount rate, risk-free interest rate and volatility are disclosed in Note 30.

As at December 31, 2011, 2012 and 2013, the estimated carrying amount of Series A-1 Preferred Shares would have been RMB1,273,000, RMB3,237,000, and RMB13,941,000 lower or RMB1,374,000, RMB3,488,000 and RMB15,584,000 higher if the discount rate used in the discounted cash flow analysis had been higher/lower by 100 basis points from management's estimates.

(d) *Recognition of share-based compensation expenses*

As mentioned in Note 23, the Group has granted share options and restricted share units 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 restricted shares units 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) *Allocation of revenue for bundled transactions*

Where multiple-element arrangements exist in a bundled transaction, the amount of revenue allocated to each element is based upon the relative fair values of the various elements. Significant judgment is required in assessing fair values of each element by considering inter alia, stand-alone selling price and other observable market data.

4.2 Critical judgments in applying the Group's accounting policies

(a) *Net revenue presentation*

For prepaid cards sold through distributors, as described in Note 2.22, the Group is unable to make a reasonable estimate of the gross revenue because the distributors have discretion to determine the actual price of prepaid cards sold to Paying Players. Accordingly, such revenue is recognized based on the net amount received from the distributors.

(b) *Subsidiaries arising from contractual arrangements*

As mentioned in Note 1(b), the Company's wholly-owned subsidiary, Beijing Baitian, has entered into the Original Contractual Arrangements with Guangzhou Baitian and its equity holders throughout the Relevant Periods. Upon the termination of the Original Contractual Arrangements, Guangzhou WFOE entered into the Contractual Arrangements with Guangzhou Baitian and its equity holders.

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

- exercise effective financial and operational control over Guangzhou Baitian;
- exercise equity holders' voting rights of 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 Beijing Baitian or Guangzhou WFOE, at Beijing Baitian or 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 of Guangzhou Baitian from its equity holders as collateral security for all of Guangzhou Baitian's payments due to Beijing Baitian or Guangzhou WFOE and to secure performance of Guangzhou Baitian's obligations under the Original Contractual Arrangements or Contractual Arrangements, respectively.

The Group does not have any equity interest in Guangzhou Baitian. However, as a result of the Original Contractual Arrangements and Contractual Arrangements, the Group has rights to variable returns from its involvement with Guangzhou Baitian and has the ability to affect those returns through its power over Guangzhou Baitian and is considered to control 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 Original Contractual Arrangements and 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 of the results, assets and liabilities of Guangzhou Baitian. The Group believes that the Original Contractual Arrangements and Contractual Arrangements are in compliance with 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 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. As a result of this evaluation, the Group determined that it has operating segments as follows:

- Online business
- Other businesses

The CODM assesses the performance of the operating segments mainly based on segment revenue of each operating segment. The cost of revenue, selling and marketing expenses, administrative expenses and research and development expenses are not included in the measure of the segments' performance which is used by CODM as a basis for the purpose of resource allocation and assessment of segment performance. Other income, other gains - net, finance income, fair value loss of convertible redeemable preferred shares, income tax expense are also not allocated to individual operating segments.

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 this Financial Information. There were no separate segment assets and segment liabilities information provided to the CODM, as CODM does not use this information to allocate resources to or evaluate the performance of the operating segments.

The segment revenues provided to the Group's CODM for the reportable segments for the Relevant Periods is as follows:

	Year ended December 31,		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
Online business			
— Online virtual worlds	78,886	195,349	444,021
— Other online games	3	2,078	2,314
Sub-total	78,889	197,427	446,335
Other businesses	4,352	5,816	8,661
Total	83,241	203,243	454,996

The Company is domiciled in the Cayman Islands while the Group mainly operates its business in the PRC. As a great majority of the Group's revenue is derived from business operated in the PRC, no geographical segment information is presented to the CODM's review.

There is no concentration risk in terms of customers (which include end users from online business and customers from other business) as no single external customer contributed more than 10% of the Group's total revenue for the years ended December 31, 2011, 2012 and 2013. 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 92.1%, 84.6%, and 92.3% of the total revenue for the each of the years ended December 31, 2011, 2012 and 2013. The percentage of revenue contributed by the following online virtual worlds is not presented for the periods when such amount is less than 10% of the Group's total revenue in a particular year.

	Year ended December 31,		
	2011	2012	2013
Aola Star	46.2%	46.2%	35.4%
Legend of Aoqi	N/A	N/A	27.9%
Dragon Knights	N/A	17.4%	16.2%
Aobi Island	45.9%	21.0%	12.8%

CODM reviews the performance of and allocates resources to operating segments based on revenue of each segment. The reconciliation of revenue to profit before income tax for each of the years ended December 31, 2011, 2012 and 2013 is shown in the consolidated income statement.

As at December 31, 2011, 2012 and 2013, the non-current assets of the Group were located in the PRC.

6 Expenses by nature

	Year ended December 31,		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
Employee benefit expenses (Note 9)	31,936	57,798	113,377
Promotion and advertising expenses	9,541	25,113	40,012
Prepaid card production costs	1,446	3,454	6,000
Prepaid card delivery costs	424	959	1,927
Payment handling costs	475	1,687	1,964
Bandwidth and server custody fees	6,151	10,991	18,244
Depreciation of property and equipment and amortization of intangible assets (Notes 14 and 16)	3,598	4,628	5,563
Operating lease rentals in respect of office premises	3,640	4,575	6,374
Utilities and office expenses	1,592	1,509	2,903
Travelling and entertainment expenses	541	908	2,712
Professional fees	287	937	10,907
Auditor's remuneration	30	50	78
Others	1,759	2,771	5,491
Total cost of revenue, selling and marketing expenses, administrative expenses and research and development expenses	61,420	115,380	215,552

7 Other income

	Year ended December 31,		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
Government grants	500	107	1,551

8 Other gains — net

	Year ended December 31,		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
Currency exchange gain, net	1,967	194	7,159
Loss on disposal of property and equipment, net	(3)	—	—
Others	—	69	4
	<u>1,964</u>	<u>263</u>	<u>7,163</u>

9 Employee benefit expenses (including directors' emoluments)

	Year ended December 31,		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
Wages, salaries and discretionary bonuses	25,810	47,668	85,057
Other social security costs, housing benefits and other employee benefits	3,957	7,192	14,132
Pension costs — defined contribution plans	1,955	2,728	4,397
Share-based compensation expenses — Pre-IPO Share Option Scheme and Pre-IPO Restricted Share Unit Scheme	214	210	9,791
	<u>31,936</u>	<u>57,798</u>	<u>113,377</u>

(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. During the Relevant Periods, the Group contributes funds which are calculated on fixed percentage of 12% of the employees' salary (subject to a floor and cap) as set by local municipal governments to each scheme locally to fund the retirement benefits of the employees.

(b) *Directors' and chief executives' emoluments*

The remunerations of the directors and the chief executive for each of the years ended December 31, 2011, 2012 and 2013 are set out below:

Year ended December 31, 2011:

Name	Fees	Salaries	Discretionary bonus	Pension costs — defined contribution plans	Other social security costs, housing benefits and other employee benefits	Total
	RMB'000	RMB'000		RMB'000	RMB'000	
Executive Directors						
Ms. Dai ⁽ⁱ⁾	—	—	—	—	—	—
Mr. Dai ⁽ⁱⁱ⁾	—	12	238	—	—	250
Mr. Wu	—	810	318	21	87	1,236
Mr. Li	—	636	303	14	37	990
Mr. Chen	—	468	289	14	37	808
Non-Executive Director						
Mr. Ji Yue	—	—	—	—	—	—
Executive Vice President						
Mr. Wang ⁽ⁱⁱⁱ⁾	—	406	284	14	37	741

Year ended December 31, 2012:

Name	Fees	Salaries	Discretionary bonus	Pension costs — defined contribution plans	Other social security costs, housing benefits and other employee benefits	Total
	RMB'000	RMB'000		RMB'000	RMB'000	
Executive Directors						
Ms. Dai ⁽ⁱ⁾	—	—	—	—	—	—
Mr. Dai ⁽ⁱⁱ⁾	—	924	644	14	29	1,611
Mr. Wu	—	891	641	24	100	1,656
Mr. Li	—	700	624	15	40	1,379
Mr. Chen	—	534	610	15	40	1,199
Non-Executive Director						
Mr. Ji Yue	—	—	—	—	—	—
Executive Vice President						
Mr. Wang ⁽ⁱⁱⁱ⁾	—	473	605	15	40	1,133

Year ended December 31, 2013:

Name	Fees	Salaries	Discretionary bonus	Pension costs - defined contribution plans	Other social security costs, housing benefits and other employee benefits	Total
	RMB'000	RMB'000		RMB'000	RMB'000	
Executive Directors						
Mr. Dai ⁽ⁱⁱ⁾	—	1,194	1,115	15	32	2,356
Mr. Wu	—	1,152	1,111	56	52	2,371
Mr. Li	—	922	1,090	17	35	2,064
Mr. Chen	—	750	1,075	17	35	1,877
Mr. Wang ⁽ⁱⁱⁱ⁾	—	678	1,068	17	35	1,798
Non-Executive Director						
Mr. Ji Yue	—	—	—	—	—	—

- (i) Ms. Dai was appointed as Executive Director of the Company on behalf of Mr. Dai on September 25, 2009. Ms. Dai resigned as an Executive Director of the Company with effect from April 12, 2012 and since then, her role as Executive Director was taken up by Mr. Dai.

- (ii) Mr. Dai was appointed as Executive Director of the Company on April 12, 2012, and his emoluments as disclosed above for the years ended December 31, 2011, 2012 and 2013 included the remunerations prior to his appointment as Executive Director.
- (iii) Mr. Wang was appointed as Executive Director of the Company on December 19, 2013, and his emoluments as disclosed above for the years ended December 31, 2011, 2012 and 2013 included the remunerations prior to his appointment as Executive Director.

(c) *Five highest paid individuals*

The 5 highest paid individuals include 3 and 4 directors and the executive vice president for each of the years ended December 31, 2011 and 2012, respectively. The 5 highest paid individuals include 4 directors for the year ended December 31, 2013. The emoluments paid and payable to the remaining 1, nil, and 1 individual for each of the years ended December 31, 2011, 2012 and 2013 are as follows:

	Year ended December 31,		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
Wages, salaries and discretionary bonuses	430	—	1,102
Pension costs — defined contribution plans	14	—	5
Other social security costs, housing benefits and other employee benefits	28	—	5
Share-based compensation expenses — Pre-IPO Share Option Scheme and Pre-IPO Restricted Share Unit Scheme	49	—	830
	<u>521</u>	<u>—</u>	<u>1,942</u>

- (d) During the Relevant Periods, neither directors, chief executive nor the highest paid individual received any emolument from the Group as an inducement to join, upon joining the Group as compensation for loss of office, and no arrangement under which a director, chief executive or the highest paid individual waived or agreed to waive any of the emoluments.

10 **Finance income and finance costs**

	Year ended December 31,		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
Finance income:			
— Interest income on short-term investments ⁽ⁱ⁾	121	1,763	1,608
— Interest income on bank deposits	569	992	6,048
	690	2,755	7,656
Finance costs:			
— interest expense	—	—	(17)
Finance income - net	<u>690</u>	<u>2,755</u>	<u>7,639</u>

- (i) Short-term investments consist of investments in RMB-denominated financial products with floating interest rates ranging from 3% to 4.8% per annum with a maturity period of 7 to 50 days offered by a financial institution in the PRC. The fair value of the financial products approximates the carrying amounts. The balances of short-term investment are nil as at December 31, 2011, 2012 and 2013.

11 Income tax expense

The income tax expense of the Group for the years ended December 31, 2011, 2012 and 2013 is analyzed as follows:

	Year ended December 31,		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
Current income tax			
— PRC corporate income tax	4,525	16,741	41,902
Deferred income tax (Note 31)	(1,480)	(3,257)	(3,114)
Income tax expense	<u>3,045</u>	<u>13,484</u>	<u>38,788</u>

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 December 31,		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
Profit before income tax	<u>5,751</u>	<u>19,774</u>	<u>18,569</u>
Tax calculated at income tax rates applicable to profits of the consolidated entities in their respective jurisdictions (Notes a, b, c) ...	3,453	13,763	37,734
Tax effects of:			
Tax losses for which no deferred income tax asset was recognized	7	4	790
Super deduction for research and development expenses (Note c)	(493)	(395)	(1,325)
Expenses not deducted for income tax purposes:			
— Share-based compensation	32	31	1,469
— Others	46	81	120
Income tax expense	<u>3,045</u>	<u>13,484</u>	<u>38,788</u>

The significant change in weighted average income tax rate amongst the years ended December 31, 2011, 2012 and 2013 was mainly attributable to the loss of the Company arising from change in fair value of the convertible redeemable preferred shares. As the Company is exempted from Cayman Islands income tax under the Companies Law of Cayman Islands, such fair value loss is not deductible for income tax purposes.

(a) Cayman Islands income tax

The Company is incorporated in 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 rate is 16.5% for the years ended December 31, 2011, 2012 and 2013. No Hong Kong profits tax has been provided for, as there was no business operation that was subject to profits tax during the Relevant Periods.

(c) PRC enterprise income tax ("EIT")

The income tax provision for Beijing Baitian and Guangzhou WFOE in respect of its operations in the PRC was calculated at the tax rate of 25% on the assessable profits for each of the Relevant Periods,

based on the existing legislation, interpretations and practices in respect thereof. However, no income tax was provided for Beijing Baitian and Guangzhou WFOE, as there was no estimated assessable profit that was subject to income tax during the Relevant Periods.

While the statutory income tax rate of Guangzhou Baitian is also 25%, it was however qualified as “High and New Technology Enterprise” (“HNTE”) in 2011 and is entitled to a preferential income tax rate of 15% on its estimated assessable profits for the years ended December 31, 2011, 2012 and 2013. Guangzhou Baitian will be subject to a reassessment of the HNTE qualification in 2014 in order to prolong the preferential income tax rate of 15% for another three years from 2014. The Company expects that Guangzhou Baitian will successfully prolong the HNTE qualification in 2014 and be entitled to the preferential income tax rate of 15%. Therefore, Guangzhou Baitian recognized deferred tax assets of Guangzhou Baitian as of December 31, 2013 based on the assumption that such deferred tax assets will be recovered by using an income tax rate of 15%.

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

(d) PRC withholding tax (“WHT”)

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after January 1, 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%.

During the Relevant Periods, the Group does not have any plan to require its PRC subsidiaries to distribute their retained earnings and intends to retain them to operate and expand its businesses in the PRC. Accordingly, no deferred income tax liability on WHT was accrued as at the end of each reporting period (Note 31).

12 Earnings/(loss) per share

(a) Basic

Basic earnings/(loss) per share is calculated by dividing the profit/loss attributable to the owners of the Company by the weighted average number of ordinary shares in issue during the year. In addition, the number of ordinary shares outstanding during each year of the Relevant Periods has also been adjusted retroactively for the proportional change in the number of ordinary shares outstanding as a result of the Share Splits described in Note 21 in the computation of the basic earnings/(loss) per share (with consequential effect on diluted earnings/(loss) per share) for the Relevant Periods.

	Year ended December 31,		
	2011	2012	2013
Profit/(loss) attributable to equity holders of the Company (RMB'000)	2,706	6,290	(20,219)
Weighted average number of ordinary shares in issue	1,576,000,000	1,576,000,000	1,576,000,000
Basic earnings/(loss) per share (in RMB/share)	<u>0.0017</u>	<u>0.0040</u>	<u>(0.0128)</u>

(b) Diluted

For the years ended December 31, 2011 and 2012, the Company has two categories of dilutive potential ordinary shares, the Pre-IPO Share Options and Series A-1 Preferred Shares.

For the year ended December 31, 2013, the Company has three categories of dilutive potential ordinary shares, the Pre-IPO Share Options, Series A-1 Preferred Shares and the Pre-IPO restricted share units.

For the purpose of calculating diluted earnings/(loss) per share for the years ended December 31, 2011, 2012 and 2013, the contingently issuable ordinary shares under the Pre-IPO Share Options are not assumed to be issuable as neither of the two conditions for the exercise of the options, namely the closing of an Initial Public Offering or a Change in Control Event (Note 23), has been met as of December 31, 2011, 2012 and 2013. Therefore the contingently issuable ordinary shares have not been included in the calculation of diluted earnings/(loss) per share for the years ended December 31, 2011, 2012 and 2013.

For the purpose of calculating diluted earnings/(loss) per share for the years ended December 31, 2011, 2012 and 2013, the Series A-1 Preferred Shares are assumed to have been converted into ordinary shares with a consequential increase in net profit attributable to ordinary shareholders for the years ended December 31, 2011, 2012 and a reduction in net loss attributable to ordinary shareholders for the year ended December 31, 2013 resulting from adding back the loss from the change in fair value of the Series A-1 Preferred Shares. This potential adjustment resulted in an anti-dilutive effect in the calculation of diluted earnings/(loss) per share for the years ended December 31, 2011, 2012 and 2013.

For the purpose of calculating diluted loss per share for the year ended December 31, 2013, the Pre-IPO restricted share units are assumed to have been converted into ordinary shares with no corresponding change in net loss attributable to ordinary shareholders. This potential adjustment resulted in an anti-dilutive effect in the calculation of diluted loss per share for the year ended December 31, 2013.

No adjustment has been made to basic earnings/(loss) per share to derive the diluted earnings/(loss) per share for the years ended December 31, 2011, 2012 and 2013.

13 Dividend

No dividend has been paid or declared by the companies now comprising of the Group for the years ended December 31, 2011, 2012 and 2013.

14 Property and equipment

	Servers	Office equipment	Motor vehicles	Leasehold improvements	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2011					
Cost	3,746	978	349	794	5,867
Accumulated depreciation	(1,115)	(253)	(41)	(92)	(1,501)
Net book amount	<u>2,631</u>	<u>725</u>	<u>308</u>	<u>702</u>	<u>4,366</u>
Year ended December 31, 2011					
Opening net book amount	2,631	725	308	702	4,366
Additions	3,515	770	—	2,204	6,489
Disposals	—	(3)	—	—	(3)
Depreciation charge	(1,776)	(440)	(69)	(1,304)	(3,589)
Closing net book amount	<u>4,370</u>	<u>1,052</u>	<u>239</u>	<u>1,602</u>	<u>7,263</u>
At December 31, 2011					
Cost	7,261	1,741	349	2,998	12,349
Accumulated depreciation	(2,891)	(689)	(110)	(1,396)	(5,086)
Net book amount	<u>4,370</u>	<u>1,052</u>	<u>239</u>	<u>1,602</u>	<u>7,263</u>
Year ended December 31, 2012					
Opening net book amount	4,370	1,052	239	1,602	7,263
Additions	5,287	677	—	844	6,808
Depreciation charge	(2,523)	(598)	(70)	(1,417)	(4,608)
Closing net book amount	<u>7,134</u>	<u>1,131</u>	<u>169</u>	<u>1,029</u>	<u>9,463</u>
At December 31, 2012					
Cost	12,548	2,418	349	3,842	19,157
Accumulated depreciation	(5,414)	(1,287)	(180)	(2,813)	(9,694)
Net book amount	<u>7,134</u>	<u>1,131</u>	<u>169</u>	<u>1,029</u>	<u>9,463</u>
Year ended December 31, 2013					
Opening net book amount	7,134	1,131	169	1,029	9,463
Additions	6,859	771	—	1,529	9,159
Depreciation charge	(3,968)	(711)	(70)	(767)	(5,516)
Closing net book amount	<u>10,025</u>	<u>1,191</u>	<u>99</u>	<u>1,791</u>	<u>13,106</u>
At December 31, 2013					
Cost	19,407	3,189	349	5,371	28,316
Accumulated depreciation	(9,382)	(1,998)	(250)	(3,580)	(15,210)
Net book amount	<u>10,025</u>	<u>1,191</u>	<u>99</u>	<u>1,791</u>	<u>13,106</u>

Depreciation charges of the amounts below were included in the following categories in the consolidated income statements:

	Year ended December 31,		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
Cost of revenue	2,763	3,817	4,716
Administrative expenses	335	512	309
Research and development expenses	473	256	473
Selling and marketing expenses	18	23	18
	<u>3,589</u>	<u>4,608</u>	<u>5,516</u>

15 Interests in subsidiaries and amount due from a subsidiary — Company

	As at December 31,		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
Interests in subsidiaries:			
— Investment in a subsidiary	9	9	9
— Interests arising from share-based compensation (Note a)	718	928	10,719
	<u>727</u>	<u>937</u>	<u>10,728</u>
Amount due from a subsidiary (Note b, Note 34)	<u>9,003</u>	<u>9,003</u>	<u>9,003</u>

Details of the subsidiaries of the Group are set out in Note 1(b) of Section II.

- (a) Deemed cost of investments arose from the share options and restricted share units granted to eligible employees of certain subsidiaries of the Group on certain grant dates, i.e, on June 20, 2010, October 19, 2010, January 15, 2011 and October 1, 2013 (Note 23), in exchange for their services provided to the respective subsidiaries.
- (b) The amount due from a subsidiary is interest-free, unsecured and receivable on demand.

16 Intangible assets

	<u>Computer software</u> RMB'000
At January 1, 2011	
Cost	45
Accumulated amortization	(13)
Net book amount	<u>32</u>
Year ended December 31, 2011	
Opening net book amount	32
Amortization charge	(9)
Closing net book amount	<u>23</u>
At December 31, 2011	
Cost	45
Accumulated amortization	(22)
Net book amount	<u>23</u>
Year ended December 31, 2012	
Opening net book amount	23
Additions	147
Amortization charge	(20)
Closing net book amount	<u>150</u>
At December 31, 2012	
Cost	192
Accumulated amortization	(42)
Net book amount	<u>150</u>
Year ended December 31, 2013	
Opening net book amount	150
Additions	114
Amortization charge	(47)
Closing net book amount	<u>217</u>
At December 31, 2013	
Cost	306
Accumulated amortization	(89)
Net book amount	<u>217</u>

Amortization charges were included in the following categories in the profit or loss:

	<u>Year ended December 31,</u>		
	<u>2011</u> RMB'000	<u>2012</u> RMB'000	<u>2013</u> RMB'000
Cost of revenue	7	18	45
Administrative expenses	2	2	2
	<u>9</u>	<u>20</u>	<u>47</u>

17 Financial instruments by category

<u>Group</u>	As at December 31,		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
Assets as per balance sheet			
Loans and receivables:			
— Trade receivables	2,694	3,370	3,855
— Other receivables (excluding prepayments and input VAT to be deducted)	546	417	7,688
— Restricted cash	—	—	10,000
— Short-term deposits	—	—	200,000
— Cash and cash equivalents	64,187	190,768	280,932
	<u>67,427</u>	<u>194,555</u>	<u>502,475</u>
Liabilities as per balance sheet			
Financial liabilities at amortized cost:			
— Trade payables	479	1,244	3,501
— Other payables and accruals (excluding other tax liabilities)	7,218	21,732	53,670
— Borrowing	—	—	6,137
Financial liabilities at fair value through profit or loss:			
— Convertible redeemable preferred shares	48,939	119,946	349,962
	<u>56,636</u>	<u>142,922</u>	<u>413,270</u>

<u>Company</u>	As at December 31,		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
Assets as per balance sheet			
Loans and receivables:			
— Amount due from a subsidiary	9,003	9,003	9,003
— Cash and cash equivalents	634	523	55
	<u>9,637</u>	<u>9,526</u>	<u>9,058</u>
Liabilities as per balance sheet			
Financial liabilities at amortized cost:			
— Other payables and accruals (excluding other tax liabilities)	660	660	14,433
Financial liabilities at fair value through profit or loss:			
— Convertible redeemable preferred shares	48,939	119,946	349,962
	<u>49,599</u>	<u>120,606</u>	<u>364,395</u>

18 Trade receivables

<u>Group</u>	As at December 31,		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
Receivables from third parties	2,694	3,370	3,855
Less: allowance for impairment	—	—	—
	<u>2,694</u>	<u>3,370</u>	<u>3,855</u>

As at December 31, 2011, 2012 and 2013 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 December 31,		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
0-30 days	231	638	3,713
31-60 days	—	—	142
91-180 days	2,463	2,732	—
	<u>2,694</u>	<u>3,370</u>	<u>3,855</u>

- (b) Advertising revenues of the Group are mainly generated on sales with credit terms determined on individual basis with normal credit periods of 30 to 90 days from the respective invoice dates. As at December 31, 2011, 2012 and 2013 all the outstanding past-due trade receivable balances were fully settled subsequently. These receivables are due from several online payment collection channels and advertising agencies with whom the Group had not experienced any recoverability difficulties. The ageing of these trade receivables is less than 180 days.
- (c) There was no allowance for impairment of trade receivables as at December 31, 2011, 2012 and 2013.
- (d) The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	As at December 31,		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
RMB	2,694	3,326	3,855
US\$	—	44	—
	<u>2,694</u>	<u>3,370</u>	<u>3,855</u>

- (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) Trade receivables mainly include receivables from third party advertising agencies. There was concentration risk in terms of receivables from advertising agencies as at December 31, 2011, 2012 and 2013. As summarized in the table below, the top advertising agency accounted for 84%, 81% and 57% of the total trade receivables as at December 31, 2011, 2012 and 2013.

	As at December 31,		
	2011	2012	2013
Advertising agency 1	84%	0%	0%
Advertising agency 2	0%	81%	57%

- (b) 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.
- (c) All cash in bank balances as of December 31, 2011, 2012 and 2013 were demand deposits in nature with effective interest rates per annum of approximately 1.3%, 1.1% and 1.2% as at December 31, 2011, 2012 and 2013, respectively.

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

<u>Group</u>	As at December 31,		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
RMB	63,123	189,785	484,571
US\$	1,056	975	6,358
HK\$	8	8	3
	<u>64,187</u>	<u>190,768</u>	<u>490,932</u>

<u>Company</u>	As at December 31,		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
US\$	630	519	53
HK\$	4	4	2
	<u>634</u>	<u>523</u>	<u>55</u>

21 Share capital

	Number of ordinary shares	Nominal value of ordinary shares
		US\$
Authorized:		
As at January 1, 2011, December 31, 2011 and 2012	497,743,590	49,774
Increase due to share split (Note d)	99,050,974,410	—
As at December 31, 2013	<u>99,548,718,000</u>	<u>49,774</u>

	Number of shares	Nominal value of shares	Equivalent nominal value of shares
		US\$'000	RMB'000
Issued:			
As at January 1, 2011, December 31, 2011 and 2012			
2012	7,880,000	1	5
Increase due to share split (Note d)	1,568,120,000	—	—
As at December 31, 2013	<u>1,576,000,000</u>	<u>1</u>	<u>5</u>

- (a) The Company was incorporated on September 25, 2009 with an authorized share capital of US\$50,000 divided into 50,000,000 ordinary shares of US\$0.001 each. On the same date, 10,000 ordinary shares of US\$0.001 each were issued, totaling US\$10 (equivalent to approximately RMB68), to the Founder Companies and KS Global Holding Limited. In December 2009, all issued ordinary shares had been fully paid by the Founders.
- (b) On November 9, 2009, 778,000 ordinary shares of US\$0.001 each were issued, totaling US\$778 (equivalent to approximately RMB5,000), to the Founder Companies and KS Global Holding Limited. In November 2009, all issued ordinary shares were fully paid by the Founders.
- (c) On March 31, 2010, the Board of Directors of the Company approved a share split of the Company's shares at a ratio of 1 to 10. Immediately after this split, the Company re-designated authorized share capital into 497,743,590 ordinary shares of par value of US\$0.0001 each and 2,256,410 preferred shares of par value of US\$0.0001 each.
- (d) On August 20, 2013, the Board of Directors of the Company approved a share split (the "2013 Share Split") of the Company's shares at a ratio of 1 to 200. Immediately after this split, the Company re-designated authorized share capital into 99,548,718,000 ordinary shares of par value of US\$0.0000005 each and 451,282,000 preferred shares of par value of US\$0.0000005 each.

22 Reserves

<u>Group</u>	<u>Other reserves</u>	<u>Statutory reserves</u>	<u>Share-based compensation reserve</u>	<u>Total</u>
	<u>RMB'000</u> (Note a)	<u>RMB'000</u> (Note b)	<u>RMB'000</u> (Note 23)	<u>RMB'000</u>
At January 1, 2011	10,010	—	504	10,514
Pre-IPO Share Option Scheme	—	—	214	214
Appropriation to statutory reserves	—	2,294	—	2,294
At December 31, 2011	<u>10,010</u>	<u>2,294</u>	<u>718</u>	<u>13,022</u>
At January 1, 2012	10,010	2,294	718	13,022
Pre-IPO Share Option Scheme	—	—	210	210
Appropriation to statutory reserves	—	2,711	—	2,711
At December 31, 2012	<u>10,010</u>	<u>5,005</u>	<u>928</u>	<u>15,943</u>
At January 1, 2013	10,010	5,005	928	15,943
Pre-IPO Share Option Scheme	—	—	237	237
Pre-IPO Restricted Share Unit Scheme	—	—	9,554	9,554
At December 31, 2013	<u>10,010</u>	<u>5,005</u>	<u>10,719</u>	<u>25,734</u>

<u>Company</u>	<u>Share-based compensation reserve</u>	<u>Total</u>
	<u>RMB'000</u> (Note 23)	<u>RMB'000</u>
At January 1, 2011	504	504
Pre-IPO Share Option Scheme	214	214
At December 31, 2011	<u>718</u>	<u>718</u>
At January 1, 2012	718	718
Pre-IPO Share Option Scheme	210	210
At December 31, 2012	<u>928</u>	<u>928</u>
At January 1, 2013	928	928
Pre-IPO Share Option Scheme	237	237
Pre-IPO Restricted Share Unit Scheme	9,554	9,554
At December 31, 2013	<u>10,719</u>	<u>10,719</u>

- (a) Other reserves represent capital contribution injected by the Founders into Guangzhou Baitian upon its establishment.
- (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 needs not be made.

23 Share-based payments — Group and Company

(a) Pre-IPO Share Option Scheme

On June 18, 2010, the Board of Directors 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 SAFE regulations with respect to his or her holding of the Options or any Ordinary Shares.

Under this Pre-IPO Share Option Scheme, Initial Public Offering and Change in Control Event shall have the meaning as follows:

- (i) Initial Public Offering (“Initial Public Offering”) means the first firm commitment underwritten public offering of the Ordinary Shares of the Company on a recognized national or regional securities exchange.
- (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 share options
At January 1, 2011	1.20	159,450
Granted	1.80	5,000
Forfeited	1.19	(7,100)
At December 31, 2011	1.22	<u>157,350</u>
At January 1, 2012	1.22	157,350
Forfeited	1.60	(11,100)
At December 31, 2012	1.19	<u>146,250</u>
At January 1, 2013	1.19	146,250
2013 Share Split		29,103,750
Forfeited	0.009	(450,000)
At December 31, 2013	0.006	<u>28,800,000</u>

Following the 2013 Share Split, the number of outstanding shares under the option and exercise price was proportionately adjusted accordingly.

As at December 31, 2013, no share options were exercisable as the performance conditions have not been met.

As at December 31, 2013, options granted over 19,840,000, 7,960,000 and 1,000,000 shares will expire in 2020, 2020 and 2021 with exercise price of US\$0.0045, 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. Key assumptions, such as the discount rate and projections of future performance, are required to be determined by the directors with best estimates. The discount rate adopted was estimated by weighted average cost of capital, which is 33.10%, 32.20% and 32.20% as at the respective grant dates.

Based on the fair value of the underlying ordinary shares, the directors have used Binomial option-pricing model to determine the fair value of the share options as at the grant date. The weighted average fair value of options granted was US\$1.11 (approximately equivalent to RMB7.00) per option over one share. Key assumptions are set as below:

	<u>June 20, 2010</u>	<u>October 19, 2010</u>	<u>January 15, 2011</u>
Risk-free interest rate	3.299%	2.573%	3.391%
Volatility	65.0%	62.8%	61.5%
Dividend yield	0%	0%	0%

The directors estimated the risk-free interest rate based on the yield of US Treasury Strips with a maturity life equal to the life of the share option. Volatility was estimated at the respective grant dates based on the average of historical volatilities of comparable companies with a length commensurable to the time to maturity of the share option. Dividend yield is based on management estimation at the respective grant dates.

The total expense recognized in the consolidated income statements for share options granted to employees is disclosed in Note 9 and the corresponding effect on reserves is disclosed in Note 22.

(b) Pre-IPO Restricted Share Unit Scheme

On September 30, 2013, the Board of Directors of the Company resolved and adopted the Pre-IPO Restricted Share Unit 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 restricted share units under the Pre-IPO Restricted Share Unit Scheme shall not exceed 188,733,600 ordinary shares.

The Board of Directors of the Company or the compensation committee of the Board of Directors of the Company (the "Compensation Committee") has the sole discretion to determine the vesting schedule and vesting criteria (if any) for any grant of restricted share units to any grantees.

On October 1, 2013, the Company granted 115,364,000 restricted share units to certain employees and one restricted share unit can be converted into one ordinary share upon vesting. These restricted share units shall be vested pursuant to the schedule below: 1) 20% on the first anniversary of the grant date, 2) 20% on the second anniversary of the grant date, and 3) 7.5% over eight three-month periods starting at the end of the first three-month period after the second anniversary of the grant date.

Movements in the number of restricted share units outstanding are as follows:

	<u>Number of restricted share units</u>
At January 1, 2013	—
Granted	115,364,000
Forfeited	(288,000)
At December 31, 2013	<u>115,076,000</u>

The directors have 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 restricted share units as at the grant date. Key assumptions are set as below:

	<u>October 1, 2013</u>
Discount rate	27.30%
Risk-free interest rate	0.23%
Volatility	44.80%
Dividend yield	0%

The total expense recognized in the consolidated income statements for restricted share units granted to employees is disclosed in Note 9 and the corresponding effect on reserves is disclosed in Note 22.

24 Accumulated losses — Company

	RMB'000
Balance at January 1, 2011	(22,678)
Loss for the year	<u>(17,280)</u>
Balance at December 31, 2011	(39,958)
Loss for the year	<u>(71,113)</u>
Balance at December 31, 2012	(111,071)
Loss for the year	<u>(240,596)</u>
Balance at December 31, 2013	<u><u>(351,667)</u></u>

25 Advance from government grant

The balance represented advance received from government in relation to a government grant. Certain conditions are required to fulfill before the Group is entitled to the grant. Since some of the attached conditions are related to certain key performance indicators of full year 2013, therefore, as at December 31, 2011 and 2012, the Group was uncertain whether all attached conditions related to full year 2013 can be met and accordingly, the cash received was recorded as advance from government grant. As at December 31, 2013, all attached conditions were met and the Group recognized such advance from government grant as other income accordingly.

26 Advances from customers and deferred revenue

As of December 31, 2011, 2012 and 2013, advances from customers 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 deferred revenue balances are analyzed in the table below.

	As at December 31,		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
Included in non-current liabilities			
Membership subscription (Note b)	110	537	2,003
Virtual worlds/web games (Note a)	—	—	80
	<u>110</u>	<u>537</u>	<u>2,083</u>
Included in current liabilities			
Advances from customers	16,235	37,566	73,161
Membership subscription	4,430	11,395	31,728
Virtual worlds/web games (Note a)	10,268	20,538	26,139
	<u>30,933</u>	<u>69,499</u>	<u>131,028</u>
	<u><u>31,043</u></u>	<u><u>70,036</u></u>	<u><u>133,111</u></u>

- (a) Deferred revenue of virtual worlds/web games primarily consists of the unamortized durable in-game virtual items, where the Group continues to have obligations as described in Note 2.22 and online virtual world tokens held by Paying Players which have not yet been used to purchase in-game virtual items, as at December 31, 2011, 2012 and 2013. Deferred game revenue will be recognized as revenue when all of the revenue recognition criteria are met.
- (b) As at December 31, 2011, 2012 and 2013, deferred revenue included in non-current liabilities was expected to be realized in one to two years commencing from the end of each report period.

27 Trade payables

Trade payables primarily relate to the purchase of services for server custody, outsourcing game development 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 December 31,		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
0-30 days	479	1,244	2,606
31-60 days	—	—	886
61-180 days	—	—	2
181-365 days	—	—	7
	<u>479</u>	<u>1,244</u>	<u>3,501</u>

- (a) As at December 31, 2011, 2012 and 2013, trade payables were denominated in RMB and their fair value approximated their carrying amounts.

28 Other payables and accruals**Group**

	As at December 31,		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
Staff costs and welfare accruals	6,745	18,022	36,862
Commission payable to distributors	359	2,981	5,941
Professional service fees payable	—	504	10,658
Other tax liabilities (Note c)	1,178	980	1,508
Due to related parties (Note 34(b))	5	5	5
Others	109	220	204
	<u>8,396</u>	<u>22,712</u>	<u>55,178</u>

- (a) Other payables and accruals are denominated in the following currencies:

	As at December 31,		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
RMB	8,321	22,637	45,845
HK\$	5	5	673
US\$	70	70	8,660
	<u>8,396</u>	<u>22,712</u>	<u>55,178</u>

- (b) As at December 31, 2011, 2012 and 2013, the fair value of other payables and accruals approximated their carrying amounts.

- (c) The balances represent liabilities relating to business tax and other related taxes in the PRC.

Company

	As at December 31,		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
Professional service fees payable	—	—	10,547
Due to related parties (Note 34(b))	608	608	3,834
Others	52	52	52
	<u>660</u>	<u>660</u>	<u>14,433</u>

**29 Borrowing
Group**

	As at December 31,		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
Bank borrowing	—	—	6,137

- (a) The Group's bank borrowing was denominated in US\$. As at December 31, 2013, the entire Group's bank borrowing was repayable within one year and the annual interest rate is 2.10%.
- (b) As at December 31, 2013, the fair value of borrowing approximated its carrying amounts.

30 Convertible redeemable preferred shares

On March 31, 2010, pursuant to a share purchase agreement, the Company issued 2,000,000 Series A-1 Preferred Shares (following the 2013 Share Split, the number of Series A-1 Preferred Shares was adjusted to 400,000,000) at a price of US\$1.625 per share for an aggregate consideration of US\$3,250,000 (equivalent to approximately RMB22,185,000), to an institutional investor. The par value of the preferred shares is US\$0.0001 each (following the 2013 Share Split, the par value of preferred shares was adjusted to US\$0.0000005 each). The rights, preference and privileges of the Series A Preferred Shares (comprising Series A-1 and Series A-2) are as follows:

(a) Option to issue Series A-2 Preferred Shares

Pursuant to the share purchase agreement, the Company had the right to request the institutional investor to purchase from the Company 256,410 Series A-2 preferred shares, at a price of US\$2.925 per share for an aggregate consideration of US\$750,000. The right expires upon the earlier of (i) the first anniversary of the closing date of Series A-1 Preferred Shares or (ii) the closing of the Company's next round of equity financing following the closing date of Series A-1 preferred shares. Such option expired by March 31, 2011.

The right was accounted for as a derivative financial asset at fair value through profit or loss until it expired upon the first anniversary of the closing date of Series A-1 Preferred Shares. The closing date of Series A-1 Preferred Shares was March 31, 2010, when the sale and purchase of Series A-1 Preferred Shares was consummated. Upon expiry of the option, the related derivative financial asset was derecognized.

(b) Dividends

The holders of Series A-1 Preferred Shares will be entitled to receive in preference to the holders of the ordinary shares a non-cumulative dividend per share per annum equal to 5% of the issue price of the Series A-1 Preferred Shares when it is declared by the Board of Directors.

The holders of Series A-1 Preferred Shares would also be entitled to receive participating dividends if declared as if each outstanding Series A-1 Preferred Share had been converted into an ordinary share prior to the record date for dividend or distribution.

(c) Liquidation

In the event of any liquidation, dissolution or winding up of the Company, the licensing of all or substantially all of any Group's intellectual property to a third party or a sale, transfer, lease or other

disposition of all or substantially all of the assets of the Group, the holders of Series A-1 Preferred Shares will be entitled to receive in preference to the holders of other classes of shares of the Company, a liquidation preference per share equal to 100% of the issue price of the Series A-1 Preferred Shares, plus any declared but unpaid dividends on such Series A-1 Preferred Shares.

(d) Redemption

At any time after the fifth anniversary of the issuance date of the Series A-1 Preferred Shares or upon the occurrence of any deemed liquidation events defined in the Memorandum of Association, the Series A-1 Preferred Shares holders have a right to require the Company to redeem all outstanding Series A-1 Preferred Shares at a price equal to 100% of the issuance price plus any declared but unpaid dividends, on such Series A-1 Preferred Shares.

(e) Conversion

Each Series A-1 Preferred Share is convertible, at the option of the holders, at any time after the date of issuance of such preferred share into such number of fully paid ordinary shares of the Company according to a conversion price. The conversion price is initially set to be the issue price of Series A-1 Preferred Shares, resulting in an initial conversion ratio of 1 to 1, and is subject to adjustments for certain events, including but not limited to share split and combination, ordinary share dividend and distribution, other dividend, reorganization, merger, consolidation, reclassification, exchanges, or substitution. The conversion price is also subject to anti-dilution adjustment in the event the Company issues new ordinary shares at a price per share that is less than such conversion price. In such case, the conversion price shall be reduced to adjust for dilution. Because this adjustment can be made even if the ordinary shares are issued at the prevailing market price, it does not preserve the relative economic interests of the convertible redeemable preferred share holders and ordinary share holders and consequently, the adjustment breaches the "fixed-for-fixed" requirements for the conversion option to be classified as an equity instrument.

Each Series A-1 Preferred Share is automatically converted into ordinary shares of the Company at the then effective conversion price upon the earlier of (i) the closing date of a qualified initial public offering (the "Qualified IPO"), or (ii) the date of election by a majority (at least 60%) of Series A-1 Preferred Shares holders. A Qualified IPO means the first underwritten public offering of the ordinary shares of the Company on the New York Stock Exchange or the Nasdaq National Market System made pursuant to an effective registration statement under United States Securities Act of 1933 (the "Securities Act"), as amended, or the Hong Kong Stock Exchange, or an offering or listing substantially equivalent to the foregoing on another stock exchange at a public offering price (prior to customary underwriters' discounts and commissions) that values the Company at least US\$300,000,000 immediately prior to the closing of such offering and which will bring gross proceeds to the Company, before deduction of underwriting discounts and registration expenses, of at least US\$30,000,000, or such public offering of the Ordinary Shares of the Company otherwise approved by the Board of the Directors, including the affirmative vote of the Series A Director (which approval may, for the avoidance of doubt, be conditioned upon such public offering being completed within a time period specified in such approval).

Upon conversion, all declared but unpaid share dividends on the Series A-1 Preferred Shares shall be paid in shares and all declared but unpaid cash dividends on the Series A-1 Preferred Shares shall be paid either in cash or by the issuance of further ordinary shares, at the option of the holders of the Series A-1 Preferred Shares.

Upon conversion, all preferred rights such holders are entitled to shall lapse and such holders will thereafter hold rights equivalent to ordinary shareholders.

(f) Voting rights

Each Series A-1 Preferred Share conveys the right to its holder of one vote for each ordinary share upon conversion.

As they can be redeemed at the holders' option, the convertible redeemable preferred shares are classified as financial liabilities. The convertible redeemable preferred shares are denominated in US\$ which is not the functional currency of the Company. Consequently, the conversion option cannot be classified as an equity instrument as it will not be settled by exchanging a fixed amount of cash in the Company's functional currency for a fixed number of the Company's ordinary shares. Accordingly, the conversion option is accounted for as a derivative. The convertible redeemable preferred shares, therefore, comprise a derivative component, a liability component and an equity component for the discretionary dividends.

The Group has designated the derivative and liability components as a financial liability at fair value through profit or loss. The equity component recognized within equity was nil upon initial recognition and is not remeasured.

The movement of the option to issue Series A-2 Preferred Shares is set out as below:

	RMB'000
At January 1, 2011	550
Currency translation differences	(14)
Expired	<u>(536)</u>
At December 31, 2011 and 2012 and 2013	<u>—</u>

The movement of the Series A-1 Preferred Shares is set out as below:

	RMB'000
At January 1, 2011	32,286
Changes in fair value	18,688
Currency translation differences	<u>(2,035)</u>
At December 31, 2011	<u>48,939</u>
Change in unrealized losses for the year included in profit or loss for liabilities held at the year end	<u>18,688</u>
At January 1, 2012	48,939
Changes in fair value	71,214
Currency translation differences	<u>(207)</u>
At December 31, 2012	<u>119,946</u>
Change in unrealized losses for the year included in profit or loss for liabilities held at the year end	<u>71,214</u>
	RMB'000
At January 1, 2013	119,946
Changes in fair value	237,228
Currency translation differences	<u>(7,212)</u>
At December 31, 2013	<u>349,962</u>
Change in unrealized losses for the period included in profit or loss for liabilities held at the period end	<u>237,228</u>

The directors have 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 Series A-1 Preferred Shares as at the date of issuance and at each of the reporting dates. Key assumptions are set as below:

	<u>March 31, 2010</u>	<u>December 31, 2011</u>	<u>December 31, 2012</u>	<u>December 31, 2013</u>
Discount rate	33.10%	31.10%	29.50%	20.80%
Risk-free interest rate	2.57%	0.46%	0.38%	0.22%
Volatility	58.70%	52.50%	50.10%	45.70%
Dividend yield	0%	0%	0%	0%

The discount rate was estimated by weighted average cost of capital as at each appraisal date. The directors estimated the risk-free interest rate based on the yield of US Treasury Strips with a maturity life equal to the period from the respective appraisal dates to the expected liquidation date. Volatility was estimated at the dates of appraisal based on the average of historical volatilities of comparable companies in the same industry for a period from the respective appraisal dates to the expected liquidation date. In addition to the assumptions adopted above, the Company's projections of future performance were also factored into the determination of the fair value of Series A-1 Preferred Shares on each appraisal date.

Changes in fair value of Series A-1 Preferred Shares were recorded in "fair value loss of convertible redeemable preferred shares".

31 Deferred income tax assets

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

	<u>As at December 31,</u>		
	<u>2011</u>	<u>2012</u>	<u>2013</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Deferred income tax assets:			
— to be recovered after 12 months	17	81	312
— to be recovered within 12 months	<u>2,722</u>	<u>5,915</u>	<u>8,798</u>
Deferred income tax assets	<u><u>2,739</u></u>	<u><u>5,996</u></u>	<u><u>9,110</u></u>

The movements of deferred income tax assets are as follows:

	<u>Year ended December 31,</u>		
	<u>2011</u>	<u>2012</u>	<u>2013</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
At beginning of the year	1,259	2,739	5,996
Recognized in the profit or loss	<u>1,480</u>	<u>3,257</u>	<u>3,114</u>
At end of the year	<u><u>2,739</u></u>	<u><u>5,996</u></u>	<u><u>9,110</u></u>

The movements in deferred income tax assets, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

	Deferred revenue	Advance from government grant	Accruals	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2011	908	60	291	—	1,259
Recognized in the profit or loss	594	165	721	—	1,480
At December 31, 2011	1,502	225	1,012	—	2,739
Recognized in the profit or loss	1,304	—	1,684	269	3,257
At December 31, 2012	2,806	225	2,696	269	5,996
Recognized in the profit or loss	581	(225)	3,027	(269)	3,114
At December 31, 2013	3,387	—	5,723	—	9,110

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 RMB7,000, RMB4,000 and RMB104,000 in respect of losses amounting to RMB39,000, RMB17,000 and RMB623,000 that can be carried forward against future taxable income for the years ended December 31, 2011, 2012 and 2013, respectively, as it is uncertain that future taxable income will be available against which the tax losses can be utilized. Tax losses amounting to RMB10,000, RMB11,000 and RMB18,000 will be expired in 2015, 2016 and 2017, respectively. The remaining tax losses are of no expiry date.

As at December 31, 2011, 2012 and 2013, no deferred income tax liability had been provided for the PRC withholding tax that would be payable on the unremitted earnings of approximately RMB11,722,000, RMB86,431,000 and RMB307,431,000, respectively. Such earnings are expected to be retained by the PRC subsidiaries and not to be remitted to a foreign investor in the foreseeable future based on management's estimation of overseas funding requirements.

32 Cash generated from operations

	Year ended December 31,		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
Profit/(loss) after income tax	2,706	6,290	(20,219)
Adjustments for:			
— Income tax expense (Note 11)	3,045	13,484	38,788
— Depreciation of property and equipment (Note 14)	3,589	4,608	5,516
— Amortization of intangible assets (Note 16)	9	20	47
— Loss on disposal of property and equipment (Note 8)	3	—	—
— Share-based compensation expenses (Note 9)	214	210	9,791
— Finance income—net (Note 10)	(690)	(2,755)	(7,639)
— Fair value loss on derivative financial instruments (Note 30)	536	—	—
— Fair value loss of convertible redeemable preferred shares (Note 30)	18,688	71,214	237,228
— Exchange gains (Note 8)	(1,967)	(194)	(7,159)
Changes in working capital:			
— Trade receivables	(1,725)	(676)	(485)
— Prepayments and other receivables	(711)	1,507	(8,165)
— Trade payables	(100)	765	2,257
— Other payables and accruals	5,794	14,316	29,860
— Advances from customers	5,865	21,331	35,595
— Advance from government grant	1,100	—	(1,500)
— Deferred revenue	6,592	17,662	27,480
Cash generated from operations	<u>42,948</u>	<u>147,782</u>	<u>341,395</u>

33 Commitments

(a) Capital commitments

As at December 31, 2011, 2012 and 2013, there was no significant capital expenditure contracted but not provided for.

There was no significant capital expenditure authorized but not contracted for as at December 31, 2011, 2012 and 2013.

(b) Operating lease commitments

The Group leases buildings for daily operations under non-cancellable operating leases. The lease expenditure charged to the profit or loss during the Relevant Periods is disclosed in Note 6.

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

	As at December 31,		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
Not later than 1 year	2,474	4,676	9,572
Later than 1 year and not later than 5 years	858	4,275	1,653
	<u>3,332</u>	<u>8,951</u>	<u>11,225</u>

34 Significant related party transactions**Group****(a) Names and relationships with related parties**

The following individuals are related parties of the Group that had balances and/or transactions with the Group during the Relevant Periods:

<u>Name</u>	<u>Relationship</u>
Mr. Dai	Chairman
Mr. Wu	Chief Executive Officer (“CEO”)

(b) Amounts due from and due to related parties**(i) Receivables arising from operations**

<u>Names of related parties</u>	<u>At beginning of year</u>	<u>At end of year</u>	<u>Maximum outstanding during the year</u>
	RMB'000	RMB'000	RMB'000
Year ended December 31, 2011			
— Mr. Dai	—	24	24
— Mr. Wu	5	—	5
Year ended December 31, 2012			
— Mr. Dai	24	—	24

(ii) Payable arising from operations

<u>Name of related party</u>	<u>As at December 31,</u>		
	<u>2011</u>	<u>2012</u>	<u>2013</u>
	RMB'000	RMB'000	RMB'000
— Mr. Wu (*)	5	5	5

These balances mainly arose from advances from/to these shareholders for the Group's business operations.

Amounts due from/to related parties are unsecured, interest-free and have no fixed terms of repayment.

*Payable to Mr. Wu as at December 31, 2013 was settled in February 2014.

(c) Key management personnel compensations

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

	<u>Year ended December 31,</u>		
	<u>2011</u>	<u>2012</u>	<u>2013</u>
	RMB'000	RMB'000	RMB'000
Wages, salaries and bonuses	3,764	6,646	11,256
Pension costs — defined contribution plans	63	83	127
Other social security costs, housing benefits and other employee benefits	198	249	195
Share-based compensation expenses	—	—	830
	<u>4,025</u>	<u>6,978</u>	<u>12,408</u>

*Company***(a) Names and relationship with related party**

The following companies and individual are the related parties of the Company which had balances and/or transactions with the Company during the Relevant Periods.

<u>Name</u>	<u>Relationship</u>
Baitian Hong Kong	Subsidiary of the Company
Guangzhou Baitian	Subsidiary of the Company
Mr. Wu	CEO

(b) Amounts due from and due to related parties**(i) Receivable**

<u>Name of related party</u>	<u>As at December 31,</u>		
	<u>2011</u> <u>RMB'000</u>	<u>2012</u> <u>RMB'000</u>	<u>2013</u> <u>RMB'000</u>
— Baitian Hong Kong	9,003	9,003	9,003

(ii) Payables

<u>Names of related parties</u>	<u>As at December 31,</u>		
	<u>2011</u> <u>RMB'000</u>	<u>2012</u> <u>RMB'000</u>	<u>2013</u> <u>RMB'000</u>
— Guangzhou Baitian	607	607	3,223
— Baitian Hong Kong	—	—	610
— Mr. Wu (*)	1	1	1

Amounts due from/to related parties are interest-free, unsecured and receivable/payable on demand.

*Payable to Mr. Wu as at December 31, 2013 was settled in February 2014.

35 Contingencies

The Group did not have any material contingent liabilities as at December 31, 2011, 2012 and 2013.

36 Subsequent events

Except as disclosed elsewhere in this report, subsequent to December 31, 2013, the following events have taken place or will take place:

- On February 18, 2014, the Group granted 26,640,000 restricted share units under the Pre-IPO Restricted Share Unit Scheme to certain eligible employees. The fair value of these restricted share units as of the grant date was being assessed as of the date of this report.
- On March 18, 2014, the shareholders of the Company conditionally resolved to adopt the Post-IPO Restricted Share Unit Scheme. The maximum aggregate number of Shares which may be issued pursuant to the Post-IPO Restricted Share Units Scheme will not exceed 56,488,440 shares.
- On March 18, 2014 the shareholders of the Company resolved to declare a special dividend of US\$25 million payable after the Global Offering to the Pre-IPO shareholders, contingent on the

Company having available share premium and/or distributable reserves subsequent to the Global Offering.

- (d) On March 21, 2014, the Group granted 600,000 restricted share units under the Pre-IPO Restricted Share Units Scheme to our Independent Non-Executive Directors. The fair value of these restricted share units as of the grant date was being assessed as of the date of this report.
- (e) Upon the completion of the Global Offering, all Series A-1 Preferred Shares will be automatically converted into ordinary shares of the Company on a 1:1 basis.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to December 31, 2013 and up to the date of this report. Save as disclosed in elsewhere in this report, no dividend or distribution has been declared or made by the Company or any of the companies comprising the Group in respect of any period subsequent to December 31, 2013.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong