BAIOO Family Interactive Limited
百 奧 家 庭 互 動 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2100)

2014 INTERIM RESULTS ANNOUNCEMENT

The board of directors (the "**Board**") of BAIOO Family Interactive Limited ("**BAIOO**" or the "**Company**") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2014.

Financial Summary

INCOME STATEMENT HIGHLIGHT

	Unaudited		
	Six months ended 30 June		Period-on-period
	2014	2013	change
	RMB'000	*RMB'000*	*%*
Revenue	**287,770**	213,219	35.0%
Gross profit	**208,390**	168,377	23.8%
Operating profit	**135,604**	133,584	1.5%
Non-IFRSs Measures			
— Adjusted Net Profit[(1)]	**140,594**	116,472	20.7%
— Adjusted EBITDA[(2)]	**160,508**	136,303	17.8%

Note:

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

(2) We define adjusted EBITDA as adjusted net profit less finance income (net), and plus income tax, depreciation of fixed assets and amortization of intangible assets.

BALANCE SHEET HIGHLIGHT

	Unaudited As of 30 June 2014 *RMB'000*	Audited As of 31 December 2013 *RMB'000*
Assets		
Non-current assets	**55,794**	37,860
Current assets	**1,602,075**	496,803
Total assets	**1,657,869**	534,663
Equity and liabilities		
Total equity/(deficits)	**1,441,633**	(19,430)
Non-current liabilities	**4,589**	352,045
Current liabilities	**211,647**	202,048
Total liabilities	**216,236**	554,093
Total equity/(deficits) and liabilities	**1,657,869**	534,663

Management Discussion and Analysis

BUSINESS OVERVIEW

In 2013, we continued to grow at a rapid rate and lead the market for children's online entertainment. We were the number one children's web game developer in China in 2013, with over 40% market share in terms of children's web game spending. We continued to develop our products and services, including releasing new episodes containing new games and activities and storyline updates each week for each virtual world to provide users with a continuous and engaging experience. In the first quarter of 2014, we launched the mobile version of Quanquan and continued to optimize and update both the mobile and web version of WenTa.

In addition, our Company was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 10 April 2014, marking a milestone for our Group in improving our capital strength and corporate governance, as well as enhancing our competitive edge, which laid a solid foundation for our Group's future development.

OUTLOOK FOR 2014

In July 2014, we commercially launched a new virtual world, Magic Fighter, an action-based fantasy adventure targeting the 12–14 year old age group, for personal computers ahead of planned September release date to capture the summer season. While we continue to focus and lead the pre-teenage children's entertainment market, we also plan to explore launching new products into the lucrative young teenager market aged between 14–16. In the second half of 2014, we will continue our efforts to provide enjoyable entertainment and educational content to families around the world. In the fourth quarter of 2014, we plan to explore into a new genre of entertainment product targeting the young teenager market characterized by higher user stickiness and revenue per user.

OPERATION INFORMATION

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

	Six months ended		
	30 June 2014	30 June 2013	period-on-period change
	(QAA & QPA in millions, ARQPA in RMB)		
average QAA	**56.2**	54.5	3.1%
average QPA	**3.3**	2.8	17.9%
average quarterly ARQPA	**41.9**	36.4	15.1%

Note:

As of 30 June 2014, our online virtual worlds include Aobi Island, Aola Star, Dragon Knights, Light of Aoya, Legend of Aoqi, Clashes of Aoqi.

The average QAA for our online virtual worlds was approximately 56.2 million for the six months ended 30 June 2014, representing an increase of approximately 3.1% compared to the same period last year.

The average QPA for our online virtual worlds was approximately 3.3 million for the six months ended 30 June 2014, representing an increase of approximately 17.9% compared to the same period last year as a result of the increasing popularity of our online virtual worlds.

The average quarterly ARQPA for our online virtual worlds was approximately RMB41.9 for the six months ended 30 June 2014, representing an increase of approximately 15.1% compared to the same period last year due to the increased monetization rate of our virtual worlds resulting from their continuously increased popularity.

OVERALL BUSINESS AND FINANCIAL PERFORMANCE

SIX MONTHS ENDED 30 JUNE 2014

The following table sets forth our consolidated statements of comprehensive income for the six months ended 30 June 2014 and 2013:

	Unaudited Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
Revenue	**287,770**	213,219
Online business	**286,078**	211,034
Other businesses	**1,692**	2,185
Cost of revenue	**(79,380)**	(44,842)
Gross profit	**208,390**	168,377
Selling and marketing expenses	**(31,362)**	(21,817)
Administrative expenses	**(31,976)**	(7,506)
Research and development expenses	**(12,725)**	(8,502)
Other gains — net	**3,277**	3,032
Operating profit	**135,604**	133,584
Finance income — net	**8,467**	2,901
Fair value loss of convertible redeemable preferred shares	**(327,749)**	(118,441)
(Loss)/profit before income tax	**(183,678)**	18,044
Income tax expense	**(24,583)**	(20,116)
Loss for the period	**(208,261)**	(2,072)
Total comprehensive loss for the period	**(208,261)**	(2,072)
Other financial data		
Adjusted net profit[1]	**140,594**	116,472
Adjusted EBITDA[2]	**160,508**	136,303

Note:

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

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

Revenue

Our revenue for the six months ended 30 June 2014 was RMB287.8 million, representing a 35.0% increase from RMB213.2 million for the six months ended 30 June 2013.

Online Business: Our online business revenue for the six months ended 30 June 2014 was RMB286.1 million, a 35.6% increase from RMB211.0 million for the six months ended 30 June 2013. This was primarily due to the revenue growth of our existing major titles such as Legend of Aoqi and Aola Star. Average quarterly ARQPA increased from RMB36.4 for the six months ended 30 June 2013 to RMB41.9 for the corresponding period in 2014. The increase in average quarterly ARQPA was due to the increased monetization rate of our virtual worlds resulting from their continued increase in popularity.

Other Business: Our other businesses revenue for the six months ended 30 June 2014 was RMB1.7 million, a 22.7% decrease from RMB2.2 million for the six months ended 30 June 2013, primarily due to a decrease in in-game advertising revenue as in-game advertising is not one of our strategic focus.

Cost of Revenue

Our cost of revenue for the six months ended 30 June 2014 was RMB79.4 million, an 77.2% increase from RMB44.8 million for the six months ended 30 June 2013. This was primarily driven by (i) an RMB28.4 million increase in employee benefit expenses as a result of (a) increased operations headcount from 312 as of 30 June 2013 to 427 as of 30 June 2014, (b) higher employee salaries and (c) an RMB10 million increase in share-based compensation expenses for operations personnel, and (ii) an RMB2.1 million increase in server custody and bandwidth costs as well as (iii) an RMB0.9 million increase in operating lease rentals in respect of office premises.

Gross Profit

As a result of the foregoing, our gross profit for the six months ended 30 June 2014 was RMB208.4 million, as compared to RMB168.4 million for the six months ended 30 June 2013. Gross profit margin was 72.4% and 79.0% for the six months ended 30 June 2014 and six months ended 30 June 2013 respectively. The lower gross margin for the six months ended 30 June 2014 was mainly due to headcount cost incurred for Wenta, our online tutorial platform, while Wenta did not generate material revenues.

Selling and Marketing Expenses

Our selling and marketing expenses for the six months ended 30 June 2014 were RMB31.4 million, a 44.0% increase from RMB21.8 million for the six months ended 30 June 2013. This primarily reflected an increase in promotion and advertising expenses due to increases in commissions payable to prepaid card distributors and fees paid to our promotional partners along with the growth of our business.

Administrative Expenses

Our administrative expenses for the six months ended 30 June 2014 were RMB32.0 million, a 326.7% increase from RMB7.5 million for the six months ended 30 June 2013. This was primarily attributable to (i) an RMB15.2 million increase in employee benefit expenses as a result of (a) increased administrative headcount from 29 as of 30 June 2013 to 43 as of 30 June 2014, (b) higher employee salaries and (c) an RMB8.5 million increase in share-based compensation expenses for administrative personnel, and (ii) an RMB5.4 million increase in professional service fees incurred in connection with the listing of our Company on 10 April 2014 as well as (iii) an RMB1.3 million increase in labor union budget.

Research and Development Expenses

Our research and development expenses for the six months ended 30 June 2014 were RMB12.7 million, a 49.4% increase from RMB8.5 million for the six months ended 30 June 2013. This was primarily attributable to an RMB3.3 million increase in employee benefit expenses as a result of (a) an RMB2.1 million increase in share-based compensation expenses for research and development personnel, (b) increased research and development headcount from 61 as of 30 June 2013 to 101 as of 30 June 2014, (c) higher employee salaries.

Other Gains — net

Our net other gains for the six months ended 30 June 2014 was RMB3.3 million, representing a 10.0% increase as compared to RMB3.0 million for the six months ended 30 June 2013 as a result of the recognition of foreign exchange gains of RMB4.1 million on non-RMB currencies deposit in bank and preferred share due to exchange rate movements in the first half of 2014, compared to foreign exchange gain of RMB3.0 million in the same period last year.

Operating Profit

As a result of the foregoing, our operating profit for the six months ended 30 June 2014 was RMB135.6 million, representing a 1.5% increase from RMB133.6 million for the six months ended 30 June 2013. Our operating profit margin for the six months ended 30 June 2014 was 47.1%, compared with 62.7% for the six months ended 30 June 2013.

Finance Income — net

We had net finance income of RMB8.5 million for the six months ended 30 June 2014, compared to net finance income of RMB2.9 million for the six months ended 30 June 2013. Net finance income for the six months ended 30 June 2014 was primarily due to RMB8.6 million in interest income on bank deposits. Finance income for the six months ended 30 June 2013 was primarily attributable to (i) RMB1.6 million in interest income on short-term investments in RMB-denominated financial products and (ii) RMB1.3 million in interest income on bank deposits.

Fair Value Loss of Convertible Redeemable Preferred Shares

We had fair value loss of convertible redeemable preferred shares of RMB327.7 million and RMB118.4 million for the six months ended 30 June 2014 and 2013 respectively, due to the continued increase in the equity value of our Company. But after 10 April 2014, the convertible redeemable preferred shares impact has been vanished due to the conversion of convertible redeemable preferred shares to common shares at the moment when our Company's IPO succeeded.

(Loss)/Profit before Income Tax

As a result of the foregoing, we had a loss of RMB183.7 million for the six months ended 30 June 2014, compared to a profit of RMB18.0 million for the six months ended 30 June 2013.

Income Tax Expense

Our income tax expense for the six months ended 30 June 2014 was RMB24.6 million, a 22.4% increase from RMB20.1 million for the six months ended 30 June 2013. This primarily reflected an increase in taxable profit for Guangzhou Baitian Information Technology Limited ("**Guangzhou Baitian**").

Loss for the Period

As a result of the foregoing, we had a loss of RMB208.3 million for the six months ended 30 June 2014, compared to a loss of RMB2.1 million for the six months ended 30 June 2013.

Non-IFRSs Measure — Adjusted Net Profit/EBITDA

To supplement our interim consolidated financial information which are presented in accordance with International Accounting Standard 34 "Interim Financial Reporting", we also use adjusted net profit and adjusted EBITDA as additional financial measures. We present these financial measures because they are used by our management to evaluate our operating performance. We also believe that these non-IFRSs measures provide useful information to shareholders, investors and others in understanding and evaluating our interim consolidated results of operations in the same manner as our management and in comparing financial results across accounting periods and to those of our peer companies.

Our adjusted net profit for the six months ended 30 June 2014 was RMB140.6 million, representing a 20.7% increase from RMB116.5 million for the six months ended 30 June 2013. Our adjusted EBITDA for the six months ended 30 June 2014 was RMB160.5 million, representing a 17.8% increase from RMB136.3 million for the six months ended 30 June 2013.

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

Group	**Unaudited Six months ended 30 June 2014** *RMB'000*	2013 *RMB'000*
Loss for the period	**(208,261)**	(2,072)
Add:		
Share-based compensation	**21,106**	103
Fair value loss of convertible redeemable preferred shares	**327,749**	118,441
Adjusted net profit	**140,594**	116,472
Add:		
Depreciation and amortization	**3,798**	2,616
Finance income-net	**(8,467)**	(2,901)
Income tax	**24,583**	20,116
Adjusted EBITDA	**160,508**	136,303

LIQUIDITY AND CAPITAL RESOURCES

In the first half of 2014, we have met our working capital and other capital requirements principally from cash flow generated from our operating activities and funds raised from the capital markets.

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

	Unaudited As of 30 June 2014 *RMB'000*	Audited As of 31 December 2013 *RMB'000*
Total liabilities (excluding convertible redeemable preferred shares)	**216,236**	204,131
Total assets	**1,657,869**	534,663
Gearing ratio[3]	**13%**	38%

Note:

3 Gearing ratio is calculated by dividing total liabilities (excluding convertible redeemable preferred shares) by total assets

Cash and Cash Equivalents and Short-Term Deposits

As of 30 June 2014, our cash and cash equivalents consisted of cash in bank and cash on hand which amounted to RMB1,040.1 million, compared to RMB280.9 million as of 31 December 2013. The cash in bank balances as of 30 June 2014 were demand deposits with effective interest rates per annum of approximately 2.7%, compared to 1.2% as of 31 December 2013. We also had short-term deposits of RMB550 million as of 30 June 2014, representing bank deposits which we intend to hold for over three months but less than one year. Our policy is to place our cash in interest-bearing principal-protected demand or short-term deposits with reputable PRC banks.

Restricted Cash

As of 30 June 2014, the Group had restricted cash balance of RMB33.0 million, representing Guangzhou Baitian's deposit placed in a bank as collateral for a two-year banking facility. The banking facility was granted to Baitian Technology Limited ("**Baitian Hong Kong**") and the limit is the lower of (i) US$5.0 million and (ii) 95% of the actual collateral placed by Guangzhou Baitian. As of 30 June 2014, cash paid as collateral amounted to RMB33.0 million.

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

Group	**Unaudited As of 30 June 2014** *RMB'000*	Audited As of 31 December 2013 *RMB'000*
RMB	**1,505,530**	484,571
US$	**2,763**	6,358
HK$	**114,761**	3
	1,623,054	490,932

Bank Loans and Other Borrowings

In September 2013, we entered into a general banking facility with China Merchants Bank Co., Ltd., Hong Kong Branch ("**China Merchants Bank HK**") in connection with a term loan facility of up to the lower of (i) US$5.0 million or (ii) 95% of the amount under an RMB standby letter of credit issued by China Merchants Bank Co., Ltd., Guangzhou Branch in favor of China Merchants Bank HK, guaranteed by Guangzhou Baitian, available for drawdown within six months from the date of the facility. The aggregate amount available for drawdown under this facility is US$5.0 million. As of 19 March 2014, we have drawdown US$5.0 million under this facility. On 15 May 2014, Baitian Hong Kong has made loan repayment of US$5.0 million to China Merchants Bank HK. As of 30 June 2014, we have no bank loans and other borrowings.

The Group also has no line of credit under any other banking facility dated as of 30 June 2014.

Treasury Policies

As of 30 June 2014, the Group adopts conservative treasury policies in cash and financial management. The Group does not use any financial instruments for hedging purpose.

Foreign Currency Risk

As of 30 June 2014, RMB117.5 million of our financial resources was held in deposits in non-RMB currencies. Since there are no cost-effective hedges against the fluctuation of RMB, there is a risk that we may experience a loss as a result of any foreign currency exchange rate fluctuations in connection with our deposits.

Capital Expenditures and Investments

Our capital expenditures consist of purchase of property and equipment such as servers and computers and intangible assets of computer software. In the first half of 2014, our total capital expenditures were RMB5.0 million, compared to RMB1.1 million in the first half of 2013. The increase of RMB3.9 million in our total capital expenditures for the first half of 2013 to the corresponding period in 2014 was primarily due to the increase in our purchase of property and equipment in line with our business growth. The following table sets out our expenditures for the periods indicated:

	Unaudited For six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
Capital Expenditures		
— Purchase of property and equipment	**4,777**	1,052
— Purchase of intangible assets	**263**	—
Total	**5,040**	1,052

Contingent Liabilities

As of 30 June 2014, the Group did not have any material contingent liabilities, guarantees or any litigation against us.

Charges on Assets

As of 30 June 2014, there were no charges on the Group's assets.

Material Acquisitions and Future Plans for Major Investment

During the six months ended 30 June 2014, the Group has not conducted any material acquisitions or disposals. In addition, the Group currently has no specific plan for major investment or acquisition for major capital assets or other businesses. However, the Group will continue to identify new opportunities for business development.

Employees and Staff Costs

As of 30 June 2014, the Group had 590 full-time employees, all of whom are based in Guangzhou. The following table sets forth the number of our full-time employees by function as of 30 June 2014:

	As of 30 June 2014	
	Number of Employees	% of Total
Operations	**427**	**72.4**
Development and research	**101**	**17.1**
Sales and marketing	**19**	**3.2**
General and administration	**43**	**7.3**
Total	**590**	**100.0**

In addition to salary, we provide various incentives, including share-based awards, such as options and RSUs granted pursuant to the share incentive schemes of our Company, and performance-based bonuses to better motivate our employees. As required by PRC law, we contribute to housing funds and maintain mandatory social insurance plans for our employees, covering pension, medical, unemployment, work injury and maternity. We are required by PRC law to make contributions to these social insurance plans at specified percentages of the compensation of each of our employees, up to a maximum amount as may be specified by the local government from time to time. Such social insurance plans include defined contribution retirement benefit plans organized by the relevant governmental authorities. Forfeited contributions by the Group to these plans may not be used by the Group to reduce the existing level of contributions. The total amount of contributions we made for employee social insurance plans in the first half of 2014 were approximately RMB11.9 million, compared to RMB6.4 million in the first half of 2013. We incurred staff costs of approximately RMB89.1 million and RMB41.9 million, for the six months ended 30 June 2014 and 2013, representing 31.0% and 19.7% of our revenue for those periods respectively.

We also grant share options and restricted shares to our employees to incentivize them to contribute to our growth. Pursuant to the Pre-IPO Share Option Scheme and the Pre-IPO RSU Scheme, there were a total of 28,800,000 share options and 140,414,000 RSUs outstanding and granted to total of 273 directors, senior management members and employees of the Group As of the date of 30 June 2014.

In the future, we will continue grant restricted shares to our employees to incentivize them pursuant to the Post-IPO Scheme. The maximum aggregate number of the Shares underlying all the RSUs which we may grant pursuant to the Post-IPO RSU Scheme is 56,488,440 shares, representing approximately 2% of our share capital. As of 30 June 2014, no RSUs have been granted by us pursuant to the Post-IPO Scheme.

Dividend

In the first half of 2014, we have declared a special dividend of US$25.0 million to our pre-IPO shareholders payable after the listing of our Company on 10 April 2014 and contingent on us having sufficient share premium. As of 30 June 2014, such special dividend has been paid to our pre-IPO shareholders after sufficient funds were available in our share premium account.

Other than the special dividend set out above, no interim dividend has been suggested by our Board for distribution to our shareholders for the six months ended 30 June 2014.

Changes since 31 December 2013

There were no other significant changes in our Group's financial position or from the information disclosed under management discussion and analysis in the annual report for the year ended 31 December 2013.

INTERIM CONSOLIDATED INCOME STATEMENT

		Unaudited	
		Six months ended 30 June	
		2014	2013
	Note	***RMB'000***	*RMB'000*
Revenue	*3*	**287,770**	213,219
Cost of revenue		**(79,380)**	(44,842)
Gross profit		**208,390**	168,377
Selling and marketing expenses		**(31,362)**	(21,817)
Administrative expenses		**(31,976)**	(7,506)
Research and development expenses		**(12,725)**	(8,502)
Other gains — net		**3,277**	3,032
Operating profit	*4*	**135,604**	133,584
Finance income		**8,604**	2,901
Finance cost	*5*	**(137)**	—
Finance income — net		**8,467**	2,901
Fair value loss of convertible redeemable preferred shares		**(327,749)**	(118,441)
(Loss)/profit before income tax		**(183,678)**	18,044
Income tax expense	*6*	**(24,583)**	(20,116)
Loss for the period		**(208,261)**	(2,072)
Attributable to:			
— Shareholders of the Company		**(208,261)**	(2,072)
Loss per share (expressed in RMB per share)	*7*		
— Basic		**(0.1003)**	(0.0013)
— Diluted		**(0.1003)**	(0.0013)
Dividend	*8*	**(154,127)**	—

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

		Unaudited	
		Six months ended 30 June	
		2014	2013
	Note	***RMB'000***	*RMB'000*
Loss for the period		**(208,261)**	(2,072)
Other comprehensive income		**—**	—
Total comprehensive loss for the period		**(208,261)**	(2,072)
Attributable to:			
— Shareholders of the Company		**(208,261)**	(2,072)

INTERIM CONSOLIDATED BALANCE SHEET

	Note	Unaudited As of 30 June 2014 RMB'000	Audited As of 31 December 2013 RMB'000
ASSETS			
Non-current assets			
Property and equipment		**14,128**	13,106
Intangible assets		**437**	217
Prepayments and other receivables		**525**	5,427
Restricted cash		**33,000**	10,000
Deferred income tax assets		**7,704**	9,110
		55,794	37,860
Current assets			
Trade receivables	*9*	**2,270**	3,855
Prepayments and other receivables		**9,751**	12,016
Short-term deposits		**550,000**	200,000
Cash and cash equivalents		**1,040,054**	280,932
		1,602,075	496,803
Total assets		**1,657,869**	534,663
EQUITY			
Share capital		**8**	5
Share premium		**1,648,215**	—
Reserves		**46,840**	25,734
Accumulated losses		**(253,430)**	(45,169)
Total equity/(deficits)		**1,441,633**	(19,430)

	Note	Unaudited As of 30 June 2014 RMB'000	Audited As of 31 December 2013 RMB'000
LIABILITIES			
Non-current liabilities			
Advance from government grant		**1,810**	—
Deferred revenue		**2,779**	2,083
Convertible redeemable preferred shares		**—**	349,962
		4,589	352,045
Current liabilities			
Trade payables	*10*	**2,395**	3,501
Other payables and accruals		**39,786**	55,178
Income tax liabilities		**7,084**	6,204
Advances from customers		**88,171**	73,161
Deferred revenue		**74,211**	57,867
Borrowing		**—**	6,137
		211,647	202,048
Total liabilities		**216,236**	554,093
Total equity/(deficits) and liabilities		**1,657,869**	534,663
Net current assets		**1,390,428**	294,755
Total assets less current liabilities		**1,446,222**	332,615

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2014 has been prepared in accordance with International Accounting Standard ("IAS") 34, 'Interim financial reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2013, which have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

2. Accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2013, as described in those annual financial statements.

(i) Amendments to standards and interpretations adopted by the Group as of 1 January 2014.

The following amendments to standards and interpretations are mandatory for the Group's financial year beginning 1 January 2014. The adoption of these amendments to standards and interpretations does not have any significant impact to the results and financial position of the Group.

IAS 32 (Amendment)	'Financial instruments: Presentation' on asset and liability offsetting
IFRS10, 12 and IAS 27 (Amendment)	Consolidation for investment entities
IAS 36 (Amendment)	'Impairment of assets' on recoverable amount disclosures
IAS 39 (Amendment)	'Financial Instruments: Recognition and Measurement' — 'Novation of derivatives'
IFRIC 21	Levies

There are no other amendments to standards and interpretations which will result in significant impact on the results and financial position of the Group.

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

3. Segment information

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

— Online business

— 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.

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. 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 these financial information. There were no separate segment assets and segment liabilities information provided to the CODM.

The segment revenues provided to the Group's CODM for the reportable segments for the six months ended 30 June 2014 and 2013 are as follows:

	Unaudited	
	Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
Online business		
— Online virtual worlds	**285,633**	209,336
— Other online games	**445**	1,698
Sub-total	**286,078**	211,034
Other businesses	**1,692**	2,185
Total	**287,770**	213,219

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 six months ended 30 June 2014 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 94.6% and 94.6% of the total revenue for the six months ended 30 June 2014 and 2013, respectively. The percentage of revenue contributed by the following online virtual worlds is not presented for the periods when such amount is less than 10% of the Group's total revenue in a particular period.

	Unaudited Six months ended 30 June	
	2014	2013
Legend of Aoqi	**34.8%**	26.6%
Aola Star	**34.3%**	36.7%
Dragon Knights	**14.6%**	17.8%
Aobi Island	**10.9%**	13.5%

CODM reviews the performance of and allocates resources to operating segments based on the revenue of each segment. The reconciliation of revenue to (loss)/profit before income tax for the six months ended 30 June 2014 and 2013 is shown in the interim consolidated income statement.

As of 30 June 2014 and 31 December 2013, the non-current assets of the Group were located in the PRC.

4. Operating profit

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

	Unaudited Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
Operating items		
Employee benefit expenses	**89,142**	41,883
Promotion and advertising expenses	**25,486**	18,393
Bandwidth and server custody fees	**9,860**	7,611
Professional fees	**7,207**	1,074
Prepaid card production costs	**3,448**	3,145
Operating lease rentals in respect of office premises	**4,071**	2,769
Depreciation of property and equipment and amortization of intangible assets	**3,798**	2,616
Prepaid card delivery costs	**1,034**	1,049

5. Finance cost

	Unaudited Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
Finance cost:		
Interest on borrowings	**137**	—
	137	—

6. Income tax expense

The income tax expense of the Group for the six months ended 30 June 2014 and 2013 is analyzed as follows:

	Unaudited Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
Current income tax		
— PRC corporate income tax	**23,177**	20,580
Deferred income tax	**1,406**	(464)
Income tax expense	**24,583**	20,116

(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 six months ended 30 June 2014 and 2013. No Hong Kong profits tax has been provided for, as there was no assessable profit that was subject to profits tax for the six months ended 30 June 2014 (six months ended 30 June 2013: nil).

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

The Group's subsidiaries in the PRC are subject to corporate income tax at the rate of 25% except Guangzhou Baitian, which was qualified as "High and New Technology Enterprise" ("HNTE") in 2011 and was entitled to a preferential income tax rate of 15% on its estimated assessable profits for the six months ended 30 June 2013. Guangzhou Baitian is subject to a reassessment of the HNTE qualification in order to extend the preferential income tax rate of 15% for another three years from 2014. The Company expects that Guangzhou Baitian will successfully extend the HNTE qualification in 2014 and be entitled to the preferential income tax rate of 15%. Therefore, Guangzhou Baitian recognized income tax expense for the six months ended 30 June 2014 and deferred tax assets as of 30 June 2014 based on 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 for the six months ended 30 June 2014 and 2013.

(d) PRC withholding tax ("WHT")

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

For the six months ended 30 June 2014 and 2013, 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 of the end of each of the reporting periods.

7. Loss per share

(a) Basic

Basic loss per share is calculated by dividing the loss attributable to the shareholders of the Company by the weighted average number of ordinary shares in issue during the period. In addition, the number of ordinary shares outstanding has also been adjusted retroactively for the proportional change in the number of ordinary shares outstanding as a result of share splits in the computation of the basic loss per share (with consequential effect on diluted loss per share) for the six months ended 30 June 2013.

	Unaudited Six months ended 30 June	
	2014	2013
Loss attributable shareholders of the Company *(RMB'000)*	**(208,261)**	(2,072)
Weighted average number of ordinary shares in issue	**2,077,108,796**	1,576,000,000
Basic loss per share *(in RMB/share)*	**(0.1003)**	(0.0013)

(b) Diluted

For the six months ended 30 June 2014, the Company has three categories of dilutive potential ordinary shares, the Pre-IPO Share Options, Series A-1 Preferred Shares before their conversion to ordinary shares on 10 April 2014 and the Pre-IPO restricted share units.

For the six months ended 30 June 2013, the Company has two categories of dilutive potential ordinary shares, the Pre-IPO Share Options and Series A-1 Preferred Shares.

For the purpose of determining the effect on diluted loss per share for the six months ended June 30, 2014, the Pre-IPO Share Options were initially assumed to have been converted into ordinary shares with no corresponding change in net loss attributable to ordinary shareholders. As the effect of the potential adjustment is anti-dilutive, it has not been included in the calculation of diluted loss per share for the six months ended June 30, 2014.

For the purpose of calculating diluted loss per share for the six months ended June 30, 2013, the contingently issuable ordinary shares under the Pre-IPO Share Options were not assumed to be issuable as neither of the two conditions for the exercise of the options, namely the closing of an IPO or a Change in Control Event, had been met as of June 30, 2013. Therefore the contingently issuable ordinary shares had not been included in the calculation of diluted loss per share for the six months ended June 30, 2013.

For the purpose of calculating diluted loss per share for the six months ended 30 June 2014 and 2013, the Series A-1 Preferred Shares before their conversion to ordinary shares on 10 April 2014 are assumed to have been converted into ordinary shares with a reduction in net loss attributable to ordinary shareholders for the six months ended 30 June 2014 and 2013, resulting from adding back the loss from the change in fair value of the Series A-1 Preferred Shares. As the effect of this potential adjustment is anti-dilutive, it has not been included in the calculation of diluted loss per share for the six months ended 30 June 2014 and 2013.

For the purpose of calculating diluted loss per share for the six months ended 30 June 2014, 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 six months ended 30 June 2014.

No adjustment has been made to basic loss per share to derive the diluted loss per share for the six months ended 30 June 2014 and 2013.

8. Dividend

On 18 March 2014, the shareholders of the Company resolved to declare a special dividend of US$25 million payable after the IPO to the Pre-IPO shareholders, contingent on the Company having available share premium and/or distributable reserves subsequent to the IPO. On 29 April 2014, such special dividend was paid to the Pre-IPO shareholders from the share premium account.

The Company did not declare an interim dividend for the six months ended 30 June 2014 (2013: nil).

9. Trade receivables

Trade receivables mainly arose from several online payment collection channels and advertising agencies. Advertising revenues of the Group are mainly generated on sales with credit terms determined on an individual basis with normal credit periods of 30 to 90 days from the respective invoice dates. As of 30 June 2014, the ageing analysis of trade receivables is as follows:

	Unaudited As of 30 June 2014 *RMB'000*	Audited As of 31 December 2013 *RMB'000*
0–30 days	**1,132**	3,713
31–60 days	**152**	142
60–90 days	**986**	—
	2,270	3,855

10. 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 cooperating game developers according to the respective cooperation agreements.

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

	Unaudited As of 30 June 2014	Audited As of 31 December 2013
	RMB'000	*RMB'000*
0–30 days	**1,926**	2,606
31–60 days	**265**	886
61–180 days	**204**	2
181–365 days	**—**	7
	2,395	3,501

Audit Committee and Review of Financial Statements

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters. The Audit Committee has also reviewed the Group's unaudited Condensed Consolidated Interim Financial Information for the six months ended 30 June 2014. Based on this review and discussions with the management, the Audit Committee was satisfied that the financial statements were prepared in accordance with applicable accounting standards and fairly present the Group's financial position and results for the six months ended 30 June 2014.

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

Compliance with the Model Code for Securities Transactions by Directors

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

Compliance with the Corporate Governance Code

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

The Company has applied the principles and complied with all applicable code provisions of the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange during the period from 10 April 2014 (the Company's listing date) to 30 June 2014.

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

Save for the Company's initial public offering as described in the Company's Prospectus, the Company, its subsidiaries and the PRC Operating Entity did not purchase, sell or redeem any of the listed securities of the Company during the six months ended 30 June 2014.

Interim Dividend

The Directors do not recommend the payment of dividend for the six months ended 30 June 2014.

Publication of 2014 Interim Results and Interim Report

The interim results announcement is published on the Company's website (http://www.baioo.com.hk) and the website of Hong Kong Exchanges and Clearing Limited (http://www.hkex.com.hk). The interim report of the Company for the six months ended 30 June 2014 will be dispatched to the shareholders of the Company and available on the above websites in due course.

By order of the Board
DAI JIAN
Chairman

Hong Kong, 14 August 2014

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

Executive Directors:
Mr. DAI Jian *(Chairman)*
Mr. WU Lili *(Chief Executive Officer)*
Mr. LI Chong
Mr. CHEN Ziming
Mr. WANG Xiaodong

Non-executive Director:
Mr. Ji Yue

Independent Non-executive Directors:
Ms. LIU Qianli
Mr. WANG Qing
Mr. MA Xiaofeng