百奥家庭互動有限公司

BAIOO Family Interactive Limited

(incorporated in the Cayman Islands with limited liability)

Stock Code: 2100

Annual Report 2013

Contents

Corporate Information

BOARD OF DIRECTORS

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

AUDIT COMMITTEE

Ms. Liu Qianli *(Chairman)*
Mr. Wang Qing
Mr. Ji Yue

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

Mr. Wang Qing *(Chairman)*
Mr. Ma Xiaofeng
Mr. Wu Lili

CHIEF FINANCIAL OFFICER

Mr. Yeung Ka Hong Carl

JOINT COMPANY SECRETARIES

Mr. Yeung Ka Hong Carl
Ms. Ngai Kit Fong

AUTHORIZED REPRESENTATIVES

Mr. Wu Lili
Mr. Yeung Ka Hong Carl

AUDITOR

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

COMPLIANCE ADVISOR

Guotai Junan Capital Limited
27/F Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

COMPANY'S WEBSITE

www.baioo.com.hk

STOCK CODE

2100

HEADQUARTERS IN THE PRC

10G, No. 36 Jianzhong Road
Tianhe Software Park, Tianhe District
Guangzhou
Guangdong
PRC

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG SHARE REGISTRAR

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

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 12, 19th Floor
Tower B, Southmark
11 Yip Hing Street
Wong Chuk Hang, Hong Kong

PRINCIPAL BANKS

China Merchants Bank Guangzhou Ti Yu Dong Road, Sub Branch
701/F, Goldlion Tower 138, Ti Yu Dong Road, Guangzhou
Guangdong
PRC

The Hongkong and Shanghai Banking Corporation Limited
1 Queen's Road
Central
Hong Kong

LEGAL ADVISORS AS TO HONG KONG LAW

Kirkland & Ellis
26/F Gloucester Tower, The Landmark
15 Queen's Road Central
Hong Kong

LEGAL ADVISORS AS TO CAYMAN ISLANDS LAW

Conyers Dill & Pearman (Cayman) Limited
Hutchins Drive
Cricket Square
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

INVESTOR RELATIONS

Christensen China Limited
Tel: (852) 2117 0861
Fax: (852) 2117 0869
Email: Baioo@ChristensenIR.com

Company Profile

We are China's largest online entertainment destination designed for children as measured by revenue in 2013. 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 have a fast-growing user base, with average quarterly active accounts increasing from 24.2 million in 2011 to 40.9 million in 2012 and 58.8 million in 2013.

Our web portal page, 100bt.com, serves as a platform for our content designed for children of ages six through fourteen, and allows them to explore our virtual worlds, purchase our virtual currency, interact with other users, access our e-learning and cartoon products and communities, and participate in a variety of other activities. Users can use this platform to register a single account, represented by a unique "Duoduo" ID, to access all of our products and services.

Since we commenced our operations, we have developed, commercially launched and currently operate six virtual worlds, namely, Aobi Island, Aola Star, Dragon Knights, Light of Aoya, Legend of Aoqi and Clashes of Aoqi. Our virtual worlds are designed for children between the ages of six and fourteen and allow them to play various games and fun-learning activities while exploring the virtual world and its storyline and interacting with other users. New episodes containing new games and activities and storyline updates are released each week for each virtual world to provide users with a continuous, engaging experience. As a result, all five of our virtual worlds in commercial operation in full year 2013 ranked among the top 12 web games for children in China as measured by Baidu search index. These virtual worlds have won numerous industry awards and gained strong brand awareness and loyalty among children in China.

We are passionate about bringing joy to children and helping them learn while having fun. Our content is designed first and foremost for children. Through our years of operation, we have gained significant knowledge and an in-depth understanding of children's behavior and needs. Additionally, we employ an evolutionary and user-driven model for releasing weekly episodes and continuously optimizing our virtual worlds through user feedback and analysis, which greatly stimulates our user interests and expectations. This model allows us to maintain user engagement and stickiness and mitigate the life cycle issues typically faced by conventional online game developers, thereby driving the continuous growth of our virtual worlds. At the same time, we are able to reduce investment risk by minimizing initial capital investment in a new product and gradually scaling up resources committed in product development in line with the growing viability of the product.

Our age-appropriate content creates a fun, healthy and safe environment for our users. We design all of our virtual worlds with specific developmental objectives for its target age group in mind to provide our users with an enjoyable entertainment experience that also benefit their social developmental growth. In addition, the limited amount of new content in our weekly episodes encourages use of our virtual worlds in moderation. Together with the fun-learning elements we incorporate into the games and activities within our virtual worlds and our platform's robust security features, such as content and language filters, restrictions on access time and parental controls, our products have gained the trust of parents and endorsement by regulators, evidenced by awards and recognitions, including the "Web Game Pioneer Award" from the MOC in 2011 at the China International Digital Content Expo and an "Excellent Cultural Product" recommended for children by the China Youth League in 2012.

Leveraging our understanding of children's needs through our years of experience in producing entertainment and fun-learning products designed for children, we have also ventured into other types of online content and services that we believe complement our existing product portfolio to meet the expanding online needs of children. For example, in September 2013, we released an open beta version of our online tutorial platform WenTa, which stands for "Ask Him," accessible through mobile and PCs. WenTa allows children to seek assistance on a variety of school curriculum subjects through a massive database of question and solution sets or getting online help directly from a network of teachers or other users. We have also developed Tuyaban, which stands for "Drawing Board," our popular online drawing and cartoon community where users can create artwork using our drawing toolkit and share their works with the rest of the community, and Quanquan, which stands for "Circles," our online forum.

Financial Summary

INCOME STATEMENT HIGHLIGHT

	Year Ended December 31,		
	2013	2012	2011
	RMB'000	RMB'000	RMB'000
Revenue	**454,996**	203,243	83,241
Gross profit	**348,881**	138,123	51,313
Operating profit	**248,158**	88,233	24,285
Non-IFRSs Measures			
— Adjusted Net Profit (unaudited)	**226,800**	77,714	22,144

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 IFRS. The use of adjusted net profit has material limitations as an analytical tool, as adjusted net profit does not include all items that impact our net profit for the year.

BALANCE SHEET HIGHLIGHT

	December 31,		
	2013	2012	2011
	RMB'000	RMB'000	RMB'000
Assets			
Non-current assets	**37,860**	16,624	10,200
Current assets	**496,803**	194,739	69,829
Total assets	**534,663**	211,363	80,029
Equity and liabilities			
Total deficits	**(19,430)**	(9,002)	(15,502)
Non-current liabilities	**352,045**	120,483	50,549
Current liabilities	**202,048**	99,882	44,982
Total liabilities	**554,093**	220,365	95,531
Total equity and liabilities	**534,663**	211,363	80,029

Chairman Letter

Dear Shareholders,

Six years ago, in 2008, we launched the first of our virtual worlds for children, Aobi Island. By delivering a safe and fun online environment that captures children's hearts and imaginations, by the end of 2013 we captured a 40% share in the Internet-based children's entertainment market in China, by revenues. We achieved this through the creativity and commitment of our employees, who kept an extraordinary pace of growth while holding fast to the corporate vision of dreams, friendship and development. Our ambition has been to build family-friendly products that win the trust and loyalty of both children and their parents, and we believe this more than anything else has been the foundation of our success.

BUILDING A WORLD FOR CHILDREN ON THE INTERNET

The story behind Baioo began when our children were young. Both I and my co-founder and CEO, Billy Wu, had young children. Our backgrounds were in computer science, and we watched with pride as our youngsters began to explore the world of the Internet. We were less pleased when we found that there was no place for them to enjoy the Internet without exposure to content oriented towards mature audiences. As fathers, we made it our mission to create a safe but also a fun place, establishing Baioo Family Interactive as a dedicated online destination for children in China.

Today we have succeeded in becoming the largest online entertainment destination designed for children in China. Here I must give credit to a creative model uniquely geared to the interests, learning curve, and developmental paths of boys and girls between the ages of six and 14. Our virtual worlds are online communities for children, where they can return every week and find something new in the form of games- or play-based story lines. This model is very similar to a popular television series that generates ongoing interest because it never repeats a story and constantly introduces new situations and characters. We use data analysis to understand children's needs, as well as direct feedback through the virtual worlds and hundreds of fan events across China, where children and parents alike can actively tell us what they hope to find next in their virtual worlds.

We believe our users are the creators, and we are merely the executors of their virtual worlds. The key to this market is the emotional affinity that children develop for these worlds and their characters as companions and friends. It makes all the more sense to listen to them and their parents as the story lines and characters develop.

We are pleased that our commitment to provide a safe and fun online destination for children has rewarded us with very strong financial results. In the last three years, our revenues have grown by more than five times, and adjusted net profit has grown by over ten times. Meanwhile, each of our virtual worlds has shown remarkable stickiness, as a result of the creative strategy we have chosen, which is to segment not only by age group but by gender, so that an action-adventure oriented world like Dragon Knight and the fashion-oriented Light of Aoya have their main followings among boys and girls, respectively.

Each of our commercialized virtual worlds has continued to grow year by year without the typical signs of game product fatigue or lifecycle. This is a testament to the success of our business model, which consistently meets the needs of our users. The diversification of our revenue portfolio from different virtual worlds eliminates the typical developer-operator single product concentration risk.

We were also fortunate in our timing. Ten years ago, using the Internet as a place to buy goods and services was a new idea to most Chinese, and few people had sufficient trust in the Internet to provide their credit card numbers to Web sites, let alone allow their children access.

Today, Chinese society has undergone a radical transformation with regard to the Internet. China not only has the largest population of any country in the world, but also the largest number of Internet users, and the largest number of children with access to the Internet. The number of children using the Internet has grown from 39.8 million in 2008 to 60.7 million in 2012, according to independent research. This compares to 24 million children using the Internet in the United States in 2012, according to the US Census Bureau. Today, 24% of the payments in our system are made through online channels, reflecting the confidence that parents have in our entertainment products, while most of the balance comes from sales of physical prepaid cards at 20,000 points of sale in 300 cities across China.

2013 IN REVIEW

In 2013, revenue more than doubled from RMB203.2 million at the end of 2012 to RMB455.0 million at year-end 2013, while adjusted net profit increased by nearly three times, from RMB77.7 million in 2012 to RMB226.8 million in 2013. Without the adjustment, and accounting for RMB237.2 million in change in fair value of convertible preferred shares held by our pre-IPO shareholders and RMB9.8 million in non-cash share-based compensation, we recorded a net loss for the year of RMB20.2 million. Adjusted EBITDA for the year was RMB263.5 million, up from RMB93.1 million in 2012.

Historically, we have met our working capital needs from cash flow generated from our operating activities. In 2013, we generated net cash of RMB303.6 million, leaving cash and cash equivalents at the end of the year of RMB280.9 million and RMB200.0 million in short-term deposits, after adjusting for increases in advances from customers of RMB35.6 million and deferred revenue of RMB27.5 million as a result of the growth of our business; an increase in other payables and accruals of RMB29.9 million; income tax expense of RMB38.8 million; and non-cash items, including fair value loss of convertible redeemable preferred shares of RMB237.2 million and depreciation of property and equipment of RMB5.5 million.

We launched one new virtual world, Clashes of Aoqi, in September 2013, and launched our first dedicated learning platform, WenTa, in the same month. This online tutorial platform — in English, “Ask Him”, is accessible through both mobile platforms and personal computers, and allows children to look for help on a variety of school curriculum subjects through a massive database of question and solution sets. Children also have access to a network of teachers and other users through WenTa.

During the year, we also further developed Tuyaban, which stands for Drawing Board, an online drawing and cartoon community, and Quanquan, or “Circles,” an online forum which by the end of 2013 had 6.9 million registered users.

2014 AND LOOKING AHEAD

In first quarter of 2014, we launched the mobile version of Quanquan and began closed beta testing of a mobile game featuring our main characters, such as Aola, a courageous creature who travels in space combatting the forces of evil in Aola Star, and others. By the end of 2014, we plan to release two new virtual worlds, one based on the world and characters of Dragon Knight for personal computers, and one based on a popular fantasy book series for children in China, for both PCs and mobile platforms.

Our brand is growing, based on our own efforts as well as the enthusiasm of children and their parents. On April 10, 2014, we demonstrated our confidence in by listing on the Hong Kong Stock Exchange (HKSE: 02100.HK) despite an overall difficult market for new issuers. The listing is expected to enhance our overall brand and we are confident the market will recognize the quality, integrity, and strength of our business and creative model over time.

Finally, in addition to my thanks to our creative team, employees, management, and pre-IPO shareholders, let me express my gratitude to all of our new shareholders. I am certain that your investment and loyalty will be rewarded.

Sincerely,

Dai Jian
Chairman
BAIOO Family Interactive Limited

April 28, 2014

Definitions and Glossaries

DEFINITIONS

"AGM"	the annual general meeting of the Company to be convened and held in accordance with the Articles and Association
"Articles of Association"	articles of association of the Company as amended, supplemented or revised from time to time
"Baitian Hong Kong"	Baitian Technology Limited, a company incorporated on October 20, 2009 and existing under the laws of Hong Kong, a wholly-owned subsidiary of the Company
"Board" or "Board of Directors"	our board of Directors
"Business Day"	any day (other than a Saturday, Sunday or public holiday) in Hong Kong on which banks in Hong Kong are open generally for normal banking business to the public
"CAGR"	compound annual growth rate
"Company" or "us" or "Our Company"	BAIOO Family Interactive Limited (百奧家庭互動有限公司), (formerly known as Baitian Information Limited, Baitian Family Interactive Limited (百田家庭互動有限公司) and BYO Family Interactive Limited (百奧家庭互動有限公司)), an exempted company incorporated in the Cayman Islands with limited liability on September 25, 2009, and, except where the context otherwise requires, all of its subsidiaries and Guangzhou Baitian or where the context refers to any time prior to its incorporation, the business which its predecessors or the predecessors of its present subsidiaries and Guangzhou Baitian was engaged in and which was subsequently assumed by it
"Contractual Arrangements"	A series of agreements entered into among Guangzhou WFOE, Guangzhou Baitian and the Registered Shareholders on December 4, 2013 and amended on March 20, 2014
"Corporate Governance Code"	the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules
"Director(s)" or "our Director(s)"	the director(s) of our Company or any one of them
"Founders"	Mr. DAI Jian, Mr. WU Lili, Mr. LI Chong, Mr. CHEN Ziming, Mr. WANG Xiaodong and Mr. KAN Wei

"Group" or "our Group"	our Company, its subsidiaries and the PRC Operating Entity (the financial results of which have been consolidated and accounted for as a subsidiary of our Company by virtue of the Contractual Arrangements), or, where the context so requires, in respect of the period before our Company became the holding company of its current subsidiaries, our Company's current subsidiaries or the business operated by such subsidiaries or their predecessors (as the case may be)
"Guangzhou Baitian" or "PRC Operating Entity"	Guangzhou Baitian Information Technology Ltd. (廣州百田資訊科技有限公司), a company incorporated on June 2, 2009 and existing under the laws of the PRC
"Guangzhou WFOE"	Baiduo (Guangzhou) Information Technology Limited (百多(廣州)資訊科技有限公司), a company incorporated on October 29, 2013 and existing under the laws of the PRC, an indirect wholly-owned subsidiary of the Company
"Independent Third Party"	any entity or party which is not connected (as defined in the Listing Rules) to our Directors, substantial shareholders on chief executives of our Company or its subsidiaries, or any of their respective associates
"Listing" or "Our Listing"	the listing of the Shares on the Main Board of the Stock Exchange on April 10, 2014
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time)
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"Post-IPO RSU Scheme"	the restricted share unit plan approved by the shareholders of the Company on March 18, 2014 and took effect on April 10, 2014
"PRC"	the People's Republic of China
"Pre-IPO RSU Scheme"	the restricted share unit plan approved and adopted by the Company on September 30, 2013
"Pre-IPO Share Option Scheme"	the share option plan approved and adopted by the Company on June 18, 2013

"Pre-IPO Investors"	collectively, Sequoia Capital China II, L.P., an exempted limited partnership registered in the Cayman Islands, Sequoia Capital China Partners Fund II, L.P., an exempted limited partnership registered in the Cayman Islands, and Sequoia Capital China Principals Fund II, L.P., an exempted limited partnership registered in the Cayman Islands, independent third parties of the Group
"Prospectus"	the prospectus of the Company dated March 28, 2014
"Registered Shareholders"	the registered shareholders of Guangzhou Baitian, namely Mr. Dai Jian, Mr. Wu Lili, Mr. Li Chong, Mr. Chen Ziming and Mr. Wang Xiaodong
"RSU(s)"	restricted share units granted pursuant to the Pre-IPO RSU Scheme and/or the Post-IPO RSU Scheme
"Series A Transaction Agreements"	the series of transaction agreements, as amended, entered into, among others, by Sequoia, the Company and the Founders in connection with the Pre-IPO Investment, including that certain Series A Preferred Share Purchase Agreement dated November 10, 2009, as amended on March 2, 2010 and December 4, 2013
"SFO"	the Securities and Futures Ordinance of Hong Kong (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)" or "Ordinary Share(s)"	ordinary share(s) in the share capital of our Company with par value US$0.0000005 each (or of such other nominal amount as shall result from capitalization, subdivision, consolidation, re-classification or re-construction of the share capital of the Company from time to time) with the rights ascribed in the articles of association of the Company
"Shareholder(s)"	holder(s) of our Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

GLOSSARY

"ARQPA"	average revenue per QPA, which is revenue from our virtual worlds in a particular quarter divided by the number of quarterly paying accounts in that quarter.
"average quarterly ARQPA"	average quarterly average revenue per QPA, which is revenue from our virtual worlds in a particular period divided by the total number of QPAs in that period.
"QPAs"	quarterly paying accounts, which is the number of paying accounts in the relevant quarter. An account that paid subscription fees or for virtual items in two virtual worlds in the same quarter is counted as two QPAs. Average QPAs for a particular period is the average of the QPAs in each quarter during that period.

Management Discussion and Analysis

BUSINESS OVERVIEW

In 2013, our user base continued to grow at a rapid rate. 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, engaging experience. In September 2013, we launched the open beta version of a new virtual world, Clashes of Aoqi, and our online tutorial platform, WenTa. As a result of our continuous efforts, all five of our virtual worlds in commercial operation in full year 2013 ranked among the top 12 web games for children in China as measured by Baidu search index.

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

INDUSTRY REVIEW

China has the world's largest child Internet user base, with its child Internet population growing from 39.8 million in 2008 to 60.7 million in 2012, and is expected to grow to 79.8 million in 2016 at a CAGR of 7.06%. This rapidly growing child Internet population has made the Internet one of the most important entertainment and education platforms for children in China. Combined with China's improving broadband infrastructure and availability and ease of Internet access, children are able to play games, access audio and video content, chat and study online.

One of the primary online entertainment activities for children in China is playing web games. More than 80% of child Internet users in China play web games, compared to less than 40% of total Internet users (children and adults), making web games the most popular online activity for children in China. The number of child web game players in China reached 51.9 million in 2012, representing 85.5% of the total child Internet population, and is expected to increase to 74.0 million in 2016 at a CAGR of 9.3%. The popularity of children's web games in China has led to the size of the children's web game market reaching approximately RMB1.1 billion in 2013, which is expected to further increase to RMB2.0 billion in 2016, representing a CAGR of 22.1%.

OUTLOOK FOR 2014

In the first quarter of 2014, we launched the mobile version of Quanquan and began closed beta testing of a mobile website featuring our main characters. In 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 launch simultaneously both mobile and PC versions of a new virtual world. By the end of 2014, we plan to release two new virtual worlds, one based on the world and characters of Dragon Knight for personal computers, and one based on a popular fantasy book series for children in China, for both PCs and mobile platforms.

OVERALL BUSINESS AND FINANCIAL PERFORMANCE

The following table sets forth our consolidated statements of comprehensive income for the years indicated:

	For the Year Ended December 31,			
	2013 (RMB'000)	% of Revenue	2012 (RMB'000)	% of Revenue
Revenue	454,996	100.0	203,243	100.0
Online business	446,335	98.1	197,427	97.1
Other businesses	8,661	1.9	5,816	2.9
Cost of revenue	(106,115)	(23.3)	(65,120)	(32.0)
Gross profit	348,881	76.7	138,123	68.0
Selling and marketing expenses	(47,644)	(10.5)	(30,012)	(14.8)
Administrative expenses	(33,247)	(7.3)	(11,095)	(5.5)
Research and development expenses	(28,546)	(6.3)	(9,153)	(4.5)
Other income	1,551	0.3	107	0.1
Other gains — net	7,163	1.6	263	0.1
Operating profit	248,158	54.5	88,233	43.4
Finance income — net	7,639	1.7	2,755	1.3
Fair value loss of convertible redeemable preferred shares	(237,228)	(52.1)	(71,214)	(35.0)
Profit before income tax	18,569	4.1	19,774	9.7
Income tax expense	(38,788)	(8.5)	(13,484)	(6.6)
(Loss)/profit for the year	(20,219)	(4.4)	6,290	3.1
Total comprehensive (loss)/income for the year	(20,219)	(4.4)	6,290	3.1
Other financial data				
Adjusted net profit[1] (unaudited)	226,800	49.8	77,714	38.2
Adjusted EBITDA[1] (unaudited)	263,512	57.9	93,071	45.8

Revenue

Our revenue for 2013 was RMB455.0 million, a 123.9% increase from RMB203.2 million for 2012.

Online Business. Our online business revenue for 2013 was RMB446.3 million, a 126.1% increase from RMB197.4 million for 2012. This was primarily attributable to an increase in average QPAs from approximately 1.6 million in 2012 to 2.9 million in 2013 and an increase in average quarterly ARQPA from RMB31.1 to RMB37.7 during the same period. The increase in average QPAs was primarily due to increased paying accounts from Legend of Aoqi, Aola Star and Dragon Knights, and to a lesser extent, increased paying accounts from Aobi Island and Light of Aoya, as a result of their increasing popularity. The increase in average quarterly ARQPA was primarily due to the increased monetization rate of our virtual worlds resulting from their continued increase in popularity.

Other Businesses. Our other businesses revenue for 2013 was RMB8.7 million, a 48.9% increase from RMB5.8 million for 2012, primarily due to an increase in advertising revenue as our brands became more popular.

Cost of Revenue

Our cost of revenue for 2013 was RMB106.1 million, a 63.0% increase from RMB65.1 million for 2012. This was primarily attributable to (i) an RMB28.5 million increase in employee benefit expenses as a result of (a) increased operations headcount from 329 as of December 31, 2012 to 386 as of December 31, 2013, (b) higher employee salaries and (c) an RMB5.8 million increase in share-based compensation expenses for operations personnel and (ii) an RMB6.1 million increase in server and bandwidth costs.

Gross Profit Margin

As a result of the foregoing, our gross profit margin for 2013 was 76.7%, as compared to 68.0% for 2012.

Selling and Marketing Expenses

Our selling and marketing expenses for 2013 were RMB47.6 million, a 58.7% increase from RMB30.0 million for 2012. This was primarily attributable to (i) an RMB14.9 million increase in promotion and advertising expenses due to increases in commissions paid to prepaid card distributors and fees paid to our promotional partners in line with our business growth, (ii) an RMB1.0 million increase in transport and delivery costs for sending our physical prepaid cards to our distributors in line with our business growth and (iii) an RMB1.0 million increase in employee benefit expenses as a result of increased sales and marketing headcount from 16 as of December 31, 2012 to 18 as of December 31, 2013 and higher employee salaries.

Administrative Expenses

Our administrative expenses for 2013 were RMB33.2 million, a 199.7% increase from RMB11.1 million for 2012. This was primarily attributable to (i) an RMB9.4 million increase in employee benefit expenses as a result of (a) increased administrative headcount from 21 as of December 31, 2012 to 34 as of December 31, 2013, (b) higher employee salaries and (c) an RMB2.3 million increase in share-based compensation expenses for administrative personnel and (ii) an RMB10.0 million increase in professional service fees incurred in connection with the Global Offering.

Research and Development Expenses

Our research and development expenses for 2013 were RMB28.5 million, a 211.9% increase from RMB9.2 million for 2012. This was primarily attributable to an RMB16.6 million increase in employee benefit expenses as a result of (i) increased research and development headcount from 52 as of December 31, 2012 to 159 as of December 31, 2013 due to product development efforts for new virtual worlds and other products and services, including Clashes of Aoqi, a new mobile game based on the main characters of our virtual worlds and a mobile version of Quanquan, our online forum, (ii) higher employee salaries and (iii) an RMB1.2 million increase in share-based compensation expenses for research and development personnel.

Other Income

Our other income for 2013 was RMB1.6 million, compared to RMB0.1 million for 2012. This was attributable to an RMB1.5 million increase in government grants as a result of our fulfilment of performance conditions attached to a government grant, which led to the release of additional funding to us.

Operating Profit

As a result of the foregoing, our operating profit for 2013 was RMB248.2 million, representing a 181.3% increase from RMB88.2 million for 2012. Our operating profit margin for 2013 was 54.5%, compared with 43.4% for 2012.

Finance Income (Net)

We had net finance income of RMB7.6 million for 2013, compared to net finance income of RMB2.8 million for 2012. Net finance income for 2013 was primarily attributable to (i) RMB6.0 million in interest income on bank deposits and (ii) RMB1.6 million in interest income on short-term investments in RMB-denominated financial products. Finance income for 2012 was primarily attributable to (i) RMB1.8 million in interest income on short-term investments in RMB-denominated financial products and (ii) RMB1.0 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 RMB71.2 million and RMB237.2 million in 2012 and 2013, respectively, due to the continued increase in the equity value of our company.

Profit before Income Tax

As a result of the foregoing, our profit before income tax for 2013 was RMB18.6 million, a 6.1% decrease from RMB19.8 million for 2012.

Income Tax Expense

Our income tax expense for 2013 was RMB38.8 million, a 187.7% increase from RMB13.5 million for 2012. This was primarily attributable to an increase in taxable profit for Guangzhou Baitian.

Profit/(loss) for the Year

As a result of the foregoing, we had a loss of RMB20.2 million for 2013, compared to a profit of RMB6.3 million for 2012.

Non-IFRS Measure — Adjusted Net Profit/EBITDA

Our adjusted net profit for 2013 was RMB226.8 million, representing a 191.8% increase from RMB77.7 million for 2012. Our adjusted EBITDA for 2013 was RMB263.5 million, representing a 183.1% increase from RMB93.1 million for 2012.

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

	For the Year Ended December 31,	
	2013	2012
	RMB'000	RMB'000
(Loss)/profit for the year	**(20,219)**	6,290
Add:		
Share-based compensation	**9,791**	210
Fair value loss of convertible redeemable preferred shares	**237,228**	71,214
Adjusted net profit (unaudited)	**226,800**	77,714
Add:		
Depreciation and amortization	**5,563**	4,628
Finance income — net	**(7,639)**	(2,755)
Income tax	**38,788**	13,484
Adjusted EBITDA (unaudited)	**263,512**	93,071

LIQUIDITY AND CAPITAL RESOURCES

In 2013, we have met our working capital and other capital requirements principally from cash flow generated from our operating activities. Going forward, we intend to satisfy our liquidity requirements by using a combination of cash flow generated from our operating activities, other funds raised from the capital markets from time to time and the proceeds from this Global Offering.

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

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

Cash and Cash Equivalents and Short-Term Deposits

As of December 31, 2013, our cash and cash equivalents consisted of cash in bank and cash on hand which amounted to RMB280.9 million, compared to RMB190.8 million as of December 31, 2012. The cash in bank balances as of December 31, 2013 were demand deposits with effective interest rates per annum of approximately 1.2%, compared to 1.1% as of December 31, 2012. We also had short-term deposits of RMB200.0 million as of December 31, 2013, 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.

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

Group	As at December 31, 2013 RMB'000	2012 RMB'000
RMB	**484,571**	189,785
US$	**6,358**	975
HK$	**3**	8
	490,932	190,768

Restricted cash

As of December 31, 2013, the Group had restricted cash balance of RMB10.0 million, representing Guangzhou Baitian's deposit placed in a bank as a collateral for a two-year banking facility. The banking facility was granted to 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 Baitain. As of December 31, 2013, cash paid as collateral amounted to RMB10.0 million and the actual drawdown of the banking facility was US$1.0 million.

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 January 31, 2014, we have drawn down US$1.5 million under this facility.

The Group's borrowing for the below periods were as follows:

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

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%.

The Group has no other line of credit under any other banking facility except for the loan facility disclosed above.

Treasury policies

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

The Group did not have significant foreign currency risk from the operations and did not hedge against any fluctuation in foreign currency.

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 2013, our total capital expenditures were RMB10.3 million, compared to RMB7.0 million in 2012. The increase of RMB3.3 million in our total capital expenditures from 2012 to 2013 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:

	For the Year Ended December 31,	
	2013	**2012**
	RMB'000	RMB'000
Capital Expenditures		
— Purchase of property and equipment	**10,202**	6,891
— Purchase of intangible assets	**114**	147
Total	**10,316**	7,038

Contingent Liabilities

As of December 31, 2013, we did not have any material contingent liabilities, guarantees or any litigation against us.

Material acquisitions and future plans for major investment

During the year ended December 31, 2013, 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 December 31, 2013, we had 597 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 December 31, 2013:

	Number of Employees	% of Total
Operations	386	64.7
Development and research	159	26.6
Sales and marketing	18	3.0
General and administration	34	5.7
Total	597	100.0

In addition, to salary, we also provide various incentives, including share-based awards, such as options and RSUs granted pursuant to the share incentive schemes of the 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 2013 were approximately RMB18.5 million, compared to RMB9.9 million in 2012. We incurred staff costs of approximately RMB57.8 million and RMB113.4 million, for the years ended December 31, 2012 and 2013, respectively, representing 28.4% and 24.9%, 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 142,316,000 RSUs outstanding and granted to a total of 360 directors, senior management members and employees of the Group as at the date of this report. Further details of the Pre-IPO Share Option Scheme and the RSU Scheme, together with details of the options and RSUs granted under such schemes, are set out in the section headed “Employee Share Incentive Plans” in the Directors’ Report in this annual report.

Dividend

In 2014, we have declared a special dividend of US$25.0 million to our pre-IPO shareholders payable after the Listing and contingent on us having sufficient share premium. As of the date of this report, 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 dividend has been suggested by our Board for distribution to our shareholders since our Listing on April 10, 2014.

Biographies of the Directors and Senior Management

DIRECTORS

Executive Directors

DAI Jian (戴堅), aged 46, is a co-founder of our Group and was appointed as our chairman in November 2011 and Executive Director in April 2012. He is responsible for the overall management, corporate development and strategic planning of our Group.

Mr. DAI has more than thirteen years of experience in the information and technology industry. From December 2004 to January 2010 and from December 2010 to present, he was the executive director and manager of Altratek Guangdong, a wireless telecommunication product and service provider, where he was responsible for overall management, resources integration and strategic planning. Prior to that, he co-founded and was the chairman of Guangzhou Elite Enterprise Management Corporation (廣州市伊萊哲企業管理有限公司) from November 1999 to November 2004, where he was responsible for overall management, resources integration and strategic planning.

Mr. DAI received his bachelor's degree in computer application from Hunan University (湖南大學) in July 1990. Mr. DAI is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

WU Lili (吳立立), aged 46, is a co-founder of our Group and was appointed as our chief executive officer in March 2010 and Executive Director in September 2009. He is responsible for the overall management, corporate development and strategic planning of our Group.

Mr. WU has more than thirteen years of experience in the information technology industry. Prior to joining the Group, he was the executive director and deputy director of marketing of Altratek Guangdong from September 2007 to June 2009, where he was responsible for resources integration and capital operation, as well as strategic planning and new project development, including the overall management of the company's new Internet business and the integration of the telecom value added services. Prior to that, he was the vice chairman of marketing of Guangzhou Elite Enterprise Management Corporation (廣州市伊萊哲企業管理有限公司) from November 1999 to August 2007, where he managed the company's various production lines and marketing agencies in the PRC, and was responsible for the implementation of the company's marketing strategies.

Mr. WU received his MBA degree from the China Europe International Business School (中歐國際工商學院) in September 2004. He also received his master's degree in computer application and bachelor's degree in computer communications from Beijing University of Posts and Telecommunications (北京郵電大學), formerly known as (北京郵電學院) in April 1992 and July 1989, respectively. Mr. WU is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

LI Chong (李沖), aged 45, is a co-founder of our Group and was appointed as our chief operating officer in September 2009 and Executive Director in September 2009. He is responsible for the overall operations of our Group and the marketing and distribution of our products.

Mr. LI has more than thirteen years of experience in the information technology industry. Prior to joining the Group, he was one of the new project leaders of Altratek Guangdong from January 2008 to July 2009, where he was responsible for the design and operation of the company's products. In particular, he was a key participant in the feasibility study and development of Aobi Island. Prior to that, he was the president of Guangzhou Aochuang Information Technology Co., Ltd. (廣州市奧創信息技術有限公司) from October 2000 to December 2008, where he was responsible for the overall operation and management of the company.

Mr. LI received his master's degree in business management from Jinan University (暨南大學) in June 2000. He also received his master's degree in communications and electric systems and bachelor's degree in telecommunications engineering from Beijing University of Posts and Telecommunications (北京郵電大學) in April 1992 and July 1989, respectively. Mr. LI is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

CHEN Ziming (陳子明), aged 39, is a co-founder of our Group and was appointed as our chief technology officer and Executive Director in September 2009. He is responsible for the design, development and testing of our products, as well as the operation, maintenance and upgrade of our network infrastructure and information technology system.

Mr. CHEN has approximately thirteen years of experience in the information technology industry. Prior to joining the Group, he was one of the new project leaders of Altratek Guangdong from June 2008 to July 2009, where he was a key participant in the feasibility study and development of Aobi Island. He was directly responsible for the research and development, as well as the operation and maintenance of Aobi Island. Prior to that, he was a senior adviser at the consulting department of Microsoft (China) Co., Ltd. from January 2002 to June 2008, where he provided consulting service to corporate customers in information technology system planning and development, managed the company's core operational system and technical infrastructure.

Mr. CHEN received his master's degree in computer software and theory and bachelor's degree in weather dynamics from Sun Yat-sen University (中山大學) in June 2002 and June 1998, respectively. Mr. CHEN is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

WANG Xiaodong (王曉東), aged 48, is a co-founder of our Group and was appointed as our Executive Director in December 2013 and executive vice president in September 2009. Mr. WANG was also appointed as our executive director between September 2009 and March 2010. He is in charge of the overall management of the human resources, user services, public affairs and business cooperation of our Group.

Mr. WANG has more than fifteen years of experience in the information technology industry, as well as extensive experience in the education industry. Prior to joining the Group, he was one of the new project leaders of Altratek Guangdong from September 2007 to July 2009, where he was a key participant in the feasibility study and development of Aobi Island. He was specifically responsible for managing human resources, administration and the cooperation with primary schools and other education agencies for the product. He was the director of human resources and vice president of Guangzhou Elite Enterprise Management Corporation (廣州市伊萊哲企業有限公司) from August 2001 to December 2008, where he was in charge of the company's operations in northern China, as well as the management and development of the company's human resources department. From April 2001 to August 2001, he was the associate dean of Hunan University College of Civil Engineering (湖南大學土木工程學院), where he was responsible for overall student education and management. Prior to that, he was the associate director of the department of mechanical engineering of Hunan University (湖南大學) from February 1997 to January 1998, where he was responsible for the overall management of the department.

Mr. WANG received his master's degree in industrial international trade and bachelor's degree in machine design and manufacturing from Hunan University (湖南大學) in December 1998 and July 1988, respectively. Mr. WANG is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

Non-Executive Director

JI Yue (計越), aged 41, has served as a Non-Executive Director of our Company since March 31, 2010. He supervises the overall management and strategic planning of our Group.

Mr. JI joined Sequoia Capital China in 2005 and is currently a partner. Mr. JI has been a director of Noah Holdings Limited since 2007, a NYSE-listed wealth management service provider and a director of Country Style Cooking Restaurant Chain Co., Ltd since 2007, a NYSE-listed quick service restaurant chain in China.

Mr. JI received a bachelor's degree in engineering from Nanjing University of Aeronautics & Astronautics (南京航空航天大學) in July 1995 and an MBA from China Europe International Business School (中歐國際工商學院) in April 2000.

Independent Non-Executive Directors

LIU Qianli (劉千里), aged 38, was appointed as our Independent Non-Executive Director on March 18, 2014.

Ms. LIU has over ten years of experience in investment banking and corporate finance. From December 2010 to July 2013, Ms. LIU served as the chief financial officer of Phoenix New Media, a media company in China listed on the New York Stock Exchange. Prior to that, she served as the chief financial officer of ChinaEDU Corp., an education services provider in China listed on NASDAQ, from October 2008 to November 2010. From July 2007 to August 2008, she served as chief financial officer of MainOne Inc., an information technology company. Ms. LIU was a vice president at Lehman Brothers investment banking in Hong Kong and an associate at Lehman Brothers investment banking in New York from July 2003 to June 2007.

Ms. LIU received her MBA degree from MIT Sloan School of Management in June 2003 and her bachelor of arts from Dartmouth College, U.S., in June 1997. Ms. LIU is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

WANG Qing (王慶), aged 45, was appointed as our Independent Non-Executive Director on March 18, 2014.

Dr. WANG has over thirteen years of experience in investment banking and corporate finance. Dr. WANG is president and partner of Shanghai Chongyang Investment Management Co., Ltd, a privately managed fund in China. Before joining Chongyang Investment in April 2013, Dr. WANG was a managing director in the investment banking department at China International Capital Corporation (CICC) from June 2011 to April 2013. Dr. WANG joined CICC from Morgan Stanley, where he served as managing director in the research division in Hong Kong from May 2007 to June 2011. Prior to that, Dr. WANG spent six years, from June 1999 to October 2005, in Washington, D.C. as an economist with the International Monetary Fund.

Dr. WANG received his Ph.D. in economics from the University of Maryland at College Park, U.S. in August 2000. He received his bachelor's degree and master's degree in economic from Renmin University of China (中國人民大學) in July 1991 and January 1994, respectively. Dr. WANG is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

MA Xiaofeng (馬肖風), aged 50, was appointed as our Independent Non-Executive Director on March 18, 2014. Mr. MA is the co-founder, chairman and chief executive officer of ATA Inc., a professional services provider for testing, assessment and related services in China, and a public company listed on NASDAQ.

SENIOR MANAGEMENT

WU Lili (吳立立), aged 46, is one of our Executive Directors. Please refer to the section headed "— Executive Directors — WU Lili" for his biography.

YEUNG Ka Hong Carl (楊家康), aged 34, was appointed as our chief financial officer in August 2013. He oversees corporate finance, investor relations and financial management of our Group, and is also responsible for our Group's strategy planning and implementation.

Mr. YEUNG possesses extensive knowledge in the information technology industry and the financial industry. Prior to joining our Group, he was the chief financial officer of Sky-mobi Limited, a China-based mobile applications provider listed on the NASDAQ Global Market, from February 2010 to August 2013 and is currently a non-executive director of the company. Prior to that, he was the chief financial officer of ATA Inc., a computer-based testing and testing-related service provider based in China and listed on the NASDAQ Global Market, from 2006 to 2010. From 2002 to 2006, he was an analyst and later an associate at Merrill Lynch (Asia Pacific) Limited. He also served as an independent non-executive director of China Natural Gas, Inc., a NASDAQ-listed integrated natural gas operator in China, from 2008 to November 2010.

Mr. YEUNG received his bachelor's degree in economics from the Wharton School, University of Pennsylvania, and his bachelor's degree in applied science from the School of Engineering and Applied Science, University of Pennsylvania, in May 2002.

LI Chong (李沖), aged 45, is one of our Executive Directors. Please refer to the section headed "— Executive Directors — LI Chong" for his biography.

CHEN Ziming (陳子明), aged 39, is one of our Executive Directors. Please refer to the section headed "— Executive Directors — CHEN Ziming" for his biography.

WANG Xiaodong (王曉東), aged 47, is one of our Executive Directors. Please refer to the section headed "— Executive Directors — WANG Xiaodong" for his biography.

JOINT COMPANY SECRETARIES

Mr. YEUNG Ka Hong Carl and Ms. NGAI Kit Fong, a designated executive of Tricor Services Limited are our joint company secretaries.

YEUNG Ka Hong Carl (楊家康), aged 34, is one of our senior management. Please refer to the section headed "— Senior Management — YEUNG Ka Hong Carl" for his biography.

Ms. NGAI Kit Fong (倪潔芳), aged 48, was appointed as the Joint Company Secretary of our Company on December 20, 2013. She is a director of the Corporate Services Division of Tricor Services Limited. Prior to her employment at Tricor, Ms. NGAI worked in the Hong Kong office of Deloitte Touche Tohmatsu providing both company secretarial and share registration services to her clients. She has over 20 years of experience in corporate services field, providing professional secretarial services to multiple companies listed on the Hong Kong Stock Exchange. Ms. NGAI is currently the company secretary of Huiyin Household Appliances (Holdings) Co., Ltd. (Stock Code: 1280) and China Animal Healthcare Ltd. (stock code: 940).

Ms. NGAI is a fellow member of the Hong Kong Institute of Chartered Secretaries ("HKICS") and the Institute of Chartered Secretaries and Administrators of UK. She is also a holder of the Practitioner's Endorsement of HKICS.

Directors' Report

The Board is pleased to present its report together with the audited consolidated financial statements of the Group for the year ended December 31, 2013.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activity of the Group is the development and operation of children's online entertainment destination and online education products.

RESULTS

The results of the Group for the year ended December 31, 2013 are set out in the consolidated income statement on page 59 of this annual report.

DIVIDENDS

As disclosed in the section headed "Financial Information — Dividend Policy and Distributable Reserves" in the Prospectus, prior to the Listing, we had declared a special dividend of US$25.0 million to our pre-IPO shareholders payable after the Listing and contingent on us having sufficient share premium. As of the date of this report, 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 dividend has been suggested by our Board for distribution to our shareholders for the year ended December 31, 2013 and up till the date of this report.

FINANCIAL SUMMARY

The Company was listed on the Main Board of the Stock Exchange on April 10, 2014. A financial summary of the Group is set out on page 5 of the annual report.

PROPERTY AND EQUIPMENT

Details of the movements in property and equipment of the Group during the year are set out in Note 14 to the financial statements.

BORROWING

Details of the borrowings are set out in Note 29 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital are set out in Note 21 to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the articles of association of the Company, although there are no restrictions against such rights under the laws in the Cayman Islands being the jurisdiction in which the Company is incorporated.

PURCHASE, 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 year ended December 31, 2013 and up till the date of this report.

RESERVES

Movements in the reserves of the Group and the Company during the year end December 31, 2013 are set out in Note 22 to the financial statements. As of December 31, 2013, the Company had no distributable reserves.

DIRECTORS

The Directors during the year were:

Directors

Name	**Position**
Mr. DAI Jian	Chairman of the Board and Executive Director
Mr. WU Lili	Chief Executive Officer and Executive Director
Mr. LI Chong	Executive Director
Mr. CHEN Ziming	Executive Director
Mr. WANG Xiaodong *(appointed on December 19, 2013)*	Executive Director
Mr. JI Yue	Non-executive Director
Ms. LIU Qianli *(appointed on March 18, 2014)*	Independent Non-executive Director
Mr. WANG Qing *(appointed on March 18, 2014)*	Independent Non-executive Director
Mr. MA Xiaofeng *(appointed on March 18, 2014)*	Independent Non-executive Director

In accordance with article 84(1) of the Articles of Association, Mr. WANG Xiaodong, Mr. JI Yue and Mr. MA Xiaofeng shall retire at the forthcoming annual general meeting. In accordance with article 83(3) of the Articles of Association, Mr. DAI Jian (appointed on April 12, 2012), Mr. WU Lili (appointed on September 25, 2009), Mr. LI Chong (appointed on September 25, 2009) and Mr. CHEN Ziming (appointed on September 25, 2009) shall hold office until the forthcoming annual general meeting. All of the aforesaid retiring Directors, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

None of the aforesaid retiring Directors has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than under normal statutory obligations.

None of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation other than statutory compensation.

The biographical details of the Directors and senior management of the Company are set out in "Biographies of the Directors and Senior Management" in this report.

DIRECTORS' AND SENIOR MANAGEMENT MEMBERS' REMUNERATIONS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the remuneration of the Directors and those of the five highest paid individuals of the Group for the year ended December 31, 2013 are set out in Note 9 to the financial statements.

The remuneration of the Directors is determined with reference to salaries paid by comparable companies, time commitment and responsibilities of the Directors and performance of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in the section headed "Statutory and General Information — Further Information about Directors and Substantial Shareholders — 1. Disclosure of Interests" in the Prospectus and this report, no contract of significance to which the Company or any of its subsidiaries or the PRC Operating Entity was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS AND THEIR ASSOCIATES' INTERESTS IN COMPETING BUSINESS

As of date of this report, none of the Directors are considered to be interested in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

Since the Shares of the Company were not listed on the Stock Exchange as at December 31, 2013, Section 352 of the SFO and the Model Code were then not applicable to the Company and the Directors.

As of the date of this report, the interests and short positions of the Directors or the chief executive of the Company in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Name of Director/ Chief Executive	Name of company	Capacity/Nature of interest	Number of underlying Shares(1)	Approximate percentage of shareholding
DAI Jian(戴堅)(1)(9)	The Company	Founder of a discretionary trust Interest of controlled corporation	739,460,000	26.18%
	The Company	Beneficial owner	10,000,000	0.35%
WU Lili (吳立立)(2)	The Company	Founder of a discretionary trust Interest of controlled corporation	447,112,000	15.83%
LI Chong (李沖)(3)	The Company	Founder of a discretionary trust Interest of controlled corporation	203,304,000	7.20%
CHEN Ziming (陳子明)(4)	The Company	Founder of a discretionary trust Interest of controlled corporation	111,580,000	3.95%
WANG Xiaodong (王曉東)(5)	The Company	Founder of a discretionary trust Interest of controlled corporation	74,544,000	2.64%
LIU Qianli (劉千里)(6)	The Company	Beneficial owner	200,000	0.007%
WANG Qing (王慶)(7)	The Company	Beneficial owner	200,000	0.007%
MA Xiaofeng (馬肖風)(8)	The Company	Beneficial owner	200,000	0.007%

Notes:

(1) Mr. DAI established DAE Trust on December 27, 2013 for the benefit of himself and his family members, and acts as its settlor and protector. The trustee of DAE Trust is TMF (Cayman) Ltd., and Independent Third Party and sole shareholder of DAE Holding Limited, a trust holding company owns 100% of equity interest in Stmoritz Investment Limited.

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

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

(4) Mr. CHEN established Tigercat Sunshine Trust on December 27, 2013 for the benefit of himself and his family members, and acts as its settlor and protector. The trustee of Tigercat Sunshine Trust is TMF (Cayman) Ltd., and Independent Third Party and sole shareholder of Happy Newstart Holding Limited, a trust holding company owns 100% of equity interest in LeLe Happy Holding Limited.

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

(6) Ms. LIU is interested in 200,000 RSUs granted to her under the Pre-IPO RSU Scheme entitling her to receive 200,000 Shares subject to vesting.

(7) Dr. WANG is interested in 200,000 RSUs granted to him under the Pre-IPO RSU Scheme entitling him to receive 200,000 Shares subject to vesting.

(8) Mr. MA is interested in 200,000 RSUs granted to him under the Pre-IPO RSU Scheme entitling him to receive 200,000 Shares subject to vesting.

(9) Mr. DAI is interested in 10,000,000 RSUs granted to him under the Pre-IPO RSU Scheme entitling him to receive 10,000,000 Shares subject to vesting.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

Since the Shares of the Company were not listed on the Stock Exchange as at December 31, 2013, Division 2, 3 and 4 of Part XV of the SFO and the section 336 of the SFO were then not applicable to the Company and the Substantial Shareholders.

As of the date of this report, the following persons have interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of shareholder	Capacity/Nature of Interest	Number of Shares	Approximate percentage of shareholding in the total issued share capital of our Company
TMF (Cayman) Ltd.[(1)]	Trustee of trusts	1,576,000,000	55.80%
Stmoritz Investment Limited[(2)]	Registered Owner	739,460,000	26.18%
DAE Holding Limited[(2)]	Trust holding company	739,460,000	26.18%
DAI Jian (戴堅)[(2)]	Founder of a discretionary trust Interest of controlled corporation	739,460,000	26.18%
Bright Stream Holding Limited[(3)]	Registered Owner	447,112,000	15.83%
WHEZ Holding Ltd.[(3)]	Trust holding company	447,112,000	15.83%
WU Lili (吳立立)[(3)]	Founder of a discretionary trust Interest of controlled corporation	447,112,000	15.83%
LNZ Holding Limited[(4)]	Registered owner	203,304,000	7.20%
Golden Water Management Limited[(4)]	Trust holding company	203,304,000	7.20%
LI Chong (李沖)[(4)]	Founder of a discretionary trust Interest of a controlled corporation	203,304,000	7.20%
Sequoia Capital China II, L.P.	Registered Owner	335,240,000	11.87%

Name of shareholder	Capacity/Nature of Interest	Number of Shares	Approximate percentage of shareholding in the total issued share capital of our Company
The Core Trust Company Limited[5]	Trustee of a trust	142,316,000	5.04%
Peto Holding Limited[6]	Nominee of a trust	142,316,000	5.04%

Notes:

(1) TMF (Cayman) Ltd. is the trustee of DAE Trust, WHZ Trust, The Zhen Family Trust, Tigercat Sunshine Trust and WSW Family Trust.

(2) The entire share capital of Stmoritz Investment Limited is wholly-owned by DAE Holding Limited and ultimately owned by TMF (Cayman) Ltd. as the trustee of the DAE Trust, which is a discretionary trust set up by Mr. DAI on December 27, 2013 for the benefit of himself and his family members, and Mr. DAI is a settlor and protector. Mr. DAI (as founder of the DAE Trust), DAE Holding Limited and TMF (Cayman) Ltd. are taken to be interested in 739,460,000 Shares held by Stmoritz Investment Limited pursuant to Part XV of the SFO.

(3) The entire share capital of Bright Stream Holding Limited is wholly-owned by WHEZ Holding Ltd. and ultimately owned by TMF (Cayman) Ltd. as the trustee of the WHZ Trust, which is a discretionary trust set up by Mr. WU on December 27, 2013 for the benefit of himself and his family members, and Mr. WU is a settlor and protector. Mr. WU (as founder of the WHZ Trust), WHEZ Holding Ltd. and TMF (Cayman) Ltd. are taken to be interested in 447,112,000 Shares held by Bright Stream Holding Limited pursuant to Part XV of the SFO.

(4) The entire share capital of LNZ Holding Limited is owned by Golden Water Management Limited, which is wholly-owned by TMF (Cayman) Ltd. as the trustee of The Zhen Family Trust, which is a discretionary trust set up by Mr. LI on December 27, 2013 for the benefit of himself and his family members, and Mr. LI is a settlor and protector. Mr. LI (as founder of The Zhen Family Trust), Golden Water Management Limited and TMF (Cayman) Ltd. are taken to be interested in 203,304,000 Shares held by LNZ Holding Limited pursuant to Part XV of the SFO.

(5) The Core Trust Company Limited is the trustee and Peto Holding Limited is the nominee of a trust established by our company to administer the Pre-IPO RSU Scheme. Peto Holding Limited holds 142,316,000 Shares underlying the RSUs granted by us under the Pre-IPO RSU Scheme, including 10,000,000 RSUs granted to Mr. DAI.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended December 31, 2013.

MAJOR CUSTOMERS AND SUPPLIERS

The users of our virtual worlds are our customers. Payment through physical prepaid cards accounts for a majority of payments that we receive from our users. In addition to physical prepaid cards, we also provide our users with the option of purchasing AoCoins through virtual prepaid cards or directly on our payment site.

For the year ended December 31, 2013, the top five sources of cash proceeds from sales of physical and virtual prepaid cards and sales of AoCoins through other payment channels accounted for 53.3% of our total cash proceeds from these sales. Our top source of cash proceeds from these sales for the year ended December 31, 2013 was our sole virtual prepaid card distributor and accounted for 15.1% of our total cash proceeds from these sales.

None of our Directors, their associates or any Shareholders that, to the knowledge of our Directors, own more than 5% of the Company's issued share capital had any interest in any of our five largest sources of cash proceeds from prepaid cards.

For the year ended December 31, 2013, charges from our five largest suppliers accounted for 22.8% of our cost of revenues.

None of our Directors, any of their associates or any Shareholders that, to the knowledge of our Directors, own more than 5% of the issued share capital of the Company had any interest in any of our five largest suppliers during the year ended December 31, 2013.

AUDIT COMMITTEE

Our audit committee was established on March 19, 2014 and has reviewed the accounting principles and policies adopted by the Group and discussed the Group's internal controls and financial reporting matters with the management.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at December 31, 2013 are set out in Note 1(b) and Note 15 to the financial statements.

EMPLOYEE INCENTIVE SCHEMES

In order to incentivize our Directors, senior management and other employees for their contribution to the Group and to attract and retain suitable personnel to our Group, we adopted the Pre-IPO Share Option Scheme on June 18, 2010 and the Pre-IPO RSU Scheme on September 30, 2013. We also conditionally adopted the Post-IPO RSU Scheme on March 18, 2014, which took effect upon our Listing on April 10, 2014.

Summaries of the terms of the Pre-IPO Share Option Scheme, Pre-IPO RSU Scheme and Post-IPO RSU Scheme have been disclosed in the sections headed "Statutory and General Information — Pre-IPO Share Option Scheme", "Statutory and General Information — Pre-IPO RSU Scheme" and "Statutory and General Information — Post-IPO RSU Scheme" in Appendix IV to the Prospectus.

Outstanding Share Options

As disclosed in the section headed "Statutory and General Information — Outstanding Share Options and RSUs" in Appendix IV to the Prospectus, prior to the Listing, we had granted share options to subscribe for an aggregate of 28,800,000 Shares to 51 share option grantees under the Pre-IPO Share Option Scheme, all of whom are employees of our Group and none of whom is a Director, a senior management member or a connected person of our Company. Among the share option grantees, two persons have each been granted share options representing more than 5,000,000 Shares under the Pre-IPO Share Option Scheme. No consideration was paid by any of the share option grantees for any share options granted by us to them. There are two different exercise prices for share options granted to the relevant grantees, US$0.0045 and US$0.009, respectively. The vesting period of all the granted share options is 36 months from the date of grant. None of these share options has been elected to exercise by any of the share option grantees. If all the granted share options are exercised, there would be a dilution effect on the shareholdings of our Shareholders of approximately 1.01%.

Save as set out above, no other share options have been or would be granted by us after the Listing pursuant to the Pre-IPO Share Options. We have appointed The Core Trust Company Limited as the trustee and Duoduo Holding Limited, a company incorporated in the BVI on February 13, 2014 and an Independent Third Party, as the nominee to administer the Pre-IPO Share Options Scheme pursuant to its scheme rules, however, no Shares underlying the granted share options had been allotted and issued to Daoduo Holding Limited.

The table below shows details of share options granted to all share option grantees under the Pre-IPO Share Option Scheme as of the date of this report:

Grantee	Share options granted	Position	Address	Consideration paid for the share options	Number of shares underlying share options granted	Exercise Price	Date of Grant	Vesting Period	The period during which share options are exercisable	Approximate percentage of issued Shares
Director	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Senior Management	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
BIAN Jingyi (卞靜怡)	6,000,000	Vice President	Room 804, Block 1, Tai He Yuan, Nanjing, PRC	Nil	6,000,000	US$0.0045	June 20, 2010	36 months from the date of grant	10 years after the date of grant	0.21%
DENG Linghua (鄧淩華)	5,320,000	Director of Technology	No. 8 Xinan Si Road, Nanshau District, Shenzhen, Guangdong, PRC	Nil	4,520,000	US$0.0045	June 20, 2010	36 months from the date of grant	10 years after the date of grant	0.16%
				Nil	800,000	US$0.009	June 20, 2010			0.03%
Total	11,320,000				11,320,000					0.40%
Other employees										
12 employees	9,320,000			Nil	9,320,000	US$0.0045	June 20, 2010	36 months from the date of grant	10 years after the date of grant	0.33%
34 employees	7,160,000			Nil	7,160,000	US$0.009	June 20, 2010			0.25%
3 employees	1,000,000			Nil	1,000,000	US$0.009	January 15, 2011			0.03%
Total	17,480,000				17,480,000					0.61%
TOTAL	28,800,000				28,800,000					1.01%

Assuming that all the outstanding shares options as of December 31, 2013 granted under the Pre-IPO Share Option Scheme had been exercised in full and that the 28,800,000 Shares to be issued upon the exercise of all the share options granted under the Pre-IPO Share Option Scheme were deemed to have been in issue, for the year ended December 31, 2013, no dilution effect will be resulted as net loss was recorded in 2013 and assuming the 28,800,000 Shares be issued upon the exercise of all the share options granted under the Pre-IPO Share Option Scheme were deemed to have been in issue would result in an anti-dilution effect on the loss per Share for the year ended December 31, 2013.

As disclosed in the sectioned headed "Waivers from Strict Compliance with the Listing Rules and Exemption from Strict Compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance — Waiver and Exemption in relation to the Pre-IPO Share Option Scheme" in the Prospectus, we had applied for, and had been granted, an exemption from the SFC from strict compliance with the disclosure requirements under paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous) Ordinance, and a waiver from the Stock Exchange from strict compliance with the disclosure requirements under Rule 17.02(1)(b) of and paragraph 27 of Appendix 1A to the Listing Rules in connection with the particulars of share option grantees.

Outstanding RSUs

As of the date of this report, we have an aggregate of 142,316,000 RSUs granted to 309 grantees under the Pre-IPO RSU Scheme. Among all the RSU grantees, four of them are Directors, one is a member of senior management, and 304 are our other employees. Other than the four Directors, none of the RSU grantees is a connected person of our Company. Among all the RSU Grantees, four persons have each been granted RSUs representing more than 5,000,000 Shares. The total number of Shares underlying the 142,316,000 RSUs represents approximately 5.04% of the share capital of our Company. Save as set out above, no other RSUs have been granted by us after the Listing pursuant to the Pre-IPO RSU Scheme.

We have appointed The Core Trust Company as the trustee and Peto Holding Limited, a company incorporated in the British Virgin Islands on February 13, 2014 and an Independent Third Party, as the nominee to administer the Pre-IPO RSU Scheme. As of the date of this report, 142,316,000 Shares have been issued and allotted to Peto Holding Limited.

The maximum aggregate number of 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 the date of this report, no RSUs have been granted by us pursuant to the Post-IPO RSU Scheme.

We have appointed The Core Trust Company as the trustee and Baiduo Investment Holding Limited, a company incorporated in the British Virgin Islands on February 13, 2014 and an Independent Third Party, as the nominee to administer the Post-IPO RSU Scheme after the Listing. As of the date of this report, no Shares had been allotted and issued to Baiduo Investment Holding Limited.

(a) Directors

Four of our Directors have been granted RSUs under the Pre-IPO RSU Scheme as of the date of this report.

Name of Grantee	RSUs granted	Consideration paid for the RSUs	Number of shares underlying RSUs granted	Date of Grant	Vesting Schedule	Approximate percentage of issued Shares
DAI Jian (戴堅)	10,000,000	Nil	10,000,000 Ordinary Shares	February 18, 2014	20% of the RSUs at 12 months after the date of grant 20% of the RSUs at 24 months after the date of grant 30% of the RSUs at 36 months after the date of grant 30% of the RSUs at 48 months after the date of grant	0.35%
LIU Qianli (劉千里)	200,000	Nil	200,000 Ordinary Shares	March 21, 2014	30% of the RSUs at 12 months after the date of grant 30% of the RSUs at 24 months after the date of grant 40% of the RSUs at 36 months after the date of grant	0.007%
WANG Qing (王慶)	200,000	Nil	200,000 Ordinary Shares	March 21, 2014	30% of the RSUs at 12 months after the date of grant 30% of the RSUs at 24 months after the date of grant 40% of the RSUs at 36 months after the date of grant	0.007%
MA Xiaofeng (馬肖風)	200,000	Nil	200,000 Ordinary Shares	March 21, 2014	30% of the RSUs at 12 months after the date of grant 30% of the RSUs at 24 months after the date of grant 40% of the RSUs at 36 months after the date of grant	0.007%
Total	10,600,000		10,600,000 Ordinary Shares			0.37%

(b) **Senior management**

Only one of our senior management members has been granted RSUs under the Pre-IPO RSU Scheme. The table below shows details of RSUs granted to him as of the date of this report:

Name of Grantee	RSUs granted	Consideration paid for the RSUs	Number of shares underlying RSUs granted	Date of Grant	Vesting Schedule	Approximate percentage of issued Shares
Senior Management						
YEUNG Ka Hong Carl (楊家康)	10,000,000	Nil	10,000,000 Ordinary Shares	October 1, 2013	20% of the RSUs at 12 months after the date of grant 20% of the RSUs at 24 months after the date of grant 30% of the RSUs at 36 months after the date of grant 30% of the RSUs at 48 months after the date of grant	0.35%
	10,000,000	Nil	10,000,000 Ordinary Shares	February 18, 2014	20% of the RSUs at 12 months after the date of grant 20% of the RSUs at 24 months after the date of grant 30% of the RSUs at 36 months after the date of grant 30% of the RSUs at 48 months after the date of grant	0.35%
Total	20,000,000		20,000,000 Ordinary Shares			0.70%

(c) Grantees holding RSUs representing more than 5,000,000 Shares

As of the date of this report, other than DAI Jian and YEUNG, Ka Hong Carl, two other employees of our Company has been granted RSUs representing more than 5,000,000 Shares each under the Pre-IPO RSU Scheme.

Name of Grantee	RSUs granted	Position	Address	Consideration paid for the RSUs	Number of shares underlying RSUs granted	Date of Grant	Vesting Schedule	Approximate percentage of issued Shares
BIAN Jingyi (卞靜怡)	6,000,000	Vice President	Room 804, Block 1, Tai He Yuan, Nanjing PRC	Nil	6,000,000 Ordinary Shares	October 1, 2013	20% of the RSUs at 12 months after the date of grant 20% of the RSUs at 24 months after the date of grant 30% of the RSUs at 36 months after the date of grant 30% of the RSUs at 48 months after the date of grant	0.21%
LI Wei (李偉)	7,400,000	Vice President	No. 888 North Tian He Rd., Guangzhou, PRC	Nil	7,400,000 Ordinary Shares	October 1, 2013	20% of the RSUs at 12 months after the date of grant 20% of the RSUs at 24 months after the date of grant 30% of the RSUs at 36 months after the date of grant 30% of the RSUs at 48 months after the date of grant	0.26%

(d) Other Grantees

As of the date of this report, other than the four Directors, no RSU has been granted to any connected person of the Company under the Pre-IPO RSU Scheme. Other than the Directors, senior management member and Grantees holding RSUs representing more than 5,000,000 Shares disclosed in paragraphs (a), (b) and (c) above, 302 other employees have been granted RSUs under the Pre-IPO RSU Scheme. The Shares underlying these granted RSUs represent approximately 3.48% of the share capital of our Company.

The table below shows details of RSUs granted to our other 302 employees as of the date of this report:

Name of Grantee	RSUs granted	Consideration paid for the RSUs	Number of shares underlying RSUs granted	Date of Grant	Vesting Schedule	Approximate percentage of issued Shares
300 employees	91,676,000	Nil	91,676,000 Ordinary Shares	October 1, 2013	20% of the RSUs at 12 months after the date of grant 20% of the RSUs at 24 months after the date of grant 30% of the RSUs at 36 months after the date of grant 30% of the RSUs at 48 months after the date of grant	3.25%
14 employee[1]	6,640,000	Nil	6,640,000 Ordinary Shares	February 18, 2014	20% of the RSUs at 12 months after the date of grant 20% of the RSUs at 24 months after the date of grant 30% of the RSUs at 36 months after the date of grant 30% of the RSUs at 48 months after the date of grant	0.24%
Total	98,316,000		98,316,000 Ordinary Shares			3.48%

[1] Among the 14 employees who were granted RSUs on February 18, 2014, 12 of them had also been granted RSUs on October 1, 2013.

Assuming that the 188,733,600 and 56,472,440 Shares which may be issued under the Pre-IPO RSU Scheme and the Post-IPO RSU Scheme have been in issue throughout the years ended December 31, 2011, 2012 and 2013, there will be a dilution effect of approximately 11.8% on the audited earnings per Share for the year ended December 31, 2011 and a dilution effect of approximately 12.5% on the audited earnings per Share for the year ended December 31, 2012. There will be no dilution effect for the year ended December 31, 2013 as net loss was recorded in 2013 and assuming additional Ordinary Shares in issue would result in an anti-dilution effect on the loss per Share for the year.

PUBLIC FLOAT

As at the date of this report and based on the information that is publicly available to the Company and to the knowledge of the Directors, the Company has maintained the minimum public float of 25% as required under the Listing Rules.

PROFESSIONAL TAX ADVICE RECOMMENDED

If the Shareholders are unsure about the taxation implications of purchasing, holdings, disposing of, dealing in, or the exercise of any rights in relation to, the Shares, they are advised to consult an expert.

RIGHTS TO ACQUIRE THE COMPANY'S SECURITIES

Save as disclosed under the section "Employee Incentive Schemes" above, at no time during the year ended December 31, 2013 and the subsequent period till the date of this report, was the Company, or any of its holding companies or subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executive of the Company or their respective associates (as defined under the Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of Shares in, or debentures of, the Company or any other body corporate.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

On April 10, 2014, the Company's Shares were listed on the Main Board of the Stock Exchange. A total of 706,106,000 Ordinary Shares with nominal value of US$0.0000005 each of the Company were issued at HK$2.15 per Share (exclusive of brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%) for a total of approximately HK$947.0 million. The net proceeds raised by the Company from the abovementioned global offering are approximately HK$1,382.0 million.

As at the date of this report, the net proceeds from the initial public offering had not yet been utilized and all of the net proceeds has been deposited into short-term demand deposits in a bank account maintained by the Group. The Company will start utilizing the net proceeds from the initial public offering and for the purpose consistent with those set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

CONNECTED TRANSACTIONS

Continuing Connected Transactions

Guangzhou Baitian is our primary operating entity in the PRC and the business operation of Guangzhou Baitian constitutes a business restricted to foreign investment in the PRC, therefore, we cannot directly acquire equity interests in Guangzhou Baitian. As a result, our Group has entered into a series of agreements narrowly tailored to provide our Group with control over Guangzhou Baitian and grant our Group the right to acquire the equity interests of Guangzhou Baitian when and to the extent permitted by the PRC laws and regulations. Under the Contractual Arrangements, our Group supervises and controls the business operation of Guangzhou Baitian and derives economic benefit from Guangzhou Baitian.

The Contractual Arrangements consist of four agreements: (a) Exclusive Business Consultation and Service Agreement, (b) the Proxy Agreement, (c) the Share Pledge Agreement and (d) the Exclusive Option Agreement. Please refer to the section headed "Contractual Arrangements" for detailed terms of these agreements. The PRC legal advisers of our Company have advised that the Contractual Arrangements as a whole and each of the agreements comprising the Contractual Arrangements are legal, valid and binding on the parties and are enforceable under applicable PRC laws and regulations.

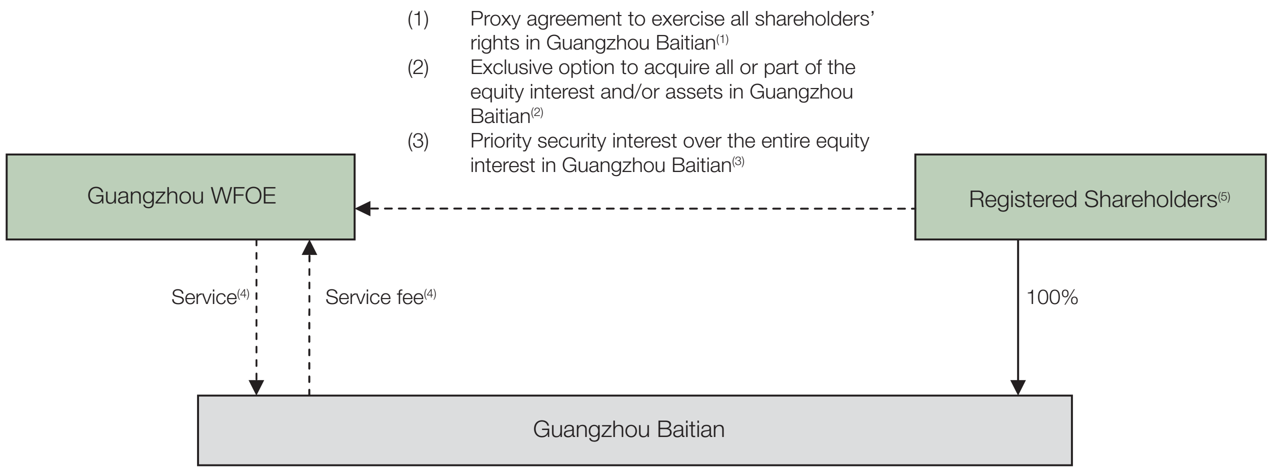
Relevant Connected Persons under the Contractual Arrangements

The table below sets forth the connected persons of us involved in the Contractual Arrangements and the nature of their connection with our Group:

Name	Connected relationship
Mr. DAI Jian	Mr. DAI is a Substantial Shareholder and our Director and therefore our connected person pursuant to Rule 14A.11(1) of the Listing Rules.
Mr. WU Lili	Mr. WU is a Substantial Shareholder and our Director and therefore our connected person pursuant to Rule 14A.11(1) of the Listing Rules.
Mr. LI Chong	Mr. LI is our Director and therefore our connected person pursuant to Rule 14A.11(1) of the Listing Rules.
Mr. CHEN Ziming	Mr. CHEN is our Director and therefore our connected person pursuant to Rule 14A.11(1) of the Listing Rules.
Mr. WANG Xiaodong	Mr. WANG is our Director and therefore our connected person pursuant to Rule 14A.11(1) of the Listing Rules.
Guangzhou Baitian	Guangzhou Baitian is owned as to 46.92% by Mr. DAI and is therefore an associate of Mr. DAI and our connected person, among other factors, pursuant to Rule 14A.11(4) of the Listing Rules.

Contractual Arrangements

The following simplified diagram illustrates the flow of economic benefits from Guangzhou Baitian our PRC operating entity, to our Group as stipulated under the Contractual Arrangements:



Note:

1. Please refer to the section headed "(b) – Proxy Agreement" below for details.
2. Please refer to the section headed "(c) – Exclusive Option Agreement" below for details.
3. Please refer to the section headed "(d) – Share Pledge Agreement" below for details.
4. Please refer to the section headed "(a) – Exclusive Business Consultation and Service Agreement" below for details.
5. Registered Shareholders are the Founders.
6. " ——▶" denotes direct legal and beneficial ownership in the equity interest and "---------▶" denotes contractual relationship.

(a) Exclusive Business Consultation and Service Agreement

Guangzhou WFOE and Guangzhou Baitian entered into the Exclusive Business Consultation and Service Agreement on December 4, 2013, which was further amended on March 20, 2014, pursuant to which Guangzhou Baitian is obliged to pay service fees to Guangzhou WFOE for the services such as technology consultation, market information collection and personnel training provided by Guangzhou WFOE to Guangzhou Baitian to support its operations. The amount of service fees and calculation method shall be determined by Guangzhou WFOE at its sole discretion for the best interests of Guangzhou WFOE in order to optimize the use of profits retained in Guangzhou Baitian to facilitate its business operations, such as strengthening its IT infrastructure and enlarging its business scales where necessary and other working capital and general corporate purpose. Guangzhou WFOE will enjoy all the economic interests of Guangzhou Baitian, consisting of the service fees and the economic interests remaining in Guangzhou Baitian for the sustainable development of its business operations. Under the Exclusive Business Consultation and Service Agreement, Guangzhou WFOE may, at its sole discretion and without any restriction, adjust the payment terms, collection ratio and/or the amount of service fees. Guangzhou Baitain shall deliver to Guangzhou WFOE its management documents and operating data at the request of Guangzhou WFOE.

In addition, in order to prevent the leakage of assets of Guangzhou Baitian, the Exclusive Business Consultation and Service Agreement also provides that, absent prior written consent, Guangzhou Baitian shall not dispose of any of its material assets, change its current shareholding structure, enter into any transaction which may affect any of the assets, liabilities, business operations, shareholding structure, shareholdings in third parties or any other legal rights of Guangzhou Baitian in a material manner (except those arising from the ordinary course of business of Guangzhou Baitian or approved by Guangzhou WFOE), or assign or transfer any of the rights and/or obligations thereunder to any third party.

(b) Proxy Agreement

Guangzhou WFOE and the Registered Shareholders entered into the Proxy Agreement on December 4, 2013, which was further amended on March 20, 2014, pursuant to which the Registered Shareholders irrevocably and exclusively designate to Guangzhou WFOE's directors or their successor or Guangzhou WFOE's liquidator their shareholder rights, pursuant to which Guangzhou WFOE is entitled to act on behalf of the Registered Shareholders on all matters concerning Guangzhou Baitian and to exercise all the shareholder rights in Guangzhou Baitian, including but not limited to: (i) convening and attending shareholder meetings in the capacity of a proxy of the Registered Shareholders, (ii) exercising the voting rights on behalf of each of the Registered Shareholders on matters to be discussed and resolved at shareholder meetings, including but not limited to, nomination and election of directors of Guangzhou Baitian, the sale or transfer of all or part of equity interests held by any of the Registered Shareholders in Guangzhou Baitian, amendment to the articles of association of Guangzhou Baitian and dissolution or winding-up of Guangzhou Baitian, (iii) other voting rights of shareholders under the articles of association of Guangzhou Baitian, and (iv) receiving shareholder meeting notices, signing meeting minutes and resolutions, filing documents with the relevant companies registry and/or other government authorities in relation to the business operations of Guangzhou Baitian.

This agreement may only be terminated in the event that (i) all equity interests held by the Registered Shareholders or all assets of Guangzhou Baitian have been transferred to Guangzhou WFOE or its appointee, (ii) Guangzhou WFOE unilaterally terminates this agreement, or (iii) termination is required by the applicable PRC laws or regulations.

(c) Exclusive Option Agreement

Guangzhou WFOE, Guangzhou Baitian and the Registered Shareholders entered into the Exclusive Option Agreement on December 4, 2013, which was further amended on March 20, 2014, pursuant to which Guangzhou Baitian and the Registered Shareholders irrevocably and unconditionally granted an exclusive option to Guangzhou WFOE, which entitles Guangzhou WFOE to elect to purchase, when and to the extent permissible by the then applicable PRC laws, all or any part of the equity interests and/or assets of Guangzhou Baitian through itself or through its appointee, which must be a wholly-owned subsidiary of the Company. In the event that the option is exercised by Guangzhou WFOE, the transfer price of equity interests and/or assets shall be the lowest price as permitted by the then applicable PRC laws, and the Registered Shareholders shall return any consideration received from the equity transfer occurred after the exercise of this option to Guangzhou WFOE or its appointee within ten working days after the deduction of any relevant taxes or payments pursuant to applicable PRC laws. Therefore, If Guangzhou WFOE exercises this option, all or any part of the equity interests of Guangzhou Baitian acquired would be transferred to Guangzhou WFOE and the benefits of equity ownership would flow to the Company and our shareholders.

Pursuant to this agreement, in order to prevent the leakage of the assets and value of Guangzhou Baitian to the Registered Shareholders or any third party, the Registered Shareholders shall not sell, transfer, mortgage or dispose of in any manner any of the shares held by them. In addition, Guangzhou Baitian shall not, and the Registered Shareholders shall cause Guangzhou Baitian not to: (i) sell, transfer, mortgage or dispose of any material assets held by Guangzhou Baitian, (ii) increase or reduce the registered capital of Guangzhou Baitian or otherwise alter the registered capital structure of Guangzhou Baitian, (iii) enter into any merger or otherwise consolidate with any third party, (iv) acquire or invest in any third party, (v) terminate any material contract or enter into any material contract that conflicts with any existing material contract of Guangzhou Baitian, (vi) take out or provide any loan, or provide a guarantee in any form to any third party, (vii) allow any third party to gain any other security interest on the assets or equity of Guangzhou Baitian, (viii) have Guangzhou Baitian incur any debt not incurred in the ordinary course of business or (ix) make any profit or dividend distributions to the Registered Shareholders. In the event that the Registered Shareholders receive any profit or dividend distribution from Guangzhou Baitian, the Registered Shareholders must return the profit or dividend distribution to Guangzhou WFOE (or its appointee) after deduction of relevant taxes pursuant to the applicable PRC laws.

In the event of a mandatory liquidation required by PRC laws, Guangzhou Baitian shall transfer all of its remaining assets and residual interests after such liquidation through a non-reciprocal transfer to Guangzhou WFOE or its appointee to the extent permitted by PRC laws and, at the lowest price permitted by PRC laws. In such case, the Registered Shareholders shall return in full consideration they receive to Guangzhou WFOE or its appointee within ten working days after the deduction of any relevant taxes or payments pursuant to applicable PRC laws.

(d) Share Pledge Agreement

Guangzhou Baitian, the Registered Shareholders and Guangzhou WFOE entered into the Share Pledge Agreements on December 4, 2013, which was further amended on March 20, 2014, pursuant to which the Registered Shareholders agreed to pledge all their shares in Guangzhou Baitian to Guangzhou WFOE, as a first priority security interest, to guarantee the performance of contractual obligations of the Registered Shareholders and Guangzhou Baitian under the Exclusive Consultation and Service Agreement, Proxy Agreement and Exclusive Option Agreement and their respective amendments. Within ten working days after the execution of this agreement, the Registered Shareholders shall file an application for share pledge registration with the competent industrial and commerce registration authority and such share pledge registration must be completed within 60 days after the execution of this agreement. The share pledge takes effect upon the completion of registration with the competent industrial and commerce registration authority and shall remain valid until all the contractual obligations of the Registered Shareholders and Guangzhou Baitian under the Contractual Arrangements have been fully performed. During the valid period of the share pledge, absent prior written consent of Guangzhou WFOE, the Registered Shareholders shall not, and Guangzhou Baitian shall not facilitate the Registered Shareholders to, create or agree to create any new pledge or any other security on the shares of Guangzhou Baitian, nor assign or transfer any of the shares of Guangzhou Baitian or any rights or obligations under this agreement to a third party. If an event of default occurs, Guangzhou WFOE may demand that the Registered Shareholders immediately dispose of the pledged equity interests and use the proceeds to repay any outstanding payments due to Guangzhou WFOE under the Exclusive Business Consultation and Service Agreement.

A waiver has been granted to us by the Stock Exchange from strict compliance with (i) announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions under the Contractual Arrangements; (ii) the requirement of setting a maximum aggregate annual value (i.e., an annual cap) for the fees payable to our Group under the Contractual Arrangements; and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less, for so long as the Shares are listed on the Stock Exchange, subject to certain conditions:

Our Directors (including the Independent Non-Executive Directors) are of the view that the Contractual Arrangements and the transactions contemplated thereunder are fundamental to the Group's legal structure and business operations, that such transactions are on normal commercial terms and are fair and reasonable, or advantageous, so far as the Group is concerned and in the interests of the Company and the Shareholders as a whole. In addition, our independent non-executive Directors have reviewed the Contractual Arrangements and confirmed that, as of the date of this report: (i) the transactions carried out have been entered into in accordance with the relevant provisions of the Contractual Arrangements so that the revenue generated by Guangzhou Baitian has been mainly retained by our Group; (ii) no dividends or other distributions have been made by Guangzhou Baitian to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group; and (iii) no new contracts have been entered into, renewed or reproduced between our Group and Guangzhou Baitian as of the date of this report.

A foreign investor who invests in a value-added telecommunications business in the PRC must possess prior experience in operating value-added telecommunications businesses and a proven track record of business operations overseas (the "Qualification Requirement"). We will continue to take the steps set out in the section headed "Contractual Arrangements — Legality of the Contractual Arrangements — PRC Legal Opinions" in the Prospectus in order to comply with the Qualification Requirement. In addition, we will maintain close contact with the relevant PRC regulatory authorities and see specific guidance as to the Qualification Requirement in due course. Furthermore, we will provide periodic updates in our annual and interim reports to inform the investing public of our efforts and actions taken to comply with the Qualification Requirement as well as the progress of our efforts.

RELATED PARTY TRANSACTIONS

Details of related party transactions during the year ended December 31, 2013 are disclosed in Note 34 to the financial statements.

AUDITOR

The financial statements have been audited by PricewaterhouseCoopers who retire and being eligible, offer itself for re-appointment. No change of auditor has occurred in the years ended December 31, 2011, 2012 and 2013 and up till the date of this report. A resolution for the re-appointment of PricewaterhouseCoopers as the company's auditor for the ensuing year is to be proposed at the forthcoming annual general meeting.

By order of the Board
DAI JIAN
Chairman

Hong Kong, April 28, 2014

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Board believes that high corporate governance standards are essential in providing a framework for the Group to safeguard the interests of shareholders and to enhance corporate value and accountability. The Board is committed to achieving high corporate governance standards.

As the Shares of the Company have only been listed on the Main Board of the Stock Exchange since April 10, 2014, it was not required to comply with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules for the year ended December 31, 2013.

The Directors will use their best endeavours to procure the Company to continue to comply with such code of corporate governance.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted 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.

BOARD OF DIRECTORS

The Board of the Company comprises the following directors:

Executive Directors:

Mr. DAI Jian *(Chairman and Chairman of Nomination Committee)*
Mr. WU Lili *(Chief Executive Officer and Member of Remuneration Committee)*
Mr. LI Chong
Mr. CHEN Ziming
Mr. WANG Xiaodong *(appointed on December 19, 2013)*

Non-executive Director:

Mr. Ji Yue *(Member of Audit Committee)*

Independent Non-executive Directors:

Ms. LIU Qianli *(appointed on March 18, 2014) (Chairman of Audit Committee and Member of Nomination Committee)*
Mr. WANG Qing *(appointed on March 18, 2014) (Chairman of Remuneration Committee and Member of Audit Committee)*
Mr. MA Xiaofeng *(appointed on March 18, 2014) (Member of Remuneration Committee and Nomination Committee)*

The biographical information of the directors are set out in the section headed "Biographies of the Directors and Senior Management" on pages 22 to 26 of the annual report for the year ended December 31, 2013.

None of the members of the Board is related to one another.

Chairman and Chief Executive Officer

The positions of Chairman and Chief Executive Officer are held by Mr. DAI Jian and Mr. WU Lili respectively. The Chairman provides leadership to the Board and is responsible for determining the broad strategic direction of the Company and high-level oversight of management. The Chief Executive Officer focuses on the Company's business development and daily management and operations generally. Their respective responsibilities are clearly defined and set out in writing.

Independent Non-executive Directors

The Board at all times after the Listing Date met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

Each of the three independent non-executive directors has confirmed his/her independence and the Company considers each of them to be independent in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules.

Non-executive Directors and Directors' Re-election

Code provision A.4.1 of the Corporate Governance Code stipulates that non-executive directors shall be appointed for a specific term, subject to re-election, whereas code provision A.4.2 states that all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

Each of the directors of the Company is appointed for a specific term of three years and subject always to re-election as and when required under the Articles of Association. The Articles of Association requires that at each annual general meeting one-third of the directors for the time being (or, if the number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every director shall be subject to retirement at an annual general meeting at least once every three years.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Directors of the Board take decisions objectively in the interests of the Company.

All directors, including non-executive directors and independent non-executive directors, shall bring a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

All directors shall have full and timely access to all the information of the Company as well as the services and advice from the company secretaries and senior management. The directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each director to perform his responsibilities to the Company.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

Continuous Professional Development of Directors

Directors shall keep abreast of responsibilities as a director of the Company and of the conduct, business activities and development of the Company.

Every newly appointed director will receive formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

In accordance with A.6.5 of the Corporate Governance Code with regards to continuous professional development, directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally-facilitated briefings for directors will be arranged and reading material on relevant topics will be issued to directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

BOARD COMMITTEES

The Board has established three committees, namely, the Audit Committee, Remuneration Committee and Nomination Committee for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request.

The majority of the members of each Board committee are independent non-executive directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" on page 2.

Audit Committee

On March 19, 2014, the Company established an audit committee with written term of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C3 and paragraph D3 of the Corporate Governance Code. The primary duties of the Audit Committee are to assist the Board by providing an independent view of effectiveness of the financial reporting process, internal control and risk management system of the Group, overseeing the audit process and performing other duties and responsibilities as assigned by the Board.

The Audit Committee will hold at least two meetings to review interim and annual financial results and reports for the year 2014 and significant issues on the financial reporting and compliance procedures, internal control and risk management systems, scope of work and appointment of external auditor, connected transactions and arrangements for employees to raise concerns about possible improprieties. The financial director of the Company, the head of internal auditor and a representative of the external auditor shall normally attend meetings of the Audit Committee. Other Board members shall also have the right to attend.

The Audit Committee will also meet the external auditor twice without the presence of the executive directors.

Remuneration Committee

The Company established a Remuneration Committee on March 19, 2014 with written terms of reference in compliance with paragraph B1 of the Corporate Governance Code. The primary duties of the Remuneration Committee include, but not limited to, the following (i) making recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedures for developing policy on such remuneration; (ii) determining the specific remuneration package of all directors and senior management; and (iii) reviewing and approving performance based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

The Remuneration Committee will meet at least once in 2014 to review and make recommendation to the Board on the remuneration policy and structure of the Company, and the remuneration packages of the executive directors and senior management and other related matters.

Nomination Committee

On March 19, 2014, the Company established a Nomination Committee with written terms of reference in compliance with paragraph A4 of the Corporate Governance Code. The primary functions of the Nomination Committee include, without limitation, reviewing the structure, size and composition of the Board, assessing the independence of independent non-executive directors and making recommendations to the Board on matters relating to the appointment of directors.

The Nomination Committee shall meet at least once a year or more frequently if circumstances require in 2014 to review the structure, size and composition of the Board and the independence of the independent non-executive directors, to consider the qualifications of the retiring directors standing for election at the annual general meetings.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the Corporate Governance Code.

The Board will review the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and Written Employee Guidelines, and the Company's compliance with the Corporate Governance Code and disclosure in its corporate governance report.

DIRECTORS' RESPONSIBILTY IN RESPECT OF THE FINANCIAL STATEMENTS

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended December 31, 2013.

The directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 59 to 60.

AUDITORS' REMUNERATION

The remuneration paid to the external auditor of the Company, PricewaterhouseCoopers, in respect of annual audit of the financial statements of the Company for the year ended December 31, 2013 amounted to RMB1,500,000. No non-audit services was provided by PricewaterhouseCoopers to the Company during the year.

INTERNAL CONTROLS

The Board shall conduct a review of the effectiveness of the internal control system of the Company, including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function in 2014.

COMPANY SECRETARIES

Mr. Yeung Ka Hong Carl who is the CFO and also the in-house company secretary. He is supported by Ms. Ngai Kit Fong of Tricor Services Limited, external service provider, acting as the joint company secretary. Mr. Yeung Ka Hong Carl is the primary contact person at the Company.

SHAREHOLDERS' RIGHTS

To safeguard shareholders' interests and rights, a separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual directors. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

Convening an Extraordinary General Meeting ("EGM") and Putting Forward Proposals at EGM

Pursuant to article 58 of the Articles of Association, any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretaries of the Company, to require an EGM to be called by the Board for the transaction of any business specified in such requisition, including making proposals or moving a resolution at the EGM.

The requisitionists who wish to convene an EGM for the purpose of making proposals or moving a resolution at the EGM must deposit a written requisition (the "Requisition") signed by the requisitionist(s) concerned to the head office of the Company at 10G, No. 36 Jianzhong Road, Tianhe Software Park, Tianhe District, Guangzhou, Guangdong, PRC or at the office of Tricor Investor Services Limited, the Hong Kong Share Registrar of the Company, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for the attention of the company secretaries.

The Requisition must state clearly the name of the requisitionist(s) concerned, his (their) shareholding in the Company, the reason(s) to convene an EGM, the agenda proposed to be included the details of the business(es) proposed to be transacted in the special general meeting, signed by the requisitionist(s) concerned.

The Company will check the Requisition and the identity and the shareholding of the requisitionist(s) will be verified with the Company's Hong Kong share registrar. If the Requisition is found to be proper and in order, the Company Secretaries will ask the Board to convene an EGM within 2 months and/or include the proposal or the resolution proposed by the requsitionist(s) at the EGM after the deposit of the Requisition. On the contrary, if the Requisition has been verified as not in order, the requisitionist(s) concerned will be advised of this outcome and accordingly, the Board will not call for an EGM and/or include the proposal or the resolution proposed by the requistionist(s) at the EGM.

If within 21 days of the deposit of the Requisition the Board has not advised the requisitionist(s) of any outcome to the contrary and fails to proceed to convene such EGM, the requisitionist(s) himself (themselves) may do so in accordance with the Articles of Association, and all reasonable expenses incurred by the requisitionist(s) concerned as a result of the failure of the Board shall be reimbursed to the requisitionist(s) concerned by the Company.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Address:	(Head Office) 10G, No. 36 Jianzhong Road, Tianhe Software Park, Tianhe District, Guangzhou, Guangdong, PRC; or (Hong Kong Share Registrar) the office of Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong (For the attention of the Company Secretaries)
Fax:	(852) 2117 0869
Email:	BAIOO@christensenir.com

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings. At the forthcoming annual general meeting, directors (or their delegates as appropriate) will be available to meet shareholders and answer their enquiries.

The Company has not made any changes to its Articles of Association on or after the Listing Date. An up to date version of the Company's Articles of Association is also available on the Company's website and the Stock Exchange's website.

Independent Auditor's Report

pwc 羅兵咸永道

To the shareholders of BAIOO Family Interactive Limited

(Incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of BAIOO Family Interactive Limited ("the Company") and its subsidiaries (together, the "Group") set out on pages 59 to 140, which comprise the consolidated and company balance sheets as at December 31, 2013 and the consolidated income statement, the consolidated statement of comprehensive (loss)/income, the consolidated statement of changes in deficits and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at December 31, 2013 and of the Group's loss and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Other Matters

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, April 28, 2014

Consolidated Income Statement

	Note	Year ended December 31, 2013 RMB'000	2012 RMB'000
Revenue	5	**454,996**	203,243
Cost of revenue	6	**(106,115)**	(65,120)
Gross profit		**348,881**	138,123
Selling and marketing expenses	6	**(47,644)**	(30,012)
Administrative expenses	6	**(33,247)**	(11,095)
Research and development expenses	6	**(28,546)**	(9,153)
Other income	7	**1,551**	107
Other gains — net	8	**7,163**	263
Operating profit		**248,158**	88,233
Finance income	10	**7,656**	2,755
Finance costs	10	**(17)**	—
Finance income — net	10	**7,639**	2,755
Fair value loss of convertible redeemable preferred shares	30	**(237,228)**	(71,214)
Profit before income tax		**18,569**	19,774
Income tax expense	11	**(38,788)**	(13,484)
(Loss)/profit for the year		**(20,219)**	6,290
Attributable to:			
— Equity holders of the Company		**(20,219)**	6,290
(Loss)/earnings per share (expressed in RMB per share)	12		
— Basic		**(0.0128)**	0.0040
— Diluted		**(0.0128)**	0.0040
Dividend	13	**—**	—

The notes on pages 66 to 140 are integral parts of these consolidated financial statements.

Consolidated Statement of Comprehensive (Loss)/Income

		Year ended December 31,	
		2013	2012
	Note	**RMB'000**	RMB'000
(Loss)/profit for the year		**(20,219)**	6,290
Other comprehensive income		**—**	—
Total comprehensive (loss)/income for the year		**(20,219)**	6,290
Attributable to:			
— Equity holders of the Company		**(20,219)**	6,290

The notes on pages 66 to 140 are integral parts of these consolidated financial statements.

Consolidated Balance Sheet

		As at December 31,	
		2013	2012
	Note	**RMB'000**	RMB'000
ASSETS			
Non-current assets			
Property and equipment	14	**13,106**	9,463
Intangible assets	16	**217**	150
Prepayments and other receivables	19	**5,427**	1,015
Restricted cash	20	**10,000**	—
Deferred income tax assets	31	**9,110**	5,996
		37,860	16,624
Current assets			
Trade receivables	18	**3,855**	3,370
Prepayments and other receivables	19	**12,016**	601
Short-term deposits	20	**200,000**	—
Cash and cash equivalents	20	**280,932**	190,768
		496,803	194,739
Total assets		**534,663**	211,363
EQUITY			
Share capital	21	**5**	5
Reserves	22	**25,734**	15,943
Accumulated losses		**(45,169)**	(24,950)
Total deficits		**(19,430)**	(9,002)

Consolidated Balance Sheet

	Note	As at December 31, 2013 RMB'000	2012 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred revenue	26	**2,083**	537
Convertible redeemable preferred shares	30	**349,962**	119,946
		352,045	120,483
Current liabilities			
Trade payables	27	**3,501**	1,244
Other payables and accruals	28	**55,178**	22,712
Income tax liabilities		**6,204**	4,927
Advances from customers	26	**73,161**	37,566
Advance from government grant	25	**—**	1,500
Deferred revenue	26	**57,867**	31,933
Borrowing	29	**6,137**	—
		202,048	99,882
Total liabilities		**554,093**	220,365
Total deficits and liabilities		**534,663**	211,363
Net current assets		**294,755**	94,857
Total assets less current liabilities		**332,615**	111,481

These consolidated financial statements on pages 59 to 140 were approved for issue by the Board of Directors and were signed on its behalf.

DAI Jian
Director

WU Lili
Director

The notes on pages 66 to 140 are integral parts of these consolidated financial statements.

Balance Sheet — Company

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

These consolidated financial statements on pages 59 to 140 were approved for issue by the Board of Directors and were signed on its behalf.

DAI Jian
Director

WU Lili
Director

The notes on pages 66 to 140 are integral parts of these consolidated financial statements.

Consolidated Statement of Changes in Deficits

		Attributable to equity holders of the Company			
				Accumulated	
		Share Capital	Reserves	losses	Total deficits
	Note	RMB'000	RMB'000	RMB'000	RMB'000
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 statuary 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		5	15,943	(24,950)	(9,002)
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		**5**	**25,734**	**(45,169)**	**(19,430)**

The notes on pages 66 to 140 are integral parts of these consolidated financial statements.

Consolidated Statement of Cash Flows

		Year ended December 31,	
		2013	2012
	Note	**RMB'000**	RMB'000
Cash flows from operating activities			
Cash generated from operations	32	**341,395**	147,782
Interest received		**2,787**	992
Income tax paid		**(40,625)**	(16,988)
Net cash generated from operating activities		**303,557**	131,786
Cash flows from investing activities			
Purchase of property and equipment and intangible assets		**(10,316)**	(6,955)
Purchase of short-term investments		**(390,000)**	(600,000)
Proceeds from short-term investments upon maturity		**390,000**	600,000
Investment in short-term deposits		**(200,000)**	—
Interest received from short-term investments		**1,608**	1,763
Increase in restricted cash		**(10,000)**	—
Net cash used in investing activities		**(218,708)**	(5,192)
Cash flows from financing activities			
Proceeds from short-term borrowing		**6,137**	—
Payments of listing expenses		**(769)**	—
Net cash generated from financing activities		**5,368**	—
Net increase in cash and cash equivalents		**90,217**	126,594
Cash and cash equivalents at beginning of the year		**190,768**	64,187
Exchange losses on cash and cash equivalents		**(53)**	(13)
Cash and cash equivalents at end of the year		**280,932**	190,768

The notes on pages 66 to 140 are integral parts of these consolidated financial statements.

Notes to the Financial Statements

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

The Company and its subsidiaries (collectively the "Group") are principally engaged in the development and operation of online virtual 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 in 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").

On April 10, 2014, the Company completed its Listing. Upon the completion of Listing, the entire 400,000,000 outstanding convertible redeemable preferred shares in the Company were converted into ordinary shares on a one-to-one basis immediately on the same date. Upon the Listing, the Company issued an aggregate of 706,106,000 ordinary shares to the public at a price of HK$2.15 per share.

The financial statements are presented in Renminbi ("RMB"), unless otherwise stated, and have been approved for issue by the Board of Directors of the Company on April 28, 2014.

1 General information, reorganization and basis of presentation (continued)

(b) The reorganization of the Group

In preparation for the Listing, the Group underwent group restructuring, pursuant to which the beneficial interests in Guangzhou Baitian, the PRC operating entity engaging in the Listing Business, were transferred to Baiduo (Guangzhou) Information Technology Limited ("Guangzhou WFOE"), a wholly owned subsidiary of the Company. Details of the reorganization are set out under the section headed "History and reorganization of the Group" in the prospectus (the "Prospectus") of the Company dated March 28, 2014.

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 of the Company 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. 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.

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, 2013 and 2012, 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.

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

(c) Basis of presentation

The Listing Business is 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 statements of the companies now comprising the Group (including Guangzhou Baitian) are presented on a consolidated basis under International Financial Reporting Standard ("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 statements are set out below.

2.1 Basis of preparation

The financial statements of the Group have been prepared in accordance with IFRSs. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with 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 statements are disclosed in Note 4 below.

As at December 31, 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 statements:

— 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.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.1 Changes in accounting policy and disclosures (continued)

(a) New and amended standards not yet adopted (continued)

— 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 Summary of significant accounting policies (continued)

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.

2 Summary of significant accounting policies (continued)

2.2 Subsidiaries (continued)

2.2.1 Consolidation (continued)

(a) ***Business combinations (continued)***

The excess of the consideration transferred, the amount of any non-controlling 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 Summary of significant accounting policies (continued)

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 statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The 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

2 Summary of significant accounting policies (continued)

2.5 Property and equipment (continued)

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 statement.

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 statement.

(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. 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, 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 Summary of significant accounting policies (continued)

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 Summary of significant accounting policies (continued)

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 Summary of significant accounting policies (continued)

2.12 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks and short-term highly liquid investments with original maturity of three months or less.

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 Summary of significant accounting policies (continued)

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 Summary of significant accounting policies (continued)

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 statements. However, deferred income tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Outside basis differences

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, 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 Summary of significant accounting policies (continued)

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.

2 Summary of significant accounting policies (continued)

2.20 Share-based payments (continued)

(a) Equity-settled share-based payments transactions (continued)

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 Summary of significant accounting policies (continued)

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.

2 Summary of significant accounting policies (continued)

2.22 Revenue recognition (continued)

Online business (continued)

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

— 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.

2 Summary of significant accounting policies (continued)

2.22 Revenue recognition (continued)

Online business (continued)

(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.

2 Summary of significant accounting policies (continued)

2.22 Revenue recognition (continued)

Other business

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.

2 Summary of significant accounting policies (continued)

2.22 Revenue recognition (continued)

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 Summary of significant accounting policies (continued)

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 statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

3 Financial risk management

3.1 Financial risk factors

The Group's activities exposed it to a variety of financial risks: market risk (including foreign exchange risk, 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, 2013 and 2012, 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

For the years ended December 31, 2013 and 2012, 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, 2013 and 2012, 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 RMB11,861,000 and RMB3,556,000 lower/higher.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

The carrying amounts of deposits placed with banks, trade receivables, other receivables included in the financial statements represent the Group's maximum exposure to credit risk in relation to its financial assets. The objective of the Group's measures to manage credit risk is to control potential exposure to recoverability problem.

To manage the credit risk, bank deposits are mainly placed with state-owned or reputable listed financial institutions in the 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, 2013 and 2012 as follows:

	As at December 31,	
	2013	2012
	RMB'000	RMB'000
Counterparties with external credit rating*		
Aa2	**425**	947
A1	**324**	232
Baa3(**)	**481,870**	181,243
Ba1	**14**	13
	482,633	182,435
Counterparties without external credit rating		
China Minsheng Banking Corp., Ltd	**8,271**	8,288
Others	**24**	24
	8,295	8,312
Restricted cash, short-term deposits and cash and cash equivalents	**490,928**	190,747

* Rating soured 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.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

For trade receivables, a significant portion 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.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

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.

Group	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 3 years RMB'000	Between 3 and 4 years RMB'000	Between 4 and 5 years RMB'000	Total RMB'000
At 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**
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

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

Company	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 3 years RMB'000	Between 3 and 4 years RMB'000	Between 4 and 5 years RMB'000	Total RMB'000
At December 31, 2013						
Other payables and accruals (excluding other tax liabilities)	**14,433**	**–**	**–**	**–**	**–**	**14,433**
Convertible redeemable preferred shares	**–**	**19,815**	**–**	**–**	**–**	**19,815**
At December 31, 2012						
Other payables and accruals (excluding other tax liabilities)	660	–	–	–	–	660
Convertible redeemable preferred shares	–	–	20,428	–	–	20,428

As at December 31, 2013 and 2012, 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 Financial risk management (continued)

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders' value in the long term.

The Group monitors capital (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:

	Year ended December 31,	
	2013	2012
	RMB'000	RMB'000
Total liabilities (excluding convertible redeemable preferred shares)	**204,131**	100,419
Total assets	**534,663**	211,363
Gearing ratio	**38%**	48%

3.3 Fair value estimation

Financial instruments are carried at fair value within a fair value hierarchy that categorizes, into three levels, inputs to valuation techniques used to measure the fair value. The three different levels are as follows:

— Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

— Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

— Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

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

Group and Company	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total 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 following table presents the Group and the Company's assets and liabilities that are measured at fair value as at December 31, 2012.

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

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.

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

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.

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

4 Critical accounting estimates and judgments (continued)

4.1 Critical accounting estimates and assumptions (continued)

(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, 2013 and 2012, the estimated carrying amount of Series A-1 Preferred Shares would have been RMB13,941,000 and RMB3,237,000 lower or RMB15,584,000 and RMB3,488,000 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 Critical accounting estimates and judgments (continued)

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. 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' payments due to Beijing Baitian or Guangzhou WFOE and to secure performance of Guangzhou Baitian' obligations under the Original Contractual Arrangements or Contractual Arrangements, respectively.

4 Critical accounting estimates and judgments (continued)

4.2 Critical judgments in applying the Group's accounting policies (continued)

(b) Subsidiaries arising from contractual arrangements (continued)

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 business

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.

5 Segment information (continued)

Other information, together with the segment information, provided to the CODM, is measured in a manner consistent with that applied in these financial statements. There 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 years ended December 31, 2013 and 2012 are as follows:

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

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, 2013 and 2012. 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 92.3% and 84.6% of the total revenue for the each of the years ended December 31, 2013 and 2012. 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.

5 Segment information (continued)

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

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 the years ended December 31, 2013 and 2012 is shown in the consolidated income statement.

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

6 Expenses by nature

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

7 Other income

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

8 Other gains — net

	Year ended December 31,	
	2013	2012
	RMB'000	RMB'000
Currency exchange gain, net	**7,159**	194
Others	**4**	69
	7,163	263

9 Employee benefit expenses (including directors' emoluments)

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

9 Employee benefit expenses (including directors' emoluments) (continued)

(a) Pension costs — defined contribution plans

Employees of the Group companies in the PRC are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. For the years ended December 31, 2013 and 2012, 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, 2013 and 2012 are set out below:

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	RMB'000	RMB'000
Executive Directors						
Mr. Dai (i)	—	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 (ii)	—	678	1,068	17	35	1,798
Non-executive Directors						
Mr. Ji Yue	—	—	—	—	—	—

9 Employee benefit expenses (including directors' emoluments) (continued)

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

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	RMB'000	RMB'000
Executive Directors						
Ms. Dai (iii)	—	—	—	—	—	—
Mr. Dai (i)	—	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 Directors						
Mr. Ji Yue	—	—	—	—	—	—
Executive Vice President						
Mr. Wang (ii)	—	473	605	15	40	1,133

(i) 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, 2013 and 2012 included the remunerations prior to his appointment as Executive Director.

(ii) 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, 2013 and 2012 included the remunerations prior to his appointment as Executive Director.

(iii) 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.

9 Employee benefit expenses (including directors' emoluments) (continued)

(c) Five highest paid individuals

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

	Year ended December 31,	
	2013	2012
	RMB'000	RMB'000
Wages and salaries	**737**	—
Discretionary bonuses	**365**	—
Pension costs — defined contribution plans	**5**	—
Other social security costs, housing benefits and other employee benefits	**5**	—
Share-based compensation expenses — Pre-IPO Share Option Scheme and Pre-IPO Restricted Share Unit Scheme	**830**	—
	1,942	—

(d) Four out of the five members of senior management of the Company are also Directors, whose emoluments are disclosed above. The emolument for remaining one member of senior management for the year ended December 31, 2013 falls into the band of RMB1,000,000 to RMB2,000,000.

(e) For the years ended December 31, 2013 and 2012, 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 financial costs

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

(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, 2013 and 2012.

11 Income tax expense

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

	Year ended December 31, 2013 RMB'000	2012 RMB'000
Current income tax		
— PRC corporate income tax	**41,902**	16,741
Deferred income tax (Note 31)	**(3,114)**	(3,257)
Income tax expense	**38,788**	13,484

11 Income tax expense (continued)

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the statutory tax rate applicable to profits of the consolidated entities as follows:

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

The significant change in weighted average income tax rate amongst the years ended December 31, 2013 and 2012 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, 2013 and 2012. No Hong Kong profits tax has been provided for, as there was no business operation that was subject to profits tax for the years ended December 31, 2013 and 2012.

11 Income tax expense (continued)

(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, 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 for the years ended December 31, 2013 and 2012.

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, 2013 and 2012. 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 for the years ended December 31, 2013 and 2012.

(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%.

For the years ended December 31, 2013 and 2012, 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 (Loss)/earnings per share

(a) Basic

Basic (loss)/earnings per share is calculated by dividing the loss/profit 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 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 (loss)/earnings per share (with consequential effect on diluted (loss)/earnings per share) for the years ended December 31, 2013 and 2012.

	Year ended December 31,	
	2013	2012
(Loss)/profit attributable to equity holders of the Company (RMB'000)	**(20,219)**	6,290
Weighted average number of ordinary shares in issue	**1,576,000,000**	1,576,000,000
Basic (loss)/earnings per share (in RMB/share)	**(0.0128)**	0.0040

(b) Diluted

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 year ended December 31, 2012, 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 calculating diluted (loss)/earnings per share for the years ended December 31, 2013 and 2012, 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, 2013 and 2012. Therefore the contingently issuable ordinary shares have not been included in the calculation of diluted (loss)/earnings per share for the years ended December 31, 2013 and 2012.

12 (Loss)/earnings per share (continued)

(b) Diluted (continued)

For the purpose of calculating diluted (loss)/earnings per share for the years ended December 31, 2013 and 2012, 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 year ended December 31, 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 (loss)/earnings per share for the years ended December 31, 2013 and 2012.

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 antidilutive effect in the calculation of diluted loss per share for the year ended December 31, 2013.

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

13 Dividend

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

14 Property and equipment

	Servers RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvement RMB'000	Total RMB'000
At January 1, 2012					
Cost	7,261	1,741	349	2,998	12,349
Accumulated depreciation	(2,891)	(689)	(110)	(1,396)	(5,086)
Net book amount	4,370	1,052	239	1,602	7,263
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	7,134	1,131	169	1,029	9,463
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	7,134	1,131	169	1,029	9,463
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	**10,025**	**1,191**	**99**	**1,791**	**13,106**
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	**10,025**	**1,191**	**99**	**1,791**	**13,106**

14 Property and equipment (continued)

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

	Year ended December 31, 2013 RMB'000	2012 RMB'000
Cost of revenue	**4,716**	3,817
Administrative expenses	**309**	512
Research and development expenses	**473**	256
Selling and marketing expenses	**18**	23
	5,516	4,608

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

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

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

(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.

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

The following is a list of the principal subsidiaries as of December 31, 2013:

Name of the company	Kind of legal entity	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Effective equity interest held as at December 31, 2013	Principal activities and place of operation
Directly held by the Company					
Baitian Technology Limited ("Baitian Hong Kong")	Limited liability company	Incorporated on October 20, 2009 in Hong Kong	HK$10,000	100%	Investment holding, Hong Kong
Indirectly held by the Company					
百田(北京)信息科技有限公司 (Baitian (Beijing) Information Technology Limited, "Beijing Baitian")	Limited liability company	Incorporated on March 9, 2010 in the PRC	RMB8,528,500	100%	Research and development of computer software, the PRC
廣州百田信息科技有限公司 (Guangzhou Baitian Information Technology Limited, "Guangzhou Baitian")	Limited liability company	Incorporated on June 2, 2009 in the PRC	RMB10,010,000	100%	Online interactive entertainment and education service for children, the PRC
百多(廣州)信息科技有限公司 (Baiduo (Guangzhou) Information Technology Limited, "Guangzhou WFOE")	Limited liability company	Incorporated on October 29, 2013 in the PRC	US$ 500,000	100%	Research and development of computer software, the PRC

16 Intangible assets

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

16 Intangible assets (continued)

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

	Year ended December 31,	
	2013	2012
	RMB'000	RMB'000
Cost of revenue	**45**	18
Administrative expenses	**2**	2
	47	20

17 Financial instruments by category

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

17 Financial instruments by category (continued)

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

18 Trade receivables

Group	As at December 31, 2013 RMB'000	2012 RMB'000
Receivables from third parties	**3,855**	3,370
Less: provision for impairment	**—**	—
	3,855	3,370

As at December 31, 2013 and 2012, the fair values of trade receivables approximate their carrying amounts.

18 Trade receivables (continued)

(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,	
	2013	2012
	RMB'000	RMB'000
0–30 days	**3,713**	638
31–60 days	**142**	—
91–180 days	**—**	2,732
	3,855	3,370

(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, 2013 and 2012, 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, 2013 and 2012.

(d) The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	As at December 31,	
	2013	2012
	RMB'000	RMB'000
RMB	**3,855**	3,326
US$	**—**	44
	3,855	3,370

(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.

18 Trade receivables (continued)

(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, 2013 and 2012. As summarized in the table below, the top advertising agency accounted for 57% and 81% of the total trade receivables as at December 31, 2013 and 2012.

	As at December 31,	
	2013	2012
Advertising agency 1	**57%**	81%

19 Prepayments and other receivables

	As at December 31,	
Group	**2013**	2012
	RMB'000	RMB'000
Included in non-current assets		
Prepayment	**1,043**	83
Rental and other deposits	**355**	335
Input VAT to be deducted	**4,029**	597
	5,427	1,015
Included in current assets		
Prepayment	**4,683**	519
Rental and other deposits	**429**	23
Interests receivable	**3,261**	—
Prepaid listing fees	**3,358**	—
Others	**285**	59
	12,016	601
Less: allowance for impairment of other receivables	**—**	—
	17,443	1,616

19 Prepayments and other receivables (continued)

As at December 31, 2013 and 2012, the carrying amounts of prepayments and other receivables were primarily denominated in RMB and approximated their fair values. As at December 31, 2013 and 2012, there were no significant balances that were past due.

The maximum exposure to credit risk at each of the reporting dates is the carrying value of each class of other receivables mentioned above. The Group does not hold any collateral as security.

20 Cash and cash equivalents, short-term deposits and restricted cash

Group	As at December 31, 2013 RMB'000	2012 RMB'000
Restricted cash (Note a)	**10,000**	—
Short-term deposits (Note b)	**200,000**	—
Cash and cash equivalents		
— Cash at bank and on hand (Note c)	**280,932**	190,768
	490,932	190,768
Maximum exposure to credit risk	**490,928**	190,747

Company	As at December 31, 2013 RMB'000	2012 RMB'000
Cash and cash equivalents		
— Cash at bank and on hand (Note c)	**55**	523
Maximum exposure to credit risk	**55**	523

20 Cash and cash equivalents, short-term deposits and restricted cash (continued)

(a) Restricted cash balance represented Guangzhou Baitian's deposit placed in a bank as a collateral for a two-year banking facility. The banking facility was granted to Baitian Hong Kong and the limit is the lower of (i) US$5,000,000 and (ii) 95% of the actual collateral placed by Guangzhou Baitain. As of December 31, 2013, cash paid as collateral amounted to RMB10,000,000 and the actual drawdown of the banking facility was US$1,000,000.

(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, 2013 and 2012 were demand deposits in nature with effective interest rates per annum of approximately 1.2% and 1.1% as at December 31, 2013 and 2012, respectively.

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

Group	As at December 31,	
	2013	2012
	RMB'000	RMB'000
RMB	**484,571**	189,785
US$	**6,358**	975
HK$	**3**	8
	490,932	190,768

Company	As at December 31,	
	2013	2012
	RMB'000	RMB'000
US$	**53**	519
HK$	**2**	4
	55	523

21 Share capital

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

	Number of shares	Nominal value of shares US$'000	Equivalent nominal value of shares RMB'00
Issued:			
As at January 1, 2012 and December 31, 2012	7,880,000	1	5
Increase due to share split (Note d)	1,568,120,000	—	—
As at December 31, 2013	**1,576,000,000**	**1**	**5**

(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

Group	Other reserves RMB'000 (Note a)	Statutory reserves RMB'000 (Note b)	Share-based compensation reserve RMB'000 (Note 23)	Total RMB'000
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	10,010	5,005	928	15,943
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	**10,010**	**5,005**	**10,719**	**25,734**

Company	Share-based compensation reserve RMB'000 (Note 23)	Total RMB'000
At January 1, 2012	718	718
Pre-IPO Share Option Scheme	210	210
At December 31, 2012	928	928
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	**10,719**	**10,719**

(a) Other reserves represent capital contribution injected by the Founders into Guangzhou Baitian upon its establishment.

22 Reserves (continued)

(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.

23 Share-based payments — Group and Company (continued)

(a) Pre-IPO Share Option Scheme (continued)

(ii) Change in Control Event ("Change in Control Event") means:

(a) Approval by the board and the shareholders of the Company of the dissolution or liquidation of the Company; or

(b) Consummation of either (i) any consolidation, amalgamation, scheme of arrangement or merger of the Company with or into any other person or other corporate reorganization, in which the current shareholders of the Company will own less than 50% of the surviving company's or companies' voting power, or any transaction to which the Company is a party in which in excess of 50% of the Company's voting power is transferred, (ii) any transaction related to a sale, transfer, lease or other disposition of all or substantially all of the assets of the Company, (iii) any transaction related to the sale, pledge, transfer or other disposition of all or substantially all of the Company's outstanding shares, in which the current shareholders of the Company will own less than 50% of the surviving company's or companies' voting power, or (iv) the exclusive licensing of all or substantially all of the Company's intellectual property to a third party.

The Group has no legal or constructive obligations to repurchase or settle the options in cash.

Movements in the number of shares under the options outstanding and their related weighted average exercise prices are as follows:

	Average exercise price in US$ per share under the option	Number of share options
At January 1, 2012	1.22	157,350
Forfeited	1.60	(11,100)
At December 31, 2012	1.19	146,250
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	28,800,000

23 Share-based payments — Group and Company (continued)

(a) Pre-IPO Share Option Scheme (continued)

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:

	June 20, 2010	October 19, 2010	January 15, 2011
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 statement for share options granted to employees is disclosed in Note 9 and the corresponding effect on reserves is disclosed in Note 22.

23 Share-based payments — Group and Company (continued)

(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:

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

23 Share-based payments — Group and Company (continued)

(b) Pre-IPO Restricted Share Unit Scheme (continued)

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:

	October 1, 2013
Discount rate	**27.30%**
Risk-free interest rate	**0.23%**
Volatility	**44.80%**
Dividend yield	**0%**

The total expense recognized in the consolidated income statement 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, 2012	(39,958)
Loss for the year	(71,113)
Balance at December 31, 2012	(111,071)
Loss for the year	(240,596)
Balance at December 31, 2013	**(351,667)**

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, 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, 2013 and 2012, 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,	
	2013	2012
	RMB'000	RMB'000
Included in non-current liabilities		
Membership subscription (Note b)	**2,003**	537
Virtual worlds/web games (Note a)	**80**	—
	2,083	537
Included in current liabilities		
Advances from customers	**73,161**	37,566
Membership subscription	**31,728**	11,395
Virtual worlds/web games (Note a)	**26,139**	20,538
	131,028	69,499
	133,111	70,036

(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, 2013 and 2012. Deferred game revenue will be recognized as revenue when all of the revenue recognition criteria are met.

(b) As at December 31, 2013 and 2012, 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,	
	2013	2012
	RMB'000	RMB'000
0–30 days	**2,606**	1,244
31–60 days	**886**	—
61–180 days	**2**	—
181–365 days	**7**	—
	3,501	1,244

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

28 Other payables and accruals

Group

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

28 Other payables and accruals (continued)

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

	As at December 31, 2013 RMB'000	2012 RMB'000
RMB	**45,845**	22,637
HK$	**673**	5
US$	**8,660**	70
	55,178	22,712

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

29 Borrowing

Group

	As at December 31, 2013 RMB'000	2012 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 and 2012, 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.

30 Convertible redeemable preferred shares (continued)

(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.

30 Convertible redeemable preferred shares (continued)

(e) Conversion (continued)

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.

30 Convertible redeemable preferred shares (continued)

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

	RMB'000
At January 1, 2012	48,939
Changes in fair value	71,214
Currency translation differences	(207)
At December 31, 2012	119,946
Change in unrealized losses for the year included in profit or loss for liabilities held at the year end	71,214
At January 1, 2013	**119,946**
Changes in fair value	**237,228**
Currency translation differences	**(7,212)**
At December 31, 2013	**349,962**
Change in unrealized losses for the year included in profit or loss for liabilities held at the year end	**237,228**

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 each of the balance sheet dates. Key assumptions are set as below:

	December 31, 2013	December 31, 2012
Discount rate	**20.80%**	29.50%
Risk-free interest rate	**0.22%**	0.38%
Volatility	**45.70%**	50.10%
Dividend yield	**0%**	0%

30 Convertible redeemable preferred shares (continued)

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:

	As at December 31,	
	2013	2012
	RMB'000	RMB'000
Deferred income tax assets:		
— to be recovered after 12 months	**312**	81
— to be recovered within 12 months	**8,798**	5,915
Deferred income tax assets	**9,110**	5,996

The movements of deferred income tax assets are as follows:

	Year ended December 31,	
	2013	2012
	RMB'000	RMB'000
At beginning of the year	**5,996**	2,739
Recognized in the profit or loss	**3,114**	3,257
At end of the year	**9,110**	5,996

31 Deferred income tax assets (continued)

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 RMB'000	Advance from government grant RMB'000	Accruals RMB'000	Others RMB'000	Total RMB'000
At January 1, 2012	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 RMB104,000 and RMB4,000 in respect of losses amounting to RMB623,000 and RMB17,000 that can be carried forward against future taxable income for the years ended December 31, 2013 and 2012, 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, 2013 and 2012, no deferred income tax liability had been provided for the PRC withholding tax that would be payable on the unremitted earnings of approximately RMB307,431,000 and RMB86,431,000, 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,	
	2013	2012
	RMB'000	RMB'000
(Loss)/profit after income tax	**(20,219)**	6,290
Adjustments for:		
— Income tax expense (Note 11)	**38,788**	13,484
— Depreciation of property and equipment (Note 14)	**5,516**	4,608
— Amortization of intangible assets (Note 16)	**47**	20
— Share-based compensation expenses (Note 9)	**9,791**	210
— Finance income — net (Note 10)	**(7,639)**	(2,755)
— Fair value loss of convertible redeemable preferred shares (Note 30)	**237,228**	71,214
— Exchange gains (Note 8)	**(7,159)**	(194)
Changes in working capital:		
— Trade receivables	**(485)**	(676)
— Prepayments and other receivables	**(8,165)**	1,507
— Trade payables	**2,257**	765
— Other payables and accruals	**29,860**	14,316
— Advances from customers	**35,595**	21,331
— Advance from government grant	**(1,500)**	—
— Deferred revenue	**27,480**	17,662
Cash generated from operations	**341,395**	147,782

33 Commitments

(a) Capital commitments

As at December 31, 2013 and 2012, 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, 2013 and 2012.

(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 for the years ended December 31, 2013 and 2012 is disclosed in Note 6.

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

	As at December 31,	
	2013	2012
	RMB'000	RMB'000
Not later than 1 year	**9,572**	4,676
Later than 1 year and not later than 5 years	**1,653**	4,275
	11,225	8,951

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 for the years ended December 31, 2013 and 2012:

Name	Relationship
Mr. Dai	Chairman
Mr. Wu	Chief Executive Officer ("CEO")

34 Significant related party transactions (continued)

Group (continued)

(b) Amounts due from and due to related parties

(i) Receivable arising from operations

Names of related party	At beginning of year	At end of year	Maximum outstanding during the year
	RMB'000	RMB'000	RMB'000
Year ended December 31, 2012			
— Mr. Dai	24	—	24

(ii) Payable arising from operations

Names of related party	As at December 31,	
	2013	2012
	RMB'000	RMB'000
— Mr. Wu (*)	**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:

	Year ended December 31,	
	2013	2012
	RMB'000	RMB'000
Wages, salaries and bonuses	**11,256**	6,646
Pension costs — defined contribution plans	**127**	83
Other social security costs, housing benefits and other employee benefits	**195**	249
Share-based compensation expenses	**830**	—
	12,408	6,978

34 Significant related party transactions (continued)

Company

(a) Names and relationships with related party

The following companies and individual are the related parties of the Company which had balances and/or transactions with the Company for the years ended December 31, 2013 and 2012.

Name	Relationship
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

Names of related party	As at December 31,	
	2013	2012
	RMB'000	RMB'000
— Baitian Hong Kong	**9,003**	9,003

(ii) Payables

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

36 Subsequent events

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

(a) On February 18, 2014, the Company 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.

(b) 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 shall not exceed 56,488,440 shares.

(c) On March 18, 2014, the shareholders of the Company resolved to declare a special dividend of US$25 million (equivalent to approximately RMB152,423,000) 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. By the date of this report, such special dividend has been paid to the pre-IPO shareholders after sufficient funds were available in share premium account.

(d) On March 21, 2014, the Company granted 600,000 restricted share units under the Pre-IPO Restricted Share Units Scheme to the Company's 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) On April 10, 2014, the Company completed its Listing and issued 706,106,000 ordinary shares were issued to public investors.

(f) On April 10, 2014, upon the completion of the Listing, all Series A-1 Preferred Shares were automatically converted into ordinary shares in the Company on a one-to-one basis.