百奧家庭互動有限公司
BAIOO Family Interactive Limited

(incorporated in the Cayman Islands with limited liability)

Stock Code: 2100

Interim Report 2014

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

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STOCK CODE

2100

HEADQUARTERS IN THE PRC

10G, No. 36 Jianzhong Road

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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

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Wong Chuk Hang, Hong Kong

PRINCIPAL BANKS

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Tianhe District, Guangzhou
Guangdong
PRC

The Hongkong and Shanghai Banking Corporation Limited
1 Queen's Road Central
Central
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LEGAL ADVISORS AS TO HONG KONG LAW

Kirkland & Ellis
26/F Gloucester Tower, The Landmark
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Hong Kong

LEGAL ADVISORS AS TO CAYMAN ISLANDS LAW

Conyers Dill & Pearman (Cayman) Limited
Hutchins Drive
Cricket Square
P.O. Box 2681
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INVESTOR RELATIONS

Christensen China Limited
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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. For the six months ended 30 June 2014, our average quarterly active accounts reached 56.2 million.

Our web portal page, 100bt.com, serves as a platform for our content that is 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 seven virtual worlds, namely, Aobi Island, Aola Star, Dragon Knights, Light of Aoya, Legend of Aoqi, Clashes of Aoqi, and Magic Fighter. 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 users. We design all of our virtual worlds with specific developmental objectives for the target age group to provide users with an enjoyable entertainment experience that also benefits 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 a number of different awards and recognitions, including the "Web Game Pioneer Award" from the Ministry of Culture of the PRC 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

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

Note:

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

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

BALANCE SHEET HIGHLIGHT

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

Chairman Letter

Dear Shareholders,

From a market perspective, the most memorable event of the first half of 2014 was our initial public offering on the Stock Exchange of Hong Kong (SEHK: 2100). The offering raised gross proceeds of HK$1,518 million, one of the biggest internet firms listing in Hong Kong since 2007. We are using the proceeds from the offering for development of new virtual worlds, funding of the expansion into the online education and e-learning market on both PC and mobile and our offline product offerings, potential strategic acquisitions and working capital and other general corporate purposes.

We chose listing on 10 April 2014 despite volatile market conditions on the Stock Exchange of Hong Kong. The main reasons are that we believe short term market volatility does not affect the long term value of our business and that investors from Greater China are more familiar with our products, as well as better attuned to our competitive edge as a children's edutainment company.

STRONG PERFORMANCE DEMONSTRATES OUR COMPETITIVE EDGE IN WINNING TRUST OF BOTH PARENTS AND CHILDREN

What is our competitive edge? We think it includes winning the trust of both parents and children. We aim to create age-appropriate virtual worlds for children that are engaging but not addictive, and that give parents tools to monitor their children's experience, and make sure that they support the children's development, not undermine it. Combined with the e-tutorial platform we have created WenTa, we believe that we speak to the aspirations of Chinese children and their parents to use the internet for safe entertainment, development and learning better than any other company.

Financially, the trend line reflected the strong growth in the children's internet market in China. Revenue was up 35.0% over the first half of 2013, to RMB287.8 million for the six months ended 30 June 2014 from RMB213.2 million in the same period of 2013. Although our gross profit margin was about 72.4%, comparable to the same period in 2013, the increase in costs were mainly attributable to headcounts under WenTa that do not generate revenues yet but offer long term opportunities in the lucrative learning market. Adjusted Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA) was up 17.8% over the first half of 2013, to RMB160.5 million. Adjusted net profit was up 20.7% in the first six months of 2014, to RMB140.6 million from RMB116.5 million in the first six months of 2013. We believe these positive financial trends will likely to continue as we focus on executing our strategies.

Our addressable market is around 30% of child-related household spending. It is predicted that there will be a compound annual growth rate of about 9% in the online K-12 education market between 2012 and 2016, from RMB3.2 billion to RMB4.5 billion. At the same time, internet penetration is still low and growing fast among children in China. The size of children's web games in China is expected to nearly double to RMB2.0 billion by 2016, up from RMB1.1 billion in 2013.

Operationally, the first half of 2014 was encouraging as we saw growth across all our major metrics. There was a steady increase in average quarterly active accounts (QAAs), average quarterly paying accounts (QPAs) and average quarterly average revenue per QPA (ARQPA). For the six months ended 30 June 2014, QAAs increased by 3.1% from 54.5 million in the first six months of 2013 to 56.2 million for the same period in 2014. The average QPA increased by 17.9% from 2.8 million for the six months ended in 30 June 2013 to 3.3 million in the first six months of 2014. And average quarterly ARQPA increased by 15.1% from RMB36.4 for the six months ended in 30 June 2013 to RMB41.9 for the same period in 2014.

VIRTUAL WORLD PERFORMANCE AND PIPELINE

Let me turn now to the performance of our virtual worlds and our virtual world pipeline. One of our relatively new virtual worlds, Legend of Aoqi, and one of our older virtual worlds, Aola Star, delivered exceptional performance during the first half of 2014. Legend of Aoqi, which only went into development in April 2012, is a strategic battle game with a multiple pet system, and unique in China in the 6 to 14 year-old age bracket. Aola Star similarly has a multiple pet system. The demographics of both games are relatively balanced between girls and boys, although Aola Star is slightly more popular among girls.

Our PC-based virtual world, Clashes of Aoqi, which began commercial operation in the first quarter of 2014, has had a slow start. We do not expect it to contribute materially in 2014, but this is not unusual in our experience. Aola Star, too, took a while before it became one of our star performers. In our experience, it takes at least a year before a new virtual world generates significant revenue. Since we have a unique business model that requires minimal upfront investment, and we spread risk across multiple products, as well as age and demographic segments, we feel that it is worth investing in new games and that if it takes a while to catch on in the market, that is neither surprising nor will it substantially impact on our results.

In the pipeline for second half of 2014, we have two new virtual worlds planned. One of these is Magic Fighter, a dragon-themed virtual world, which was commercially released in July 2014. In the fourth quarter of 2014, we plan to explore into a new genre of entertainment product targeting the young teenager market characterized by higher user stickiness and revenue per user.

MOBILE STRATEGY

Our mobile strategy in entertainment is to extend our current IPs to our fans on mobile phones, to allow them to access those IPs at anytime and anywhere. We have not released any mobile games yet because we think the demographics of mobile suggest a market in the 14 year old and over age bracket. We are developing our first mobile virtual world title in this age bracket for the end of 2014.

In education, we have developed a unique model of problem and solution seeking, based on a massive database created by professionals and questions and answers among peers. The WenTa educational platform, launched in September 2013, is adding to its user base and is available on both PC and mobile platforms (both iOS and Android). The way it works is to provide incentives to users and teachers who answer each other's questions correctly. WenTa offers tutoring in the standard subjects taught in elementary, middle and high schools, ranging from math to biology and we are adding new topics as we expand the user base. We expect to achieve monetization within the next one or two years. As I mentioned earlier, the prospects for this market are huge.

In mobile social networking, we have a dedicated networking platform for children, Quanquan, that enables 6.9 million registered users to connect on both PC and mobile. We launched Quanquan in the first quarter of 2014; like WenTa, we still have some work to do before we see significant monetization.

OFFLINE PRODUCTS

Our content model, based on characters that have a long-lasting appeal to children, offers strong potential for character product development. We are partnering with a production company to produce the first animation movie based on our characters. Based on market experience, a successful animation further engages the fans base and in turn leads to more users for the online product and monetization opportunities. We signed an agreement in which we provide the intellectual property licenses but our partner picks up all the production costs. This looks to us like a good model going forward, in which we can unlock value in our characters beyond our own platforms at minimal risk. We are also looking a book and stationery deals making use of our character products, and will let you know if there are further developments in this area.

DISTRIBUTION AND MARKETING

We continue to give a high priority to distribution and marketing. We expect the number of sales outlets for our prepaid cards to grow as we expand our pre-paid card network, which is our major revenue driver, and stage targeted marketing events across the country. Summer, when school is out, is usually prime time for such marketing events.

CORPORATE GOVERNANCE

As part of our corporate listing, we held our first annual general meeting in Hong Kong on 20 June 2014. This was an opportunity to establish contact with our shareholders and help them to understand our business performance and strategies. We also attended a number of investment conferences and meetings in the first half of 2014, which marked our efforts in communicating with the major Technology, Media and Telecommunications (TMT) analysts and investment community. We believe that we have a very good story to tell, and will do more in the investor relations and media relations space over the coming six months.

LOOKING AHEAD

We expect to see much the same trend line over the next six months, although our past experience shows that growth in the second and fourth quarters tend to be slower than in the first and third quarters, reflecting the summer and winter holidays. Our growth outlook for the second half is optimistic and in line with past performance. If we execute on strategy, we believe that our business model has sufficient traction to expand significantly. With 40% market share after just five years in business, we believe Baioo is in a sweet spot for growth even as competition increases in the children's edutainment market in China.

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. As the representative of the board of directors, I promise to do my best to make sure that your investment and loyalty will be rewarded.

Sincerely,

Dai Jian
Chairman
Baioo Family Interactive Limited

14 August 2014

Definitions and Glossaries

DEFINITIONS

"Articles of Association"	articles of association of our Company as amended, supplemented or revised from time to time
"Baitian Hong Kong"	Baitian Technology Limited, a company incorporated on 20 October 2009 and existing under the laws of Hong Kong, a wholly-owned subsidiary of our 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 25 September 2009, and, except where the context otherwise requires, all of its subsidiaries and Guangzhou Baitian or where the context refers to any time prior to its incorporation, the business which its predecessors or the predecessors of its present subsidiaries and Guangzhou Baitian was engaged in and which was subsequently assumed by it
"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 2 June 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 29 October 2013 and existing under the laws of the PRC, an indirect wholly-owned subsidiary of our Company
"Independent Third Party"	any entity or party which is not connected (as defined in the Listing Rules) to our Directors, substantial shareholders or chief executives of our Company or its subsidiaries, or any of their respective close associates
"Listing" or "Our Listing"	the listing of the Shares on the Main Board of the Stock Exchange on 10 April 2014
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange (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 our Company on 18 March 2014 and took effect on 10 April 2014
"PRC"	the People's Republic of China
"Pre-IPO RSU Scheme"	the restricted share unit plan approved and adopted by our Company on 30 September 2013
"Pre-IPO Share Option Scheme"	the share option plan approved and adopted by our Company on 18 June 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 our Group
"Prospectus"	the prospectus of our Company dated 28 March 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, our Company and the Founders in connection with the Pre-IPO Investment, including that certain Series A Preferred Share Purchase Agreement dated 10 November 2009, as amended on 2 March 2010 and 4 December 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 our 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.
"QAAs"	quarterly active accounts, which is the number of active accounts for our virtual worlds in the relevant quarter. A quarterly active account is defined as a registered account that was accessed at least once during a quarter. An account that logged into two virtual worlds in the same quarter is counted as two QAAs. Average QAAs for a particular period is the average of the QAAs in each quarter during that period.
"QPAs"	quarterly paying accounts, which is the number of paying accounts in the relevant quarter. An account that paid subscription fees or for virtual items in two virtual worlds in the same quarter is counted as two QPAs. Average QPAs for a particular period is the average of the QPAs in each quarter during that period.

Management Discussion and Analysis

BUSINESS OVERVIEW

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

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

INDUSTRY REVIEW

The total revenues of China's online game market in the first quarter of 2014 reached RMB25.1 billion, representing a 23.5% year-on-year growth. The market scale of web games in China has also grown steadily over the past few years. Together with the expanding population of children who have access to and use the internet, which grew from 39.8 million in 2008 to 60.7 million in 2012, the potential growth of revenue from this market is set to increase.

Online education in China is also gaining popularity. In 2013, users of online education services in China made up only 28.8% of total internet users. However, 42.1% of the internet users who have not used online education services said that they would like to try it within one year.

OUTLOOK FOR 2014

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

OPERATION INFORMATION

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

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

Notes:

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

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

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

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

OVERALL BUSINESS AND FINANCIAL PERFORMANCE

SIX MONTHS ENDED 30 JUNE 2014

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

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

Note:

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

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

Revenue

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

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

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

Cost of Revenue

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

Gross Profit

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

Selling and Marketing Expenses

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

Administrative Expenses

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

Research and Development Expenses

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

Other Gains — net

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

Operating Profit

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

Finance Income — net

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

Fair Value Loss of Convertible Redeemable Preferred Shares

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

(Loss)/Profit before Income Tax

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

Income Tax Expense

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

Loss for the Period

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

Non-IFRS Measure — Adjusted Net Profit/EBITDA

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

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

Note:

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

Cash and Cash Equivalents and Short-Term Deposits

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

Restricted Cash

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

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

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

Bank Loans and Other Borrowings

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

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

Treasury Policies

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

Foreign Currency Risk

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

Capital Expenditures and Investments

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

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

Contingent Liabilities

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

Charges on Assets

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

Material Acquisitions and Future Plans for Major Investment

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

Employees and Staff Costs

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

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

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

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

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

Dividend

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

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

CHANGES SINCE 31 DECEMBER 2013

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

Report on Review of Interim Financial Information

pwc

羅兵咸永道

TO THE BOARD OF DIRECTORS OF BAIOO FAMILY INTERACTIVE LIMITED

(incorporated in Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 26 to 55, which comprises the interim consolidated balance sheet of BAIOO Family Interactive Limited (the "Company") and its subsidiaries (together, the "Group") as of 30 June 2014 and the related interim consolidated income statement, interim consolidated statement of comprehensive loss, interim consolidated statement of changes in equity/(deficits) and interim consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 14 August 2014

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Interim Consolidated Income Statement

		Unaudited	
		Six months ended 30 June	
		2014	2013
	Note	**RMB'000**	RMB'000
Revenue	6	**287,770**	213,219
Cost of revenue		**(79,380)**	(44,842)
Gross profit		**208,390**	168,377
Selling and marketing expenses		**(31,362)**	(21,817)
Administrative expenses		**(31,976)**	(7,506)
Research and development expenses		**(12,725)**	(8,502)
Other gains — net		**3,277**	3,032
Operating profit	7	**135,604**	133,584
Finance income		**8,604**	2,901
Finance costs		**(137)**	—
Finance income — net		**8,467**	2,901
Fair value loss of convertible redeemable preferred shares	19	**(327,749)**	(118,441)
(Loss)/profit before income tax		**(183,678)**	18,044
Income tax expense	8	**(24,583)**	(20,116)
Loss for the period		**(208,261)**	(2,072)
Attributable to:			
— Shareholders of the Company		**(208,261)**	(2,072)
Loss per share (expressed in RMB per share)	9		
— Basic		**(0.1003)**	(0.0013)
— Diluted		**(0.1003)**	(0.0013)
Dividend	10	**(154,127)**	—

The notes on pages 32 to 55 form an integral part of this condensed consolidated interim financial information.

Interim Consolidated Statement of Comprehensive Loss

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

The notes on pages 32 to 55 form an integral part of this condensed consolidated interim financial information.

Interim Consolidated Balance Sheet

	Note	Unaudited As of 30 June 2014 RMB'000	Audited As of 31 December 2013 RMB'000
ASSETS			
Non-current assets			
Property and equipment	11	**14,128**	13,106
Intangible assets	11	**437**	217
Prepayments and other receivables		**525**	5,427
Restricted cash	13	**33,000**	10,000
Deferred income tax assets	20	**7,704**	9,110
		55,794	37,860
Current assets			
Trade receivables	12	**2,270**	3,855
Prepayments and other receivables		**9,751**	12,016
Short-term deposits	13	**550,000**	200,000
Cash and cash equivalents	13	**1,040,054**	280,932
		1,602,075	496,803
Total assets		**1,657,869**	534,663
EQUITY			
Share capital	14	**8**	5
Share premium	14	**1,648,215**	—
Reserves	15	**46,840**	25,734
Accumulated losses		**(253,430)**	(45,169)
Total equity/(deficits)		**1,441,633**	(19,430)

	Note	Unaudited As of 30 June 2014 RMB'000	Audited As of 31 December 2013 RMB'000
LIABILITIES			
Non-current liabilities			
Advance from government grant		**1,810**	—
Deferred revenue		**2,779**	2,083
Convertible redeemable preferred shares	19	**—**	349,962
		4,589	352,045
Current liabilities			
Trade payables	17	**2,395**	3,501
Other payables and accruals		**39,786**	55,178
Income tax liabilities		**7,084**	6,204
Advances from customers		**88,171**	73,161
Deferred revenue		**74,211**	57,867
Borrowing	18	**—**	6,137
		211,647	202,048
Total liabilities		**216,236**	554,093
Total equity/(deficits) and liabilities		**1,657,869**	534,663
Net current assets		**1,390,428**	294,755
Total assets less current liabilities		**1,446,222**	332,615

The notes on pages 32 to 55 form an integral part of this condensed consolidated interim financial information.

Interim Consolidated Statement of Changes in Equity/(Deficits)

		Unaudited Attributable to shareholders of the Company				
	Note	Share capital RMB'000	Share premium RMB'000	Reserves RMB'000	Accumulated losses RMB'000	Total equity/ (deficits) RMB'000
Balance as of 1 January 2013		5	—	15,943	(24,950)	(9,002)
Comprehensive income						
Loss for the period		—	—	—	(2,072)	(2,072)
Other comprehensive income		—	—	—	—	—
Total comprehensive income		—	—	—	(2,072)	(2,072)
Profit appropriations to statutory reserves		—	—	—	—	—
Contributions by owners of the Company recognized directly in equity						
Pre-IPO Share Option Scheme	15	—	—	103	—	103
Balance as of 30 June 2013		5	—	16,046	(27,022)	(10,971)
Balance as of 1 January 2014		**5**	**—**	**25,734**	**(45,169)**	**(19,430)**
Comprehensive loss						
Loss for the period		**—**	**—**	**—**	**(208,261)**	**(208,261)**
Other comprehensive income		**—**	**—**	**—**	**—**	**—**
Total comprehensive loss		**—**	**—**	**—**	**(208,261)**	**(208,261)**
Profit appropriations to statutory reserves		**—**	**—**	**—**	**—**	**—**
Contributions by owners of the Company recognized directly in equity						
Issuance of ordinary shares related to initial public offering ("IPO"), net off underwriting commissions, other issuance costs and listing expenses	14	**2**	**1,120,079**	**—**	**—**	**1,120,081**
Conversion of convertible redeemable preferred shares into ordinary shares	19	**1**	**682,263**	**—**	**—**	**682,264**
Pre-IPO Share Option Scheme and Pre-IPO Restricted Share Unit Scheme	15	**—**	**—**	**21,106**	**—**	**21,106**
Dividend paid to pre-IPO shareholders	10	**—**	**(154,127)**	**—**	**—**	**(154,127)**
Balance as of 30 June 2014		**8**	**1,648,215**	**46,840**	**(253,430)**	**1,441,633**

The notes on pages 32 to 55 form an integral part of this condensed consolidated interim financial information.

Interim Consolidated Statement of Cash Flows

	Unaudited Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Cash flows from operating activities		
Cash generated from operations	**185,958**	184,066
Interest received	**8,596**	1,623
Income tax paid	**(22,297)**	(16,642)
Net cash generated from operating activities	**172,257**	169,047
Cash flows from investing activities		
Purchase of property and equipment and intangible assets	**(5,114)**	(1,020)
Purchase of short-term investments	**—**	(390,000)
Proceeds from short-term investments upon maturity	**—**	390,000
Investment in short-term deposits	**(350,000)**	(200,000)
Interest received from short-term investments	**—**	1,278
Increase in restricted cash	**(23,000)**	—
Net cash used in investing activities	**(378,114)**	(199,742)
Cash flows from financing activities		
Proceeds from short-term borrowing	**24,683**	—
Repayments of short-term borrowing	**(30,820)**	—
Interest paid	**(154)**	—
Proceeds from issuance of ordinary shares	**1,204,331**	—
Payment of commissions and listing expenses	**(79,426)**	—
Dividend paid to the pre-IPO shareholders	**(154,127)**	—
Net cash generated from financing activities	**964,487**	—
Net increase in cash and cash equivalents	**758,630**	(30,695)
Cash and cash equivalents at beginning of the period	**280,932**	190,768
Currency translation gains on cash and cash equivalents	**492**	15
Cash and cash equivalents at end of the period	**1,040,054**	160,088

The notes on pages 32 to 55 form an integral part of this condensed consolidated interim financial information.

Notes to the Condensed Consolidated Interim Financial Information

1 General information

BAIOO Family Interactive Limited (the "Company" or "Baioo") was incorporated in the Cayman Islands on 25 September 2009 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is Hutchins Drive, Cricket Square, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands, British West Indies.

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

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 10 April 2014. Upon the completion of the IPO on 10 April 2014, all Series A-1 convertible redeemable preferred shares ("Series A-1 Preferred Shares") were automatically converted into ordinary shares. As a result, 400,000,000 ordinary shares were issued and the balance of Series A-1 Preferred Shares was converted into ordinary shares in the Company on that date.

The condensed consolidated interim financial information is presented in Renminbi ("RMB"), unless otherwise stated, and have been approved for issue by the Board of Directors of the Company on 14 August 2014.

The condensed consolidated interim financial information has not been audited.

2 Basis of preparation

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

3 Accounting policies

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

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

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

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

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

4 Estimates

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2013.

5 Financial risk management

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (mainly representing currency risk), credit risk and liquidity risk.

The condensed consolidated interim financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as of 31 December 2013.

There have been no changes in the risk management department since year end or in any risk management policies since the year end.

5.2 Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents for daily operations. Due to the dynamic nature of the underlying businesses, the Group's finance department maintains flexibility in funding by maintaining adequate cash and cash equivalents.

The table below analyzes the Group's financial liabilities into the relevant maturity grouping based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As of 30 June 2014						
Trade payables	**2,395**	**–**	**–**	**–**	**–**	**2,395**
Other payables and accruals (excluding other tax liabilities)	**39,392**	**–**	**–**	**–**	**–**	**39,392**
As of 31 December 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

5 Financial risk management (continued)

5.2 Liquidity risk (continued)

As of 31 December 2013, Series A-1 Preferred Shares were classified as non-current liability because the Group believed it had 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 was the contractual redemption price which was equal to 100% of the issue price, plus any declared but unpaid dividends on such shares. The Series A-1 Preferred Shares were all converted into ordinary shares upon IPO on 10 April 2014.

5.3 Fair value estimation

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

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

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

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

The Group has no assets and liabilities that are measured at fair value as of 30 June 2014.

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

	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

5 Financial risk management (continued)

5.3 Fair value estimation (continued)

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

— Quoted market prices or dealer quotes for similar instruments

— Discounted cash flow model and unobservable inputs mainly including assumptions of expected future cash flows and discount rate

— A combination of observable inputs and unobservable inputs, including discount rate, risk-free interest rate, expected volatility and market multiples.

There were no changes in valuation techniques.

The fair value changes in the carrying amounts of level 3 instruments for the six months ended 30 June 2014 and 2013 are presented in Note 19.

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.

6 Segment information

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

— Online business

— Other businesses

Revenues from the Group's other businesses mainly include advertising revenue and licensing income from licensing the Group's proprietary cartoon images to merchandisers and book publishers.

The CODM assesses the performance of the operating segments mainly based on segment revenue of each operating segment. The cost of revenue, selling and marketing expenses, administrative expenses and research and development expenses are not included in the measure of the segments' performance. Other income, other gains — net, finance income, fair value loss of convertible redeemable preferred shares, income tax expense are also not allocated to individual operating segments.

The revenues from external customers reported to CODM are measured as segment revenue.

Other information, together with the segment information, provided to the CODM, is measured in a manner consistent with that applied in the financial information. There was no separate segment assets and segment liabilities information provided to the CODM.

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

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

6 Segment information (continued)

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 businesses) as no single external customer contributed more than 10% of the Group's total revenue for the six months ended 30 June 2014 and 2013. However, revenue of the Group is mainly derived from self-developed online virtual worlds operations and the Group depends on the success of a limited number of online virtual worlds to generate revenue. As summarized in the table below, the online virtual worlds contributing more than 10% of the Group's total revenue account for 94.6% and 94.6% of the total revenue for the six months ended 30 June 2014 and 2013, respectively. The percentage of revenue contributed by the following online virtual worlds is not presented for the periods when such amount is less than 10% of the Group's total revenue in a particular period.

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

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

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

7 Operating profit

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

	Unaudited Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Operating items		
Employee benefit expenses	**89,142**	41,883
Promotion and advertising expenses	**25,486**	18,393
Bandwidth and server custody fees	**9,860**	7,611
Professional fees	**7,207**	1,074
Prepaid card production costs	**3,448**	3,145
Operating lease rentals in respect of office premises	**4,071**	2,769
Depreciation of property and equipment and amortization of intangible assets (Note 11)	**3,798**	2,616
Prepaid card delivery costs	**1,034**	1,049

8 Income tax expense

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

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

8 Income tax expense (continued)

(a) Cayman Islands income tax

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

(b) Hong Kong profits tax

Hong Kong profits tax rate is 16.5% for the six months ended 30 June 2014 and 2013. No Hong Kong profits tax has been provided for, as there was no assessable profit that was subject to profits tax for the six months ended 30 June 2014 (six months ended 30 June 2013: nil).

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

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

According to the relevant laws and regulations promulgated by the State Tax Bureau of the PRC that was effective from 2008 onwards, enterprises engaging in research and development activities are entitled to claim 150% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year ("Super Deduction"). The Group has made its best estimate for the Super Deduction to be claimed for the Group's entities in ascertaining their assessable profits for the six months ended 30 June 2014 and 2013.

(d) PRC withholding tax ("WHT")

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

For the six months ended 30 June 2014 and 2013, the Group does not have any plan to require its PRC subsidiaries to distribute their retained earnings and intends to retain them to operate and expand its businesses in the PRC. Accordingly, no deferred income tax liability on WHT was accrued as of the end of each of the reporting periods (Note 20).

9 Loss per share

(a) Basic

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

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

(b) Diluted

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

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

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

For the purpose of calculating diluted loss per share for the six months ended 30 June 2013, the contingently issuable ordinary shares under the Pre-IPO Share Options were not assumed to be issuable as neither of the two conditions for the exercise of the options, namely the closing of an IPO or a Change in Control Event (Note 16), had been met as of 30 June 2013. Therefore the contingently issuable ordinary shares had not been included in the calculation of diluted loss per share for the six months ended 30 June 2013.

9 Loss per share (continued)

(b) Diluted (continued)

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

For the purpose of calculating diluted loss per share for the six months ended 30 June 2014, the Pre-IPO restricted share units are assumed to have been converted into ordinary shares with no corresponding change in net loss attributable to ordinary shareholders. This potential adjustment resulted in an anti-dilutive effect in the calculation of diluted loss per share for the six months ended 30 June 2014.

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

10 Dividend

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

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

11 Property and equipment and intangible assets

	Unaudited	
	Property and equipment RMB'000	Intangible assets RMB'000
Six months ended 30 June 2014		
Opening net book amount	**13,106**	**217**
Additions	**4,777**	**263**
Depreciation and amortization charge	**(3,755)**	**(43)**
Closing net book amount	**14,128**	**437**
Six months ended 30 June 2013		
Opening net book amount	9,463	150
Additions	1,052	—
Depreciation and amortization charge	(2,596)	(20)
Closing net book amount	7,919	130

12 Trade receivables

	Unaudited As of 30 June 2014 RMB'000	Audited As of 31 December 2013 RMB'000
Receivables from third parties	**2,270**	3,855
Less: Allowance for impairment	**—**	—
	2,270	3,855

12 Trade receivables (continued)

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

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

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

	Unaudited As of 30 June 2014 RMB'000	Audited As of 31 December 2013 RMB'000
Restricted cash (Note a)	33,000	10,000
Short-term deposits (Note b)	550,000	200,000
Cash and cash equivalents		
— Cash at bank and on hand (Note c)	1,040,054	280,932
	1,623,054	490,932
Maximum exposure to credit risk (Note d)	1,622,992	490,928

13 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 collateral for a two-year banking facility. The banking facility was granted to Baitian Technology Limited 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 30 June 2014, cash paid as collateral amounted to RMB33,000,000.

(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 30 June 2014 and 31 December 2013 were demand deposits in nature with effective interest rates per annum of approximately 2.7% and 1.2%, respectively.

(d) 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.

14 Share capital

	Unaudited	
	Number of ordinary shares	Nominal value of ordinary shares US$
Authorized ordinary shares:		
As of 1 January 2014	**99,548,718,000**	**49,774**
Addition (Note d)	**451,282,000**	**226**
As of 30 June 2014	**100,000,000,000**	**50,000**
As of 1 January 2013 and 30 June 2013	497,743,590	49,774

14 Share capital (continued)

	Unaudited				
	Number of shares	Nominal value of shares	Share Capital	Share Premium	Total
		US$'000	RMB'000	RMB'000	RMB'000
Issued:					
As of 1 January 2014	1,576,000,000	1	5	–	5
IPO (Note b)	706,106,000	–	2	1,120,079	1,120,081
Conversion of convertible redeemable preferred shares to ordinary shares (Note c)	400,000,000	–	1	682,263	682,264
Dividend paid to pre-IPO shareholders (Note 10)	–	–	–	(154,127)	(154,127)
As of 30 June 2014	2,682,106,000	1	8	1,648,215	1,648,223
As of 1 January 2013 and 30 June 2013	7,880,000	1	5	–	5

(a) On 20 August 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.

(b) On 10 April 2014, the Company completed its IPO on the Main Board of the Stock Exchange of Hong Kong Limited. In the IPO, the Company issued a total of 706,106,000 ordinary shares to public investors at a price of HK$2.15 per share. The net proceeds to the Company, after deducting underwriting commissions and other capitalized issuance costs paid and payable, were approximately RMB1,120,081,000 (equivalent to HKD1,411,926,000).

(c) On 10 April 2014, upon the completion of the IPO, all of the Company's 400,000,000 outstanding Series A-1 Preferred Shares were converted into ordinary shares on a one-to-one basis.

(d) On 10 April 2014, upon the completion of the IPO, the Company increased its authorized shares by the creation of 451,282,000 new ordinary shares of par value of US$0.0000005 each.

15 Reserves

	Note	Other reserves RMB'000 (Note a)	Statutory reserves RMB'000 (Note b)	Share-based compensation reserve RMB'000 (Note 16)	Total RMB'000
		Unaudited			
As of 1 January 2013		10,010	5,005	928	15,943
Pre-IPO Share Option Scheme	16(a)	—	—	103	103
As of 30 June 2013		10,010	5,005	1,031	16,046
As of 1 January 2014		**10,010**	**5,005**	**10,719**	**25,734**
Pre-IPO Share Option Scheme	16(a)	**—**	**—**	**70**	**70**
Pre-IPO Restricted Share Unit Scheme	16(b)	**—**	**—**	**21,036**	**21,036**
As of 30 June 2014		**10,010**	**5,005**	**31,825**	**46,840**

(a) Other reserves represent capital contribution injected by Guangzhou Baitian's shareholders into Guangzhou Baitian upon its establishment.

(b) In accordance with the relevant laws and regulations in the PRC and the Articles of Association of the companies incorporated in the PRC now comprising the Group, the companies are required to appropriate 10% of the annual net profits, 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 reaches 50% of the registered capital of the companies, any further appropriation is at the discretion of shareholders. The statutory surplus reserve 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.

16 Share-based payments

(a) Pre-IPO Share Option Scheme

On 18 June 2010, the Board of Directors of the Company approved the establishment of the Pre-IPO Share Option Scheme with the objective of recognizing and rewarding 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 IPO or a Change in Control Event (as defined below), whichever occurs first, and (ii) the relevant option holder shall have fully performed his or her reporting and registration obligations under the State Administration of Foreign Exchange in the People's Republic of China ("SAFE") regulations with respect to his or her holding of the Options or any Ordinary Shares.

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

(i) IPO means the first firm commitment underwritten public offering of the Ordinary Shares of the Company on a recognized national or regional securities exchange.

(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.

16 Share-based payments (continued)

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

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	Unaudited Number of share options
As of 1 January 2014 and 30 June 2014	**0.006**	**28,800,000**
As of 1 January 2013	1.19	146,250
Forfeited	1.18	(2,250)
As of 30 June 2013	1.18	144,000

On 10 April 2014, upon the completion of the IPO, the share options became exercisable.

As of 30 June 2014, 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 as of the grant date. Key assumptions, such as the discount rate and projections of future performance, are required to be determined by the directors with best estimates.

(b) Pre-IPO Restricted Share Unit Scheme

On 30 September 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.

16 Share-based payments (continued)

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

The Board of Directors 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 1 October 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.

On 18 February 2014, the Company granted 26,640,000 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.

On 21 March 2014, the Company granted 600,000 restricted share units to the Company's Independent Non-Executive Directors 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) 30% on the first anniversary of the grant date, 2) 30% on the second anniversary of the grant date, and 3) 40% vest on the third anniversary of the grant date.

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

	Unaudited Number of restricted share units
As of 1 January 2014	**115,076,000**
Granted	**27,240,000**
Forfeited	**(1,902,000)**
As of 30 June 2014	**140,414,000**

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 of the grant date.

17 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 coorperating game developers according to the respective cooperating agreements.

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

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

18 Borrowing

	Unaudited As of 30 June 2014 RMB'000	Audited As of 31 December 2013 RMB'000
Bank borrowing	**–**	6,137

18 Borrowing (continued)

(a) The entire Group's bank borrowing was repaid in May 2014 and the annual interest rate was 2.10%.

(b) As of 30 June 2014 and 31 December 2013, the fair value of borrowing approximated its carrying amounts.

Movement in borrowing is analyzed as follows:

	Unaudited RMB'000
As of 1 January 2014	**6,137**
Proceeds of new borrowing	**24,683**
Repayments of borrowing	**(30,820)**
As of 30 June 2014	**—**
As of 1 January 2013 and 30 June 2013	—

(c) Interest expense on borrowings for the six months ended 30 June 2014 is RMB137,000 (30 June 2013: nil).

19 Convertible redeemable preferred shares

On 31 March 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$0.0000005 each.

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

	Unaudited RMB'000
As of 1 January 2014	**349,962**
Changes in fair value	**327,749**
Currency translation differences	**4,553**
Conversion of convertible redeemable preferred shares into ordinary shares	**(682,264)**
As of 30 June 2014	**—**
Change in unrealized losses for the period included in profit or loss for liabilities held at the period end	**327,749**

19 Convertible redeemable preferred shares (continued)

	Unaudited RMB'000
As of 1 January 2013	119,946
Changes in fair value	118,441
Currency translation differences	(3,053)
As of 30 June 2013	235,334
Change in unrealized losses for the period included in profit or loss for liabilities held at the period end	118,441

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 of each of the balance sheet dates.

The Series A-1 Preferred Shares were all converted into ordinary shares upon the Company's IPO on 10 April 2014. The fair value of the Series A-1 Preferred Shares was assessed to be the issue price of ordinary share of HK$2.15 (approximately RMB1.71) per share.

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

20 Deferred income tax assets

	Unaudited Six months ended 30 June 2014 RMB'000	2013 RMB'000
As of beginning of the period	**9,110**	5,996
Recognized in the profit or loss	**(1,406)**	464
As of end of the period	**7,704**	6,460

21 Significant related party transactions

(a) Names and relationships with related parties

The following individual is a related party of the Group that had balances and transactions with the Group for the six months ended 30 June 2014:

Name	**Relationship**
Mr. Wu Lili	Chief Executive Officer ("CEO")

(b) Amounts due from related parties

(i) **Payable arising from operations**

Names of related party	Unaudited As of 30 June 2014 RMB'000	Audited As of 31 December 2013 RMB'000
— Mr. Wu Lili (*)	**—**	5

These balances mainly arose from advances from the shareholder for the Group's business operations.

Amounts due from a related party are unsecured, interest-free and have no fixed terms of repayment.

* Payable to Mr. Wu Lili as of 31 December 2013 was settled in February 2014.

21 Significant related party transactions (continued)

(c) Key management personnel compensations

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

	Unaudited Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Wages, salaries and bonuses	**7,131**	4,671
Pension costs — defined contribution plans	**75**	57
Other social security costs, housing benefits and other employee benefits	**118**	90
Share-based compensation expenses	**3,684**	—
	11,008	4,818

22 Contingencies

The Group did not have any material contingent liabilities as of 30 June 2014 and 31 December 2013.

Other Information

AUDIT COMMITTEE AND REVIEW OF FINANCIAL STATEMENTS

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

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

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

CHANGES IN DIRECTORS' BIOGRAPHICAL DETAILS

Changes in Directors' biographical details since the date of the 2013 annual report of the Company, which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, are set out below:

Name of Director		Details of changes
Mr. MA Xiaofeng	—	has ceased to be the 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.
Mr. JI Yue	—	The shares of Jumei International Holding Limited, of which Mr. Ji is a director, became listed on the New York Stock Exchange ("NYSE") during the period.
	—	The shares of Tuniu Corporation, of which Mr. Ji is a director, became listed on the NASDAQ during the period.

Saved as disclosed above, the Company is not aware of other changes in the Directors' information which are required to be disclosed pursuant to rule 13.51B(1) of the Listing Rules.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

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

INTERIM DIVIDEND

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

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

As of 30 June 2014, the interests and short positions of the Directors and 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 Codewere as follows:

Name of Director/ Chief Executive	Name of company	Capacity/ Nature of interest	Number of underlying Shares	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 27 December 2013 for the benefit of himself and his family members, and acts as its settlor and protector. The trustee of DAE Trust is TMF (Cayman) Ltd., and Independent Third Party and sole shareholder of DAE Holding Investments Limited, a trust holding company owns 100% of equity interest in Stmoritz Investment Limited.

(2) Mr. WU established WHZ Trust on 27 December 2013 for the benefit of himself and his family members, and acts as its settlor and protector. The trustee of WHZ Trust is TMF (Cayman) Ltd., 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 27 December 2013 for the benefit of himself and his family members, and acts as its settlor and protector. The trustee of The Zhen Family Trust is TMF (Cayman) Ltd., 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 27 December 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 27 December 2013 for the benefit of himself and his family members, and acts as its settlor and protector. The trustee of WSW Family Trust is TMF (Cayman) Ltd., 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.

Save as disclosed above, as of 30 June 2014, none of the Directors and the chief executive of the Company has any interest or short positions in shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 of the Listing Rules.

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

As of 30 June 2014, 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 held (without taking into account any Shares to be issued upon the exercise of share options granted under the Pre-IPO Share Option Scheme and any Shares which may be issued under the Post-IPO RSU Scheme)	Approximate percentage of shareholding in the total issued share capital of our Company (without taking into account any Shares to be issued upon the exercise of share options granted under the Pre-IPO Share Option Scheme and any Shares which may be issued under the Post-IPO RSU Scheme)
TMF (Cayman) Ltd.(1)	Trustee of trusts	1,576,000,000	55.80%
DAE Holding Investments Limited(2)	Trust holding company	739,460,000	26.18%
Stmoritz Investment Limited(2)	Registered owner	739,460,000	26.18%
DAI Jian (戴堅)(2)(6)	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.(5)	Registered owner	335,240,000	11.87%

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 Investments Limited and ultimately owned by TMF (Cayman) Ltd. as the trustee of the DAE Trust, which is a discretionary trust set up by Mr. DAI on 27 December 2013 for the benefit of himself and his family members, and Mr. DAI is a settlor and protector. Mr. DAI (as founder of the DAE Trust), DAE Holding Investments Limited and TMF (Cayman) Ltd. are taken to be interested in 739,460,000 Shares held by Stmoritz Investment Limited (without taking into account any Shares to be issued upon exercise of any share options under the Pre-IPO Share Option Scheme and pursuant to the Post-IPO RSU Scheme) pursuant to Part XV of the SFO.

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

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

(5) Sequoia Capital China II, L.P. is an Independent Third Party.

(6) 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. Such 10,000,000 Shares underlying the RSUs are held by ZEA Holding Limited, an Independent Third Party, as the nominee of The Core Services Limited, an Independent Third Party and the trustee of a trust established by our Company to administer and hold the 30,600,000 RSUs granted by us to our Directors and our senior management under the Pre-IPO RSU Scheme.

Save as disclosed above, as of 30 June 2014, the Directors are not aware of any other persons who have interests or short positions in the shares or underlying shares of the Company or any associated corporations (within the meaning of Part XV of the SFO) which would be required to be disclosed to the Company pursuant to Part XV of the SFO.

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 18 June 2010 and the Pre-IPO RSU Scheme on 30 September 2013. We also conditionally adopted the Post-IPO RSU Scheme on 18 March 2014, which took effect upon our Listing on 10 April 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 granted by us during the six months ended 30 June 2014 pursuant to the Pre-IPO Share Option Scheme. We have appointed The Core Trust Company Limited as the trustee and Duoduo Holding Limited, a company incorporated in the BVI and an Independent Third Party, as the nominee to administer the Pre-IPO Share Options Scheme pursuant to its scheme rules, however, no Shares underlying the granted share options has been allotted and issued to Duoduo 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 30 June 2014:

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	20 June 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	20 June 2010	36 months from the date of grant	10 years after the date of grant	0.16%
				Nil	800,000	US$0.009	20 June 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	20 June 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	20 June 2010			0.25%
3 employees	1,000,000			Nil	1,000,000	US$0.009	15 January 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 30 June 2014 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 six months ended 30 June 2014, no dilution effect will result as net loss was recorded in the first six months in 2014 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 six months ended 30 June 2014.

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 30 June 2014, we have an aggregate of 140,414,000 RSUs (taking into account the 1,902,000 RSUs cancelled due to cease of employment of certain employees) granted to 273 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 268 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 140,414,000 RSUs represents approximately 4.97% of the share capital of our Company. The Shares underlying the RSUs granted to the 268 employees represent approximately 3.89% of the share capital of our Company. Save as set out above, no other RSUs have been granted by us during the six months ended 30 June 2014 pursuant to the Pre-IPO RSU Scheme.

Prior to our listing on 10 April 2014, we have appointed The Core Trust Company as the trustee and Peto Holding Limited, a company incorporated in the BVI and an Independent Third Party, as the nominee to administer the Pre-IPO RSU Scheme.

To increase our public float, in June 2014, we appointed The Core Services Limited, an Independent Third Party, as the trustee and ZEA Holding Limited, a company incorporated in the BVI and an Independent Third Party, as the nominee to administer the 30,600,000 RSUs granted to our Directors and our senior management under the Pre-IPO RSU Scheme. Pursuant to such engagement, Peto Holding Limited transferred 30,600,000 Shares to ZEA Holding Limited. As of 30 June 2014, Peto Holding Limited holds 109,814,000 Shares (taking into account the RSUs cancelled due to cease of employment of certain employees) and ZEA Holding Limited holds 30,600,000 Shares. For details of the change of RSU trustees, please refer to our announcement titled "Announcement in relation to change of RSU trustees and public float" dated 10 June 2014.

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 30 June 2014, 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 BVI on 13 February 2014 and an Independent Third Party, as the nominee to administer the Post-IPO RSU Scheme after the Listing. As of 30 June 2014, 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 30 June 2014.

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	18 February 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	21 March 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	21 March 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%

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
MA Xiaofeng (馬肖風)	200,000	Nil	200,000 Ordinary Shares	21 March 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 30 June 2014:

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	1 October 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%

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
	10,000,000	Nil	10,000,000 Ordinary Shares	18 February 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 30 June 2014, 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	1 October 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%

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
LI Wei (李偉)	7,400,000	Vice President	No. 888 North Tian He Rd., Guangzhou, PRC	Nil	7,400,000 Ordinary Shares	1 October 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%
Total	13,400,000				13,400,000 Ordinary Shares			

(d) ***Other Grantees***

As of 30 June 2014, 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, 266 other employees have been granted RSUs under the Pre-IPO RSU Scheme. The Shares underlying these granted RSUs represent approximately 3.41% of the share capital of our Company.

The table below shows details of RSUs granted to our other 266 employees as of 30 June 2014:

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
252 employees	89,774,000	Nil	89,774,000 Ordinary Shares	1 October 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	3.18%

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
14 employee[1]	6,640,000	Nil	6,640,000 Ordinary Shares	18 February 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	96,414,000		96,414,000 Ordinary Shares			3.41%

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

PUBLIC FLOAT

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

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

The shares of the Company were listed on the main board of the Stock Exchange on 10 April 2014 with net proceeds from the initial public offering of approximately HK$1,392.0 million, after deducting underwriting fees and commissions and other expenses paid by the Company in connection with the initial public offering. As of 30 June 2014, the Company has not utilized any of the net proceeds. The net proceeds will be used for the same purposes as set out in the section headed “Future Plans and Use of Proceeds — Use of Proceeds” in the Prospectus.

COMPLIANCE WITH THE QUALIFICATION REQUIREMENT

As set out in the section headed “Contractual Arrangements — Legality of the Contractual Arrangements” in the Prospectus, 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”). Despite the lack of clear guidance or interpretation on the Qualification Requirement, we have been gradually building up our track record of overseas business operations to comply with the Qualification Requirement. We have continued to engage a local distributor in Hong Kong through whom our overseas users can purchase our physical prepaid cards. In addition, we have launched a Hong Kong website offering investor relations and other corporate information.

TRADEMARK DISPUTE

As disclosed in the Prospectus, a third party applied for trademark registration of Chinese characters of "Aola Star" and "Light of Aola" and related logos in trademark classes that are relevant to our business several days after our open beta launch of Aola Star. In February 2013, we filed a trademark cancellation application for the third party's registrations on the basis of trademark squatting with the Trademark Appeal Board of the State Administration of Industry and Commerce (the "Trademark Appeal Board"). The Trademark Appeal Board issued its decision as to the validity of these trademark registrations in April 2014, ordering the revocation of six trademark registrations in favour of us and upholding one trademark registration (the "Disputed Trademark"). In June 2014, we filed an application with the relevant local court to stop the Trademark Appeal Board's judgement of upholding the relevant trademark registration from taking effect. Our application has been accepted and is currently awaiting trial.

Pending the court's decision, the third party may bring claims in competent PRC courts against us for trademark infringement. In the event that the relevant court decides that we have infringed upon the third party's intellectual property rights, we may be ordered by the court to cease using the Disputed Trademark. Depending on whether the third party has used the Disputed Trademark during the three years prior to the date the third party brings the claim, we may also be ordered to make economic compensation to the third party. The likelihood that we will be ordered by the court to make economic compensation is relatively low, because we are not aware of any actual use of the Disputed Trademark by the third party during the past three years, nor has the third party produced any evidence for such use. For further details of the potential impact of any infringement litigation on our financial condition, please refer to the section "Risk Factors — We are involved in a trademark dispute surrounding certain Chinese characters and logos used in one of our virtual worlds, which may subject us to litigation that may have a material adverse impact on our financial condition" in the Prospectus.

To minimize the impact on our operations in the event that we are ordered by the court to cease using the Disputed Trademark, we have registered the "Baitian Aola Star" Chinese characters and logos and have already used them in our offline operations. Our Directors are of the view that ceasing to use the Disputed Trademark will not bring any material impact on our operations as our users develop stickiness to our games because of their contents and features, not the name of "Aola Star" or the logos that appear on the relevant games.

In addition to filing a claim with the court, we also filed a revocation application with the Trademark Bureau to revoke the registration of the Disputed Trademark in August 2014. Under the PRC Trademark Law, if a trademark has been registered for three years and there is no evidence of the trademark being used within the period, a third party may file an application to revoke the trademark registration. The three-year mark for the registration of the Disputed Trademark was reached on 8 August 2014 and we filed a revocation application to the Trademark Bureau on the same day. Our application is currently being reviewed. Meanwhile, since China uses a "first-to-file" system for trademark registration, meaning that the party who files for registration first gets the trademark, we also filed a registration application for the Disputed Trademark in April 2014, as soon as the Trademark Appeal Board issued its decision, to ensure that we are first-in-line for the registration of the Disputed Trademark should the current registration be revoked due to non-usage in the past three years.