百奥家庭互動有限公司
BAIOO Family Interactive Limited

(incorporated in the Cayman Islands with limited liability)

Stock Code: 2100

Annual Report 2014

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Dai Jian *(Chairman)*
Mr. Wu Lili
Mr. Li Chong
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 EXECUTIVE OFFICER

Dr. Xu Gang

CHIEF FINANCIAL OFFICER AND CHIEF STRATEGY OFFICER

Mr. Yeung Ka Hong Carl

JOINT COMPANY SECRETARIES

Mr. Yeung Ka Hong Carl
Ms. Ngai Kit Fong

AUTHORIZED REPRESENTATIVES

Mr. Wu Lili
Mr. Yeung Ka Hong Carl

AUDITOR

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

COMPLIANCE ADVISOR

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

COMPANY'S WEBSITE

www.baioo.com.hk

STOCK CODE

2100

HEADQUARTERS IN THE PRC

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

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Cricket Square
P.O. Box 2681
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Cayman Islands, British West Indies

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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183 Queen's Road East
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PRINCIPAL BANKS

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Tianhe District
Guangzhou
Guangdong 510620
PRC

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

LEGAL ADVISORS AS TO HONG KONG LAW

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

LEGAL ADVISORS AS TO CAYMAN ISLANDS LAW

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

INVESTOR RELATIONS

Christensen China Limited
Tel: (852) 2117 0861
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Company Profile

We are one of China's largest online entertainment destination designed for children. We are one of the top children's web game developers in China with a leading market share, with over 40% market share in terms of children's web game spending in 2014. We have a fast-growing user base, with average quarterly active accounts increasing from 24.2 million in 2011 to 57.0 million in 2014.

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 each 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, four of our virtual worlds in commercial operation in full year 2014 ranked among the top 10 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. We also launched our first FPS ("First Person Shooting") web game "Amazing Combat" ("特戰英雄AC") in late January 2015 to capture the lucrative early teen market.

Financial Summary

INCOME STATEMENT HIGHLIGHT

	Year ended 31 December			
	2014	2013	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**506,193**	454,996	203,243	83,241
Gross profit	**347,738**	348,881	138,123	51,313
Operating profit	**199,852**	248,158	88,233	24,285
Non-International Financial Reporting Standards ("IFRSs") Measures — Adjusted Net Profit (unaudited)	**234,977**	226,800	77,714	22,144

Note:

We define adjusted net profit as net profit or loss excluding share-based compensation and fair value loss of convertible redeemable preferred shares. Adjusted net profit eliminates the effect of non-cash share-based compensation expenses and non-cash fair value change of preferred shares. 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 year.

BALANCE SHEET HIGHLIGHT

	As at 31 December			
	2014	2013	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Assets				
Non-current assets	**19,654**	37,860	16,624	10,200
Current assets	**1,664,139**	496,803	194,739	69,829
Total assets	**1,683,793**	534,663	211,363	80,029
Equity and liabilities				
Total equity/(deficits)	**1,509,674**	(19,430)	(9,002)	(15,502)
Non-current liabilities	**3,305**	352,045	120,483	50,549
Current liabilities	**170,814**	202,048	99,882	44,982
Total liabilities	**174,119**	554,093	220,365	95,531
Total equity and liabilities	**1,683,793**	534,663	211,363	80,029

Chairman Letter

Dear Shareholders,

2014 was our first year as a listed company after our initial public offering (IPO) and listing on the Main Board of the Stock Exchange of Hong Kong (SEHK: 2100) dated 10 April 2014. This was an exciting milestone and gave us a platform to continue with our mission of bringing joy and happiness to families with children all over China. Our revenue for the year was RMB506.2 million, up 11.3 percent year-over-year, and our adjusted net profit was RMB235.0 million, well in line with the previous year.

While we are the market leader with a significant share of the online market for children, we learned some important lessons from operating on a larger scale as a public company. Looking back at 2014, we achieved the highest revenue in our corporate history but we also lost focus of the importance of making our products fun as we pushed revenue growth. We prioritized internal performance indices over what made us successful in the first place — a relentless pursuit of learning from children, of what they like and dislike, and what keeps them engaged. We were also impacted by the rapid increase in mobile usage among children in China during the summer of 2014. Going forward, these are lessons that we will not forget, and we will work to aggressively address the parts of our business that are holding us back.

We have two specific initiatives that we are tackling. The first involves focusing on fun. Our goal is to elongate the life cycle and user base of our virtual worlds to maximize total life cycle revenue. This does not mean we intend to leave revenue growth behind. To bridge short term revenue growth, we have expanded to non-Role playing game (RPG) entertainment genres that have proven higher average revenue per user (ARPU), and it is through these products that we will focus on monetization. We are excited about the rollout of the open beta version of our newest product "Amazing Combat" ("特戰英雄AC") at the end of January 2015. This First Person Shooter ("FPS") game is our first product targeting 15 to 17 year old teenagers. We expect it to be a potential revenue, margin and cash contributor as it meets a huge area of interest for teens outside of RPG games. With our understanding of children and young adults and highly experienced R&D team, we believe there is no other company that can match our ongoing capabilities and commitment to meet the online entertainment needs of these users.

The second initiative involves China's growing mobile market in the children's segment. The migration to smart mobile devices hit a true tipping point starting in the summer of 2014. We have a compelling opportunity in terms of developing mobile versions of our popular virtual worlds as well as innovating beyond existing virtual worlds by making other fun and entertaining mobile products. In 2015, more than 50% of new title launches are expected to be on mobile instead of PC. At the same time, we have a huge advantage with our user base as well as the ability to leverage cross platform marketing with movies and cartoons as we enter the mobile space.

ON BEING ESSENTIAL TO OUR USERS

As we have learned throughout our history, the key to success is getting the big things right, innovating and investing accordingly, and challenging our organization, operations and especially our culture to adapt.

We undertook a major effort this year to clean up our registered user accounts, a continuing process which has impacted growth in quarterly active accounts (QAA) in at least two of the last four quarters. With this effort to upgrade the user login and password system, we have reduced the number of duplicate accounts. We are confident that the upgrades will mean that our key operating metrics will provide an accurate reflection of performance, and more importantly, enhance the user experience by making it easier to access all of our virtual worlds.

In the fourth quarter of 2014, we set up a new department answerable directly to me to focus exclusively on user response to our existing products as well as keeping a close track on new trends in online and mobile entertainment. This is a specific execution point to get back to our mission of making products "fun" for kids. Now, at the chairman's level, I am hearing feedback and insight directly from users, helping me and my colleagues better understand what works so that we can re-energize the narrative drive of each of our virtual worlds as well as stay ahead of the curve in creating new products for both mobile and PC platforms.

In order to empower our creative teams and encourage innovation, we have flattened our organization and encouraged everyone in the company to see themselves as potential "creative directors". The additional benefit that we are finding is that this is empowering our people, and helping us to retain our very best talent.

The progress we are making on these strategic imperatives is highly encouraging. We are confident of our vision and our strategy, and we believe these efforts will help us get back to our roots of creating "fun" for all of our fans.

LOOKING FORWARD

While we will continue to make our existing virtual worlds and other products "fun" we recognize that mobile is clearly the next game changer in children's online entertainment. Our mobile strategy will focus on leveraging the success of existing IPs, providing innovative game play, and developing mobile distribution channels where we already have a close synergy with the platforms.

We will also continue the development of our education platform, Wenta. Wenta has proven that there is significant demand for interactive help on homework given that usage traffic, measured by daily active users, has multiplied quickly in 2014, especially on the mobile version. We are committed to continue growing Wenta's user base to a larger scale by investing more in R&D and enhancing the product's user experience and functions. The potential for this specific area of learning in China is very large and Wenta has established a solid foundation for us to be a leader.

We are also looking for M&A opportunities that can help us expand our footprint to even younger audiences. We believe the market for interactive products for families with children in the 0 to 7 year old age bracket in China has tremendous room for growth, and our understanding of children and families, well-developed technological capabilities, and strong financial position can help us capture timely opportunities as they arise.

In a show of confidence in the future of our company, pursuant to the general mandate granted by our Shareholders to our Board at the general meeting of the Company held on 20 June 2014, starting from October 2014, we have repurchased an aggregate of 40,000,000 shares. I also personally purchased a total of 10 million additional Shares in December 2014, bringing my shareholding to 26.9 percent. These stock repurchases reflect our faith in our current strategy and team.

Between the IPO and the rethinking of our strategy, it has been an interesting year, and not always an easy one for management and shareholders. We became the dominant force in the market for children's online entertainment in an unbelievably short amount of time since our founding in 2008. In many ways, we still feel like the sky is the limit for us, with a rapidly growing market for children's entertainment not only in China but globally, and the explosive expansion of mobile entertainment. Our management team is the best in the business, with the advantage of being small, lean, and flexible. As our business continues to expand in the children's online entertainment sector, we are delighted to have our Chief Financial Officer, Mr. Carl Yeung, take up the additional role of Chief Strategy Officer. We believe this appointment will allow us to better execute and implement our strategic goals in entertainment, mobile, education and online services catered to family needs. I am also excited that Dr. Xu Gang, one of the most experienced executives in mobile and the internet in China, has joined us recently as our new CEO in March 2015. I believe under the lead of Dr. Xu, we will be able to extend our past success into new platforms and products.

Finally, in addition to my thanks to our creative team, employees, management, and private equity investors, let me express my gratitude to our shareholders. As representative of the board of directors, I promise to do my best to make sure that your investment and loyalty are rewarded.

Sincerely,

Dai Jian
Chairman
Baioo Family Interactive Limited

Definitions and Glossaries

DEFINITIONS

"AGM"	the annual general meeting of the Company to be convened and held in accordance with the Articles of Association
"Altratek Guangdong"	Guangdong Altratek Telecommunications Ltd., Co. (廣東阿爾創通信技術股份有限公司) (formerly known as Guangzhou Altratek Telecommunications Company Limited (廣州市阿爾創通信技術有限公司)), our connected person and incorporated on 14 December 2004 and existing under the laws of the PRC
"Articles of Association"	articles of association of the Company as amended, supplemented or revised from time to time
"Baitian Hong Kong"	Baitian Technology Limited, a company incorporated on 20 October 2009 and existing under the laws of Hong Kong, a wholly-owned subsidiary of the Company
"Board" or "Board of Directors"	our board of Directors
"Business Day"	any day (other than a Saturday, Sunday or public holiday) in Hong Kong on which banks in Hong Kong are open generally for normal banking business to the public
"CAGR"	compound annual growth rate
"Company" or "us" or "Our Company"	BAIOO Family Interactive Limited (百奧家庭互動有限公司), (formerly known as Baitian Information Limited, Baitian Family Interactive Limited (百田家庭互動有限公司) and BYO Family Interactive Limited (百奧家庭互動有限公司)), an exempted company incorporated in the Cayman Islands with limited liability on 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
"Contractual Arrangements"	A series of agreements entered into among Guangzhou WFOE, Guangzhou Baitian and the Registered Shareholders on 4 December 2013 and amended on 20 March 2014
"Corporate Governance Code"	the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules

"DAE Trust"	a discretionary trust set up by Mr. DAI Jian for which TMF (Cayman) Ltd. acts as the trustee, and the beneficiaries of which are Mr. DAI and his family members
"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" or "BAIOO"	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. As of the date hereof, Mr. DAI Jian, Mr. WU Lili, Mr. LI Chong, Mr. CHEN Ziming and Mr. WANG Xiaodong hold 46.92%, 28.37%, 12.9%, 7.08% and 4.73% equity interests in Guangzhou Baitian, respectively
"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 the 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 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 of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time)
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"Post-IPO RSU Scheme"	the restricted share unit plan approved by the shareholders of the Company on 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 by the shareholders of the Company on 18 March 2014, which became effective conditionally upon the announcement of trading of shares of the Company on the Main Board of the Stock Exchange on 10 April 2014.
"Pre-IPO Share Option Scheme"	the share option plan approved and adopted by the 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 the Group
"Prospectus"	the prospectus of the 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, the 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 the Company from time to time) with the rights ascribed in the Articles of Association
"Shareholder(s)"	holder(s) of our Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Substantial Shareholder"	has the meaning ascribed to it under the Listing Rules

"The Zhen Family Trust"	a discretionary trust set up by Mr. LI Chong for which TMF (Cayman) Ltd. acts as the trustee, and the beneficiaries of which are Mr. LI and his family members
"WHZ Trust"	a discretionary trust set up by Mr. WU Lili for which TMF (Cayman) Ltd. acts as the trustee, and the beneficiaries of which are Mr. WU and his family members
"WSW Family Trust"	a discretionary trust set up by Mr. WANG Xiaodong for which TMF (Cayman) Ltd. acts as the trustee, and the beneficiaries of which are Mr. WANG and his family members

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 2014, BAIOO achieved healthy growth across most performance metrics for its online virtual worlds. The number of our total users and monetization rate further increased, as we continued to build and enhance our current virtual worlds via strategies such as user account optimization and additional content development. We also commercially launched "Magic Fighter" in July 2014, a dragon themed virtual world targeting children between the ages of 12–14. In January 2015. we also launched the open beta version of "Amazing Combat" ("特戰英雄AC"), our first FPS ("First Person Shooting") web game to expand our addressable age segment and game genre.

In terms of user base and monetization strategy, we retained our high market share in role playing games for children in 2014, and maintained a stable pricing policy for our products. While our total user account number fell slightly due to our ongoing account optimization efforts to reduce duplicate accounts, we were able to successfully capitalize on the growing internet penetration rate in China, growing our user base of real active users.

To allow investors to have a better and more relevant understanding of our operating financial performance, we provide adjusted net profit and adjusted EBITDA figures which we believe better portrays the real financial situation of the Company. Prior to our IPO, we had issued convertible redeemable preferred shares, which were converted into common shares upon our successful IPO on 10 April 2014. The issue price of these shares were below that of our IPO price, and therefore under IFRSs, we recorded a one-off fair value loss of RMB327.7 million for the year ended 31 December 2014. This fair value loss has no impact on the operational performance nor financial performance of the Company, and will not affect our Income Statement going forward. We therefore provide adjusted net profit and adjusted EBITDA figures which discounts this loss augmenting our existing disclosures and providing additional transparency to our financials.

INDUSTRY REVIEW

In 2014, China experienced solid internet penetration expansion, with telecoms pushing new 4G technology and bringing internet access to a much wider base of people. According to the 35th Survey Report by the China Internet Network Information Center, as of end of December 2014, Internet penetration increased 2.1% YTD, the total number of internet users growing to 649 million in China. Notably, mobile internet grew significantly, jumping from only 26.99 million to 557 million at the end of 2014. Given this, the number of child internet users has continued to grow; as of end of December 2014, 24.5% of internet users were under the age of 20. According to the iResearch report, the children web-based game market was estimated at 1.4 billion RMB in 2014, and is projected to rise to 1.7 billion RMB in 2015.

OUTLOOK FOR 2015

Given BAIOO's leading position as one of the largest online destination for children in China with a leading market share, the Company is confident that the upcoming industry growth and continuing 4G penetration in China will continue to bring ample development opportunities for the Company. Also, as the uptake of mobile entertainment continues to rise among children, BAIOO will strive to increase its product variety in this area. We also aim to diversify and increase our product variety outside of the role playing virtual world genre. The Group anticipates that over 50% of new releases in 2015 will be for mobile devices. The Group will continue to build on existing virtual worlds to increase the user base and monetization rate, and will expand mobile offerings going forward. BAIOO will also look into potential M&A options that could help the Group explore potential opportunities among younger users and their families, an area where the Group should have a distinct competitive edge given its understanding of children,families and technology capabilities.

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 years indicated below (Note):

	For the Year Ended		
	31 December 2014	31 December 2013	Year-on-year change
	(QAA & QPA in millions, ARQPA in RMB)		
Average QAA	**57.0**	58.8	(3.1%)
Average QPA	**3.0**	2.9	3.4%
Average quarterly ARQPA	**41.3**	38.3	7.8%

Note:

As of 31 December 2014, our commercially operated virtual worlds include Aobi Island, Aola Star, Dragon Knights, Light of Aoya, Legend of Aoqi, Clashes of Aoqi and Magic Fighter.

The average QAA for our online virtual worlds was approximately 57.0 million for the year ended 31 December 2014, representing a decrease of approximately 3.1% compared with last year. This reflected the user trend of shifting from PCs to mobile devices and the lower proportion of multiple accounts due to our ongoing user account optimization.

The average QPA for our online virtual worlds was approximately 3.0 million for the year ended 31 December 2014, representing an increase of approximately 3.4% compared with 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 RMB41.3 for the year ended 31 December 2014, representing an increase of approximately 7.8% compared with last year due to the increased monetization rate of our virtual worlds resulting from their continued increase in popularity.

OVERALL BUSINESS AND FINANCIAL PERFORMANCE

The following table sets forth our consolidated statements of comprehensive income for the year ended 31 December 2014 and 2013:

	For the year ended			
	31 December 2014 RMB'000	% of Revenue	31 December 2013 RMB'000	% Revenue
Revenue	**506,193**	**100.0**	454,996	100.0
Online business	**496,396**	**98.1**	446,335	98.1
Other businesses	**9,797**	**1.9**	8,661	1.9
Cost of revenue	**(158,455)**	**(31.3)**	(106,115)	(23.3)
Gross profit	**347,738**	**68.7**	348,881	76.7
Selling and marketing expenses	**(60,641)**	**(12.0)**	(47,644)	(10.5)
Administrative expenses	**(61,177)**	**(12.1)**	(33,247)	(7.3)
Research and development expenses	**(28,847)**	**(5.7)**	(28,546)	(6.3)
Other income	**—**	**—**	1,551	0.3
Other gains — net	**2,779**	**0.6**	7,163	1.6
Operating profit	**199,852**	**39.5**	248,158	54.5
Finance income — net	**34,717**	**6.9**	7,639	1.7
Fair value loss of convertible redeemable preferred shares	**(327,749)**	**(64.7)**	(237,228)	(52.1)
(Loss)/profit before income tax	**(93,180)**	**(18.4)**	18,569	4.1
Income tax expense	**(38,522)**	**(7.6)**	(38,788)	(8.5)
Loss for the year	**(131,702)**	**(26.0)**	(20,219)	(4.4)
Total comprehensive loss for the year	**(131,702)**	**(26.0)**	(20,219)	(4.4)
Other financial data				
Adjusted net profit[1] (unaudited)	**234,977**	**46.4**	226,800	49.8
Adjusted EBITDA[2] (unaudited)	**246,637**	**48.7**	263,512	57.9

Notes:

1. Adjusted net profit consists of (loss)/profit for the year 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 year ended 31 December 2014 was RMB506.2 million, representing an 11.3% increase from RMB455.0 million for the year ended 31 December 2013.

Online Business: Our online business revenue for the year ended 31 December 2014 was RMB496.4 million, a 11.2% increase from RMB446.3 million for the year ended 31 December 2013. This was primarily benefited from revenue growth of our existing major titles such as Legend of Aoqi and Aola Star, contributing an increase in ARQPA from RMB38.3 to RMB41.3 for the year ended 31 December 2013 and 2014. The increase in 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 year ended 31 December 2014 was RMB9.8 million, a 12.6% increase from RMB8.7 million for the year ended 31 December 2013, primarily due to an increase in in-game advertising revenue.

Cost of Revenue

Our cost of revenue for the year ended 31 December 2014 was RMB158.5 million, a 49.4% increase from RMB106.1 million for the year ended 31 December 2013. This was primarily driven by (i) an RMB45.7 million increase in employee benefit expenses as a result of (a) increased operations headcount from 386 as of 31 December 2013 to 531 as of 31 December 2014, (b) higher employee salaries and (c) an RMB9.5 million increase in share-based compensation expenses for operations personnel, (ii) an RMB1.2 million increase in server custody and bandwidth costs and (iii) an RMB4.0 million increase in operating lease rentals in respect of office premises and depreciation.

Gross Profit

As a result of the foregoing, our gross profit for the year ended 31 December 2014 was RMB347.7 million, as compared with RMB348.9 million for the year ended 31 December 2013. Gross profit margin was 68.7% and 76.7% respectively for the year ended 31 December 2014 and year ended 31 December 2013. The lower gross profit margin for the year ended 31 December 2014 was mainly due to staff cost incurred for Wenta and Magic Fighter as neither generated material revenues in 2014.

Selling and Marketing Expenses

Our selling and marketing expenses for the year ended 31 December 2014 were RMB60.6 million, a 27.3% increase from RMB47.6 million for the year ended 31 December 2013. This primarily reflected higher marketing spending on online virtual worlds due to increases in (i) promotional programs for new virtual worlds launched, and (ii) increase in online advertising posting fees.

Administrative Expenses

Our administrative expenses for the year ended 31 December 2014 were RMB61.2million, an 84.3% increase from RMB33.2 million for the year ended 31 December 2013. This was primarily attributable to (i) an RMB21.9 million increase in employee benefit expenses as a result of (a) increased administrative headcount from 34 as of 31 December 2013 to 45 as of 31 December 2014, (b) higher employee salaries, (c) an RMB14.5 million increase in share-based compensation expenses for administrative personnel, and (d) an RMB1.6 million increase in labor union budget (ii) an RMB3.4 million increase in professional service fees incurred in connection with the auditor.

Research and Development Expenses

Our research and development expenses for the year ended 31 December 2014 were RMB28.8 million, a 1.1% increase from RMB28.5 million for the year ended 31 December 2013.

Other Income

Our other income for the year ended 31 December 2014 was nil, compared with RMB1.6 million for the year ended 31 December 2013 as result of our fulfillment of performance conditions attached to a government grant in 2013.

Operating Profit

As a result of the foregoing, our operating profit for the year ended 31 December 2014 was RMB199.9 million, representing a 19.5% decrease from RMB248.2 million for the year ended 31 December 2013. Our operating profit margin for the year ended 31 December 2014 was 39.5%, compared with 54.5% for the year ended 31 December 2013.

Finance Income — net

We had net finance income of RMB34.7 million for the year ended 31 December 2014, compared with net finance income of RMB7.6 million for the year ended 31 December 2013. Net finance income for the year ended 31 December 2014 was primarily attributable to (i) RMB32.0 million in interest income on short-term deposits and (ii) RMB2.9 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 RMB237.2 million for year ended 31 December 2014 and 2013 respectively, due to the continued increase in the equity value of our company. But after 10 April 2014, the impact of convertible redeemable preferred shares has disappeared due to the convertible redeemable preferred shares exchanged to ordinary shares at the moment of the Company's successful IPO.

(Loss)/profit before Income Tax

As a result of the foregoing, we had a loss of RMB93.2 million for the year ended 31 December 2014, compared with a profit of RMB18.6 million for the year ended 31 December 2013.

Income Tax Expense

Our income tax expense for the year ended 31 December 2014 was RMB38.5 million, a 0.8% decrease from RMB38.8 million for the year ended 31 December 2013.

Loss for the year

As a result of the foregoing, we had a loss of RMB131.7 million for the year ended 31 December 2014, compared with a loss of RMB20.2 million for the year ended 31 December 2013.

Non-IFRSs Measure — Adjusted Net Profit/EBITDA

Our adjusted net profit for the year ended 31 December 2014 was RMB235.0 million, representing a 3.6% increase from RMB226.8 million for the year ended 31 December 2013. Our adjusted EBITDA for the year ended 31 December 2014 was RMB246.6 million, representing a 6.4% decrease from RMB263.5 million for the year ended 31 December 2013.

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

Group	For the year ended 31 December 2014 RMB'000	2013 RMB'000
Loss for the period	**(131,702)**	(20,219)
Add:		
Share-based compensation	**38,930**	9,791
Fair value loss of convertible redeemable preferred shares	**327,749**	237,228
Adjusted net profit (unaudited)	**234,977**	226,800
Add:		
Depreciation and amortization	**7,855**	5,563
Finance income — net	**(34,717)**	(7,639)
Income tax	**38,522**	38,788
Adjusted EBITDA (unaudited)	**246,637**	263,512

LIQUIDITY AND CAPITAL RESOURCES

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

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

	As of 31 December 2014 RMB'000	As of 31 December 2013 RMB'000
Total liabilities (excluding convertible redeemable preferred shares)	**174,119**	204,131
Total assets	**1,683,793**	534,663
Gearing ratio[(1)]	**10%**	38%

Note:

(1) 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 31 December 2014, our cash and cash equivalents consisted of cash in bank and cash on hand which amounted to RMB259.4 million, compared with RMB280.9 million as of 31 December 2013. The cash in bank balances as of 31 December 2014 were demand deposits. We also had short-term deposits of RMB1,364.2 million as of 31 December 2014, representing bank deposits which we intend to hold for over three months but less than one year. The effective interest rate per annum for in bank balances and short-term deposits as of 31 December 2014 was 2.9%, compared with 1.2% as of 31 December 2013. 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 31 December 2014, the Group had no restricted cash.

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

Group	**As of 31 December 2014 RMB'000**	As of 31 December 2013 RMB'000
RMB	**1,544,733**	484,571
US$	**164**	6,358
HK$	**78,670**	3
	1,623,567	490,932

Bank Loans and Other Borrowings

In September 2013, we entered into a general banking facility agreement 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 had a total drawdown of US$5.0 million under this facility. Subsequently, on 15 May 2014, Baitian Hong Kong made a loan repayment of US$5.0 million to China Merchants Bank HK. As of 31 December 2014, we had no bank loans and other borrowings.

The Group had no line of credit under any other banking facility dated as of 31 December 2014.

Treasury policies

As of 31 December 2014, the Group had adopted conservative treasury policies in cash and financial management. The Group does not use any financial instruments for hedging purposes.

Foreign currency risk

As of 31 December 2014, RMB78.8 million of our financial resources were 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 2014, our total capital expenditures were RMB5.9 million, compared with RMB10.3 million in 2013. The following table sets out our expenditures for the years indicated:

	For the year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Capital Expenditures		
— Purchase of property and equipment	**5,632**	10,202
— Purchase of intangible assets	**267**	114
Total	**5,899**	10,316

Contingent liabilities

As of 31 December 2014, the Group did not have any material contingent liabilities, guarantees or any litigation against us

Charges on assets

As of 31 December 2014, there were no charges on the Group's assets.

Material acquisitions and future plans for major investment

During the year ended 31 December 2014, the Group did not conduct any material acquisitions or disposals. In addition, the Group currently has no specific plans for major investments or acquisitions 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 31 December 2014, the Group had 731 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 31 December 2014:

	Number of Employees	% of Total
Operations	531	72.6
Development and research	135	18.5
Sales and marketing	20	2.7
General and administration	45	6.2
Total	731	100.0

In addition to salary, we also provide various incentives, including share-based awards, such as share options and restricted share units ("RSU") granted pursuant to the share incentive schemes of the Company, and performance-based bonuses to better motivate our employees. As required by PRC law, we contribute to housing funds and maintain mandatory social insurance plans for our employees, covering pension, medical, unemployment, work injury and maternity. We are required by PRC law to make contributions to these social insurance plans at specified percentages of the compensation of each of our employees, up to a maximum amount as may be specified by the local government from time to time. Such social insurance plans include defined contribution retirement benefit plans organized by the relevant governmental authorities. Forfeited contributions by the Group to these plans may not be used by the Group to reduce the existing level of contributions. The total amount of contributions we made for employee social insurance plans in 2014 were approximately RMB28.2 million, compared with RMB18.5 million in 2013. We incurred staff costs of approximately RMB182.7 million and RMB113.4 million, for the year ended 31 December 2014 and 2013, representing 36.1% and 24.9% of our revenue for those periods respectively.

We also grant share options and RSU 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 4,676,000 share options and 106,541,200 RSUs outstanding and owned by a total of 266 directors, senior management members and employees of the Group as of 31 December 2014. Further details of these schemes, together with details of the options and RSUs granted under such schemes, are set out in the section headed "Employee Incentive Schemes" in the Directors' Report in this annual report.

In the future, we will continue grant restricted shares to our employees to incentivize them pursuant to the Post-IPO RSU Scheme. Currently, 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 31 December 2014, no RSUs have been granted by us pursuant to the Post-IPO RSU Scheme. In addition, we intend to amend, subject to approval by our Shareholders at the general meeting of shareholders to be held on 19 June 2015, the Post-IPO RSU Scheme and increase the total number of Shares underlying this scheme to 4% of the total Shares of our company as of the date of approval.

Dividend

In 2014, we have declared a special dividend of RMB154,127,000 (US$25.0 million) to our pre-IPO shareholders payable after the Listing and contingent on us having sufficient share premium and/or distributable reserves subsequent to the Listing. On 29 April 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, the Board has recommended the payment of a special dividend of HK$0.035 (equivalent to approximately RMB0.028) per ordinary share for the year ended 31 December 2014 out of our share premium account, subject to the approval of the shareholders of the Company at the annual general meeting to be held on 19 June 2015. Such proposed dividend will be payable on Friday, 17 July 2015 to the shareholders of the Company whose names appear on the register of members of the Company on Friday, 26 June 2015.

Biographies of the Directors and Senior Management

DIRECTORS

Executive Directors

DAI Jian (戴堅), aged 47, is a co-founder of our Group and was appointed as our Chairman in November 2011 and Executive Director in April 2012. He is responsible for the overall management, corporate development and strategic planning of our Group.

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

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

WU Lili (吳立立), aged 47, is a co-founder of our Group and was appointed as our Chief Executive Officer in March 2010 and Executive Director in September 2009. He has relinquished his position as the Chief Executive Officer on 5 March 2015 but remains as an Executive Director. He is responsible for the overseeing the Company's growth strategies, mergers and acquisitions and other business opportunities.

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

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

LI Chong (李沖), aged 46, is a co-founder of our Group and was appointed as our Chief Operating Officer in September 2009 and Executive Director in September 2009. He is responsible for the overall operations of our Group and the marketing and distribution of our products.

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

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

WANG Xiaodong (王曉東), aged 49, is a co-founder of our Group and was appointed as our Executive Director in December 2013 and executive vice president in September 2009. Mr. WANG was also appointed as our executive director between September 2009 and March 2010. He is in charge of the overall management of the human resources, user services, public affairs and business cooperation of our Group.

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

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

Non-Executive Director

JI Yue (計越), aged 42, has served as a Non-Executive Director of our Company since 31 March 2010. He supervises the overall management and strategic planning of our Group.

Mr. JI joined Sequoia Capital China in 2005 and is currently a partner. Mr. JI has been a director of Noah Holdings Limited since 2007, a NYSE-listed wealth management service provider, a director of Country Style Cooking Restaurant Chain Co., Ltd since 2007, a NYSE-listed quick service restaurant chain in China, a director of Jumei International Holding Limited since 2011, a NYSE-listed retailer of beauty products and a director of Tuniu Corporation since 2011, a NASDAQ-listed online leisure travel company in China.

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

Independent Non-Executive Directors

LIU Qianli (劉千里), aged 39, was appointed as our Independent Non-Executive Director on 18 March 2014.

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

Ms. LIU has been an independent non-executive director of Feiyu Technology International Company Ltd. since November 2014, a HK-listed developer and operator of mobile games and web games.

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

WANG Qing (王慶), aged 46, was appointed as our Independent Non-Executive Director on 18 March 2014.

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

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

MA Xiaofeng (馬肖風), aged 51, was appointed as our Independent Non-Executive Director on 18 March 2014. Mr. MA is the co-founder, chairman and chief executive officer of ATA Inc., a professional services provider for testing, assessment and related services in China, and a public company listed on NASDAQ.

CHANGES IN DIRECTORS' BIOGRAPHICAL DETAILS

Changes in Directors' biographical details since the date of the 2014 interim 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 assumed the role of 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.
Ms. LIU Qianli	—	was appointed on 17 November 2014 as independent non-executive director of Feiyu Technology International Company Ltd. (stock code: 1022), a company listed on the Stock Exchange.
Mr. WU LiLi	—	has relinquished his position as Chief Executive Officer of the Company on 5 March 2015.

SENIOR MANAGEMENT

XU Gang (徐剛), aged 43, was appointed as our Chief Executive Officer on 5 March 2015. He is responsible for the overall management, corporate development and strategic planning of the Company.

Dr. XU has more than nineteen years of experience in the telecommunication industry and the mobile internet. Prior to joining the Group, he held various management positions at a number of subsidiaries of China Mobile Communications Corporation ("CMCC"), a Chinese state-owned telecommunication company, since 1996. During his service at CMCC, he planned and executed a number of key initiatives involving new business setup, technology innovation, business development, marketing and brand building. In 2003, he was involved in the development of monthly package brands GoTone ("全球通"), M-Zone ("動感地帶"), and Easy Own ("神州行") in Guangdong Province and helped drive a number of significant achievements in terms of user base and revenue growth of CMCC. In 2005, he built a business unit that focused on developing CMCC's internet business-to-business services. He then joined Guangdong Mobile Communication Co. Ltd. Zhuhai Branch in 2010 as its General Manager. In this position, he managed more than 1,100 team members. Most recently, he was the Deputy General Manager of the Marketing Department of CMCC, where he was responsible for formulating overall marketing strategies in China.

Dr, Xu obtained a doctorate degree in communication and information systems from South China University of Technology in 2008, an EMBA degree from Jinan University in 2007, and both a bachelor's and master's degree in communication and information systems from Xidian University in 1993 and 1996 respectively.

YEUNG Ka Hong Carl (楊家康), aged 35, was appointed as our Chief Financial Officer in August 2013 and appointed an additional role as the Chief Strategy Officer in January 2015. He oversees corporate finance, investor relations and financial management of our Group, and is also responsible for our Group's strategy planning and implementation, advising on product operations, leading strategic acquisitions, investments or partnerships, and overseeing new business development.

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

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

LI Chong (李沖), aged 46, is one of our Executive Directors. Please refer to the section headed "— Executive Directors — LI Chong" for his biography.

WANG Xiaodong (王曉東), aged 49, is one of our Executive Directors. Please refer to the section headed "— Executive Directors — WANG Xiaodong" for his biography.

DENG Linghua (鄧凌華), aged 39, was appointed as our Chief Technology Officer in November 2014. He is responsible for the design, development and testing of our products, as well as the operation, maintenance and upgrade of our network infrastructure and information technology system.

Mr. DENG has more than fifteen years of experiences in the information and technology industry. Prior to joining our Group, he was a system structure engineer of Altratek Guangdong, a wireless telecommunication product and service provider from May 2007 to July 2009, where he was a key participant in the technology development of Aobi Island at the early stage, and was responsible for the system structure design, technology team recruitment and research management. Prior to that, Mr. DENG worked with Zhongxing Telecommunication Equipment Corporation (ZTE Corporation) and Shenzhen Sysway Information & Technology Co., Ltd.

Mr. DENG received his bachelor degree in computer science and technology from Jilin University of Technology (吉林工業大學) (now a part of Jilin University (吉林大學)) in July 1999.

JOINT COMPANY SECRETARIES

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

YEUNG Ka Hong Carl (楊家康), aged 35, is one of our senior management. Please refer to the section headed "— Senior Management — YEUNG Ka Hong Carl" for his biography.

Ms. NGAI Kit Fong (倪潔芳), aged 49, was appointed as the Joint Company Secretary of our Company on 20 December 2013.

She is a director of the Corporate Services Division of Tricor Services Limited. Prior to her employment at Tricor, Ms. NGAI worked in the Hong Kong office of Deloitte Touche Tohmatsu providing both company secretarial and share registration services to her clients. She has over 25 years of experience in corporate services field, providing professional secretarial services to multiple companies listed on the Hong Kong Stock Exchange. Ms. NGAI is currently the company secretary of Huiyin Household Appliances (Holdings) Co., Ltd. (Stock Code: 1280) and China Animal Healthcare Ltd. (Stock Code: 940) and Century Sage Scientific Holdings Limited (Stock Code: 1450).

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

Directors' Report

The Board is pleased to present its report together with the audited consolidated financial statements of the Group for the year ended 31 December 2014.

PRINCIPAL ACTIVITIES

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

RESULTS

The results of the Group for the year ended 31 December 2014 are set out in the consolidated income statement on page 63 of this annual report.

DIVIDENDS

The Board has recommended the payment of a special dividend of HK$0.035 (equivalent to approximately RMB0.028) per Share for the year ended 31 December 2014, subject to the approval of the Shareholders at the 2015 AGM to be held on 19 June 2015. The proposed dividends are expected to be payable on 17 July 2015 to the Shareholders whose names appear on the register of members of the Company as of 26 June 2015.

FINANCIAL SUMMARY

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

PROPERTY AND EQUIPMENT

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

BORROWINGS

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

SHARE CAPITAL

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

PRE-EMPTIVE RIGHTS

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

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

During the year ended 31 December 2014, in a show of confidence in the future of the Company, we repurchased a total of 40,000,000 Shares at an aggregate price of HKD34,226,586.60 paid before expenses.

Details of the share repurchase are as follows:

Date of repurchase	Number of shares purchased	Highest price paid HKD	Lowest price paid HKD	Aggregate price paid HKD
October 2014	13,794,000	1.06	0.94	14,070,500.40
November 2014	23,206,000	1.02	0.69	18,240,286.20
December 2014	3,000,000	0.66	0.63	1,915,800.00

RESERVES

Movements in the reserves of the Group and the Company during the year end 31 December 2014 are set out in Note 22 to the financial statements. As of 31 December 2014, the Company had no distributable reserves.

DIRECTORS

The Directors during the year were:

Directors

Name	Position
Mr. DAI Jian	Chairman of the Board and Executive Director
Mr. WU Lili	Executive Director
Mr. LI Chong	Executive Director

Directors

Name	Position
Mr. CHEN Ziming *(resigned on 20 November 2014)*	Executive Director
Mr. WANG Xiaodong	Executive Director
Mr. JI Yue	Non-executive Director
Ms. LIU Qianli *(appointed on 18 March 2014)*	Independent Non-executive Director
Mr. WANG Qing *(appointed on 18 March 2014)*	Independent Non-executive Director
Mr. MA Xiaofeng *(appointed on 18 March 2014)*	Independent Non-executive Director

In accordance with article 84(1) of the Articles of Association, Mr. WANG Xiaodong, Ms. LIU Qianli and Mr. WANG Qing shall retire at the forthcoming annual general meeting. All of the aforesaid retiring Directors, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

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

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

The biographical details of the Directors and senior management of the Company are set out in "Biographies of the Directors and Senior Management" on pages 23 to 28 in this report.

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

Details of the remuneration of the Directors and those of the five highest paid individuals of the Group for the year ended 31 December 2014 are set out in Note 9 to the financial statements.

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

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS AND THEIR ASSOCIATES' INTERESTS IN COMPETING BUSINESS

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

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

As at 31 December 2014, the interests and short positions of the Directors or the chief executive of the Company in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Name of Director/ Chief Executive	Name of company	Capacity/Nature of interest	Number of underlying Shares	Approximate percentage of shareholding
DAI Jian (戴堅)[1][8]	The Company	Founder of a discretionary trust Interest of controlled corporation	749,460,000(L)	26.68%(L)
	The Company	Beneficial owner	10,000,000(L)	0.36%(L)
WU Lili (吳立立)[2]	The Company	Founder of a discretionary trust Interest of controlled corporation	447,112,000(L)	15.92%(L)
LI Chong (李沖)[3]	The Company	Founder of a discretionary trust Interest of controlled corporation	203,304,000(L)	7.24%(L)
WANG Xiaodong (王曉東)[4]	The Company	Founder of a discretionary trust Interest of controlled corporation	74,544,000(L)	2.65%(L)

Name of Director/ Chief Executive	Name of company	Capacity/Nature of interest	Number of underlying Shares	Approximate percentage of shareholding
LIU Qianli (劉千里)[5]	The Company	Beneficial owner	200,000(L)	0.007%(L)
WANG Qing (王慶)[6]	The Company	Beneficial owner	200,000(L)	0.007%(L)
MA Xiaofeng (馬肖風)[7]	The Company	Beneficial owner	200,000(L)	0.007%(L)

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 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. 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.

(5) 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.

(6) 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.

(7) 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.

(8) 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.

(9) The Letter "L" denotes the person's Long position in such Shares.

Save as disclosed above, as of 31 December 2014, none of the Directors and the chief executive of the Company has any interest or short position in shares, underlying shares and debentures of the Company or any of its associates 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 at 31 December 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	Approximate percentage of shareholding in the total issued share capital of our Company
TMF (Cayman) Ltd.[1]	Trustee of trusts	1,571,000,000(L)	55.94%(L)
DAE Holding Investments Limited[2]	Trust holding company	749,460,000(L)	26.68%(L)
Stmoritz Investment Limited[2]	Registered Owner	749,460,000(L)	26.68%(L)
DAI Jian (戴堅)[2]	Founder of a discretionary trust Interest of controlled corporation	749,460,000(L)	26.68%(L)
Bright Stream Holding Limited[3]	Registered Owner	447,112,000(L)	15.92%(L)
WHEZ Holding Ltd.[3]	Trust holding company	447,112,000(L)	15.92%(L)
WU Lili (吳立立)[3]	Founder of a discretionary trust Interest of controlled corporation	447,112,000(L)	15.92%(L)
LNZ Holding Limited[4]	Registered owner	203,304,000(L)	7.24%(L)
Golden Water Management Limited[4]	Trust holding company	203,304,000(L)	7.24%(L)
LI Chong (李沖)[4]	Founder of a discretionary trust Interest of a controlled corporation	203,304,000(L)	7.24%(L)
Sequoia Capital China II, L.P.	Registered Owner	335,240,000(L)	11.94%(L)

Notes:

(1) TMF (Cayman) Ltd. is the trustee of DAE Trust, WHZ Trust, The Zhen Family 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 749,460,000 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.

(7) The Letter "L" denotes the person's Long position in such Shares.

Save as disclosed above, as of 31 December 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 under of the SFO.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2014.

MAJOR CUSTOMERS AND SUPPLIERS

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

For the year ended 31 December 2014, the top five sources of cash proceeds from sales of physical and virtual prepaid cards and sales of AoCoins through other payment channels accounted for 55.4% of our total cash proceeds from these sales. Our top source of cash proceeds from these sales for the year ended 31 December 2014 was our sole virtual prepaid card distributor and accounted for 16.7% of our total cash proceeds from these sales.

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

For the year ended 31 December 2014, charges from our five largest suppliers accounted for 17.0% of our cost of revenues.

None of our Directors, any of their associates or any Shareholders that, to the knowledge of our Directors, own more than 5% of the issued share capital of the Company had any interest in any of our five largest suppliers during the year ended 31 December 2014.

AUDIT COMMITTEE

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2014 are set out in Note 15 to the financial statements.

EMPLOYEE INCENTIVE SCHEMES

In order to incentivize our Directors, senior management and other employees for their contribution to the Group and to attract and retain suitable personnel to our Group, we adopted the Pre-IPO Share Option Scheme on 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. In addition, we intend to amend, subject to approval by our Shareholders at the general meeting of shareholders to be held on 19 June 2015, the Post-IPO RSU Scheme and increase the total number of Shares underlying this scheme to 4% of the total Shares of our company as of the date of approval.

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

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 were 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. As at 31 December 2014, there were a total of 4,676,000 share options outstanding. If all the outstanding options are exercised, there would be a dilution effect on the shareholdings of our Shareholders of approximately 0.17% as at 31 December 2014.

Save as set out above, no other share options have been or would be granted by us 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 had been allotted and issued to Duoduo Holding Limited.

Details of share options granted to all share option grantees and outstanding under the Pre-IPO Share Option Scheme as at 31 December 2014.

Name of Grantees	Nature	Number of Shares represented by options at 1 January 2014	Date of grant	Exercise price (US$)	Exercised during the period	Lapsed during the period	Number of Shares represented by options at 31 December 2014	Vesting Period	The period during which share options are exercisable	Approximate percentage of issued shares
Director of the Company	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)	Options	6,000,000	20 June 2010	0.0045	6,000,000	–	–	36 months from the date of grant	10 years after the date of grant	Nil
DENG Linghua (鄧淩華)	Options	4,520,000	20 June 2010	0.0045	3,020,000	–	1,500,000	36 months from the date of grant	10 years after the date of grant	0.05%
	Options	800,000	20 June 2010	0.0090	800,000	–	–			Nil
	Sub-total	11,320,000			9,820,000	–	1,500,000			0.05%
Other employees										
12 employees	Options	9,320,000	20 June 2010	0.0045	8,396,000	–	924,000	36 months from the date of grant	10 years after the date of grant	0.03%
34 employees		7,160,000	20 June 2010	0.0090	5,460,000	–	1,700,000			0.06%
3 employees		1,000,000	15 January 2011	0.0090	448,000	–	552,000			0.02%
	Sub-total	17,480,000			14,304,000	–	3,176,000			0.11%
Total	Options	28,800,000			24,124,000	–	4,676,000			0.17%

Note: Approximate percentage of issued shares is calculated by dividing the outstanding shares of the Company dated as 31 December 2014 by share options held by grantees.

As disclosed in the section 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 at 31 December 2014, we had an aggregate of 142,316,000 RSUs granted to 309 grantees under the Pre-IPO RSU Scheme. Among all the RSU grantees, four of them are Directors, one is a member of senior management, and 304 are our other employees among whom two employees were granted RSUs representing more than 5,000,000 Shares. Other than the four Directors, none of the RSU grantees is a connected person of our Company. Among all the RSU grantees, four persons have each been granted RSUs representing more than 5,000,000 Shares. The total number of Shares underlying the 142,316,000 RSUs represents approximately 5.06% of the share capital of our Company as of 31 December 2014. Save as set out above, no other RSUs have been granted by us after the Listing pursuant to the Pre-IPO RSU Scheme.

Prior to our listing on 10 April 2014, we had 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. As of the date of 31 December 2014, 142,316,000 Shares have been issued and allotted to Peto Holding Limited.

The maximum aggregate number of Shares underlying all the RSUs which we may grant pursuant to the Post-IPO RSU Scheme is 56,488,440 Shares, representing approximately 2% of our share capital as of the date of approval of this scheme. As of 31 December 2014, no RSUs have been granted by us pursuant to the Post-IPO RSU Scheme.

We have appointed The Core Trust Company as the RSU trustee we have also appointed Baiduo Investment Holding Limited which is a company incorporated in the BVI, a wholly owned subsidiary of The Core Trust Company and an Independent Third Party, as the nominee to administer the Post-IPO RSU Scheme after the Listing. As of 31 December 2014, no Share had been issued to Baiduo Investment Holding Limited pursuant to the Post-IPO RSU Scheme.

(a) Directors

Details of four of our Directors RSUs granted and outstanding under the Pre-IPO RSU Scheme as at 31 December 2014

Name of Grantees	Nature	Number of Shares represented by RSUs at 1 January 2014	Date of grant	Exercise price (US$)	Exercised during the period	Lapsed during the period	Number of Shares represented by RSUs at 31 December 2014	Vesting Schedule
DAI Jian (戴堅)	RSUs	10,000,000 Ordinary Shares	18 February 2014	–	–	–	10,000,000	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
LIU Qianli (劉千里)	RSUs	200,000 Ordinary Shares	21 March 2014	–	–	–	200,000	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
WANG Qing (王慶)	RSUs	200,000 Ordinary Shares	21 March 2014	–	–	–	200,000	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
MA Xiaofeng (馬肖風)	RSUs	200,000 Ordinary Shares	21 March 2014	–	–	–	200,000	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
	Sub-total	10,600,000			–	–	10,600,000	

(b) Senior management

Details of RSUs granted to our senior management members and outstanding under the Pre-IPO RSU Scheme as at 31 December 2014

Name of Grantees	Nature	Number of Shares represented by RSUs at 1 January 2014	Date of grant	Exercise price (US$)	Exercised during the period	Lapsed during the period	Number of Shares represented by RSUs at 31 December 2014	Vesting Schedule
YEUNG Ka Hong Carl (楊家康)	RSUs	10,000,000	1 October 2013	–	2,000,000	–	8,000,000	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
	RSUs	10,000,000	18 February 2014	–	–		10,000,000	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
	Total	20,000,000			2,000,000	–	18,000,000	

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

Details of the RSUs granted to persons other than Directors and senior management members and outstanding under the Pre-IPO RSU Scheme representing more than 5,000,000 Shares as at 31 December 2014

Name of Grantees	Nature	Number of Shares represented by RSUs at 1 January 2014	Date of grant	Exercise price (US$)	Exercised during the period	Lapsed during the period	Number of Shares represented by RSUs at 31 December 2014	Vesting Schedule
BIAN Jingyi (卞靜怡)	RSUs	6,000,000	1 October 2013	–	1,200,000	4,800,000	–	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
LI Wei (李偉)	RSUs	7,400,000	1 October 2013	–	1,480,000	–	5,920,000	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
	Sub-total	13,400,000			2,680,000	4,800,000	5,920,000	

(d) Other Grantees

As at 31 December 2014, other than the four Directors, no RSU had been granted to any connected person of the Company under the Pre-IPO RSU Scheme. Other than the Directors, senior management member and grantees holding RSUs representing more than 5,000,000 Shares disclosed in paragraphs (a), (b) and (c) above, 302 other employees have been granted RSUs under the Pre-IPO RSU Scheme. The Shares underlying these outstanding RSUs represented approximately 2.56% of the share capital of our Company as of 31 December 2014.

Details of RSUs granted to our other employees and outstanding as at 31 December 2014

Name of Grantees	Nature	Number of Shares represented by options at 1 January 2014	Date of grant	Exercise price (US$)	Exercised during the period	Lapsed during the period	Number of Shares represented by options or RSUs at 31 December 2014	Vesting Schedule
300 employees	RSUs	91,676,000 Ordinary Shares	1 October 2013	–	17,700,400	7,844,400	66,131,200	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
14 employees[1]	RSUs	6,640,000 Ordinary Shares	18 February 2014	–	–	750,000	5,890,000	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
		98,316,000 Ordinary Shares			17,700,400	8,594,400	72,021,200	

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.

As at 18 February 2014 and 21 March 2014, the fair value per RSU granted was US$0.1968 (equivalent to approximately RMB1.2017) and US$0.2100 (equivalent to approximately RMB1.2877), respectively. The value of the RSUs granted to the respective parties is as follows:

	Value RMB'000	Grant date
Chairman Mr Dai:	12,017	18 February 2014
Director LIU Qianli:	258	21 March 2014
Director WANG Qing:	258	21 March 2014
Director MA Xiaofeng:	258	21 March 2014
Senior Management YEUNG Ka Hong Carl:	12,017	18 February 2014
Other employees:	7,979	18 February 2014
	32,787	

The value of the RSUs granted during the year of 2014 was RMB32,787,000, based on the discounted cash flow method to determine the underlying equity fair value of the Company and the equity allocation method to determine the fair value of the restricted share units as at the grant date. Key assumptions are set as below:

	18 February 2014	21 March 2014
Discount rate	20.20%	19.10%
Risk-free interest rate	0.17%	0.13%
Volatility	44.20%	45.20%
Dividend yield	0%	0%

The fair values calculated are inherently subjective and uncertain due to the assumptions made and the limitations of the model used. The value of a RSU varies with different variables of certain subjective assumptions. Any change in variables so adopted may materially affect the estimation of the fair value of an RSU.

PUBLIC FLOAT

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

PROFESSIONAL TAX ADVICE RECOMMENDED

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

RIGHTS TO ACQUIRE THE COMPANY'S SECURITIES

Save as disclosed under the section "Employee Incentive Schemes" above, at no time during the year ended 31 December 2014 and the subsequent period till the date of this report, was the Company, or any of its holding companies or subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executive of the Company or their respective associates (as defined under the Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of Shares in, or debentures of, the Company or any other body corporate.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

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

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

CONNECTED TRANSACTIONS

The Board confirmed that none of the related party transactions set out in note 34 to the financial statements constituted connected transactions or continuing connected transaction under Chapter 14A of the Listing Rules during the relevant period. Further, save as disclosed below, the Group has not entered into any connected transactions or continuing connected transactions which are required to be disclosed in this annual report pursuant to the Listing Rules.

Continuing Connected Transactions

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

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

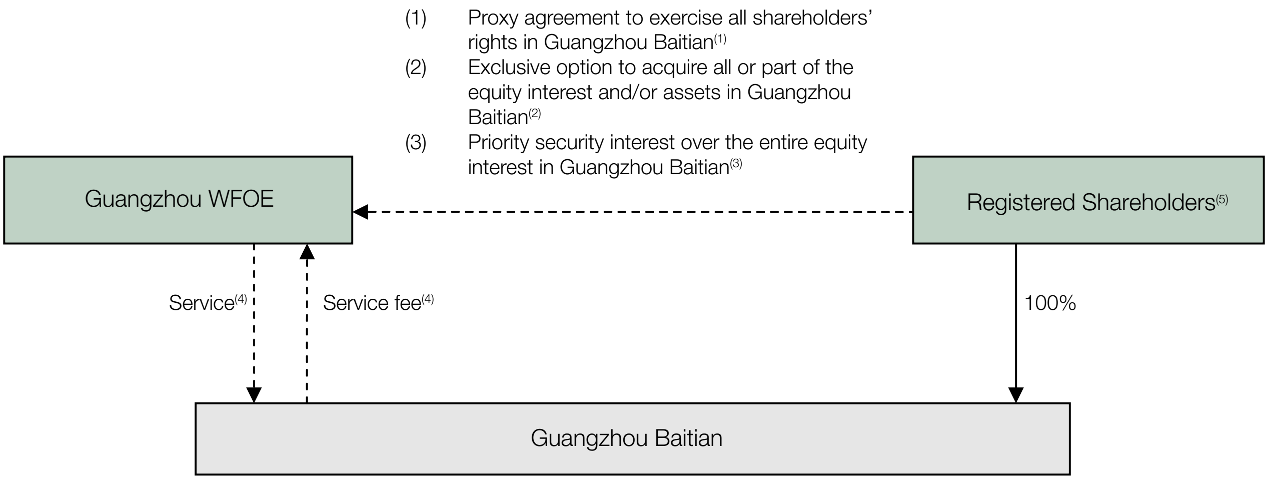
Relevant Connected Persons under the Contractual Arrangements

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

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

Contractual Arrangements

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



Note:

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

(a) Exclusive Business Consultation and Service Agreement

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

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

(b) Proxy Agreement

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

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

(c) Exclusive Option Agreement

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

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

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

(d) Share Pledge Agreement

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

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

The Company noticed that on 19 January 2015, the Ministry of Commerce of the PRC published a discussion draft of the proposed new *Foreign Investment Law* (the "**Draft FIL**") for public comments which for the first time introduced the concept of actual controller from the foreign investment prospective. It might have potential impact on our contractual arrangement. We will closely monitor the progress of the draft FIL and inform the public in due course.

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

Our auditor, PricewaterhouseCoopers, has carried out procedures on the transactions under the Contractual Arrangements in accordance with Hong Kong Standard on Assurance Engagements 3000 and with reference to Practise Note 740 issued by the Hong Kong Institute of certified Public Accountants and has issued an unqualified letter containing the findings and conclusions in respect of the non-exempt continuing connected transactions in accordance with Main Board Listing Rule 14A.38 to our Directors with a copy to the Stock Exchange prior to ten business days before the bulk-printing of this report.

For the year ended 31 December 2014, the service fees provided by Guangzhou WFOE to Guangzhou Baitian pursuant to the Contractual Arrangements amounted to RMB679,612.

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

As of the date of this report, there has been no material change in the Contractual Arrangements that had been adopted by our Group prior to our listing. For more information relating to the Contractual Arrangements, including the risks associated with the arrangements and the actions taken by us to mitigate the risks, please refer to the Prospectus.

RELATED PARTY TRANSACTIONS

Details of related party transactions during the year ended 31 December 2014 are disclosed in Note 34 to the financial statements.

AUDITOR

The financial statements have been audited by PricewaterhouseCoopers who retire and being eligible, offer itself for re-appointment. No change of auditor has occurred in the years ended 31 December 2011, 2012, 2013 and 2014. A resolution for the re-appointment of PricewaterhouseCoopers as the Company's auditor for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board
DAI JIAN
Chairman

Hong Kong, 27 March 2015

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

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

Throughout the period from Listing to 31 December 2014, the Company has applied the principles and complied with all the code provisions as set out in the Corporate Governance Code.

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own securities dealing code to regulate all dealings by directors of securities in the Company and other matters covered by the Model Code.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code throughout the period from Listing to 31 December 2014.

The Company has also established written guidelines no less exacting than the Model Code (the “Employees Written Guidelines”) for securities transactions by employees who are likely to be in possession of unpublished inside information of the Company. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

BOARD OF DIRECTORS

The Board of the Company comprises the following directors:

Executive Directors:

Mr. DAI Jian *(Chairman and Chairman of Nomination Committee)*
Mr. WU Lili *(Member of Remuneration Committee)*
Mr. LI Chong
Mr. CHEN Ziming *(Resigned on 20 November 2014)*
Mr. WANG Xiaodong

Non-executive Director:

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

Independent Non-executive Directors:

Ms. LIU Qianli *(Chairman of Audit Committee and Member of Nomination Committee)*
Mr. WANG Qing *(Chairman of Remuneration Committee and Member of Audit Committee)*
Mr. MA Xiaofeng *(Member of Remuneration Committee and Nomination Committee)*

The biographical information of the Directors are set out in the section headed "Biographies of the Directors and Senior Management" on pages 23 to 28 of the annual report for the year ended 31 December 2014.

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

Chairman and Chief Executive Officer

The position of Chairman is held by Mr. DAI Jian and the position of Chief Executive Officer is held by Mr. WU Lili until 5 March 2015. The current Chief Executive Officer is Dr. XU Gang. The Chairman provides leadership to the Board and is responsible for determining the broad strategic direction of the Company and high level oversight of management. The Chief Executive Officer focuses on the Company's overall management, corporate development and strategic planning of the Company. Their respective responsibilities are clearly defined and set out in writing.

Independent Non-executive Directors

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

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

Non-executive Directors and Directors' Re-election

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

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

Responsibilities, Accountabilities and Contributions of the Board and Management

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

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

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

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

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

Continuous Professional Development of Directors

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

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

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

Records of training received by each existing Directors during the period from Listing to 31 December 2014 is summarized below:

Directors	Types of training
Executive Directors	
Mr. DAI Jian	A,C
Mr. WU Lili	A,B,C
Mr. LI Chong	A,B,C
Mr. WANG Xiaodong	A,B,C
Non-Executive Director	
Mr. JI Yue	C
Independent Non-Executive Directors	
Ms. LIU Qian Li	C
Mr. WANG Qing	B,C
Mr. MA Xiaofeng	C

A Attending in-house briefing(s)

B Attending seminar(s) and training(s)

C Reading materials relating to directors' roles, functions and duties

BOARD COMMITTEES

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

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

Audit Committee

On 19 March 2014, the Company established an Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C3 of the Corporate Governance Code. The Audit Committee comprises three members namely, Ms. LIU Qianli (as chairman), Mr. WANG Qing and Mr. JI Yue (including one independent non-executive director who possesses appropriate professional qualifications or accounting or related financial management expertise). The primary duties of the Audit Committee are to assist the Board by providing an independent view of effectiveness of the financial reporting process, internal control and risk management system of the Group, overseeing the audit process and performing other duties and responsibilities as assigned by the Board.

The Audit Committee held one meeting to review interim results and reports for the six months ended 30 June 2014 and significant issues on the financial reporting and compliance procedures, internal control and risk management systems, scope of work and appointment of external auditor, connected transactions and arrangements for employees to raise concerns about possible improprieties during the period from Listing to 31 December 2014.

As the Shares of the Company have only been listed since 10 April 2014, the Audit Committee has only held one meeting and met the external auditor once without the presence of the executive directors during the period from Listing to 31 December 2014.

Remuneration Committee

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

The Remuneration Committee met once to review and make recommendation to the Board on the remuneration policy and structure of the Company, and the remuneration packages of the executive directors and senior management and staff bonus for the year 2014.

Nomination Committee

On 19 March 2014, the Company established a Nomination Committee with written terms of reference in compliance with paragraph A4 of the Corporate Governance Code. The Nomination Committee comprises three members namely, Mr. DAI Jian (as chairman), Mr. MA Xiaofeng and Ms. LIU Qianli. The primary functions of the Nomination Committee include, without limitation, reviewing the structure, size and composition of the Board, assessing the independence of independent non-executive directors and making recommendations to the Board on matters relating to the appointment of directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects set out in the Board diversity policy, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates to become a member of the Board, the ultimate decision will be based on merit and contribution that the selected candidates to the Board.

The Nomination Committee met once to review the structure, size and composition of the Board.

Corporate Governance Functions

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

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

ATTENDANCE RECORD OF DIRECTORS AND COMMITTEE MEMBERS

The attendance record of each director at the Board and Board Committee meetings and the general meeting of the Company held during the period from Listing to 31 December 2014 is set out in the table below:

	Attendance/Number of Meeting(s)				
	Board	Nomination Committee	Remuneration Committee	Audit Committee	AGM
Executive Director					
Mr. DAI Jian	4/4	1/1	—	—	1/1
Mr. WU Lili	4/4	—	1/1	—	1/1
Mr. LI Chong	4/4	—	—	—	1/1
Mr. CHEN Ziming *(Resigned on 20 November 2014)*	1/4	—	—	—	0/1
Mr. WANG Xiaodong	2/4	—	—	—	0/1
Non-Executive Director					
Mr. JI Yue	2/4	—	—	1/1	0/1
Independent Non-Executive Directors					
Ms. LIU Qianli	2/4	1/1	—	1/1	0/1
Mr. WANG Qing	2/4	—	1/1	1/1	0/1
Mr. MA Xiaofeng	1/4	1/1	1/1	—	0/1

Apart from regular Board Meetings, the Chairman also held a meeting with the Non-executive Directors (including Independent Non-executive Directors) without the presence of Executive Directors during the period from Listing to 31 December 2014.

DIRECTORS' RESPONSIBILTY IN RESPECT OF THE FINANCIAL STATEMENTS

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2014.

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

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 61 to 62.

AUDITORS' REMUNERATION

The remuneration paid/payable to the external auditor of the Company, PricewaterhouseCoopers, in respect of annual audit of the financial statements of the Company for the year ended 31 December 2014 amounted to RMB3,500,000. No non-audit services was provided by PricewaterhouseCoopers to the Company during the year.

INTERNAL CONTROLS

During the period under review, the Board, through the Audit Committee, conducted a review of the effectiveness of the internal control system of the Company, including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

COMPANY SECRETARIES

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

SHAREHOLDERS' RIGHTS

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

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

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

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

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

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

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

Putting Forward Enquiries to the Board

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

Contact Details

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

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

Fax: (852) 2117 0869

Email: BAIOO@christensenir.com

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavors to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings. The 2014 AGM of the Company was held on 20 June 2014 and the directors (or their delegates as appropriate) were available to meet shareholders and answer enquires.

During the period under review, the Company has not made any changes to its Articles of Association. An up to date version of the Company's Articles of Association is also available on the Company's website and the Stock Exchange's website.

Independent Auditor's Report

pwc

羅兵咸永道

To the shareholders of BAIOO Family Interactive Limited

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of BAIOO Family Interactive Limited ("the Company") and its subsidiaries (together, the "Group") set out on pages 63 to 143, which comprise the consolidated and company balance sheets as at 31 December 2014, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

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Independent Auditor's Report

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, and of the Group's loss and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Other Matters

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 March 2015

Consolidated Income Statement

	Note	Year ended 31 December 2014 RMB'000	2013 RMB'000
Revenue	5	**506,193**	454,996
Cost of revenue	6	**(158,455)**	(106,115)
Gross profit		**347,738**	348,881
Selling and marketing expenses	6	**(60,641)**	(47,644)
Administrative expenses	6	**(61,177)**	(33,247)
Research and development expenses	6	**(28,847)**	(28,546)
Other income	7	**—**	1,551
Other gains — net	8	**2,779**	7,163
Operating profit		**199,852**	248,158
Finance income	10	**34,854**	7,656
Finance costs	10	**(137)**	(17)
Finance income — net	10	**34,717**	7,639
Fair value loss of convertible redeemable preferred shares	30	**(327,749)**	(237,228)
(Loss)/profit before income tax		**(93,180)**	18,569
Income tax expense	11	**(38,522)**	(38,788)
Loss for the year		**(131,702)**	(20,219)
Attributable to:			
— Shareholders of the Company		**(131,702)**	(20,219)
Loss per share (expressed in RMB per share)	12		
— Basic and diluted		**(0.0551)**	(0.0128)

The notes on pages 71 to 143 are integral parts of these consolidated financial statements.

	Note	Year ended 31 December 2014 RMB'000	2013 RMB'000
Dividends	13	**228,599**	—

Consolidated Statement Of Comprehensive Income

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Loss for the year	**(131,702)**	(20,219)
Other comprehensive income	**—**	—
Total comprehensive loss for the year	**(131,702)**	(20,219)
Attributable to:		
— Shareholders of the Company	**(131,702)**	(20,219)

The notes on pages 71 to 143 are integral parts of these consolidated financial statements.

Consolidated Balance Sheet

		As at 31 December	
		2014	2013
	Note	**RMB'000**	RMB'000
ASSETS			
Non-current assets			
Property and equipment	14	**10,943**	13,106
Intangible assets	16	**383**	217
Prepayments and other receivables	19	**733**	5,427
Restricted cash	20	**—**	10,000
Deferred income tax assets	31	**7,595**	9,110
		19,654	37,860
Current assets			
Trade receivables	18	**6,425**	3,855
Prepayments and other receivables	19	**33,339**	12,016
Short-term deposits	20	**1,364,200**	200,000
Cash and cash equivalents	20	**259,367**	280,932
Prepaid tax		**808**	—
		1,664,139	496,803
Total assets		**1,683,793**	534,663
EQUITY			
Share capital	21	**8**	5
Share premium	21	**1,636,621**	—
Reserves	22	**49,916**	25,734
Accumulated losses		**(176,871)**	(45,169)
Total equity/(deficits)		**1,509,674**	(19,430)

Consolidated Balance Sheet

	Note	As at 31 December 2014 RMB'000	2013 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred revenue	26	**3,305**	2,083
Convertible redeemable preferred shares	30	**—**	349,962
		3,305	352,045
Current liabilities			
Trade payables	27	**1,945**	3,501
Other payables and accruals	28	**36,778**	55,173
Amount due to a related party	28, 34	**—**	5
Income tax liabilities		**—**	6,204
Advances from customers and distributors	26	**73,664**	73,161
Advance from government grant	25	**1,810**	—
Deferred revenue	26	**56,617**	57,867
Borrowings	29	**—**	6,137
		170,814	202,048
Total liabilities		**174,119**	554,093
Total equity and liabilities		**1,683,793**	534,663
Net current assets		**1,493,325**	294,755
Total assets less current liabilities		**1,512,979**	332,615

The notes on pages 71 to 143 are integral parts of these consolidated financial statements.

These consolidated financial statements on pages 63 to 143 were approved for issue by the Board of Directors on 27 March 2015 and were signed on its behalf.

Wu Lili
Director

Li Chong
Director

Balance Sheet — Company

	Note	As at 31 December 2014 RMB'000	2013 RMB'000
ASSETS			
Non-current assets			
Interests in subsidiaries	15	**49,658**	10,728
Current assets			
Prepayments and other receivables		**15,583**	3,666
Amounts due from subsidiaries	15, 34	**79,265**	9,003
Short-term deposits	20	**801,200**	—
Cash and cash equivalents	20	**67,498**	55
		963,546	12,724
Total assets		**1,013,204**	23,452
EQUITY			
Share capital	21	**8**	5
Share premium	21	**1,636,621**	—
Reserves	22	**34,901**	10,719
Accumulated losses	24	**(670,337)**	(351,667)
Total equity/(deficits)		**1,001,193**	(340,943)
LIABILITIES			
Non-current liabilities			
Convertible redeemable preferred shares	30	**—**	349,962
Current liabilities			
Other payables and accruals	28	**2,774**	10,599
Amounts due to related parties	28, 34	**9,237**	3,834
		12,011	14,433
Total liabilities		**12,011**	364,395
Total equity and liabilities		**1,013,204**	23,452
Net current assets/(liabilities)		**951,535**	(1,709)
Total assets less current liabilities		**1,001,193**	9,019

The notes on pages 71 to 143 are integral parts of these consolidated financial statements.

These consolidated financial statements on pages 63 to 143 were approved for issue by the Board of Directors on 27 March 2015 and were signed on its behalf.

Wu Lili
Director

Li Chong
Director

Consolidated Statement Of Changes In Equity

		Attributable to shareholders of the Company				
		Share Capital	Share premium	Reserves	Accumulated losses	Total equity/ (deficits)
	Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2013		5	—	15,943	(24,950)	(9,002)
Comprehensive loss						
Loss for the year		—	—	—	(20,219)	(20,219)
Other comprehensive income		—	—	—	—	—
Total comprehensive loss		—	—	—	(20,219)	(20,219)
Transactions with owners, recognized directly in equity						
Pre-IPO Share Option Scheme						
— Value of employee services	22	—	—	237	—	237
Pre-IPO Restricted Share Unit Scheme						
— Value of employee services	22	—	—	9,554	—	9,554
Total transactions with owners, recognized directly in equity		—	—	9,791	—	9,791
Balance at 31 December 2013		5	—	25,734	(45,169)	(19,430)

The notes on pages 71 to 143 are integral parts of these consolidated financial statements.

Consolidated Statement Of Changes In Equity

		Attributable to shareholders of the Company				
		Share Capital	Share premium	Reserves	Accumulated losses	Total equity/ (deficits)
	Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2014		5	–	25,734	(45,169)	(19,430)
Comprehensive loss						
Loss for the year		–	–	–	(131,702)	(131,702)
Other comprehensive income		–	–	–	–	–
Total comprehensive loss		–	–	–	(131,702)	(131,702)
Transactions with owners, recognized directly in equity						
Issuance of ordinary shares related to initial public offering ("IPO"), net off underwriting commissions, other issuance costs and listing expenses		2	1,120,079	–	–	1,120,081
Conversion of convertible redeemable preferred shares into ordinary shares		1	682,263	–	–	682,264
Pre-IPO Share Option Scheme:						
— Value of employee services	22	–	–	70	–	70
— Proceeds from shares issued upon exercise of share options	22	–	858	–	–	858
— Transfer upon exercise of share options	22	–	1,084	(1,084)	–	–
Pre-IPO Restricted Share Unit Scheme:						
— Value of employee services	22	–	–	38,860	–	38,860
— Transfer upon exercise of restricted share units	22	–	13,664	(13,664)	–	–
Dividend paid to pre-IPO shareholders	13	–	(154,127)	–	–	(154,127)
Buy-back and cancellation of shares		–	(27,200)	–	–	(27,200)
Total transactions with owners, recognized directly in equity		3	1,636,621	24,182	–	1,660,806
Balance at 31 December 2014		8	1,636,621	49,916	(176,871)	1,509,674

The notes on pages 71 to 143 are integral parts of these consolidated financial statements.

Consolidated Statement Of Cash Flows

	Note	Year ended 31 December 2014 RMB'000	2013 RMB'000
Cash flows from operating activities			
Cash generated from operations	32	**236,638**	341,395
Interest received		**2,867**	2,787
Income tax paid		**(44,019)**	(40,625)
Net cash generated from operating activities		**195,486**	303,557
Cash flows from investing activities			
Purchase of property and equipment and intangible assets		**(4,768)**	(10,316)
Purchase of short-term investments		**—**	(390,000)
Proceeds from disposals of fixed assets		**10**	—
Proceeds from short-term investments upon maturity		**—**	390,000
Interest received from short-term investments		**—**	1,608
Interest received from short-term deposits		**7,568**	—
Proceeds from short-term bank deposits upon maturity		**250,000**	—
Investment in short-term deposits		**(1,414,200)**	(200,000)
Restricted cash pledged		**—**	(10,000)
Restricted cash released		**10,000**	—
Net cash used in investing activities		**(1,151,390)**	(218,708)
Cash flows from financing activities			
Proceeds from short-term borrowings		**24,683**	6,137
Repayments of short-term borrowings		**(30,820)**	—
Buy-back of ordinary shares		**(27,200)**	—
Proceeds from shares issued upon exercise of options under Pre-IPO Share Option Scheme		**858**	—
Interest paid		**(154)**	—
Proceeds from issuance of ordinary shares		**1,204,331**	—
Payment of commissions and listing expenses		**(83,126)**	(769)
Dividend paid to the pre-IPO shareholders		**(154,127)**	—
Net cash generated from financing activities		**934,445**	5,368
Net (decrease)/increase in cash and cash equivalents		**(21,459)**	90,217
Cash and cash equivalents at beginning of the year		**280,932**	190,768
Foreign exchange loss on cash and cash equivalents		**(106)**	(53)
Cash and cash equivalents at end of the year		**259,367**	280,932

The notes on pages 71 to 143 are integral parts of these consolidated financial statements.

Notes to the Financial Statements

1 General information

BAIOO Family Interactive Limited (the "Company" or "Baioo"), previously known as BYO Family Interactive Limited, 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 converted into 400,000,000 ordinary shares.

These financial statements are presented in Renminbi ("RMB"), unless otherwise stated, and have been approved for issue by the Board of Directors of the Company on 27 March 2015.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

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

The consolidated financial statements are prepared in accordance with the applicable requirements of the predecessor Companies Ordinance (Cap. 32) for this financial year and the comparative period.

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

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.1 Changes in accounting policy and disclosure

(a) New and amended standards adopted by the Group

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2014. The adoption of these new and amended standards and interpretations does not have any significant impact to the results and financial position of the Group and the Company.

IAS 32 (Amendment)	'Financial instruments: Presentation' on asset and liability offsetting
IFRS 10, 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
IFRSs (Amendment)	Annual Improvements 2010–2012 Cycle

Other standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2014 are not material to the Group.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.1 Changes in accounting policy and disclosure (continued)

(b) ***New and amended standards not yet adopted***

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these consolidated financial statements.

		Effective for annual periods beginning on or after
IAS 19 (Amendment)	Defined Benefit Plans: Employee Contributions	1 July 2014
IFRSs (Amendment)	Annual Improvements 2010–2012 Cycle and 2011–2013 Cycle	1 July 2014
IFRS 14	Regulatory Deferral Accounts	1 January 2016
IFRS 11 (Amendment)	Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
IAS 16 and IAS 38 (Amendment)	Clarification of Acceptable Methods of Depreciation and Amortization	1 January 2016
IAS 16 and IAS 41 (Amendment)	Agriculture: bearer plants	1 January 2016
IFRS 10 and IAS 28 (Amendment)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016
IAS 27 (Amendment)	Equity Method in Separate Financial Statements	1 January 2016
IFRSs (Amendment)	Annual Improvements 2012–2014 Cycle	1 January 2016
IFRS 15	Revenue from Contracts with Customers	1 January 2017
IFRS 9	Financial Instruments	1 January 2018

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

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.1 Changes in accounting policy and disclosure (continued)

(c) New Hong Kong Companies Ordinance (Cap.622)

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation as from the Company's first financial year commencing on or after 3 March 2014 in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9 of the new Hong Kong Companies Ordinance (Cap. 622). So far it has concluded that the impact is unlikely to be significant and only the presentation and the disclosure of information in the consolidated financial statements will be affected.

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement in the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognized amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRS.

Acquisition-related costs are expensed as incurred.

2 Summary of significant accounting policies (continued)

2.2 Subsidiaries (continued)

2.2.1 Consolidation (continued)

(a) Business combinations (continued)

If the business combination is achieved in stages, the acquisition date carrying amount of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in profit or loss.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured is lower than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the income statement.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated. When necessary amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(b) Changes in ownership interests in subsidiaries

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions — that is, as transactions with the owners in their capacity as owners. The difference between the fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2 Summary of significant accounting policies (continued)

2.2 Subsidiaries (continued)

2.2.1 Consolidation (continued)

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities, resulting in the amounts previously recognized in other comprehensive income being reclassified to profit or loss.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"), who are responsible for allocating resources and assessing performance of the operating segments. The CODM has been identified as the executive directors that make strategic decisions.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional and the Group's presentation currency.

2 Summary of significant accounting policies (continued)

2.4 Foreign currency translation (continued)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or of the valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss. Foreign exchange gains and losses are presented in the consolidated income statement within "other gains — net".

2.5 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation on property and equipment is calculated using the straight-line method to allocate their cost to their residual values of zero over their estimated useful lives, as follows:

Servers	3 years
Office equipment	3 years
Motor vehicles	5 years
Leasehold improvements	Shorter of remaining term of the lease and the estimated useful lives of the assets

The depreciation method, residual values and useful lives of the assets are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

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

2 Summary of significant accounting policies (continued)

2.6 Intangible assets

(a) Computer software

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

(b) Research and development expenditures

Research expenditure is recognized as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved game products) are capitalized as intangible assets when recognition criteria are fulfilled. These criteria include: (1) it is technically feasible to complete the online virtual world products so that it will be available for use or sale; (2) management intends to complete the online virtual world product and use or sell it; (3) there is an ability to use or sell the online virtual world product; (4) it can be demonstrated how the online virtual world products will generate probable future economic benefits; (5) adequate technical, financial and other resources to complete the development and to use or sell the online virtual world products are available; and (6) the expenditure attributable to the online virtual world products during its development can be reliably measured. Other development expenditures that do not meet those criteria are recognized as expenses as incurred. The Group could not determine whether it was technically feasible to complete the online virtual world products so that it would be available for use or sale and could not determine whether the online virtual world products would generate probable future economic benefit or not during the development phase of a online virtual world. In addition, the Group could not reliably measure the expenditure attributable to each online virtual world during its development phase. Therefore, there were no development costs meeting these criteria and capitalized as intangible assets.

Development costs previously recognized as expenses are not recognized as assets in subsequent periods.

2.7 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each of the reporting dates.

2 Summary of significant accounting policies (continued)

2.8 Financial assets

2.8.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are derivative financial instruments arising from the issuance of convertible redeemable preferred shares (Note 30). Derivative financial instruments are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade receivables', 'other receivables', 'cash and cash equivalents', 'restricted cash' and 'short-term deposits' in the balance sheet (Notes 2.11 and 2.12).

2.8.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognized on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

2.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2 Summary of significant accounting policies (continued)

2.10 Impairment of financial assets

Assets carried at amortized cost

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

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the consolidated income statement.

2.11 Trade receivables and other receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection of trade receivables and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

2.12 Cash and cash equivalents

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

2 Summary of significant accounting policies (continued)

2.13 Share capital

Ordinary shares are classified as equity. Please refer to Note 2.17 for treatment for convertible redeemable preferred shares.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.14 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.15 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are classified as current liability unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2 Summary of significant accounting policies (continued)

2.16 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

2.17 Convertible redeemable preferred shares

Convertible redeemable preferred shares can be converted into ordinary shares of the Company at any time at the option of the holders or automatically converted into ordinary shares upon occurrence of an IPO of the Company or agreed by a majority of the holders as detailed in Note 30.

The Group designated the convertible redeemable preferred shares as financial liabilities at fair value through profit or loss. They are initially recognized at fair value. Any directly attributable transaction costs are recognized as finance costs in profit or loss.

Subsequent to initial recognition, the convertible redeemable preferred shares are carried at fair value with changes in fair value recognized in profit or loss.

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

All convertible redeemable preferred shares of the Company had been converted into ordinary shares of the Company upon the Company's IPO as mentioned in Note 30.

2 Summary of significant accounting policies (continued)

2.18 Current and deferred income tax

The income tax expense for the period comprises current and deferred income tax. Income tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the income tax is also recognized in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws, enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

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

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

Outside basis differences

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

2 Summary of significant accounting policies (continued)

2.18 Current and deferred income tax (continued)

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income tax assets and liabilities relate to income tax levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.19 Employee benefits

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

2.20 Share-based payments

(a) Equity-settled share-based payments transactions

The Group operates various equity-settled share-based compensation plans, including the Pre-IPO Share Option Scheme and Pre-IPO and Post-IPO Restricted Share Unit Scheme, under which the Group receives services from employees as consideration for equity instruments (options or restricted share units) of the Company. The fair value of the services received in exchange for the grant of the equity instruments is recognized as expense.

For share options awarded to employees, the total amount to be expensed is determined by reference to the fair value of the equity instruments granted:

— including any market performance conditions;

— excluding the impact of any service and non-market performance vesting conditions; and

— including the impact of any non-vesting conditions.

2 Summary of significant accounting policies (continued)

2.20 Share-based payments (continued)

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

Non-market performance and service conditions are included in assumptions about the quantum of options and restricted share units that are expected to vest. The total expense is recognized over the vesting period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, the Group revises its estimates of the number of shares under the options and the number of restricted share units that are expected to vest based on the non-market performance and service conditions. It recognizes the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

(b) Share-based payments transactions among group entities

The grant by the Company of options and/or restricted share units over its equity instruments to the employees or other service providers of the subsidiaries is treated as a capital contribution. The fair value of consulting and employee services received, measured by reference to the grant date fair value, is recognized over the vesting period as an increase to investments in subsidiaries, with a corresponding credit to equity in the separate financial statements of the Company.

2.21 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2 Summary of significant accounting policies (continued)

2.22 Revenue recognition

Online business

The Group earns revenue primarily through development and operation of online virtual world business. The Group is responsible for hosting the online virtual worlds, providing on-going updates of additional online virtual worlds, activity and storyline, sales of virtual items and services, technical support for the operations of the online virtual worlds, etc. In addition, the Group also earns revenue from operating several third party developed online games.

(a) Revenue from operation of online virtual worlds

The Group's online virtual worlds are free-to-play and players can pay for virtual items for better in-game experience. Players purchase the Group's virtual currency (namely, Aocoin) and online virtual world tokens ("Paying Players") and use them to exchange virtual items. The Group hosts self-developed online virtual worlds which sell virtual items. Paying Players usually exchange their online virtual world tokens for the virtual items shortly after purchases. The Group collects the payments made by Paying Players through various payment channels.

The Group provides such services to players via an online entertainment platform pursuant to time-based revenue model and item-based revenue model.

For online services using the time-based model, Paying Players pay a membership subscription fee for a certain number of calendar days ("Subscription Period") and enjoy a certain range of privileges during the Subscription Period. Subscription fee income is recognized over the Subscription Period on a straight-line basis.

Revenue earned from the sale of virtual items is recognized by applying the item-based model. Under the item-based model, revenue is recognized over the estimated lives of the virtual items purchased or consumed. Upon the sales of virtual items, the Group typically has an implied obligation to provide the service which enables the virtual items to be displayed and used in the respective online virtual worlds. As a result, the proceeds from the sales of virtual items are initially recorded in deferred revenue and are recognized as revenue subsequently only when the services have been rendered. For the purposes of determining when services have been rendered to the respective Paying Players, the Group has determined the following:

— Consumable virtual items represent items that will be extinguished shortly after consumption by a specific player action. Paying Players will not continue to benefit from the virtual items thereafter. Revenue is recognized upon consumption.

2 Summary of significant accounting policies (continued)

2.22 Revenue recognition (continued)

Online business (continued)

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

— Durable virtual items represent virtual items that are accessible to a player over an extended period of time. The life of a durable virtual item approximately equals the period during which Paying Players use it. For the revenue derived from durable items, the Group has adopted a policy of using the period of Paying Players' relationship with the Group on an individual virtual world basis ("Player Relationship Period") to approximate the period during which Paying Players use durable virtual items. Revenue from sales of durable virtual items of a specific online virtual world is recognized ratably over the Player Relationship Period of that online virtual world.

(b) Revenue from other online games

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

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

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

2 Summary of significant accounting policies (continued)

2.22 Revenue recognition (continued)

Online business (continued)

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

In determining the Player Relationship Period related to the recognition of revenue from sales of durable virtual items of the Group's self-developed online virtual worlds and revenue derived from third party developed games, the Group tracks the Paying Players' data, such as log-in data and purchase records. The Group re-assesses such periods semi-annually based on data gathered from paying users up to the date of reassessment and applies the most updated estimated user relationship period for each virtual world or game for revenue recognition prospectively.

When the Group launches a new virtual world/game on its platform, it estimates the Player Relationship Period based on other similar types of virtual world/game of the Group or third party developers, taking into account the virtual world/game profile, target audience and its appeal to Paying Players of different demographic groups, until the new virtual world/game establishes its own history, which is normally up to 6 months after launch.

The Group allows Paying Players to make payments either by way of purchasing prepaid cards sold through a number of distributors or through online payment channels. The Group has evaluated the roles and responsibilities for delivering game experience to the Paying Players and concluded that the Group takes the primary responsibilities in the sales of prepaid cards and collection of payments from Paying Players.

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

Prepaid cards expire on the expiration date pre-printed thereon, which is generally two years after the date of card production. Proceeds from expired prepaid cards that have never been activated are recognized as revenue upon expiration of the cards.

The cost of providing free virtual items as a result of promotional activities was insignificant.

2 Summary of significant accounting policies (continued)

2.22 Revenue recognition (continued)

Other business

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

(a) Advertising revenue

Advertising revenues are derived principally from advertising arrangements where the advertisers pay to place their advertisements inside the online virtual worlds hosted by the Group over a particular period of time. Advertisements inside the Group's online virtual worlds are generally charged on the basis of duration, and advertising contracts are signed to establish the fixed price and the advertising services to be provided. Where collectability is reasonably assured, advertising revenues from advertising contracts are recognized ratably over the contract period of display.

The Group enters into advertising contracts with third party advertising agencies that represent advertisers. Contract terms generally range from 1 to 3 months. Third party advertising agencies are generally billed at the end of the display period and payments are due usually within 3 months.

(b) Licensing fees

Revenues generated under merchandise licensing are calculated and recognized based on the volume of the merchandise products determined in the agreement (such as sales volume) and the agreed rate of licensing fees as set out in the licensing contracts. The sales of the licensed products are derived from the sales reports provided by the licensees, the evidence of which is readily available for verification by the Group. In cases where the licensing fee is charged based on the period of usage by the licensees, the Group recognizes the revenue from licensing fee ratably over the usage period.

2 Summary of significant accounting policies (continued)

2.23 Advances from customers and distributors and deferred revenue

Advances from customers and distributors are prepayments from prepaid card distributors or prepayments from Paying Players in the form of Aocoins that have not yet been consumed or converted into online virtual world tokens, and upon the consumption or conversion, are recognized as revenue according to the prescribed revenue recognition policies described above. Deferred revenue primarily consists of unused online virtual world tokens, unamortized prepaid membership subscription fees and unamortized revenue derived from the sales of durable virtual items. Deferred revenue balances which the Group expects to be recognized as revenue within one year are classified as current liabilities and the rest are classified as non-current liabilities.

2.24 Cost of revenue

Amounts recorded as cost of revenue relate to direct expenses incurred in order to generate revenue from online business and other businesses. Such costs are recorded as incurred. Cost of revenues consists primarily of (i) employee benefit expense, (ii) bandwidth and server custody fees, (iii) depreciation and amortization of property and equipment and intangible assets, (iv) prepaid cards production cost, etc.

2.25 Interest income

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

2.26 Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants related to costs are included in current or non-current liabilities as advances from government grants and are deferred and recognized in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants related to property and equipment are included in non-current liabilities as advances from government grants and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

2.27 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

2 Summary of significant accounting policies (continued)

2.28 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

3 Financial risk management

3.1 Financial risk factors

The Group's activities exposed it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Risk management is carried out by the senior management of the Group approved by the Board of Directors.

(a) Market risk

(i) Foreign exchange risk

The Group's foreign exchange risk primarily arose from the cash and cash equivalents denominated in HK$ from a small portion of the IPO proceeds and other payables denominated in US$. If RMB had strengthened/weakened by 1% against US$ and HK$ with all other variables held constant, the post-tax loss for the year ended 31 December 2014 would have been approximately RMB749,000 lower/higher (2013: RMB25,000 higher/lower).

The Group does not hedge against any fluctuation in foreign currency.

(ii) Interest rate risk

For the years ended 31 December 2014 and 2013, management of the Group is of the opinion that interest rate risk (such as interest rate risk on bank deposits) was not material to the Group and the Company.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

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

To manage the credit risk, bank deposits are mainly placed with state-owned or reputable listed financial institutions in the PRC and reputable international financial institutions outside the PRC. There has been no recent history of default in relation to these financial institutions.

The table below shows the cash and cash equivalents, short-term deposits and restricted cash balances of the major counterparties with or without external credit ratings as at 31 December 2014 and 2013 as follows:

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Counterparties with external credit rating*		
Aa2	**67,321**	425
A1	**273**	324
Baa3(**)	**1,547,661**	481,870
Ba1	**14**	14
	1,615,269	482,633
Counterparties without external credit rating		
China Minsheng Banking Corp., Ltd	**8,231**	8,271
Others	**25**	24
	8,256	8,295
Restricted cash, short-term deposits and cash and cash equivalents	**1,623,525**	490,928

* Rating sourced from Moody's.

** Balance represents cash and cash equivalents placed with China Merchants Bank, a reputable and listed bank in the PRC.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

For trade receivables, a significant portion was due from advertising agencies. If the strategic relationship with the advertising agencies is terminated or scaled-back; or if they experience financial difficulties in paying the Group, the Group's receivables might be adversely affected in terms of recoverability.

To manage this risk, the Group maintains frequent communications with the advertising agencies to ensure effective credit control. In view of the history of cooperation with the advertising agencies and the sound collection history of receivables due from them, management believes that the credit risk inherent in the Group's outstanding trade receivable balances due from advertising agencies is low.

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

(c) Liquidity risk

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

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

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

Group	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 3 years RMB'000	Between 3 and 4 years RMB'000	Between 4 and 5 years RMB'000	Total RMB'000
At 31 December 2014						
Trade payables	**1,945**	**—**	**—**	**—**	**—**	**1,945**
Other payables and accruals (excluding other tax liabilities and staff costs and welfare accruals)	**7,199**	**—**	**—**	**—**	**—**	**7,199**
At 31 December 2013						
Trade payables	3,501	—	—	—	—	3,501
Other payables and accruals (excluding other tax liabilities and staff costs and welfare accruals)	16,803	—	—	—	—	16,803
Amount due to a related party	5	—	—	—	—	5
Borrowings	6,248	—	—	—	—	6,248
Convertible redeemable preferred shares	—	19,815	—	—	—	19,815

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

Company	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 3 years RMB'000	Between 3 and 4 years RMB'000	Between 4 and 5 years RMB'000	Total RMB'000
At 31 December 2014						
Other payables and accruals (excluding other tax liabilities and staff costs and welfare accruals)	**2,774**	**—**	**—**	**—**	**—**	**2,774**
Amounts due to related parties	**9,237**	**—**	**—**	**—**	**—**	**9,237**
At 31 December 2013						
Other payables and accruals (excluding other tax liabilities and staff costs and welfare accruals)	10,599	—	—	—	—	10,599
Amounts due to related parties	3,834	—	—	—	—	3,834
Convertible redeemable preferred shares	—	19,815	—	—	—	19,815

As at 31 December 2013, Series A-1 convertible redeemable preferred shares (the "Series A-1 Preferred Shares") were classified as non-current liability because with the impending IPO it was unlikely for the preferred shareholders to exercise the redemption right within 12 months. The maximum exposure of this redemption was the contractual redemption price which is equal to 100% of the issue price, plus any declared but unpaid dividends on such shares (Note 30). All Series A-1 Preferred Shares were converted into ordinary shares upon the Company's IPO on 10 April 2014.

3 Financial risk management (continued)

3.2 Capital management

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

The Group monitors capital (including share capital and premium, capital reserves and Series A-1 Preferred Shares on an as-if converted basis) by regularly reviewing the capital structure and gearing ratio. This ratio is calculated as total liabilities (excluding convertible redeemable preferred shares) divided by total assets. As part of this review, the directors of the Company consider the cost of capital and the risks associated with the issued share capital. The Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or repurchase the Company's shares. Besides, the Group's strategy was to maintain the gearing ratio within 40%.

The gearing ratios were as follows:

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Total liabilities (excluding convertible redeemable preferred shares)	**174,119**	204,131
Total assets	**1,683,793**	534,663
Gearing ratio	**10%**	38%

3.3 Fair value estimation

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

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

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

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

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

The Group has no assets and liabilities that are measured at fair value as at 31 December 2014.

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

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

The 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.

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

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 financial instruments for the years ended 31 December 2014 and 2013 are presented in Note 30.

The Group determines the fair value of the Group's level 3 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 borrowings, approximated their respective fair value due to their short maturity at each of the reporting dates.

4 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimates of Player Relationship Period for online business

As described in Note 2.22, the Group recognizes revenue from durable virtual items in self-developed online virtual worlds and revenue from third party developed games ratably over Player Relationship Period. The determination of Player Relationship Period for the relevant game is made based on the Group's best estimate that takes into account all known and relevant information at the time of assessment. Such estimates are subject to re-evaluation on a semi-annual basis. Any adjustments arising from changes in Player Relationship Period as a result of new information will be accounted for as a change in accounting estimates.

(b) Current income tax and deferred tax

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

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

Deferred income tax is provided on temporary differences arising on distributions of retained earnings by subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Specially, for the potential timing differences arising from the distribution of retained earnings of the Company's subsidiaries in the PRC to the Company, management has assessed the availability of distributable revenues (see Note 11(d)) and funds held by the Company and concluded that the PRC subsidiaries are unlikely to distribute their retained earnings in the foreseeable future. As a result, no deferred tax liability has been provided as at 31 December 2014 and 2013.

4 Critical accounting estimates and judgments (continued)

4.1 Critical accounting estimates and assumptions (continued)

(c) Recognition of share-based compensation expenses

As mentioned in Note 23, the Group has granted share options and restricted share units to its employees. The directors have used the Binomial option-pricing model and discounted cash flow method to determine the total fair value of the options and restricted shares units granted, respectively, which is to be expensed over the vesting period. Significant estimates on assumptions, such as vesting period, underlying equity value, risk-free interest rate, expected volatility and dividend yield, are required to be made by the directors in applying the Binomial option-pricing model and discounted cash flow method.

4.2 Critical judgments in applying the Group's accounting policies

(a) Subsidiaries arising from contractual arrangements

The Company's wholly-owned subsidiary, Baitian (Beijing) Information Technology Limited ("Beijing Baitian"), has entered into the Original Contractual Arrangements with Guangzhou Baitian Information Technology Limited ("Guangzhou Baitian") and its equity holders. Upon the termination of the Original Contractual Arrangements, Baiduo (Guangzhou) Information Technology Limited ("Guangzhou WFOE"), entered into the Contractual Arrangements with Guangzhou Baitian and its equity holders.

4 Critical accounting estimates and judgments (continued)

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

(a) Subsidiaries arising from contractual arrangements (continued)

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

— exercise effective financial and operational control over Guangzhou Baitian;

— exercise equity holders' voting rights of Guangzhou Baitian;

— receive substantially all of the economic interest returns generated by Guangzhou Baitian in consideration for the business support, technical and consulting services provided by Beijing Baitian or Guangzhou WFOE, at Beijing Baitian or Guangzhou WFOE's discretion, respectively;

— obtain an irrevocable and exclusive right to purchase the entire equity interest in Guangzhou Baitian from the equity holders;

— obtain a pledge over the entire equity interest of Guangzhou Baitian from its equity holders as collateral security for all of Guangzhou Baitian' payments due to Beijing Baitian or Guangzhou WFOE and to secure performance of Guangzhou Baitian' obligations under the Original Contractual Arrangements or Contractual Arrangements, respectively.

The Company does not hold equity shares directly or indirectly in Guangzhou Baitian. However, as a result of the Original Contractual Arrangements and Contractual Arrangements, the Group has rights to variable returns from its involvement with Guangzhou Baitian and the ability to affect those returns through its power over Guangzhou Baitian and is considered to have control over Guangzhou Baitian. Consequently, the Company regards Guangzhou Baitian as an indirect subsidiary under IFRSs. The Group has included the financial position and results of Guangzhou Baitian in the consolidated financial statements.

Nevertheless, the Original Contractual Arrangements and Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over Guangzhou Baitian and uncertainties presented by the PRC legal system could impede the Group's beneficiary rights to the results, assets and liabilities of Guangzhou Baitian. The Group believes that the Original Contractual Arrangements and Contractual Arrangements are in compliance with the relevant PRC laws and regulations and are legally binding and enforceable.

5 Segment information

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

— Online business

— Other business

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

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

Other information, together with the segment information, provided to the CODM, is measured in a manner consistent with that applied in these financial statements. There were no separate segment assets and segment liabilities information provided to the CODM, as CODM does not use this information to allocate resources to or evaluate the performance of the operating segments.

5 Segment information (continued)

The segment revenues provided to the Group's CODM for the reportable segments for the years ended 31 December 2014 and 2013 are as follows:

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Online business		
— Online virtual worlds	**495,616**	444,021
— Other online games	**780**	2,314
Sub-total	**496,396**	446,335
Other businesses	**9,797**	8,661
Total	**506,193**	454,996

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

There is no concentration risk in terms of customers (which include end users from online business and customers from other business) as no single external customer contributed more than 10% of the Group's total revenue for the years ended 31 December 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 94.2% and 92.3% of the total revenue for the each of the years ended 31 December 2014 and 2013. The percentages of revenue contributed by the following online virtual worlds is not presented for the periods when such amount is less than 10% of the Group's total revenue in a particular year.

5 Segment information (continued)

	Year ended 31 December	
	2014	2013
Legend of Aoqi	**38.1%**	27.9%
Aola Star	**33.3%**	35.4%
Dragon Knights	**12.4%**	16.2%
Aobi Island	**10.4%**	12.8%

CODM reviews the performance of and allocates resources to operating segments based on revenue of each segment. The reconciliation of revenue to profit before income tax for the years ended 31 December 2014 and 2013 is shown in the consolidated income statement.

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

6 Expenses by nature

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Employee benefit expenses (Note 9)	**182,725**	113,377
Promotion and advertising expenses	**50,950**	40,012
Prepaid card production expenses	**5,813**	6,000
Prepaid card delivery expenses	**1,630**	1,927
Payment handling fees	**2,891**	1,964
Bandwidth and server custody fees	**19,337**	18,244
Depreciation of property and equipment and amortization of intangible assets (Notes 14 and 16)	**7,855**	5,563
Operating lease rentals in respect of office premises	**8,552**	6,374
Utilities and office expenses	**1,642**	2,903
Travelling and entertainment expenses	**4,517**	2,712
Professional fees	**10,599**	9,407
Auditor's remuneration	**3,500**	1,578
Others	**9,109**	5,491
Total cost of revenue, selling and marketing expenses, administrative expenses and research and development expenses	**309,120**	215,552

7 Other income

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Government grants	**—**	1,551

8 Other gains — net

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Foreign exchange gains	**3,519**	7,159
Others	**(740)**	4
	2,779	7,163

9 Employee benefit expenses (including directors' emoluments)

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Wages, salaries and discretionary bonuses	**115,606**	85,057
Other social security costs, housing benefits and other employee benefits	**21,229**	14,132
Pension costs — defined contribution plans	**6,960**	4,397
Share-based compensation expenses — Pre-IPO Share Option Scheme and Pre-IPO Restricted Share Unit Scheme	**38,930**	9,791
	182,725	113,377

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

(a) Pension costs — defined contribution plans

Employees of the Group companies in the PRC are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. For the years ended 31 December 2014 and 2013, the Group contributes funds which are calculated on a fixed percentage of 12% of the employees' salary (subject to a floor and cap) as set by local municipal governments to each scheme locally to fund the retirement benefits of the employees.

(b) Directors' and chief executives' emoluments

The remunerations of the directors and the chief executive for each of the years ended 31 December 2014 and 2013 are set out below:

Year ended 31 December 2014:

Name	Fees	Salaries	Discretionary bonus	Pension costs – defined contribution plans	Other social security costs, housing benefits and other employee benefits	Share-based compensation expenses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors							
Mr. Dai Jian	–	1,380	715	22	38	5,287	7,442
Mr. Wu Lili (Chief Executive Officer ("CEO"))	–	1,332	711	61	58	–	2,162
Mr. Li Chong	–	1,080	690	22	38	–	1,830
Mr. Chen Ziming (i)	–	900	75	19	38	–	1,032
Mr. Wang Xiaodong	–	816	668	19	38	–	1,541
Non-executive Directors							
Mr. Ji Yue	–	–	–	–	–	–	–
Independent Non-Executive Directors							
Ms. Liu Qianli (iii)	–	275	–	–	–	119	394
Mr. Wang Qing (iii)	–	275	–	–	–	119	394
Mr. Ma Xiaofeng (iii)	–	245	–	–	–	119	364

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

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

Year ended 31 December 2013:

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

(i) Mr. Chen resigned from Executive Director of the Company on 20 November 2014.

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

(iii) Ms. Liu Qianli, Wang Qing and Mr. Ma Xiaofeng were appointed as Independent Non-Executive Directors of the Company on 18 March 2014.

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

(c) Five highest paid individuals

The five highest paid individuals include four directors for the year ended 31 December 2014 and 2013. The emoluments paid and payable to the remaining one individual for each of the years ended 31 December 2014 and 2013 are as follows:

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Wages and salaries	**2,285**	737
Discretionary bonuses	**315**	365
Pension costs – defined contribution plans	**19**	5
Other social security costs, housing benefits and other employee benefits	**30**	5
Share-based compensation expenses — Pre-IPO Share Option Scheme and Pre-IPO Restricted Share Unit Scheme	**8,032**	830
	10,681	1,942

(d) Four out of the five members of senior management of the Company are also Directors, whose emoluments are disclosed above. The emoluments for remaining one member of senior management for the year ended 31 December 2014 and 2013 fall within the following bands:

	Year ended 31 December	
	2014	2013
RMB1,000,000 to RMB2,000,000	**—**	1
RMB10,000,000 to RMB11,000,000	**1**	—

(e) For the years ended 31 December 2014 and 2013, neither directors, chief executive nor the highest paid individual received any emolument from the Group as an inducement to join, upon joining the Group as compensation for loss of office, and no arrangement under which a director, chief executive or the highest paid individual waived or agreed to waive any of the emoluments.

10 Finance income — net

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Finance income:		
— Interest income on short-term investments (i)	**—**	1,608
— Interest income on bank deposits	**2,867**	2,787
— Interest income on short-term deposits	**31,987**	3,261
	34,854	7,656
Finance costs:		
— Bank borrowings wholly repayable within 5 years	**(137)**	(17)
Finance income — net	**34,717**	7,639

(i) Short-term investments consist of investments in RMB-denominated financial products with floating interest rates ranging from 3% to 4.8% per annum with a maturity period of 7 to 50 days offered by a financial institution in the PRC. The fair values of the financial products approximates the carrying amount. The balance of such short-term investment was nil as at 31 December 2014 and 2013.

11 Income tax expense

The income tax expense of the Group for the years ended 31 December 2014 and 2013 is analyzed as follows:

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Current income tax		
— PRC corporate income tax	**37,007**	41,902
Deferred income tax (Note 31)	**1,515**	(3,114)
Income tax expense	**38,522**	38,788

11 Income tax expense (continued)

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

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
(Loss)/profit before income tax	**(93,180)**	18,569
Tax calculated at income tax rates applicable to profits of the consolidated entities in their respective jurisdictions (Note a, b, c)	**34,390**	37,734
Tax effects of:		
Tax losses for which no deferred income tax asset was recognized	**237**	790
Super deduction for research and development expenses (Note c)	**(1,431)**	(1,325)
Expenses not deducted for income tax purposes:		
— Share-based compensation	**5,840**	1,469
— Others	**(514)**	120
Income tax expense	**38,522**	38,788

The high effective income tax rate for the years ended 31 December 2014 and 2013 was mainly because the loss of the Company arising from change in fair value of the convertible redeemable preferred shares is not deductible for income tax purpose as the Company is exempted from Cayman Islands income tax under the Companies Law of Cayman Islands.

(a) Cayman Islands income tax

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

(b) Hong Kong profits tax

Hong Kong profits tax rate is 16.5% for the years ended 31 December 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 years ended 31 December 2014 and 2013.

11 Income tax expense (continued)

(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 years ended 31 December 2014 and 2013.

According to the relevant laws and regulations promulgated by the State Tax Bureau of the PRC that was effective from 2008 onwards, enterprises engaging in research and development activities are entitled to claim 150% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year ("Super Deduction"). The Group has made its best estimate for the Super Deduction to be claimed for the Group's entities in ascertaining their assessable profits for the years ended 31 December 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 years ended 31 December 2014 and 2013, the Group did not have any plan to require its PRC subsidiaries to distribute their retained earnings to the Company as the Company's share premium is distributable under Cayman Island laws. Accordingly, no deferred income tax liability on WHT was accrued as at the end of each reporting period (Note 31).

12 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 year. In addition, the number of ordinary shares outstanding has also been adjusted retroactively for the proportional change in the number of ordinary shares outstanding as a result of share splits described in Note 21 (with consequential effect on diluted loss per share) for the years ended 31 December 2014 and 2013.

	Year ended 31 December	
	2014	2013
Loss attributable to shareholders of the Company (RMB'000)	**(131,702)**	(20,219)
Weighted average number of ordinary shares in issue	**2,388,894,833**	1,576,000,000
Basic loss per share (in RMB/share)	**(0.0551)**	(0.0128)

(b) Diluted

For the years ended 31 December 2014 and 2013, the Company had three categories of potential ordinary shares, the Pre-IPO Share Options, Series A-1 Preferred Shares and the Pre-IPO restricted share units, which had to be considered for calculating diluted earnings per share.

No adjustment has been made to basic loss per share to derive the diluted loss per share for the years ended 31 December 2014 and 2013 as each of these potential ordinary shares is anti-dilutive.

13 Dividend

The dividends paid in 2014 were RMB154,127,000 (2013: Nil). The Board of Directors of the Company proposed a special dividend of HK$0.035 (equivalent to approximately RMB0.028) per ordinary share out of the share premium account, totaling approximately RMB74,472,000. Such dividend is to be approved by the shareholders at the Annual General Meeting on 19 June 2015. These financial statements do not reflect this dividend payable.

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Special dividend paid of US$25 million (Note (a))	**154,127**	—
Interim dividend paid of HK$— (2013: HK$nil) per ordinary share	**—**	—
Proposed special dividend of HK$0.035 equivalent to approximately RMB0.028 (2013: HK$nil) per ordinary share	**74,472**	—
	228,599	—

(a) 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's 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 out of the share premium account.

14 Property and equipment

	Servers RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Total RMB'000
At 1 January 2013					
Cost	12,548	2,418	349	3,842	19,157
Accumulated depreciation	(5,414)	(1,287)	(180)	(2,813)	(9,694)
Net book amount	7,134	1,131	169	1,029	9,463
Year ended 31 December 2013					
Opening net book amount	7,134	1,131	169	1,029	9,463
Additions	6,859	771	—	1,529	9,159
Depreciation charge	(3,968)	(711)	(70)	(767)	(5,516)
Closing net book amount	10,025	1,191	99	1,791	13,106
At 31 December 2013					
Cost	19,407	3,189	349	5,371	28,316
Accumulated depreciation	(9,382)	(1,998)	(250)	(3,580)	(15,210)
Net book amount	10,025	1,191	99	1,791	13,106
Year ended 31 December 2014					
Opening net book amount	**10,025**	**1,191**	**99**	**1,791**	**13,106**
Additions	**3,754**	**946**	**633**	**299**	**5,632**
Depreciation charge	**(5,556)**	**(786)**	**(105)**	**(1,307)**	**(7,754)**
Disposals	**—**	**—**	**(41)**	**—**	**(41)**
Closing net book amount	**8,223**	**1,351**	**586**	**783**	**10,943**
At 31 December 2014					
Cost	**23,161**	**4,135**	**941**	**5,670**	**33,907**
Accumulated depreciation	**(14,938)**	**(2,784)**	**(355)**	**(4,887)**	**(22,964)**
Net book amount	**8,223**	**1,351**	**586**	**783**	**10,943**

14 Property and equipment (continued)

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

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Cost of revenue	**6,522**	4,716
Administrative expenses	**749**	309
Research and development expenses	**466**	473
Selling and marketing expenses	**17**	18
	7,754	5,516

15 Interests in subsidiaries and amount due from subsidiaries — Company

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Investments, at cost:		
— Unlisted shares	**9**	9
— Capital contribution relating to share-based payment (Note a)	**49,649**	10,719
	49,658	10,728
Amount due from subsidiaries (Note b, Note 34)	**79,265**	9,003

(a) Deemed cost of investments arose from the share options and restricted share units granted to eligible employees of certain subsidiaries of the Group on certain grant dates (Note 23), in exchange for their services provided to the respective subsidiaries.

(b) The amount due from a subsidiary is interest-free, unsecured and receivable on demand.

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

The following is a list of the principal subsidiaries as at 31 December 2014:

Name of the company	Kind of legal entity	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Effective equity interest held as at 31 December 2014	Principal activities and place of operation
Directly held by the Company					
Baitian Technology Limited (“Baitian Hong Kong”)	Limited liability company	Incorporated on 20 October 2009 in Hong Kong	HK$10,000	100%	Investment holding, Hong Kong
Baioo Technology Limited (“Baitian BVI”)	Limited liability company	Incorporated on 13 May 2014 in the British Virgin Islands	US$ 50,000	100%	Investment holding, British Virgin Islands
Indirectly held by the Company					
百田(北京)信息科技有限公司* (“Beijing Baitian”)	Limited liability company	Incorporated on 9 March 2010 in the PRC	RMB8,528,500	100%	Research and development of computer software, the PRC
廣州百田信息科技有限公司* (“Guangzhou Baitian”)	Limited liability company	Incorporated on 2 June 2009 in the PRC	RMB10,010,000	100%	Online interactive entertainment and education service for children, the PRC
百多(廣州)信息科技有限公司* (“Guangzhou WFOE”)	Limited liability company	Incorporated on 29 October 2013 in the PRC	US$ 500,000	100%	Research and development of computer software, the PRC

16 Intangible assets

	Computer software RMB'000
At 1 January 2013	
Cost	192
Accumulated amortization	(42)
Net book amount	150
Year ended 31 December 2013	
Opening net book amount	150
Additions	114
Amortization charge	(47)
Closing net book amount	217
At 31 December 2013	
Cost	306
Accumulated amortization	(89)
Net book amount	217
Year ended 31 December 2014	
Opening net book amount	**217**
Additions	**267**
Amortization charge	**(101)**
Closing net book amount	**383**
At 31 December 2014	
Cost	**573**
Accumulated amortization	**(190)**
Net book amount	**383**

16 Intangible assets (continued)

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

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Cost of revenue	**74**	45
Administrative expenses	**1**	2
Research and development expenses	**26**	—
	101	47

17 Financial instruments by category

	As at 31 December	
Group	**2014**	2013
	RMB'000	RMB'000
Assets as per balance sheet		
Loans and receivables:		
— Trade receivables	**6,425**	3,855
— Other receivables (excluding prepayments and Input VAT to be deducted)	**32,688**	7,688
— Restricted cash	**—**	10,000
— Short-term deposits	**1,364,200**	200,000
— Cash and cash equivalents	**259,367**	280,932
	1,662,680	502,475
Liabilities as per balance sheet		
Financial liabilities at amortized cost:		
— Trade payables	**1,945**	3,501
— Other payables and accruals (excluding other tax liabilities and staff costs and welfare accruals)	**7,199**	16,803
— Amount due to a related party	**—**	5
— Borrowings	**—**	6,137
Financial liabilities at fair value through profit or loss:		
— Convertible redeemable preferred shares	**—**	349,962
	9,144	376,408

17 Financial instruments by category (continued)

Company	As at 31 December 2014 RMB'000	2013 RMB'000
Assets as per balance sheet		
Loans and receivables:		
— Other receivables (excluding prepayments and Input VAT to be deducted)	**15,354**	2,443
— Amounts due from subsidiaries	**79,265**	9,003
— Short-term deposits	**802,661**	—
— Cash and cash equivalents	**66,037**	55
	963,317	11,501
Liabilities as per balance sheet		
Financial liabilities at amortized cost:		
— Other payables and accruals (excluding other tax liabilities and staff costs and welfare accruals)	**2,774**	10,599
— Amounts due to related parties	**9,237**	3,834
Financial liabilities at fair value through profit or loss:		
— Convertible redeemable preferred shares	**—**	349,962
	12,011	364,395

18 Trade receivables

Group	As at 31 December 2014 RMB'000	2013 RMB'000
Receivables from third parties	**6,425**	3,855
Less: allowance for impairment	**—**	—
	6,425	3,855

As at 31 December 2014 and 2013, the fair values of trade receivables approximate their carrying amounts.

18 Trade receivables (continued)

(a) Ageing analysis based on recognition date of the gross trade receivables at the respective balance sheet dates are as follows:

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
0–30 days	**1,776**	3,713
31–60 days	**98**	142
61–90 days	**64**	—
91–180 days	**4,487**	—
	6,425	3,855

(b) Advertising revenues of the Group are mainly generated on sales with credit terms determined on individual basis with normal credit periods of 90 to 120 days from the respective invoice dates. As at 31 December 2014 and 2013, there were no significant balances that were past due. These receivables are due from several online payment collection channels and advertising agencies with whom the Group had not experienced any recoverability difficulties. The ageing of these trade receivables is less than 120 days.

(c) There was no allowance for impairment of trade receivables as at 31 December 2014 and 2013.

(d) As at 31 December 2014 and 2013, trade receivables were denominated in RMB and their fair value approximated their carrying amounts.

(e) The maximum exposure to credit risk is the carrying amount of the net receivable balance. The Group does not hold any collateral as security.

18 Trade receivables (continued)

(f) Trade receivables mainly include receivables from third party advertising agencies. There was concentration risk in terms of receivables from advertising agencies as at 31 December 2014 and 2013. The advertising agency accounted for over 25% of the total trade receivables as at 31 December 2014 and 2013 are summarized in the table below:

	As at 31 December	
	2014	2013
Advertising agency 1	**37%**	57%
Advertising agency 2	**28%**	—

19 Prepayments and other receivables

Group	As at 31 December **2014** **RMB'000**	 2013 RMB'000
Included in non-current assets		
Prepayment	**—**	1,043
Rental and other deposits	**733**	355
Input VAT to be deducted	**—**	4,029
	733	5,427
Included in current assets		
Prepayment	**1,384**	4,683
Rental and other deposits	**1,407**	429
Interests receivable	**26,220**	3,261
Prepaid listing fees	**—**	3,358
Others	**4,328**	285
	33,339	12,016
Less: allowance for impairment of other receivables	**—**	—
	34,072	17,443

19 Prepayments and other receivables (continued)

As at 31 December 2014 and 2013, the carrying amounts of prepayments and other receivables were primarily denominated in RMB and approximated their fair values. As at 31 December 2014 and 2013, there were no significant balances that were past due.

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

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

Group	As at 31 December 2014 RMB'000	2013 RMB'000
Restricted cash (Note a)	—	10,000
Short-term deposits (Note b)	**1,364,200**	200,000
Cash and cash equivalents		
— Cash at bank and on hand (Note c)	**259,367**	280,932
	1,623,567	490,932
Maximum exposure to credit risk	**1,623,525**	490,928

Company	As at 31 December 2014 RMB'000	2013 RMB'000
Short-term deposits (Note b)	**801,200**	—
Cash and cash equivalents		
— Cash at bank and on hand (Note c)	**67,498**	55
	868,698	55
Maximum exposure to credit risk	**868,698**	55

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

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

(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 were demand deposits in nature. The effective interest rate per annum for cash in bank balances and short-term deposits was approximately 2.9% (2013: 1.2%).

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

Group	As at 31 December	
	2014	2013
	RMB'000	RMB'000
RMB	**1,544,733**	484,571
US$	**164**	6,358
HK$	**78,670**	3
	1,623,567	490,932

Company	As at 31 December	
	2014	2013
	RMB'000	RMB'000
RMB	**802,661**	—
US$	**62**	53
HK$	**65,975**	2
	868,698	55

21 Share capital

	Number of ordinary shares	Nominal value of ordinary shares US$
Authorized:		
As at 1 January 2013	497,743,590	49,774
Increase due to share split (Note a)	99,050,974,410	—
As at 31 December 2013	99,548,718,000	49,774
As at 1 January 2014	**99,548,718,000**	**49,774**
Addition (Note d)	**451,282,000**	**226**
As at 31 December 2014	**100,000,000,000**	**50,000**

	Number of shares	Nominal value of shares US$'000	Share Capital RMB'000	Share Premium RMB'000	Total RMB'000
Issued:					
As at 1 January 2013	7,880,000	1	5	—	5
Increase due to share split (Note a)	1,568,120,000	—	—	—	—
As at 31 December 2013	1,576,000,000	1	5	—	5
As at 1 January 2014	**1,576,000,000**	**1**	**5**	**—**	**5**
IPO (Note b)	**706,106,000**	**1**	**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**
Pre-IPO Share Option Scheme:					
— Proceeds from shares issued upon exercise of share options	**24,124,000**	**—**	**—**	**858**	**858**
— Transfer upon exercise of share options	**—**	**—**	**—**	**1,084**	**1,084**
Pre-IPO Restricted Share Unit Scheme:					
— Transfer upon exercise of restricted share units	**22,380,400**	**—**	**—**	**13,664**	**13,664**
Buy-back and cancellation of shares (Note e)	**(40,000,000)**	**—**	**—**	**(27,200)**	**(27,200)**
Dividend paid to pre-IPO shareholders (Note 13)	**—**	**—**	**—**	**(154,127)**	**(154,127)**
As at 31 December 2014	**2,688,610,400**	**2**	**8**	**1,636,621**	**1,636,629**

21 Share capital (continued)

(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 amounting to approximately RMB15,977,000, 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.

(e) The Company acquired 40,000,000 of its own shares through purchases on the Hong Kong Stock Exchange during the year ended 31 December 2014 for cash totaling HK$34,227,000 (equivalent to RMB27,200,000) and deducted the amount from share premium. The shares were cancelled after the repurchase.

22 Reserves

Group	Other reserves RMB'000 (Note a)	Statutory reserves RMB'000 (Note b)	Share-based compensation reserve RMB'000 (Note 23)	Total RMB'000
As at 1 January 2013	10,010	5,005	928	15,943
Pre-IPO Share Option Scheme:				
— Value of employee services	—	—	237	237
Pre-IPO Restricted Share Unit Scheme:				
— Value of employee services	—	—	9,554	9,554
At 31 December 2013	10,010	5,005	10,719	25,734
As at 1 January 2014	**10,010**	**5,005**	**10,719**	**25,734**
Pre-IPO Share Option Scheme:				
— Value of employee services	**—**	**—**	**70**	**70**
— Transfer upon exercise of share options	**—**	**—**	**(1,084)**	**(1,084)**
Pre-IPO Restricted Share Unit Scheme:				
— Value of employee services	**—**	**—**	**38,860**	**38,860**
— Transfer upon exercise of restricted share units	**—**	**—**	**(13,664)**	**(13,664)**
As at 31 December 2014	**10,010**	**5,005**	**34,901**	**49,916**

22 Reserves (continued)

Company	Share-based compensation reserve RMB'000 (Note 23)	Total RMB'000
As at 1 January 2013	928	928
Pre-IPO Share Option Scheme:		
— Value of employee services	237	237
Pre-IPO Restricted Share Unit Scheme:		
— Value of employee services	9,554	9,554
As at 31 December 2013	10,719	10,719
As at 1 January 2014	**10,719**	**10,719**
Pre-IPO Share Option Scheme:		
— Value of employee services	**70**	**70**
— Transfer upon exercise of share options	**(1,084)**	**(1,084)**
Pre-IPO Restricted Share Unit Scheme:		
— Value of employee services	**38,860**	**38,860**
— Transfer upon exercise of restricted share units	**(13,664)**	**(13,664)**
At 31 December 2014	**34,901**	**34,901**

(a) The 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, it is required to appropriate 10% of the annual net profits of the companies incorporated in the PRC now comprising the Group, after offsetting any prior years' losses as determined under the PRC accounting standards, to the statutory surplus reserve fund before distributing any net profit. When the balance of the statutory surplus reserve fund reaches 50% of the registered capital of the companies, any further appropriation is at the discretion of shareholders. The statutory surplus reserve fund can be used to offset prior years' losses, if any, and may be capitalized as capital, provided that the remaining balance of the statutory surplus reserve fund after such issue is no less than 25% of registered capital.

In addition, in accordance with the Law of the PRC on Enterprises with Foreign Investments and the stipulated provisions of the articles of association of wholly owned foreign subsidiaries in the PRC, appropriation from net profits (after offsetting accumulated losses brought forward from prior years) should be made by these companies to their respective reserve funds. The percentage of net profit to be appropriated to the reserve fund is not less than 10% of the net profit. When the balance of the reserve fund reaches 50% of the registered capital, such transfer needs not be made.

23 Share-based payments — Group and Company

(a) Pre-IPO Share Option Scheme

On 18 June 2010, the Board of Directors of the Company approved the establishment of the Pre-IPO Share Option Scheme with the objective to recognize and reward the contribution of eligible officers, employees, directors and other persons to the growth and development of the Group.

The options shall not become exercisable until after (i) the closing of an Initial Public Offering or a Change in Control Event (as defined below), whichever occurs first, and (ii) the relevant option holder shall have fully performed his or her reporting and registration obligations under the State Administration of Foreign Exchange in the People's Republic of China 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.

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

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

(ii) Change in Control Event ("Change in Control Event") means: (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	Number of share options
As at 1 January 2013	1.19	146,250
2013 Share Split	—	29,103,750
Forfeited	0.009	(450,000)
As at 31 December 2013	0.006	28,800,000
As at 1 January 2014	**0.006**	**28,800,000**
Exercised	**0.006**	**(24,124,000)**
Forfeited	**—**	**—**
As at 31 December 2014	**0.006**	**4,676,000**

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

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

The related weighted average share price at the time of exercise for share options exercised during the year was HK$1.15 (2013: nil) per share.

As at 31 December 2014, options granted over 2,424,000, 1,700,000 and 552,000 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 at 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.

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

(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.

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

On 1 October 2013, the Company granted 115,364,000 restricted share units to certain employees. Each 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. Each 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. Each 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.

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

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

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

	Number of restricted share units
As at 1 January 2013	**—**
Granted	**115,364,000**
Forfeited	**(288,000)**
As at 31 December 2013	**115,076,000**
As at 1 January 2014	**115,076,000**
Granted	**27,240,000**
Forfeited	**(13,394,400)**
Exercised	**(22,380,400)**
As at 31 December 2014	**106,541,200**

The directors have used the discounted cash flow method to determine the underlying equity fair value of the Company and adopted an equity allocation method to determine the fair value of the restricted share units as at the grant date. Key assumptions are set as below:

	1 October 2013	18 February 2014	21 March 2014
Discount rate	27.30%	20.20%	19.10%
Risk-free interest rate	0.23%	0.17%	0.13%
Volatility	44.80%	44.20%	45.20%
Dividend yield	0%	0%	0%

The related weighted average share price at the time of exercise for restricted share units exercised during the year was HK$1.15 (2013: nil) per share.

24 Accumulated losses — Company

	RMB'000
As at 1 January 2013	(111,071)
Loss for the year	(240,596)
As at 31 December 2013	(351,667)
As at 1 January 2014	**(351,667)**
Loss for the year	**(318,670)**
As at 31 December 2014	**(670,337)**

25 Advance from government grant

The balance represented an advance received from government in relation to a government grant. Certain conditions are required to fulfill before the Group is entitled to the grant. Since some of the attached conditions are related to certain key performance indicators for the financial year 2015, as at 31 December 2014, the Group was uncertain whether all attached conditions can be met. Accordingly, the cash received was recorded as an advance from government grant.

26 Advances from customers and distributors and deferred revenue

As at 31 December 2014 and 2013, advances from customers and distributors primarily consisted of prepayments from prepaid card distributors or prepayments from Paying Players in the form of Aocoins that have not yet been consumed or converted into online virtual world tokens. Deferred revenue primarily consisted of unused online virtual world tokens, unamortized prepaid membership subscription fees and unamortized revenue derived from the sales of durable virtual items.

Details of advances from customers and distributors and deferred revenue balances are analyzed in the table below.

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Included in non-current liabilities		
Membership subscription (Note b)	**2,069**	2,003
Virtual worlds/web games (Note a)	**1,236**	80
	3,305	2,083
Included in current liabilities		
Advances from customers and distributors	**73,664**	73,161
Membership subscription (Note b)	**31,482**	31,728
Virtual worlds/web games (Note a)	**25,135**	26,139
	130,281	131,028
	133,586	133,111

(a) Deferred revenue of virtual worlds/web games primarily consists of the unamortized durable in-game virtual items, where the Group continues to have obligations as described in Note 2.22 and online virtual world tokens held by Paying Players which have not yet been used to purchase in-game virtual items, as at 31 December 2014 and 2013. Deferred game revenue will be recognized as revenue when all of the revenue recognition criteria are met.

(b) As at 31 December 2014 and 2013, deferred revenue included in non-current liabilities was expected to be realized in one to two years from the end of the financial year.

27 Trade payables

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

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

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
0–30 days	**1,693**	2,606
31–60 days	**1**	886
61–180 days	**2**	2
181–365 days	**249**	7
	1,945	3,501

(a) As at 31 December 2014 and 2013, trade payables were denominated in RMB and their fair values approximated their carrying amounts.

28 Other payables and accruals and amounts due to related parties

Group

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Staff costs and welfare accruals	**27,250**	36,862
Commission payable to distributors	**1,049**	5,941
Professional service fees payable	**5,274**	10,658
Other tax liabilities (Note c)	**2,329**	1,508
Due to a related party (Note 34(b))	**—**	5
Others	**876**	204
	36,778	55,178

28 Other payables and accruals and amounts due to related parties (continued)

Company

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Professional service fees payable	**2,724**	10,547
Due to related parties (Note 34(b))	**9,237**	3,834
Others	**50**	52
	12,011	14,433

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

Group

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
RMB	**32,799**	45,845
US$	**2,635**	8,660
HK$	**1,344**	673
	36,778	55,178

Company

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
RMB	**9,237**	608
US$	**2,616**	13,825
HK$	**158**	—
	12,011	14,433

28 Other payables and accruals and amounts due to related parties (continued)

Company (continued)

(b) As at 31 December 2014 and 2013, the fair value of other payables and accruals approximated their carrying amounts.

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

29 Borrowings

Group

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Bank borrowings	**–**	6,137

(a) The Group's bank borrowings, which were at an interest rate of 2.10% per annum, were fully repaid in May 2014.

(b) As at 31 December 2013, the fair value of borrowings approximated its carrying amounts.

30 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$0.0001 each (following the 2013 Share Split, the par value of preferred shares was adjusted to US$0.0000005 each).

30 Convertible redeemable preferred shares (continued)

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

	RMB'000
At 1 January 2013	119,946
Change in fair value recognized in profit or loss	237,228
Foreign exchange gain	(7,212)
At 31 December 2013	349,962
At 1 January 2014	**349,962**
Change in fair value recognized in profit or loss	**327,749**
Foreign exchange loss	**4,553**
Conversion of convertible redeemable preferred shares into ordinary shares	**(682,264)**
At 31 December 2014	**—**

The directors have used the discounted cash flow method to determine the underlying equity fair value of the Company and adopted an equity allocation method to determine the fair value of the Series A-1 Preferred Shares as at each of the balance sheet dates.

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.

31 Deferred income tax assets

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

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Deferred income tax assets:		
— to be recovered after 12 months	**496**	312
— to be recovered within 12 months	**7,099**	8,798
Deferred income tax assets	**7,595**	9,110

The movements of deferred income tax assets are as follows:

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
At beginning of the year	**9,110**	5,996
Recognized in profit or loss	**(1,515)**	3,114
At end of the year	**7,595**	9,110

31 Deferred income tax assets (continued)

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

	Deferred revenue RMB'000	Advance from government grant RMB'000	Accruals RMB'000	Others RMB'000	Total RMB'000
As at 1 January 2013	2,806	225	2,696	269	5,996
Recognized in profit or loss	581	(225)	3,027	(269)	3,114
As at 31 December 2013	3,387	—	5,723	—	9,110
Recognized in profit or loss	85	272	(1,872)	—	(1,515)
As at 31 December 2014	**3,472**	**272**	**3,851**	**—**	**7,595**

Deferred income tax assets are recognized for tax losses carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The Group did not recognize deferred income tax assets of RMB341,000 and RMB104,000 in respect of losses amounting to RMB1,574,000 and RMB623,000 that can be carried forward against future taxable income for the years ended 31 December 2014 and 2013, respectively, as it is uncertain that future taxable income will be available in those subsidiaries against which the tax losses can be utilized. Tax losses amounting to RMB10,000, RMB11,000, RMB18,000 and RMB947,000 will expire in 2016, 2017, 2018 and 2019, respectively. The remaining tax losses have no expiry date.

As at 31 December 2014 and 2013, no deferred income tax liability had been provided for in respect of the PRC withholding tax that would be payable on the unremitted earnings of approximately RMB499,824,000 and RMB307,431,000, respectively. Such earnings are expected to be retained by the PRC subsidiaries and not to be remitted to a foreign investor in the foreseeable future based on management's estimation of overseas funding requirements.

32 Cash generated from operations

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Loss after income tax	**(131,702)**	(20,219)
Adjustments for:		
— Income tax expense (Note 11)	**38,522**	38,788
— Depreciation of property and equipment (Note 14)	**7,754**	5,516
— Amortization of intangible assets (Note 16)	**101**	47
— Profit on disposal of fixed assets	**(57)**	—
— Share-based compensation expenses (Note 9)	**38,930**	9,791
— Finance income — net (Note 10)	**(34,717)**	(7,639)
— Fair value loss of convertible redeemable preferred shares (Note 30)	**327,749**	237,228
— Foreign exchange losses/(gains)	**4,659**	(7,159)
Changes in working capital:		
— Trade receivables	**(2,570)**	(485)
— Prepayments and other receivables	**3,389**	(8,165)
— Trade payables	**(1,556)**	2,257
— Other payables and accruals	**(16,149)**	29,860
— Advances from customers and distributors	**503**	35,595
— Advance from government grant	**1,810**	(1,500)
— Deferred revenue	**(28)**	27,480
Cash generated from operations	**236,638**	341,395

33 Commitments

(a) Capital commitments

As at 31 December 2014 and 2013, there was no significant capital expenditure contracted but not provided for.

There was no significant capital expenditure authorized but not contracted for as at 31 December 2014 and 2013.

(b) Operating lease commitments

The Group leases buildings for daily operations under non-cancellable operating leases. The lease expenditure charged to profit or loss for the years ended 31 December 2014 and 2013 is disclosed in Note 6.

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

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Not later than 1 year	**10,615**	9,572
Later than 1 year and not later than 5 years	**11,747**	1,653
	22,362	11,225

34 Significant related party transactions

Group

(a) Name and relationship with a related party

The following individual is a related party of the Group that had balances and/or transactions with the Group for the years ended 31 December 2014 and 2013:

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

34 Significant related party transactions (continued)

Group (continued)

(b) Amount due from and due to a related party

(i) Payable arising from operations

Name of a related party	As at 31 December	
	2014	2013
	RMB'000	RMB'000
— Mr. Wu	**–**	5

The amount due to a related party is unsecured, interest-free and repayable on demand.

(c) Key management personnel compensations

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

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Wages, salaries and bonuses	**11,654**	11,256
Pension costs — defined contribution plans	**180**	127
Other social security costs, housing benefits and other employee benefits	**279**	195
Share-based compensation expenses	**13,329**	830
	25,442	12,408

34 Significant related party transactions (continued)

Company

(a) Names and relationships with related parties

The following companies and individual are the related parties of the Company which had balances and/or transactions with the Company for the years ended 31 December 2014 and 2013.

Names	**Relationship**
Baitian Hong Kong	Subsidiary of the Company
Baitian BVI	Subsidiary of the Company
Guangzhou Baitian	Subsidiary of the Company
Mr. Wu	CEO

(b) Amounts due from and due to related parties

(i) Receivables

Names of related parties	As at 31 December	
	2014	2013
	RMB'000	RMB'000
— Baitian Hong Kong	**75,260**	9,003
— Baitian BVI	**3,973**	—
— Guangzhou Baitian	**32**	—
	79,265	9,003

34 Significant related party transactions (continued)

Company (continued)

(b) Amounts due from and due to related parties (continued)

(ii) Payables

Names of related parties	As at 31 December	
	2014	2013
	RMB'000	RMB'000
— Guangzhou Baitian	**9,237**	3,223
— Baitian Hong Kong	**—**	610
— Mr. Wu	**—**	1
	9,237	3,834

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

35 Contingencies

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

Other Information

TRADEMARK DISPUTE

As disclosed in the Prospectus and the Company's 2014 Interim Report, 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.

On 2 March 2015, the Higher People's Court of Beijing Municipality (the "Court") issued an administrative judgment, pursuant to which the administrative case (the "Case") in respect of the Distributed Trademark involving Baitian.

The Court considered that "Aola Star", as the name of a game developed by Baitian and by using the commercial trademark with the function to distinguish service source and strong originality and significance had influence on the public to a large extent. As an operator in the same industry, it should be known by the third party in the original trial that "Aola Star" was the name of a computer game developed by Baitian. Thus, bulk registration of a series of trademarks involving such name shall be deemed as a behavior of malicious registration with the purpose of unfair competition aimed to seek illegal interests and shall be prohibited.

Therefore, the registration of the Disputed Trademark also breaches the requirement of Clause 1 in Article 41 of the Trademark Law and shall be cancelled.

Pursuant to this judgment, the Company shall not bear joint liability for the compensation, and the litigation will not have an impact on the financial condition and the profits of the current period of the Company. 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.