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

(incorporated in the Cayman Islands with limited liability)

Stock Code: 2100


Interim Report 2015

# 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
Guangzhou
Guangdong
PRC

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

## HONG KONG SHARE REGISTRAR

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

## REGISTERED OFFICE

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

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Level 54
Hopewell Centre
183 Queen's Road East
Hong Kong

## PRINCIPAL BANKS

China Merchants Bank Guangzhou, Ti Yu Dong Road Sub Branch
30/F, Goldlion Centre, No. 138 Ti Yu Dong Road
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
Fax: (852) 2117 0869
Email: Baioo@ChristensenIR.com

# 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 48.1 million in the first half of 2015.

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 eight virtual worlds, namely, Aobi Island, Aola Star, Dragon Knights, Light of Aoya, Legend of Aoqi, Clashes of Aoqi, Magic Fighter and Amazing Combat. 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, three of our virtual worlds in commercial operation in the first half of 2015 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 also launched our first FPS ("First Person Shooting") web game "Amazing Combat" ("特戰英雄") in 2015 to capture the lucrative early teen market.

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.

In May 2015, we formed a strategic partnership with Hong Kong's leading maternity product provider Bumps to Babes Limited ("Bumps to Babes"). BAIOO has acquired 74.9% equity interest in Bumps to Babes via a new venture. And Mr. Richard Ian Walker, the founder of Bumps to Babes, holds 7.5% equity interest in this new venture, which will expand Bumps to Babes into China as a one-stop-shop for parents to purchase safe, trusted and premium baby products via e-commerce. We are in the process of developing the e-commerce platform and aim to launch it in the second half of 2015.

# Financial Summary

## INCOME STATEMENT HIGHLIGHT

| | Unaudited Six months ended 30 June 2015 RMB'000 | 2014 RMB'000 | Period-over-period change % |
|---|---|---|---|
| Revenue | **183,930** | 287,770 | (36.1%) |
| Gross profit | **110,087** | 208,390 | (47.2%) |
| Operating profit | **38,368** | 135,604 | (71.7%) |
| Non-International Financial Reporting Standards ("**IFRSs**") Measures | | | |
| — Adjusted Net Profit[(1)] | **62,063** | 140,594 | (55.9%) |
| — Adjusted EBITDA[(2)] | **50,768** | 160,508 | (68.4%) |

Note:

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

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

## BALANCE SHEET HIGHLIGHT

| | Unaudited As of 30 June 2015 RMB'000 | Audited As of 31 December 2014 RMB'000 |
|---|---|---|
| **Assets** | | |
| Non-current assets | **365,463** | 19,654 |
| Current assets | **1,396,598** | 1,664,139 |
| **Total assets** | **1,762,061** | 1,683,793 |
| **Equity and liabilities** | | |
| Total equity | **1,506,627** | 1,509,674 |
| Non-current liabilities | **14,806** | 3,305 |
| Current liabilities | **240,628** | 170,814 |
| Total liabilities | **255,434** | 174,119 |
| **Total equity and liabilities** | **1,762,061** | 1,683,793 |

# Chairman Letter

Dear Shareholders,

We are pleased to report that we are starting to see results from the turnaround plan that we began to implement in the fourth quarter of 2014. While our financial performance for the first half of 2015 does not yet show the progress we are making, we believe we are heading in the right direction and look to see improvements in our second half of 2015 results. Total revenue for the period dropped 36.1% to RMB184 million, which was near our projections. Our average quarterly active accounts during the first half of 2015 were 48.1 million, down from 56.2 million for the same period in 2014. The declines were mainly due to ongoing account optimization efforts, along with the current industry trend of a shift towards mobile devices.

As we stated earlier this year, we adopted a new strategy at the end of last year to attract more users to our virtual worlds by refocusing our efforts on creating fun and engaging products for children. We realized that by overemphasizing the monetization potential of each virtual world, our products had lost the spark which made them so successful in the first place. As such, we have been adjusting, optimizing and improving the user experience of each virtual world. Towards the end of the first half of this year, we started to see greater traction with current users, while other players who departed our virtual worlds are returning. We also further streamlined our database systems, improved ease-of-access and refined the regular content with which users interact. We hope to continue this turnaround in the second half of the year.

To keep pace with the ever-evolving children's sector, we made two concrete steps towards diversifying our IP portfolio in the first half of 2015. In early June, we released Amazing Combat, a first-person-shooter browser-based game aimed at the early-teen market. So far, it has been well received by the market and has signed key channels for distribution to reach a bigger user base. While the game is not expected to contribute notable amounts of revenue in the short term, we hope that it will ramp up in the second half of 2015. This new product will not only be a way to diversify our revenue stream, but will also allow us to access markets that had been previously untapped by our RPG-genre virtual world business.

As parents in China are becoming more and more aware of safety and quality when choosing maternity products, we saw this as a key area in which we could contribute to the well-being and safety of our next generation given our extensive understanding of children and their families. We decided to develop additional product offerings and diversify our outreach among parents and children, which we believe will also help us to continue expanding our whole brand within the family sphere across China and beyond. To accomplish this, we made an investment in Bumps to Babes, a leading provider of maternity products in Hong Kong. The catalogue offered by Bumps to Babes is fully composed of western products, directly imported from countries throughout the EU and North America, regions which predominantly have higher standards for safety and quality. We are planning to bring Bumps to Babes to China in order to provide families with the necessary products to foster a healthy and safe environment in the household. China's maternity market has high demand and offers strong growth prospects. I am confident that we will be able to leverage our extensive experience in the children's market to make Bumps to Babes successful.

## THE ROAD AHEAD

Looking ahead, there are two main trends that we will look to capitalize on in the second half of 2015. First, the increasing mobile penetration rate in China offers a lucrative opportunity to expand our current product lines to the mobile audience, and is definitely a key area in which we are looking to get involved. We already have a few products in the pipeline that we hope to release before the end of the year. In line with this strategy, we also cooperated with Xingmen Dongman, a developer of mobile games and computer generated graphics, which will support our mobile product lines.

Concurrently, we will be augmenting our mobile approach with maternity products through Bumps to Babes' e-commerce platform, which we will look to bring online in China in the fourth quarter of 2015. This tried and tested e-commerce platform offers thousands of different items, providing both ease-of-access as well as guarantee of quality through their physical store presence. With the rapidly increasing demand for baby products, bringing the Bumps to Babes platform online in China is one of our key goals in the second half of 2015.

Given these new developments in our portfolio and product lines, we will be strategically reallocating our resources to achieve higher returns. One of the products we will be allocating resources away from will be WenTa, our e-learning online tutorial platform, which was first released in 2013. While we see great potential in the baby and maternity product market in China, it has also become clear that market competition in the online education sector has become unprecedentedly fierce. Given abundant funding, despite the lack of a sustainable business model and even exit channels, there have been a number of new entrants aggressively developing various platforms and content, including major software firms and traditional education providers. As a result of the increasing competition and low monetization, e-learning is now at a point where a substantial investment is required given the lack of a sustainable business model. While we are pleased with what the WenTa platform has managed to achieve thus far in terms of active users and growth trajectory, we currently do not have any practical visibility on sustainable revenue or cash flow in the mid-to long-term. In the best interest of the Company as well as all of our shareholders, we believe that there are other strategic opportunities with higher returns that will allow us to better utilize our capital, and we have decided not to expand our Wenta project until earnings visibility increases, but will maintain its ongoing operations.

For our virtual worlds, we have a long road ahead in terms of rebuilding user engagement levels and increasing account numbers. However, with the valuable feedback now being provided by the user response department that we set up at the end of 2014, we are much clearer on the steps that we need to take to improve our entire portfolio of virtual worlds as a whole. We expect total user numbers to recover in the second half of 2015, and we will remain focused on making games fun and engaging as we revitalize the popularity of our products.

I would like to express my heartfelt thanks to all of our employees, business partners, investors and shareholders which have stuck with us through our ongoing development as a company and as a team. We will continue building on our existing successes while finding new avenues to enrich shareholder value, and I am confident that 2015 will be a fruitful year for BAIOO.

Sincerely,

**Dai Jian**
*Chairman*
**BAIOO Family Interactive Limited**

28 August 2015

# Definitions and Glossaries

## DEFINITIONS

| | |
|---|---|
| "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 |
| "Audit Committee" | the audit committee of the Company |
| "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 |
| "Beijing WFOE" | Baitian (Beijing) Information Technology Ltd. (百多(北京)信息科技有限公司)), a company incorporated on 9 March 2010 and existing under the laws of PRC, an indirect 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 |

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|---|---|
| "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 |
| "Exclusive Business Service Agreement" | the exclusive business consultation and service agreement dated 4 December 2013 entered into between Guangzhou WFOE and Guangzhou Baitian, pursuant to which Guangzhou Baitian agreed to engage Guangzhou WFOE on an exclusive basis irrevocably to provide business support and management and consulting services in connection with its operations, and in return, Guangzhou WFOE will charge for the services, which were further amended on 20 March 2014 |
| "Exclusive Option Agreement" | the exclusive option agreement dated 4 December 2013 entered into among Guangzhou WFOE, Guangzhou Baitian and the Registered Shareholders, pursuant to which the Registered Shareholders agreed to exclusively grant Guangzhou WFOE an irrevocable option to acquire all or any of their respective shares in Guangzhou Baitian as permitted by the applicable PRC laws and regulations, which were further amended on 20 March 2014 |
| "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) |

# Definitions and Glossaries

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| "Guangzhou Baitian" or "PRC Operating Entity" | Guangzhou Baitian Information Technology Ltd. (廣州百田信息科技有限公司), 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)信息科技有限公司), 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 |
| "New VIE Agreements" | a series of agreements in a form substantially similar to the Old VIE Agreements entered into among Guangzhou WFOE, Guangzhou Baitian and the Registered Shareholders on 4 December 2013, which were further amended on 20 March 2014 |
| "Nomination Committee" | the nomination committee of the Company |
| "Old VIE Agreements" | a series of agreements entered into among Beijing WFOE, Guangzhou Baitian (our PRC Operating Entity) and the then registered shareholders of Guangzhou Baitian, namely Ms. DAI Ping (as a nominee of Mr. DAI Jian), Mr. WU Lili, Mr. LI Chong, Mr. CHEN Ziming and Mr. WANG Xiaodong in March 2010 |
| "Post-IPO RSU Scheme" | the post-IPO restricted share unit scheme adopted by the Company on 18 March 2014, which took effect on 10 April 2014 and was amended on 19 June 2015 |
| "PRC" | the People's Republic of China |

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| "Pre-IPO RSU Scheme" | the restricted share unit plan approved and adopted by the Company on 30 September 2013, which took effect on 10 April 2014 |
| "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 |
| "Pre-IPO Share Option Scheme" | the share option plan approved and adopted by the Company on 18 June 2010 |
| "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 |
| "Remuneration Committee" | the remuneration committee of the Company |
| "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 |
| "Termination Agreements" | the termination agreements for the Old VIE Agreements entered into among Beijing WFOE, Guangzhou Baitian, the Registered Shareholders and Ms. DAI on 4 December 2013 |
| "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 the first half of 2015, BAIOO recorded a recovery in its virtual worlds through a strategic shift to focus on audience engagement. We moved away from a strategy of heavy monetization, and instead introduced new content geared towards being "fun" for children, as well as creating incentive programs to attract users back to our products. The Company's true user numbers, namely the average quarterly active accounts after account optimization, stood at 48.1 million during the first half of 2015. Product-wise, we officially launched Amazing Combat in June, a first-person-shooter browser based game for early-teens, which has been well received by the market. We also launched a revamped version of our 100BT.com web portal, with additional user features and a more streamlined navigation system, as well as an animated movie based on our popular virtual world Aola Star, which was released in July this year.

Strategically, we made a number of moves to diversify our business as well as create synergies. We invested in Bumps to Babes Limited ("**Bumps to Babes**"), a leading provider of maternity products in Hong Kong, through Bababaobei Trading Limited, whose 74.9% equity interest is held by Bababaobei Commerce Limited, a 92.5% owned subsidiary of the Group. Bumps to Babes is one of the largest providers of baby products through physical stores in Hong Kong, and will allow BAIOO to tap into the lucrative maternity market in China via E-commerce. We also cooperated with Beijing Xingmen Dongman Technology Limited Company (北京星門動漫科技有限公司) (also known as "**Xmen Entertainment**"), a developer of mobile games and computer generated graphics, through Guangzhou Baitian Information Technology Ltd. (廣州百田信息科技有限公司), the PRC operating entity in our Group. Beijing Xingmen Dongman Technology Limited Company is an experienced design company, which will help support our mobile product lines and graphical improvements in our virtual worlds. Both strategic initiatives are not expected to contribute notable revenue in the short term, however, we are confident that they will generate significant value for shareholders in the long run.

## INDUSTRY REVIEW

In the first half of 2015, according to the 2015 Jan-Jun China Gaming Industry Report by the State Administration of Press, Publication, Radio, Film and Television of the PRC, China's gaming revenue recorded at RMB60.51 billion, up 21.9% on a year-over-year basis. Of this, the web-based game market was responsible for RMB10.28 billion, which experienced a significant slowdown with year-over-year growth rate dropping from 71.9% to 12.0%. This was mainly attributable to the dynamic shift towards mobile devices which has been brought about by the technological developments of mobile software and increased accessibility of portable devices.

Despite this, in terms of market size, according to the iResearch report, the children web-based game market is estimated to reach RMB1.7 billion in 2015. The market growth potential in the web-based game market will provide significant opportunities for BAIOO's primary line of business moving forward, as we continue to maintain the largest market share of the children web-based game market in China. We also have a number of mobile products in our pipeline that we aim to release before the end of the year, which will allow BAIOO to gain a foothold in the mobile market.

A separate report by iResearch noted that the market for maternity and baby products in China had a gross market value of RMB1.43 trillion in 2013, and is expected to surpass RMB2 trillion in 2015. In particular, the market value of e-commerce within this market was worth over RMB86 billion in 2013, with a compound annual growth rate ("**CAGR**") of 30% going into 2017. BAIOO's investment into Bumps to Babes in May 2015 will allow it to tap into this lucrative market, and its well-established e-commerce platform, which we plan to launch in China in the second half of 2015, will be well-positioned to cater to the needs of parents.

## OUTLOOK FOR SECOND HALF OF 2015

In late March 2015, The Chinese government released the "Internet Plus" initiative, a policy aiming to integrate mobile internet, cloud computing and big data for traditional sectors and promote the development of e-commerce, industrial networks and internet banking. As the largest online destination for children in China, BAIOO has an unrivaled insight into the children's market, and this policy is expected to create significant business opportunities for the Company.

In the second half of 2015, BAIOO will continue to consolidate its position as the largest online destination for children in China, while also expanding into the mobile sphere and maternity market. One of our key goals in the second half of 2015 is to expand Bumps to Babes into China, mainly through launching a one-stop-shop e-commerce platform to satisfy the growing demand for quality baby and maternal products. Strategically, in line with our goal to diversify and increase our product variety outside of the role playing virtual world genre, we are looking to launch additional products in the second half of 2015, the majority of which will be mobile focused. We believe Amazing Combat will be an important part of this new portfolio going forward, and we intend to continue introducing new content and optimizations to build active account numbers.

In terms of our virtual world business, the Group will continue to strategically focus on making its products fun and engaging to children in order to increase the user base of its virtual worlds. At the end of the first half of 2015, this strategy has already shown signs of bearing fruit, as we saw some users coming back to our virtual worlds. Looking ahead, while our significant investments in the first half of 2015 are unlikely to have significant revenue contribution in the second half of 2015, we expect our ongoing focus on audience engagement to bring about continued increases in total user numbers, while our upcoming mobile offerings and launch of Bumps to Babes in China will give us access to a significantly larger group of potential customers. All of these efforts will materially improve BAIOO's long term growth story, and we are confident that they will establish a solid foundation for our future development.

## OPERATION INFORMATION

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

| | Six months ended | | |
|---|---|---|---|
| | **30 June 2015** | 30 June 2014 | Period-over-period change |
| | (QAA &QPA in millions, ARQPA in RMB) | | |
| average QAA | **48.1** | 56.2 | (14.4%) |
| average QPA | **2.4** | 3.3 | (27.3%) |
| average quarterly ARQPA | **34.3** | 41.9 | (18.1%) |

Note:

As of 30 June 2015, our online virtual worlds under commercial operation included Aobi Island, Aola Star, Dragon Knights, Light of Aoya, Legend of Aoqi, Clashes of Aoqi, Magic Fighter, and Amazing Combat.

The average QAA for online virtual worlds was approximately 48.1 million for the six months ended 30 June 2015, representing a decrease of approximately 14.4% compared with the same period last year. This reflected shifting user trends from PCs to mobile devices and the lower proportion of multiple accounts due to ongoing user account optimization.

The average QPA for online virtual worlds was approximately 2.4 million for the six months ended 30 June 2015, representing a decrease of approximately 27.3% compared with the same period last year as a result of shifting user trends from PCs to mobile devices.

The average quarterly ARQPA for online virtual worlds was approximately RMB34.3 for the six months ended 30 June 2015, representing a decrease of approximately 18.1% compared with the same period last year due to the decreased monetization rate of our virtual worlds.

## OVERALL BUSINESS AND FINANCIAL PERFORMANCE

The following table sets forth our consolidated statements of comprehensive income for the six months ended 30 June 2015 and 2014:

| | Unaudited For the six months ended | | | |
|---|---|---|---|---|
| | 30 June 2015 RMB'000 | % of Revenue | 30 June 2014 RMB'000 | % of Revenue |
| **Revenue** | 183,930 | 100.0 | 287,770 | 100.0 |
| Online business | 172,308 | 93.7 | 286,078 | 99.4 |
| Other businesses | 11,622 | 6.3 | 1,692 | 0.6 |
| **Cost of revenue** | (73,843) | (40.1) | (79,380) | (27.6) |
| **Gross profit** | 110,087 | 59.9 | 208,390 | 72.4 |
| Selling and marketing expenses | (26,483) | (14.5) | (31,362) | (10.9) |
| Administrative expenses | (33,165) | (18.0) | (31,976) | (11.1) |
| Research and development expenses | (15,533) | (8.4) | (12,725) | (4.4) |
| Other income | 3,460 | 1.9 | — | — |
| Other gains — net | 2 | 0.0 | 3,277 | 1.1 |
| **Operating profit** | 38,368 | 20.9 | 135,604 | 47.1 |
| Finance income — net | 23,836 | 12.9 | 8,467 | 2.9 |
| Fair value loss of convertible redeemable preferred shares | — | — | (327,749) | (113.8) |
| **Profit/(loss) before income tax** | 62,204 | 33.8 | (183,678) | (63.8) |
| Income tax expense | (8,749) | (4.7) | (24,583) | (8.5) |
| **Profit/(loss) for the period** | 53,455 | 29.1 | (208,261) | (72.3) |
| **Total comprehensive income/(loss) for the period** | 53,455 | 29.1 | (208,261) | (72.3) |
| **Other financial data** | | | | |
| Adjusted net profit(1) (unaudited) | 62,063 | 33.7 | 140,594 | 48.9 |
| Adjusted EBITDA(2) (unaudited) | 50,768 | 27.6 | 160,508 | 55.8 |

Notes:

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

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

## Revenue

Our revenue for the six months ended 30 June 2015 was RMB183.9 million, representing a 36.1% decrease from RMB287.8 million for the six months ended 30 June 2014.

*Online Business:* Our online business revenue for the six months ended 30 June 2015 was RMB172.3 million, a 39.8% decrease from RMB286.1 million for the six months ended 30 June 2014. This was primarily due to the decrease of QPA and ARQPA as a result of shifting user trends from PCs to mobile devices.

*Other Business:* Revenue from other businesses for the six months ended 30 June 2015 was RMB11.6 million, a 582.4% increase from RMB1.7 million for the six months ended 30 June 2014, primarily due to additional revenue generated from the sales of baby and maternity products by Bumps to Babes, which we acquired on 8 May 2015.

## Cost of Revenue

Our cost of revenue for the six months ended 30 June 2015 was RMB73.8 million, a 7.1% decrease from RMB79.4 million for the six months ended 30 June 2014. This was primarily driven by (i) an RMB8.1 million decrease in employee benefit expenses as a result of reducing operating headcount from 427 as of 30 June 2014 to 407 as of 30 June 2015; (ii) a RMB1.4 million decrease in prepaid card production fee and (iii) a RMB6.2 million increase in cost of goods sold as a result of baby and maternity product sales following the Bumps to Babes acquisition.

## Gross Profit

As a result of the foregoing, our gross profit for the six months ended 30 June 2015 was RMB110.1 million, compared with RMB208.4 million for the six months ended 30 June 2014. Gross profit margin was 59.9% for the six months ended 30 June 2015, which compares with 72.4% for the six months ended 30 June 2014. The lower gross profit margin was mainly due to the shift in user trends from PCs to mobile devices and was also affected by the lower gross profit margins of baby and maternity products that were sold by Bumps to Babes.

## Selling and Marketing Expenses

Our selling and marketing expenses for the six months ended 30 June 2015 were RMB26.5 million, a 15.6% decrease from RMB31.4 million for the six months ended 30 June 2014. This primarily reflected lower marketing spending on promotional programs.

### Administrative Expenses

Our administrative expenses for the six months ended 30 June 2015 were RMB33.2 million, a 3.8% increase from RMB32.0 million for the six months ended 30 June 2014. This was primarily a result of higher employee benefit expenses due to an increase in administrative headcount from 43 as of 30 June 2014 to 54 as of 30 June 2015.

### Research and Development Expenses

Our research and development expenses for the six months ended 30 June 2015 were RMB15.5 million, a 22.0% increase from RMB12.7 million for the six months ended 30 June 2014. This was primarily driven by increases in research and development projects and staff cost expenses due to the research and development headcount increased from 101 as of 30 June 2014 to 185 as of 30 June 2015.

### Other Gains — net

The Company recognized only RMB2,000 in foreign exchange gains in the first half of 2015, which compares with RMB3.3 million for the six months ended 30 June 2014.

### Operating Profit

As a result of the foregoing, our operating profit for the six months ended 30 June 2015 was RMB38.4 million, representing a 71.7% decrease from RMB135.6 million for the six months ended 30 June 2014. Our operating profit margin for the six months ended 30 June 2015 was 20.9% compared with 47.1% for the six months ended 30 June 2014.

### Finance Income — net

We had net finance income of RMB23.8 million for the six months ended 30 June 2015, compared with net finance income of RMB8.5 million for the six month ended 30 June 2014. Net finance income for the six months ended 30 June 2015 was primarily due to RMB27.2 million in interest income on cash in bank balances and deposits. Finance income for the six months ended 30 June 2015 was primarily attributable to (i) RMB26.6 million in interest income on deposits and (ii) RMB0.6 million in interest income on cash in bank balances.

### Fair Value Loss of Convertible Redeemable Preferred Shares

We had no fair value loss on convertible redeemable preferred shares for the six months ended 30 June 2015, which compares with a fair value loss of RMB327.7 million for the six months ended 30 June 2014, which was due to the convertible redeemable preferred shares that were converted into ordinary shares upon completion of the Company's IPO.

### Profit/(Loss) before Income Tax

As a result of the foregoing, we had a profit of RMB62.2 million for the six months ended 30 June 2015, compared with a loss of RMB183.7 million for the six months ended 30 June 2014.

### Income Tax Expense

Our income tax expense for the six months ended 30 June 2015 was RMB8.7 million, a 64.6% decrease from RMB24.6 million for the six months ended 30 June 2014.

### Profit/(Loss) for the Period

As a result of the foregoing, we had a profit of RMB53.5 million for the six months ended 30 June 2015, compared with a loss of RMB208.3 million for the six months ended 30 June 2014 due to the impact of fair value loss of convertible redeemable preferred shares.

### Non-IFRS Measure — Adjusted Net Profit/EBITDA

Our adjusted net profit for the six months ended 30 June 2015 was RMB62.1 million, representing a 55.8% decrease from RMB140.6 million for the six months ended 30 June 2014. Our adjusted EBITDA for the six months ended 30 June 2015 was RMB50.8 million, representing a 68.3% decrease from RMB160.5 million for the six months ended 30 June 2014.

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

| Group | Unaudited<br>Six months ended 30 June<br>2015<br>RMB'000 | <br><br>2014<br>RMB'000 |
|---|---|---|
| Profit/(loss) for the period | **53,455** | (208,261) |
| Add: | | |
| Share-based compensation | **8,608** | 21,106 |
| Fair value loss of convertible redeemable preferred shares | **—** | 327,749 |
| Adjusted net profit | **62,063** | 140,594 |
| Add: | | |
| Depreciation and amortization | **3,792** | 3,798 |
| Finance income-net | **(23,836)** | (8,467) |
| Income tax | **8,749** | 24,583 |
| Adjusted EBITDA | **50,768** | 160,508 |

## LIQUIDITY AND CAPITAL RESOURCES

In the first half of 2015, we met our working capital and other capital requirements principally from cash flow generated from our operating activities.

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

| | Unaudited<br>As of<br>30 June<br>2015<br>RMB'000 | Audited<br>As of<br>31 December<br>2014<br>RMB'000 |
|---|---|---|
| Total liabilities | **255,434** | 174,119 |
| Total assets | **1,762,061** | 1,683,793 |
| Gearing ratio[3] | **14%** | 10% |

Notes:

(3) Gearing ratio is calculated by dividing total liabilities by total assets.

### Cash and Cash Equivalents, Short-Term Deposits and Long-Term Deposits

As of 30 June 2015, our cash and cash equivalents consisted of cash in bank and cash on hand, which amounted to RMB347.8 million, compared with RMB259.4 million as of 31 December 2014. We had short-term deposits of RMB986.0 million as of 30 June 2015, representing bank deposits which we intend to hold for over three months but less than one year. We also had long-term deposits of RMB300.0 million as of 30 June 2015, representing bank deposits with an expected maturity of over one year but less than two years. The effective interest rate per annum for cash in bank balances and deposits as of 30 June 2015 was 3.0%, compared with 2.9% as of 31 December 2014. Our policy is to place our cash in interest-bearing principal-protected demand or deposits with reputable PRC or international banks.

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

| Group | **Unaudited As of 30 June 2015 RMB'000** | Audited As of 31 December 2014 RMB'000 |
|---|---|---|
| RMB | **1,401,054** | 1,544,733 |
| US$ | **165** | 164 |
| HK$ | **232,575** | 78,670 |
| | **1,633,794** | 1,623,567 |

## Bank Loans and Other Borrowings

The Group had overdrafts of RMB250,000 as of 30 June 2015, which are shown in current liabilities.

The Group had banking facility of RMB946,320 as of 30 June 2015.

## Treasury Policies

As of 30 June 2015, the Group had conservative treasury policies in terms of cash and financial management. The Group does not use any financial instruments for hedging purposes.

## Foreign Currency Risk

As of 30 June 2015, RMB232.7 million of our financial resources were held in deposits in non-RMB currencies. Since there are no cost-effective hedges against the fluctuation of the 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 cash in bank balances.

## Capital Expenditures and Investments

Our capital expenditures consist of purchases of property and equipment such as servers and computers and intangible assets such as computer software. In the first half of 2015, our total capital expenditures were RMB2.3 million, compared with RMB5.0 million in the first half of 2014. The following table sets out our expenditures for the periods indicated:

| | Unaudited | |
|---|---|---|
| | For six months ended 30 June | |
| | **2015** | 2014 |
| | **RMB'000** | RMB'000 |
| Capital Expenditures | | |
| — Purchase of property and equipment | 2,152 | 4,777 |
| — Purchase of intangible assets | 109 | 263 |
| **Total** | 2,261 | 5,040 |

## Contingent Liabilities

As of 30 June 2015, the Group did not have any material contingent liabilities, guarantees or litigation against it.

## Charges on Assets

As of 30 June 2015, there were no charges on the Group's assets.

## Material Acquisitions and Future Plans for Major Investment

In 2015, the Group: i) acquired a 74.9% equity stake in Bumps to Babes for a consideration of RMB48,256,000; and ii) subscribed to invest RMB4,000,000 in Beijing Xingmen Dongman Technology Limited Company for a 20% equity interest.

The Group currently has no specific plans for other major investments or acquisitions for significant capital assets or other businesses. However, the Group will continue to look for new opportunities for business development.

### Employees and Staff Costs

As of 30 June 2015, the Group had 714 full-time employees, 94.7% of whom are based in Guangzhou. The following table sets forth the number of full-time employees by function as of 30 June 2015:

| | As of 30 June 2015 | |
|---|---|---|
| | Number of Employees | % of Total |
| Operations | 407 | 57.0 |
| Development and research | 185 | 25.9 |
| Sales and marketing | 68 | 9.5 |
| General and administration | 54 | 7.6 |
| Total | 714 | 100.0 |

In addition to salary, we also provide various incentives, including share-based awards, such as share options and restricted shares units ("**RSU**") granted pursuant to the share incentive schemes of the Company, and performance-based bonuses to better motivate our employees. As required by the PRC law, we contribute to housing funds and maintain mandatory social insurance plans for our employees, covering pension, medical, unemployment, work injury and maternity leave. We are required by the PRC law to make contributions to these social insurance plans at specified percentages of the compensation of each employee, up to a maximum amount as may be specified by the local government from time to time. Such social insurance plans include defined contribution retirement benefit plans organized by the relevant governmental authorities. Forfeited contributions by the Group to these plans may not be used by the Group to reduce the existing level of contributions. The total amount of contributions we made for employee social insurance plans in the first half of 2015 were approximately RMB12.7 million, compared with RMB11.9 million in the first half of 2014. We incurred staff costs of approximately RMB85.3 million and RMB89.1 million, for the six months ended 30 June 2015 and 2014, representing 46.4% and 31.0% of our revenue for those periods, respectively.

We also grant share options and RSUs 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 2,560,000 share options and 78,567,200 RSUs outstanding as of 30 June 2015.

We will continue to grant RSUs to our employees to incentivize them pursuant to the Post-IPO RSU Scheme. The maximum aggregate number of the Shares underlying all the RSUs which we may grant pursuant to the Post-IPO RSU Scheme is 112,426,480 shares, representing approximately 4.0% of our share capital as of the date of this report. As of the date of this report, 95,780,000 RSUs have been granted to a total of 111 senior management members and employees of the Group pursuant to the Post-IPO RSU Scheme.

### Dividend

At the Company's annual general meeting ("**AGM**") on 19 June 2015, shareholders approved the Board-recommended final dividend of HK$0.035 (equivalent to approximately RMB0.028) per share for the year ended 31 December 2014. The final dividend was paid to shareholders on 17 July 2015.

The Board did not propose any interim dividend for the six months ended 30 June 2015 (for the six months ended 30 June 2014: Nil).

## CHANGES SINCE 31 DECEMBER 2014

There were no other significant changes in the Group's financial position or from the information disclosed under management discussion and analysis in the annual report for the year ended 31 December 2014.

# Report on Review of Interim Financial Information

pwc

羅兵咸永道

**TO THE BOARD OF DIRECTORS OF BAIOO FAMILY INTERACTIVE LIMITED**

*(incorporated in the Cayman Islands with limited liability)*

## Introduction

We have reviewed the interim financial information set out on pages 26 to 55, which comprises the consolidated balance sheet of BAIOO Family Interactive Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2015 and the related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## Scope of Review

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

## Conclusion

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

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, 28 August 2015

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# Interim Consolidated Income Statement

| | Note | Unaudited Six months ended 30 June 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|---|
| Revenue | 6 | **183,930** | 287,770 |
| Cost of revenue | | **(73,843)** | (79,380) |
| **Gross profit** | | **110,087** | 208,390 |
| Selling and marketing expenses | | **(26,483)** | (31,362) |
| Administrative expenses | | **(33,165)** | (31,976) |
| Research and development expenses | | **(15,533)** | (12,725) |
| Other income | | **3,460** | — |
| Other gains — net | | **2** | 3,277 |
| **Operating profit** | 8 | **38,368** | 135,604 |
| Finance income | | **27,207** | 8,604 |
| Finance costs | | **(3,371)** | (137) |
| Fair value loss of convertible redeemable preferred shares | | **—** | (327,749) |
| **Profit/(loss) before income tax** | | **62,204** | (183,678) |
| Income tax expense | 9 | **(8,749)** | (24,583) |
| **Profit/(loss) for the period** | | **53,455** | (208,261) |
| **Attributable to:** | | | |
| — Shareholders of the Company | | **53,382** | (208,261) |
| — Non-controlling interests | | **73** | — |
| | | **53,455** | (208,261) |
| **Earnings/(losses) per share** (expressed in RMB per share) | 10 | | |
| — Basic | | **0.0198** | (0.1003) |
| — Diluted | | **0.0195** | (0.1003) |

The notes on pages 33 to 55 form an integral part of this interim condensed consolidated financial information.

# Interim Consolidated Statement of Comprehensive Income

| | | Unaudited | |
|---|---|---|---|
| | | Six months ended 30 June | |
| | | **2015** | 2014 |
| | Note | **RMB'000** | RMB'000 |
| **Profit/(loss) for the period** | | **53,455** | (208,261) |
| **Other comprehensive income** | | **—** | — |
| **Total comprehensive income/(loss) for the period** | | **53,455** | (208,261) |
| **Attributable to:** | | | |
| — Shareholders of the Company | | **53,382** | (208,261) |
| — Non-controlling interests | | **73** | — |
| | | **53,455** | (208,261) |

The notes on pages 33 to 55 form an integral part of this interim condensed consolidated financial information.

# Interim Consolidated Balance Sheet

| | Note | Unaudited As at 30 June 2015 RMB'000 | Audited As at 31 December 2014 RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property and equipment | 12 | **10,516** | 10,943 |
| Goodwill | 12 | **33,306** | — |
| Other intangible assets | 12 | **16,198** | 383 |
| Prepayments and other receivables | | **2,482** | 733 |
| Deferred income tax assets | | **2,961** | 7,595 |
| Long-term deposits | 14 | **300,000** | — |
| | | **365,463** | 19,654 |
| **Current assets** | | | |
| Inventories | | **11,702** | — |
| Trade receivables | 13 | **915** | 6,425 |
| Prepayments and other receivables | | **47,668** | 33,339 |
| Short-term deposits | 14 | **985,991** | 1,364,200 |
| Cash and cash equivalents | 14 | **347,803** | 259,367 |
| Prepaid tax | | **2,519** | 808 |
| | | **1,396,598** | 1,664,139 |
| **Total assets** | | **1,762,061** | 1,683,793 |
| **EQUITY** | | | |
| Share capital | 15 | **8** | 8 |
| Share premium | 15 | **1,568,824** | 1,636,621 |
| Reserves | 16 | **44,032** | 49,916 |
| Accumulated losses | | **(123,489)** | (176,871) |
| | | **1,489,375** | 1,509,674 |
| Non-controlling interests | | **17,252** | — |
| **Total equity** | | **1,506,627** | 1,509,674 |

# Interim Consolidated Balance Sheet

| | Note | Unaudited<br>As at 30 June<br>2015<br>RMB'000 | Audited<br>As at 31 December<br>2014<br>RMB'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Deferred revenue | | **3,462** | 3,305 |
| Deferred income tax liabilities | 17 | **2,601** | — |
| Long-term payable | 7 | **8,743** | — |
| | | **14,806** | 3,305 |
| **Current liabilities** | | | |
| Trade payables | 18 | **8,158** | 1,945 |
| Other payables and accruals | 19 | **101,574** | 36,778 |
| Advances from customers and distributors | | **69,462** | 73,664 |
| Advance from government grant | | **1,810** | 1,810 |
| Deferred revenue | | **59,253** | 56,617 |
| Income tax liabilities | | **121** | — |
| Bank overdrafts | | **250** | — |
| | | **240,628** | 170,814 |
| **Total liabilities** | | **255,434** | 174,119 |
| **Total equity and liabilities** | | **1,762,061** | 1,683,793 |
| **Net current assets** | | **1,155,970** | 1,493,325 |
| **Total assets less current liabilities** | | **1,521,433** | 1,512,979 |

The notes on pages 33 to 55 form an integral part of this interim condensed consolidated financial information.

# Interim Consolidated Statement of Changes in Equity

| | | Unaudited | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Attributable to shareholders of the Company | | | | | | |
| | Note | Share capital RMB'000 | Share premium RMB'000 | Reserves RMB'000 | Accumulated losses RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| **Balance as at 1 January 2014** | | 5 | – | 25,734 | (45,169) | (19,430) | – | (19,430) |
| **Comprehensive income** | | | | | | | | |
| Loss for the period | | – | – | – | (208,261) | (208,261) | – | (208,261) |
| Other comprehensive income | | – | – | – | – | – | – | – |
| **Total comprehensive income** | | – | – | – | (208,261) | (208,261) | – | (208,261) |
| **Profit appropriations to statutory reserves** | | – | – | – | – | – | – | – |
| **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 | 15 | 2 | 1,120,079 | – | – | 1,120,081 | – | 1,120,081 |
| Conversion of convertible redeemable preferred shares into ordinary shares | | 1 | 682,263 | – | – | 682,264 | – | 682,264 |
| Share Option Scheme: | | | | | | | | |
| – Value of employee services | 16 | – | – | 70 | – | 70 | – | 70 |
| Restricted Share Unit ("RSU") Scheme: | | | | | | | | |
| – Value of employee services | 16 | – | – | 21,036 | – | 21,036 | – | 21,036 |
| Dividend paid to pre-IPO shareholders | 11 | – | (154,127) | – | – | (154,127) | – | (154,127) |
| **Total transactions with owners, recognized directly in equity** | | 3 | 1,648,215 | 21,106 | – | 1,669,324 | – | 1,669,324 |
| **Balance as at 30 June 2014** | | 8 | 1,648,215 | 46,840 | (253,430) | 1,441,633 | – | 1,441,633 |

# Interim Consolidated Statement of Changes in Equity

| | Note | Share capital RMB'000 | Share premium RMB'000 | Reserves RMB'000 | Accumulated losses RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
|---|---|---|---|---|---|---|---|---|
| | | Unaudited | | | | | | |
| | | Attributable to shareholders of the Company | | | | | | |
| **Balance as at 1 January 2015** | | 8 | 1,636,621 | 49,916 | (176,871) | 1,509,674 | – | 1,509,674 |
| **Comprehensive income** | | | | | | | | |
| Profit for the period | | – | – | – | 53,382 | 53,382 | 73 | 53,455 |
| Other comprehensive income | | – | – | – | – | – | – | – |
| **Total comprehensive income** | | – | – | – | 53,382 | 53,382 | 73 | 53,455 |
| **Profit appropriations to statutory reserves** | | – | – | – | – | – | – | – |
| **Transactions with owners, recognized directly in equity** | | | | | | | | |
| Share Option Scheme: | | | | | | | | |
| – Proceeds from shares issued upon exercise of share options | 15 | – | 67 | – | – | 67 | – | 67 |
| – Transfer upon exercise of share options | 16 | – | 97 | (97) | – | – | – | – |
| RSU Scheme: | | | | | | | | |
| – Value of employee services | 16 | – | – | 8,608 | – | 8,608 | – | 8,608 |
| – Transfer upon exercise of RSUs | 16 | – | 6,454 | (6,454) | – | – | – | – |
| Acquisition of a subsidiary | 7 | – | – | – | – | – | 17,823 | 17,823 |
| 2014 final dividend | 11 | – | (74,415) | – | – | (74,415) | – | (74,415) |
| Recognition of financial liability in respect of the put option granted to non-controlling interests | | – | – | (7,941) | – | (7,941) | (644) | (8,585) |
| **Total transactions with owners, recognized directly in equity** | | – | (67,797) | (5,884) | – | (73,681) | 17,179 | (56,502) |
| **Balance as at 30 June 2015** | | 8 | 1,568,824 | 44,032 | (123,489) | 1,489,375 | 17,252 | 1,506,627 |

The notes on pages 33 to 55 form an integral part of this interim condensed consolidated financial information.

# Interim Consolidated Statement of Cash Flows

| | Note | Unaudited Six months ended 30 June 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | | **35,017** | 185,958 |
| Interest received | | **645** | 8,596 |
| Income tax paid | | **(5,765)** | (22,297) |
| **Net cash generated from operating activities** | | **29,897** | 172,257 |
| **Cash flows from investing activities** | | | |
| Acquisition of a subsidiary, net of cash acquired | 7 | **(35,522)** | — |
| Purchase of property and equipment and intangible assets | 12 | **(2,261)** | (5,114) |
| Investment in short-term deposits | | **(300,000)** | (350,000) |
| Repayment from short-term bank deposits | | **678,209** | — |
| Investment in long-term deposits | | **(300,000)** | — |
| Interest received from short-term deposits | | **18,248** | — |
| Increase in restricted cash | | **—** | (23,000) |
| **Net cash generated from/(used in) investing activities** | | **58,674** | (378,114) |
| **Cash flows from financing activities** | | | |
| Proceeds from short-term borrowing | | **—** | 24,683 |
| Repayments of short-term borrowing | | **—** | (30,820) |
| Exercise of share option | 15 | **67** | — |
| Interest paid | | **—** | (154) |
| Proceeds from issuance of ordinary shares | | **—** | 1,204,331 |
| Payment of commissions and listing expenses | | **(355)** | (79,426) |
| Dividend paid to the pre-IPO shareholders | | **—** | (154,127) |
| **Net cash (used in)/generated from financing activities** | | **(288)** | 964,487 |
| **Net increase in cash and cash equivalents** | | **88,283** | 758,630 |
| Cash and cash equivalents at beginning of the period | | **259,367** | 280,932 |
| Currency translation (losses)/gains on cash and cash equivalents | | **(97)** | 492 |
| **Cash and cash equivalents at end of the period** | | **347,553** | 1,040,054 |
| Cash and cash equivalents comprises: | | | |
| Bank overdrafts | | **(250)** | — |
| Cash and banks | 14 | **347,803** | 1,040,054 |
| **Cash and cash equivalents** | | **347,553** | 1,040,054 |

The notes on pages 33 to 55 form an integral part of this interim condensed consolidated financial information.

# Notes to the Interim Condensed Consolidated Financial Information

## 1 General information

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

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

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 10 April 2014.

The interim condensed consolidated financial information is presented in Renminbi ("RMB"), unless otherwise stated, and have been approved for issue by the Board on 28 August 2015.

The interim condensed consolidated financial information has not been audited.

### Key events

Dr. Xu Gang was appointed as the Chief Executive Officer of the Company on 5 March 2015.

Another operational highlight of the period was the acquisition of Bababaobei Trading Limited ("BTL") (with a wholly-owned subsidiary, Bumps to Babes Limited ("Bumps to Babes")) on 8 May 2015. Bumps to Babes is engaged in operating retail stores for maternity, baby and children's products in Hong Kong. Further details are given in Note 7.

## 2 Basis of preparation

This interim condensed consolidated financial information for the six months ended 30 June 2015 has been prepared in accordance with International Accounting Standard ("IAS") 34, 'Interim financial reporting'. The interim condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2014, which have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

## 3 Accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2014, as described in those annual financial statements.

(i) Amendments to standards adopted by the Group as at 1 January 2015

The following amendments to standards are mandatory for the Group's financial year beginning 1 January 2015. The adoption of these amendments to standards does not have any material impact on the Group.

| | |
|---|---|
| IAS 19 (Amendment) | 'Defined Benefit Plans' |
| IFRSs (Amendment) | Annual Improvements 2010–2012 Cycle |
| IFRSs (Amendment) | Annual Improvements 2011–2013 Cycle |

There are no other amended standards that are effective for the first time for this interim period that could be expected to have a material impact on the Group.

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

(iii) Goodwill

Goodwill arises on the acquisition of subsidiaries represents 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 identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognized immediately as an expense and is not subsequently reversed.

## 3 Accounting policies (continued)

(iv) Trademarks

Separately acquired trademarks are shown at historical cost. Trademarks acquired in a business combination are recognized at fair value at the acquisition date. Trademarks have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of trademarks over their estimated useful lives of 15 years.

(v) Revenue: sales of goods — retail

The group operates a chain of retail outlets for selling maternity clothes, children product and related items. Sales of goods are recognized when a group entity sells a product to the customer. Retail sales are usually in cash or by credit card.

(vi) Inventories

Inventories comprise merchandise held for direct sales and low value consumables are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out (FIFO) method. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

## 4 Estimates

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

In preparing this interim condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2014.

# 5 Financial risk management and financial instruments

## 5.1 Financial risk factors

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

The interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2014.

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

## 5.2 Liquidity risk

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

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

| | Less than 1 year 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 |
|---|---|---|---|---|---|---|
| **As 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** |
| **As at 30 June 2015** | | | | | | |
| Trade payables | 8,158 | — | — | — | — | 8,158 |
| Other payables and accruals (excluding other tax liabilities and staff costs and welfare accruals) | 80,131 | — | — | — | — | 80,131 |
| Bank overdrafts | 250 | — | — | — | — | 250 |
| Long-term payable | — | — | — | 11,941 | — | 11,941 |

## 6 Segment information

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

— Online business

— Other businesses

Revenues from the Group's other businesses mainly include revenue from sales of maternity clothes, children product and related items, advertising revenue and licensing income from licensing the Group's proprietary cartoon images to merchandisers and book publishers.

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

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

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

# 6 Segment information (continued)

The segment revenues provided to the Group's CODM for the reportable segments for the six months ended 30 June 2015 and 2014 are as follows:

| | Unaudited Six months ended 30 June 2015 RMB'000 | Unaudited Six months ended 30 June 2014 RMB'000 |
|---|---|---|
| Online business | | |
| — Online virtual worlds | **172,156** | 285,633 |
| — Other online games | **152** | 445 |
| Sub-total | **172,308** | 286,078 |
| Other businesses | **11,622** | 1,692 |
| **Total** | **183,930** | 287,770 |

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

There is no concentration risk in terms of customers (which include end users from online business and customers from other businesses) as no single external customer contributed more than 10% of the Group's total revenue for the six months ended 30 June 2015 and 2014. 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 online business revenue account for 86.3% and 94.6% of the online business revenue for the six months ended 30 June 2015 and 2014, respectively. The percentage of revenue contributed by the following online virtual worlds is not presented for the periods when such amount is less than 10% of the Group's total revenue in a particular period.

| | Unaudited Six months ended 30 June 2015 | Unaudited Six months ended 30 June 2014 |
|---|---|---|
| Legend of Aoqi | **43.4%** | 34.8% |
| Aola Star | **28.9%** | 34.3% |
| Aobi Island | **14.0%** | 10.9% |
| Dragon Knights | **N/A** | 14.6% |

## 6 Segment information (continued)

CODM reviews the performance of and allocates resources to operating segments based on the revenue of each segment. The reconciliation of revenue to profit/(loss) before income tax for the six months ended 30 June 2015 and 2014 is shown in the interim consolidated income statement.

## 7 Business combination

On 8 May 2015, the Group's wholly-owned subsidiary, Bababaobei Commerce Limited ("BCL") acquired 74.9% equity interest in BTL with a wholly-owned subsidiary, Bumps to Babes for a total consideration of RMB48,256,000 comprising HK$44,920,000 (equivalent to approximately RMB35,442,000) in cash paid and 7.5% of its own shares (at fair value of approximately RMB12,814,000) issued to the vendor of Bumps to Babes ("Vendor"). Bumps to Babes is engaged in operating retail stores for maternity, baby and children's products in Hong Kong.

Following the acquisition, the Group and the Vendor hold 92.5% and 7.5%, respectively, of the equity interest in BCL and the Group's effective equity interest in BTL and its wholly-owned subsidiary, Bumps to Babes, is 69.3%.

The Group plans to leverage on its extensive understanding and experience in the children's market and technological capabilities to expand its offerings to include maternity, baby and children products, through a well-established brand name, Bumps to Babes, and physical stores in trusted locations in Hong Kong. None of the goodwill recognized is expected to be deductible for income tax purposes.

The goodwill of RMB33,306,000 arises from a number of factors including expected synergies through combining a highly skilled workforce, experiences in the retail of maternity, baby and children products and understanding in children's market.

The following table summarises the consideration paid for Bumps to Babes, and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date.

| | **8 May 2015**<br>RMB'000 |
|---|---|
| Purchase consideration | |
| — Cash paid | 35,442 |
| — Shares in BCL (note (b)) | 12,814 |
| **Total purchase consideration** | 48,256 |

## 7 Business combination (continued)

| | 8 May 2015<br>RMB'000 |
|---|---|
| **Recognized amounts of identifiable assets acquired and liabilities assumed** | |
| **Provisional fair value** | |
| Cash and banks | 117 |
| Property, plant and equipment | 981 |
| Intangibles: | |
| — Brand | 15,938 |
| Inventories | 11,401 |
| Receivables | 614 |
| Payables | (5,817) |
| Employee benefit liabilities | (448) |
| Bank overdrafts | (197) |
| Deferred tax liability | (2,630) |
| Total identifiable net assets | 19,959 |
| Non-controlling interest (note (b)) | (5,009) |
| Goodwill | 33,306 |
| | 48,256 |
| Acquisition-related costs (included in administrative expenses in the interim consolidated income statement for the six months ended 30 June 2015) | 1,739 |

| | 8 May 2015<br>RMB'000 |
|---|---|
| Outflow of cash to acquire business, net of cash acquired | |
| — cash consideration | 35,442 |
| — cash and banks in the subsidiary acquired | (117) |
| — bank overdrafts in the subsidiary acquired | 197 |
| Cash outflow on acquisition | 35,522 |

# 7 Business combination (continued)

### (a) Provisional fair value of acquired identifiable intangible assets

The fair value of the acquired identifiable intangible assets, the brand, of RMB15,938,000 is provisional amount pending receipt of the final valuations for those assets. Deferred tax liability of RMB2,630,000 has been provided in relation to these fair value adjustments.

### (b) Non-controlling interest

The Group has recognized the non-controlling interest at its proportionate share in the recognized amounts of the acquiree's identifiable net assets.

The total non-controlling interest in this acquisition consists of the 25.1% shares in BTL and 7.5% shares in BCL, amounting to RMB17,823,000.

### (c) Revenue and profit contribution

The acquired business contributed revenues of RMB10,439,000 and net profit of RMB305,000 to the Group for the period from 8 May 2015 to 30 June 2015. If the acquisition had occurred on 1 January 2015, consolidated revenue and consolidated profit for the six months ended 30 June 2015 would have been increased by RMB20,226,000 and RMB701,000 respectively.

### (d) Other arrangements associated with the acquisition of Bumps to Babes

On 8 May 2015, associated with the acquisition, the Purchaser granted to the Vendor an option to require BCL to purchase the remaining 25.1% shares in BTL from the Vendor during the period commencing 30 April 2018 and up to 30 April 2020 based on a pricing formula.

The Group recognized the relevant financial liabilities amounting to RMB8,585,000 based on the present value of estimated future cash out flow of the Group to honour the put option obligations, together with a debit to other reserve within equity of the Group.

## 8 Operating profit

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

| | Unaudited Six months ended 30 June | |
|---|---|---|
| | **2015** | 2014 |
| | **RMB'000** | RMB'000 |
| **Operating items** | | |
| Employee benefit expenses | **85,262** | 89,142 |
| Promotion and advertising expenses | **22,725** | 25,486 |
| Bandwidth and server custody fees | **9,504** | 9,860 |
| Operating lease rentals in respect of office premises | **6,864** | 4,071 |
| Cost of inventories sold | **6,212** | — |
| Professional fees | **3,901** | 7,207 |
| Depreciation of property and equipment and amortization of intangible assets (Note 12) | **3,792** | 3,798 |
| Prepaid card production fee | **2,090** | 3,448 |

## 9 Income tax expense

The income tax expense of the Group for the six months ended 30 June 2015 and 2014 is analyzed as follows:

| | Unaudited Six months ended 30 June | |
|---|---|---|
| | **2015** | 2014 |
| | **RMB'000** | RMB'000 |
| Current income tax | | |
| — PRC corporate income tax | **4,055** | 23,177 |
| — Hong Kong profits tax | **89** | — |
| Deferred income tax | **4,605** | 1,406 |
| **Income tax expense** | **8,749** | 24,583 |

# 9 Income tax expense (continued)

### (a) Cayman Islands income tax

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

### (b) Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits for the six months ended 30 June 2015 and 2014.

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

The Group's subsidiaries in the PRC are subject to corporate income tax at the rate of 25% except Guangzhou Baitian Information Technology Limited ("Guangzhou Baitian"), which was qualified as "High and New Technology Enterprise" ("HNTE") in 2011 and was entitled to a preferential income tax rate of 15% on its estimated assessable profits for the six months ended 30 June 2015 and 2014.

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 its entities in ascertaining their assessable profits for the six months ended 30 June 2015 and 2014.

### (d) PRC withholding tax ("WHT")

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

For the six months ended 30 June 2015 and 2014, the Group does 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 the Cayman Island Law. Accordingly, no deferred income tax liability on WHT was accrued as at the end of each of the reporting periods.

# 10 Earnings/(losses) per share

## (a) Basic

Basic earnings/(losses) per share is calculated by dividing the earnings/(losses) attributable to the shareholders of the Company by the weighted average number of ordinary shares in issue during the period.

| | Unaudited Six months ended 30 June | |
|---|---|---|
| | **2015** | 2014 |
| Earnings/(losses) attributable to shareholders of the Company (RMB'000) | **53,382** | (208,261) |
| Weighted average number of ordinary shares in issue | **2,693,563,914** | 2,077,108,796 |
| Basic earnings/(losses) per share (in RMB/share) | **0.0198** | (0.1003) |

## (b) Diluted

Diluted earnings/(losses) per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

For the six months ended 30 June 2015, the Company had two categories of potential ordinary shares, the share options and the RSUs, which had to be considered for calculating diluted earnings per share. A calculation is done to determine the number of shares that could have been issued at fair value (determined as the average market price per share for the period) based on the total proceeds receivable upon exercising the outstanding share options and RSUs. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options and RSUs. The difference is added to the denominator as the number of shares issued for no consideration.

## 10 Earnings/(losses) per share (continued)

### (b) Diluted (continued)

For the six months ended 30 June 2014, the Company had three categories of potential ordinary shares, the share options, convertible redeemable preferred shares and the RSUs, which had to be considered for calculating diluted losses per share. No adjustment has been made to basic losses per share to derive the diluted losses per share for the period ended 30 June 2014 as each of the types of potential ordinary shares is anti-dilutive.

| | Unaudited Six months ended 30 June 2015 |
|---|---|
| **Earnings** | |
| Earnings attributable to shareholders of the Company (RMB'000) | 53,382 |
| Interest expense on convertible debt (net of tax) | — |
| Earnings used to determine diluted earnings per share (RMB'000) | 53,382 |
| **Weighted average number of ordinary shares** | |
| Weighted average number of ordinary shares in issue | 2,693,563,914 |
| Adjustments for: | |
| — Share options | 3,412,650 |
| — RSUs | 46,142,340 |
| Weighted average number of ordinary shares for diluted earnings per share | 2,743,118,904 |
| Dilute earnings per share (in RMB/share) | 0.0195 |

## 11 Dividend

| | Unaudited<br>Six months ended 30 June<br>2015<br>RMB'000 | <br><br>2014<br>RMB'000 |
|---|---|---|
| Final dividend of HK$0.035 (2014: nil) per ordinary share (Note a) | **77,577** | — |
| Less: Dividend for shares held for the RSU Scheme | **(3,162)** | — |
| | **74,415** | — |
| Special dividend paid to pre-IPO shareholders (Note b) | **—** | 154,127 |
| | **74,415** | 154,127 |

(a) A 2014 final dividend of HKD0.035 (equivalent to approximately RMB0.028) per ordinary share, totalling HK$98,373,000 (equivalent to approximately RMB77,577,000), was approved in the Company's AGM on 19 June 2015 and was paid on 17 July 2015.

(b) On 18 March 2014, the shareholders of the Company resolved to declare a special dividend of US$25,000,000 (equivalent to approximately RMB154,127,000) 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.

(c) The Company did not declare an interim dividend for the six months ended 30 June 2015 (2014:nil).

## 12 Property and equipment and intangible assets

| | Unaudited | | |
|---|---|---|---|
| | Property and equipment RMB'000 | Other intangible assets RMB'000 | Goodwill RMB'000 |
| **Six months ended 30 June 2015** | | | |
| Opening net book amount | **10,943** | **383** | **—** |
| Acquisition of a subsidiary (Note 7) | **981** | **15,938** | **33,306** |
| Additions | **2,152** | **109** | **—** |
| Depreciation and amortization charge | **(3,560)** | **(232)** | **—** |
| Closing net book amount | **10,516** | **16,198** | **33,306** |
| **Six months ended 30 June 2014** | | | |
| Opening net book amount | 13,106 | 217 | — |
| Additions | 4,777 | 263 | — |
| Depreciation and amortization charge | (3,755) | (43) | — |
| Closing net book amount | 14,128 | 437 | — |

## 13 Trade receivables

| | Unaudited As at 30 June 2015 RMB'000 | Audited As at 31 December 2014 RMB'000 |
|---|---|---|
| Receivables from third parties | **915** | 6,425 |
| Less: Allowance for impairment | **—** | — |
| | **915** | 6,425 |

## 13 Trade receivables (continued)

Trade receivables mainly arose from several online payment collection channels and advertising agencies. Advertising revenues of the Group are mainly generated on sales with credit terms determined on an individual basis with normal credit periods of 90 to 120 days from the respective invoice dates. As at 30 June 2015, the ageing analysis of trade receivables is as follows:

| | Unaudited As at 30 June 2015 RMB'000 | Audited As at 31 December 2014 RMB'000 |
|---|---|---|
| 0–30 days | 405 | 1,776 |
| 31–60 days | 47 | 98 |
| 61–90 days | 148 | 64 |
| 91–180 days | 210 | 4,487 |
| Over 1 year | 105 | — |
| | 915 | 6,425 |

## 14 Cash and cash equivalents, short-term deposits and long-term deposits

| | Unaudited As at 30 June 2015 RMB'000 | Audited As at 31 December 2014 RMB'000 |
|---|---|---|
| Long-term deposits (Note a) | 300,000 | — |
| Short-term deposits (Note b) | 985,991 | 1,364,200 |
| Cash and cash equivalents | | |
| — Cash at bank and on hand (Note c) | 347,803 | 259,367 |
| | 1,633,794 | 1,623,567 |
| Maximum exposure to credit risk (Note d) | 1,633,706 | 1,623,525 |

## 14 Cash and cash equivalents, short-term deposits and long-term deposits (continued)

(a) Long-term deposits represent the Group's deposit placed in a bank with an expected maturity of over one year but less than two years.

(b) Short-term deposits represent the Group's deposit placed in a bank with an expected maturity of over three months but less than one year.

(c) All cash in bank balances as at 30 June 2015 and 31 December 2014 were demand deposits in nature. The effective interest rate per annum for cash in bank balances and deposits as at 30 June 2015 was approximately 3.0% (31 December 2014: 2.9%).

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

## 15 Share capital and share premium

As at 30 June 2015, the total number of issued ordinary shares of the Company was 2,810,662,000 shares (31 December 2014: 2,808,546,000 shares) which included 114,577,600 shares (31 December 2014: 119,935,600 shares) held under the RSU Scheme.

| | Unaudited | | | | | |
|---|---|---|---|---|---|---|
| | Number of shares | Nominal value of shares US$'000 | Share Capital RMB'000 | Share held for RSU Scheme RMB'000 | Share Premium RMB'000 | Total RMB'000 |
| Issued and fully paid: | | | | | | |
| **As at 1 January 2015** | **2,808,546,000** | **1** | **8** | **–** | **1,636,621** | **1,636,629** |
| Share Option Scheme: | | | | | | |
| — Proceeds from shares issued upon exercise of share options | **2,116,000** | **–** | **–** | **–** | **67** | **67** |
| — Exercise of share options | **–** | **–** | **–** | **–** | **97** | **97** |
| RSU Scheme: | | | | | | |
| — Exercise of RSUs | **–** | **–** | **–** | **–** | **6,454** | **6,454** |
| 2014 final dividend payable to equity holders of the Company | **–** | **–** | **–** | **–** | **(74,415)** | **(74,415)** |
| **As at 30 June 2015** | **2,810,662,000** | **1** | **8** | **–** | **1,568,824** | **1,568,832** |
| **As at 1 January 2014** | 1,691,076,000 | 1 | 5 | – | – | 5 |
| IPO | 706,106,000 | – | 2 | – | 1,120,079 | 1,120,081 |
| Conversion of convertible redeemable preferred shares to ordinary shares | 400,000,000 | – | 1 | – | 682,263 | 682,264 |
| Issuance of shares held for RSU Scheme | 27,240,000 | – | – | – | – | – |
| Dividend paid to pre-IPO shareholders | – | – | – | – | (154,127) | (154,127) |
| **As at 30 June 2014** | 2,824,422,000 | 1 | 8 | – | 1,648,215 | 1,648,223 |

## 15 Share capital and share premium (continued)

(a) On 10 April 2014, the Company completed its IPO on the Main Board of the Stock Exchange of Hong Kong Limited. In the IPO, the Company issued a total of 706,106,000 ordinary shares to public investors at a price of HK$2.15 per share. The net proceeds to the Company, after deducting underwriting commissions and other capitalized issuance costs paid and payable, were approximately RMB1,120,081,000 (equivalent to approximately HK$1,411,926,000).

(b) 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.

(c) Shares held for RSU Scheme

Pursuant to the rules of the RSU Scheme, the Group has set up two trusts ("Employee Share Trusts"), for the purposes of administering the RSU Scheme and holding RSUs before they vest.

As at 30 June 2015, the shares under the RSU Scheme held by the Employee Share Trusts amounted to RMB367 (31 December 2014: RMB384), were presented within equity in the consolidated balance sheet. 5,358,000 RSUs were vested for the six months ended 30 June 2015 (2014: nil).

## 16 Reserves

| | Unaudited | | | |
|---|---|---|---|---|
| | | | Share-based | |
| | Other | Statutory | compensation | |
| | reserves | reserves | reserve | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | (Note a) | (Note b) | | |
| **As at 1 January 2015** | **10,010** | **5,005** | **34,901** | **49,916** |
| Share Option Scheme | | | | |
| — Exercise of share options | **—** | **—** | **(97)** | **(97)** |
| RSU Scheme | | | | |
| — Value of employee services | **—** | **—** | **8,608** | **8,608** |
| — Exercise of RSUs | **—** | **—** | **(6,454)** | **(6,454)** |
| Recognition of financial liabilities in respect of the put options granted to non-controlling interests (Note 7(d)) | **(7,941)** | **—** | **—** | **(7,941)** |
| **As at 30 June 2015** | **2,069** | **5,005** | **36,958** | **44,032** |
| **As at 1 January 2014** | 10,010 | 5,005 | 10,719 | 25,734 |
| Share Option Scheme | | | | |
| — Value of employee services | — | — | 70 | 70 |
| RSU Scheme | | | | |
| — Value of employee services | — | — | 21,036 | 21,036 |
| **As at 30 June 2014** | 10,010 | 5,005 | 31,825 | 46,840 |

## 16 Reserves (continued)

(a) Other reserves represent capital contribution injected by Guangzhou Baitian's shareholders into Guangzhou Baitian upon its establishment and the financial liabilities in respect of the put options granted to non-controlling interests on the business combination (Note 7(d)).

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

(c) 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.

## 17 Deferred income tax liabilities

| | **Unaudited**<br>RMB'000 |
|---|---|
| **As at 1 January 2015** | — |
| Acquisition of subsidiary (Note 7) | 2,630 |
| Charged to profit or loss | (29) |
| As at 30 June 2015 | 2,601 |
| **As at 1 January and 30 June 2014** | — |

## 18 Trade payables

Trade payables primarily relate to the purchase of inventory for the retail of maternity clothes, children product and related items, services for server custody, outsourcing game development and the revenue sharing collected by the Group's own platforms which is payable to cooperating game developers according to the respective cooperation agreements.

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

| | **Unaudited As at 30 June 2015 RMB'000** | Audited As at 31 December 2014 RMB'000 |
|---|---|---|
| 0–30 days | **5,954** | 1,693 |
| 31–60 days | **1,410** | 1 |
| 61–180 days | **783** | 2 |
| 181–365 days | **5** | 249 |
| 1–2 years | **6** | — |
| | **8,158** | 1,945 |

## 19 Other payables and accruals

| | **Unaudited As at 30 June 2015 RMB'000** | Audited As at 31 December 2014 RMB'000 |
|---|---|---|
| Dividend payable (Note 11) | **74,415** | — |
| Staff costs and welfare accruals | **20,535** | 27,250 |
| Commission payable to distributors | **2,365** | 1,049 |
| Professional service fees payable | **2,974** | 5,274 |
| Other tax liabilities | **908** | 2,329 |
| Others | **377** | 876 |
| | **101,574** | 36,778 |

## 20 Significant related party transactions

Key management compensation amounted to RMB16,789,000 for the six month ended 30 June 2015 (2014: RMB11,008,000). See below.

| | Unaudited Six months ended 30 June | |
|---|---|---|
| | **2015** | 2014 |
| | **RMB'000** | RMB'000 |
| Wages, salaries and bonuses | **7,003** | 7,131 |
| Pension costs — defined contribution plans | **97** | 75 |
| Other social security costs, housing benefits and other employee benefits | **134** | 118 |
| Share-based compensation expenses | **9,555** | 3,684 |
| | **16,789** | 11,008 |

## 21 Contingencies

The Group did not have any material contingent liabilities as at 30 June 2015 and 31 December 2014.

## 22 Subsequent events

Except as disclosed elsewhere in this report, subsequent to 30 June 2015, the following events took place:

a) On 7 July 2015, Guangzhou Baitian entered into a subscription agreement with Beijing Xingmen Dongman Technology Limited Company* (北京星門動漫科技有限公司) ("Xingmen") and its existing shareholders to subscribe for 20% equity interest in Xingmen for a total subscription price of RMB4,000,000 through capital injection to Xingmen.

b) On 10 July 2015, the Company granted RSUs representing an aggregate of 65,780,000 Shares to 110 grantees, pursuant to the Company's RSU Scheme.

c) On 10 July 2015, the Board resolved to conditionally grant 30,000,000 RSUs to Dr. Xu Gang in accordance with the terms of the RSU Scheme and this resolution was approved by the special shareholders' meeting on 14 August 2015.

* Denotes English translation of the name of a Chinese name company and is provided for identification purpose only.

# Other Information

## AUDIT COMMITTEE AND REVIEW OF FINANCIAL STATEMENTS

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters. The Audit Committee has also reviewed the Group's unaudited Interim Condensed Consolidated Financial Information for the six months ended 30 June 2015. Based on this review and discussions with the management, the Audit Committee was satisfied that the financial statements were prepared in accordance with applicable accounting standards and fairly present the Group's financial position and results for the six months ended 30 June 2015.

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

## COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as its own securities dealing code to regulate all dealings by Directors of securities in the Company and other matters covered by the Model Code. The Directors have confirmed that they had complied with all relevant requirements as set out in the Model Code during the six months ended 30 June 2015.

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

The Company has applied the principles and complied with all applicable code provisions of the Corporate Governance Code during the six months ended 30 June 2015.

## BOARD OF DIRECTORS AND BOARD COMMITTEES

The compositions of the Board, the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company remain the same as set out in the 2014 annual report of the Company.

## CHANGES IN A DIRECTOR'S BIOGRAPHICAL DETAILS

Change in a Director's biographical details since the date of the 2014 annual report of the Company, which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, are set out below:

Mr. JI Yue (計越), a non-executive Director of the Company, resigned as a director of Jumei International Holding Limited, a NYSE-listed retailer of beauty products, on 24 April 2015.

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

## INTERIM DIVIDEND

The Directors do not recommend the payment of dividend for the six months ended 30 June 2015.

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

At the Company's AGM on 19 June 2015, the Shareholders granted a repurchase mandate to the Board to repurchase Shares (which should not exceed 10% of the issued share capital of the Company as at 19 June 2015) from time to time as the Board thinks fit until the next annual general meeting of the Company.

The Group did not purchase, sell or redeem any of the listed securities of the Company during the six months ended 30 June 2015.

## INTERESTS AND SHORT POSITIONS OF THE DIRECTORS AND CHIEF EXECUTIVE IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2015, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

| Name | Relevant company (including associated corporation) | Capacity/Nature of interest | Number of Shares/ underlying Shares held | Approximate percentage of shareholding |
|---|---|---|---|---|
| DAI Jian (戴堅)[(1)(8)] | The Company | Founder of a discretionary trust<br>Interest of controlled corporation | 749,460,000 (L) | 26.66% (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<br>Interest of controlled corporation | 447,112,000 (L) | 15.91% (L) |
| LI Chong (李沖)[(3)] | The Company | Founder of a discretionary trust<br>Interest of controlled corporation | 203,304,000 (L) | 7.23% (L) |
| WANG Xiaodong (王曉東)[(4)] | The Company | Founder of a discretionary trust<br>Interest of controlled corporation | 74,544,000 (L) | 2.65% (L) |
| 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 Investments Limited, a trust holding company owns 100% of equity interest in Stmoritz Investment Limited.

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

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

(4) Mr. 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. As at 30 June 2015, 60,000 RSUs granted to Ms. LIU were vested in accordance with the vesting schedule as specified under the relevant grant letter and the rules relating to the Pre-IPO RSU Scheme. Such 200,000 Shares underlying the RSUs are held by ZEA Holding Limited ("ZEA"), as the nominee of The Core Services Limited, the trustee of a trust established by our Company under the Pre-IPO RSU Scheme.

(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. As at 30 June 2015, 60,000 RSUs granted to Mr. WANG were vested in accordance with the vesting schedule as specified under the relevant grant letter and the rules relating to the Pre-IPO RSU Scheme. Such 200,000 Shares underlying the RSUs are held by ZEA.

(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. As at 30 June 2015, 60,000 RSUs granted to Mr. MA were vested in accordance with the vesting schedule as specified under the relevant grant letter and the rules relating to the Pre-IPO RSU Scheme. Such 200,000 Shares underlying the RSUs are held by ZEA.

(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. As at 30 June 2015, 2,000,000 RSUs granted to Mr. DAI were vested in accordance with the vesting schedule as specified under the relevant grant letter and the rules relating to the Pre-IPO RSU Scheme. Such 10,000,000 Shares underlying the RSUs are held by ZEA.

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

Save as disclosed above, as at 30 June 2015, none of the Directors and the chief executive of the Company has any interest or short positions in shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2015, the following persons had interests or short positions in the Shares and 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 (without taking into account any Shares to be issued upon the exercise of share options granted under the Pre-IPO Share Option Scheme and any Shares which may be issued under the Pre-IPO RSU Scheme and Post-IPO RSU Scheme) | Approximate percentage of shareholding in the issued share capital of our Company (without taking into account any Shares to be issued upon the exercise of share options granted under the Pre-IPO Share Option Scheme and any Shares which may be issued under the Pre-IPO RSU Scheme and the Post-IPO RSU Scheme) |
|---|---|---|---|
| TMF (Cayman) Ltd.[(1)] | Trustee of trusts | 1,571,000,000 (L)[(6)] | 55.89% (L) |
| DAE Holding Investments Limited[(2)] | Trust holding company | 749,460,000 (L) | 26.66% (L) |
| Stmoritz Investment Limited[(2)] | Registered owner | 749,460,000 (L) | 26.66% (L) |
| DAI Jian (戴堅)[(2)(5)] | Founder of a discretionary trust<br>Interest of controlled corporation | 749,460,000 (L) | 26.66% (L) |
| Bright Stream Holding Limited[(3)] | Registered owner | 447,112,000 (L) | 15.91% (L) |
| WHEZ Holding Ltd.[(3)] | Trust holding company | 447,112,000 (L) | 15.91% (L) |
| WU Lili (吳立立)[(3)] | Founder of a discretionary trust<br>Interest of controlled corporation | 447,112,000 (L) | 15.91% (L) |
| LNZ Holding Limited[(4)] | Registered owner | 203,304,000 (L) | 7.23% (L) |
| Golden Water Management Limited[(4)] | Trust holding company | 203,304,000 (L) | 7.23% (L) |
| LI Chong (李沖)[(4)] | Founder of a discretionary trust<br>Interest of controlled corporation | 203,304,000 (L) | 7.23% (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) 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. As at 30 June 2015, 2,000,000 RSUs granted to Mr. DAI were vested in accordance with the vesting schedule as specified under the relevant grant letter and the rules relating to the Pre-IPO RSU Scheme. Such 10,000,000 Shares underlying the RSUs are held by ZEA.

(6) The Letter “L” denotes the person’s Long position in such Shares.

Save as disclosed above, as at 30 June 2015, the Directors are not aware of any other persons, who had interests or short positions in the Shares and underlying Shares of the Company or any associated corporations (within the meaning of Part XV of the SFO) which would be required to be disclosed to the Company pursuant to Part XV of the SFO.

## EMPLOYEE INCENTIVE SCHEMES

In order to incentivize our Directors, senior management and other employees for their contribution to the Group and to attract and retain suitable personnel of our Group, we adopted the Pre-IPO Share Option Scheme on 18 June 2010 and the Pre-IPO RSU Scheme on 30 September 2013, respectively. The Post-IPO RSU Scheme also adopted by the Company on 18 March 2014, which took effect on 10 April 2014 and was amended on 19 June 2015.

Summaries of the terms of the Pre-IPO Share Option Scheme, the Pre-IPO RSU Scheme and the 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, the 2013 and 2014 annual reports of the Company, the circular of the Company dated 24 April 2015 and the supplementary circular of the Company dated 14 May 2015.

### Outstanding Share Options

No further options will be granted under the Pre-IPO Share Option Scheme after the Listing. During the six months ended 30 June 2015, no option has been cancelled. As at 30 June 2015, there were a total of 2,560,000 share options outstanding. If all the outstanding options are exercised, there would be a dilution effect on the shareholdings of our Shareholders of approximately 0.09% as at 30 June 2015.

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. As at 30 June 2015, no Shares underlying the granted share options had been allotted and issued to Duoduo Holding Limited.

Details of the share options granted to all Share Option Grantees and outstanding under the Pre-IPO Share Option Scheme as at 30 June 2015:

| Name of grantees | Nature | Number of Shares represented by options at 31 December 2014 | Date of grant | Exercise price (US$) | Exercised during the period | Lapsed during the period | Number of Shares represented by options at 30 June 2015 | Vesting Period[1] | Exercise period[2] | Approximate percentage of issued shares of the Company[3] |
|---|---|---|---|---|---|---|---|---|---|---|
| Directors of the Company | – | – | – | – | – | – | – | – | – | – |
| Senior management members of the Company | – | – | – | – | – | – | – | – | – | – |
| DENG Linghua (鄧淩華) | Options | 1,500,000 | 20 June 2010 | US$0.0045 | 1,500,000 | – | – | Note 1 | Note 2 | – |
| | Sub-total | 1,500,000 | – | – | 1,500,000 | – | – | – | – | – |
| **Other employees of the Company** | | | | | | | | | | |
| 2 employees | Options | 924,000 | 20 June 2010 | US$0.0045 | 328,000 | – | 596,000 | Note 1 | Note 2 | 0.02% |
| 17 employees | Options | 1,700,000 | 20 June 2010 | US$0.0090 | 258,000 | – | 1,442,000 | Note 1 | Note 2 | 0.05% |
| 2 employees | Options | 552,000 | 15 January 2011 | US$0.0090 | 30,000 | – | 522,000 | Note 1 | Note 2 | 0.02% |
| | Sub-total | 3,176,000 | – | – | 616,000 | – | 2,560,000 | – | – | 0.09% |
| **Total** | Options | 4,676,000 | – | – | 2,116,000 | – | 2,560,000 | – | – | 0.09% |

Note:

(1) The vesting period of the share options under the Pre-IPO Share Option Scheme is 36 months from the date of grant of such share options.

(2) The exercise period of the share options under the Pre-IPO Share Option Scheme is 10 years from the date of grant of such share options.

(3) The approximate percentage of issued shares of the Company is calculated by dividing the outstanding share options held by the Share Option Grantees by the outstanding shares of the Company as at 30 June 2015.

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 the Share Option Grantees.

## Outstanding RSUs

***Pre-IPO RSU Scheme***

During the six months ended 30 June 2015, no RSU has been granted under the Pre-IPO RSU Scheme. The total number of Shares underlying the 78,567,200 outstanding RSUs represents approximately 2.79% of the issued share capital of our Company as at 30 June 2015.

Prior to the Listing on 10 April 2014, we had appointed The Core Trust Company as the trustee (the "**Pre-IPO RSU Trustee**") and Peto Holding Limited, a company incorporated in the BVI and an independent third party, as its nominee (the "**Pre-IPO RSU Nominee**") to administer our Pre-IPO RSU Scheme. To increase our public float, we engaged The Core Services Limited, as the new trustee (the "**New RSU Trustee**"), and ZEA Holding Limited, a company incorporated in the BVI and an independent third party, as the new nominee (the "**New RSU Nominee**"), to administer certain RSUs granted to our Directors and our senior management under our Pre-IPO RSU Scheme on 10 June 2014. As at 30 June 2015, 111,716,000 Shares have been issued and allotted to the Pre-IPO RSU Nominee and 30,600,000 Shares have been issued and allotted to the New RSU Nominee, respectively.

For further details in relation to change of RSU trustees under the Pre-IPO RSU Scheme, please see the announcement of the Company published on 10 June 2014.

***Post-IPO RSU Scheme***

The maximum aggregate number of Shares underlying all the RSUs which we may grant pursuant to the Post-IPO RSU Scheme is 112,426,480 Shares, representing approximately 4.00% of the issued share capital of our Company as at 19 June 2015, the date of approval of the amendments to the Post-IPO RSU Scheme.

As at 30 June 2015, no RSUs have been made pursuant to the Post-IPO RSU Scheme. As of the date of this interim report, 95,780,000 RSUs have been granted to a total of 111 senior management members and employees of the Group pursuant to the Post-IPO RSU Scheme. The grantees of the RSUs granted under the Post-IPO RSU Scheme are not required to pay for the grant of any RSU under the Post-IPO RSU Scheme. For further details in relation to grantees and RSUs granted under the Post-IPO RSU Scheme, please see the announcements of the Company published on 10 July 2014 and 14 August 2015.

We have appointed The Core Trust Company as the 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 at 30 June 2015, no Share had been issued to Baiduo Investment Holding Limited pursuant to the Post-IPO RSU Scheme.

As at 30 June 2015, save as disclosed above, no RSU had been granted to any connected person of the Company under the Pre-IPO RSU Scheme and the Post-IPO RSU Scheme.

Details of the RSUs granted to our Directors, the senior management member(s) of the Company, the employees of the Company holding RSUs representing more than 5,000,000 Shares and other employees of the Company and outstanding under the Pre-IPO RSU Scheme and the Post-IPO RSU Scheme as at 30 June 2015:

| Name of grantees | Nature | Number of Shares underlying the RSUs at 31 December 2014 | Date of grant | Exercise price (US$) | Exercised during the period | Lapsed during the period | Number of Shares underlying the RSUs at 30 June 2015 | Vesting Schedule[(1)(2)] | Approximate percentage of issued shares of the Company[(3)] |
|---|---|---|---|---|---|---|---|---|---|
| **(1) Pre-IPO RSU Scheme** | | | | | | | | | |
| **(a) Directors** | | | | | | | | | |
| DAI Jian (戴堅) | RSUs | 10,000,000 | 18 February 2014 | – | 2,000,000 | – | 8,000,000 | Note 1 | 0.28% |
| LIU Qianli (劉千里) | RSUs | 200,000 | 21 March 2014 | – | 60,000 | – | 140,000 | Note 2 | 0.01% |
| WANG Qing (王慶) | RSUs | 200,000 | 21 March 2014 | Nil | 60,000 | – | 140,000 | Note 2 | 0.01% |
| MA Xiaofeng (馬肖風) | RSUs | 200,000 | 21 March 2014 | Nil | 60,000 | – | 140,000 | Note 2 | 0.01% |
| | Sub-total | 10,600,000 | – | – | 2,180,000 | – | 8,420,000 | – | 0.30% |
| **(b) Senior management member(s) of the Company** | | | | | | | | | |
| YEUNG Ka Hong Carl (楊家康) | RSUs | 8,000,000 | 1 October 2013 | – | – | – | 8,000,000 | Note 1 | 0.28% |
| | RSUs | 10,000,000 | 18 February 2014 | – | 2,000,000 | – | 8,000,000 | Note 1 | 0.28% |
| | Sub-total | 18,000,000 | – | – | 2,000,000 | – | 16,000,000 | – | 0.60% |
| **(c) Grantees holding RSUs representing more than 5,000,000 Shares (other than our Directors and the senior management members of the Company)** | | | | | | | | | |
| LI Wei (李偉) | RSUs | 5,920,000 | 1 October 2013 | – | – | 5,920,000 | – | Note 1 | 0.21% |
| | Sub-total | 5,920,000 | – | – | – | 5,920,000 | – | – | 0.21% |
| **(d) Other grantees (other than the Directors, senior management member and grantees holding RSUs representing more than 5,000,000 Shares disclosed in paragraphs (1)(a), (b) and (c) above)** | | | | | | | | | |
| 218 employees | RSUs | 66,131,200 | 1 October 2013 | – | – | 15,192,000 | 50,939,200 | Note 1 | 1.8% |
| 9 employees | RSUs | 5,890,000 | 18 February 2014 | – | 1,178,000 | 1,504,000 | 3,208,000 | Note 1 | 0.11% |
| | Sub-total | 72,021,200 | – | – | 1,178,000 | 16,696,000 | 54,147,200 | – | 1.93% |
| | Total | 106,541,200 | – | – | 5,358,000 | 22,616,000 | 78,567,200 | 2.80% | 2.80% |
| **(2) Post-IPO RSU Scheme** | | | | | | | | | |
| | – | – | – | – | – | – | – | – | – |
| | Sub-total | – | – | – | – | – | – | – | – |
| | Total | – | – | – | – | – | – | – | – |

Note:

(1) The RSUs granted to the subjected RSU grantees under the Pre-IPO RSU Scheme shall be vested in accordance with the vesting schedule as follow:

- 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 on a quarterly basis at 36 months after the date of grant; and
- 30% of the RSUs on a quarterly basis at 48 months after the date of grant.

(2) The RSUs granted to the subjected RSU grantees under the Pre-IPO RSU Scheme shall be vested in accordance with the vesting schedule as follow:

- 30% of the RSUs at 12 months after the date of grant;
- 30% of the RSUs at 24 months after the date of grant; and
- 40% of the RSUs at 36 months after the date of grant.

(3) The approximate percentage of issued shares of the Company is calculated by dividing the underlying shares of the RSUs held by the grantees under the Pre-IPO RSU Scheme and the Post-IPO RSU Scheme by the outstanding shares of the Company as at 30 June 2015.

## PUBLIC FLOAT

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

## USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

The shares of the Company were listed on the main board of the Stock Exchange on 10 April 2014 with net proceeds from the initial public offering of approximately HK$1,392.0 million, after deducting underwriting fees and commissions and other expenses paid by the Company in connection with the initial public offering. As at 30 June 2015, the Company has, and will continue to utilized the net proceeds for the same purposes as set out in the section headed “Future Plans and Use of Proceeds — Use of Proceeds” in the Prospectus.

## COMPLIANCE WITH THE QUALIFICATION REQUIREMENT

As set out in the section headed "Contractual Arrangements — Legality of the Contractual Arrangements" in the Prospectus, a foreign investor who invests in a value-added telecommunications business in the PRC must possess prior experience in operating value-added telecommunications businesses and a proven track record of business operations overseas (the "Qualification Requirement"). 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.

Despite the lack of clear guidance or interpretation on the Qualification Requirement, we have been gradually building up our track record of overseas business operations to comply with the Qualification Requirement. We have continued to engage a local distributor in Hong Kong through whom our overseas users can purchase our physical prepaid cards. In addition, we have launched a Hong Kong website offering investor relations and other corporate information. As at 30 June 2015, the Company has no further update to disclose in relation to the Qualification Requirement. 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.

## PARTICULARS OF THE PRC OPERATING ENTITY

| Name of the PRC Operating Entity | Kind of legal entity/place of establishment and operation | Registered owners | Business activities |
|---|---|---|---|
| **As at 31 December 2014** | | | |
| Guangzhou Baitian Information Technology Ltd. (廣州百田信息科技有限公司) | Limited liability company/the PRC | 46.92% by Mr. DAI Jian<br>28.37% by Mr. WU Lili<br>12.90% by Mr. LI Chong<br>7.08% by Mr. CHEN Ziming<br>4.73% by Mr. WANG Xiaodong | Operating the virtual worlds and e-learning products of the Group |
| **As at 30 June 2015** | | | |
| Guangzhou Baitian Information Technology Ltd. (廣州百田信息科技有限公司) | Limited liability company/the PRC | 46.92% by Mr. DAI Jian<br>28.37% by Mr. WU Lili<br>12.90% by Mr. LI Chong<br>7.08% by Mr. CHEN Ziming<br>4.73% by Mr. WANG Xiaodong | Operating the virtual worlds and e-learning products of the Group |

Guangzhou Baitian holds the licenses and approvals that are required to operate our virtual worlds and e-learning products. Guangzhou Baitian is treated as our consolidated affiliated entity. The revenue value of Guangzhou Baitian subject to the Contractual Arrangements amounted to approximately RMB505 million and RMB173 million for the year ended 31 December 2014 and for the six months ended 30 June 2015, respectively. The total asset of Guangzhou Baitian subject to the Contractual Arrangements amounted to approximately RMB733 million and RMB778 million for the year ended 31 December 2014 and for the six months ended 30 June 2015, respectively.

For the six months ended 30 June 2015, the service fees provided by Guangzhou WFOE to Guangzhou Baitian pursuant to the Contractual Arrangements amounted to RMB1.6 million.

Guangzhou Baitian have undertaken to the Company that, for so long as the shares of the Company are listing on the Stock Exchange, Guangzhou Baitian will provide the Group's management and the auditors of the Company with full access to its relevant records for the purpose of procedures to be carried out by the auditors of the Company on the transactions as contemplated under the Contractual Arrangements.

## REQUIREMENTS RELATED TO CONTRACTUAL ARRANGEMENTS (OTHER THAN RELEVANT FOREIGN OWNERSHIP RESTRICTIONS)

As advised by the Company's PRC legal advisers, requirements related to Contractual Arrangements (other than relevant foreign ownership restrictions) include:

1. Legality, validity and binding effect — The Contractual Arrangements as a whole and each of the agreements comprising the Contractual Arrangements are legal, valid and binding on parties thereto, and do not individually or collectively, constitute a breach of any PRC laws and regulations and will not be deemed invalid or ineffective under those laws and regulations; in particular, the Contractual Arrangements would not violate the provisions of the PRC Contract Law, including "*concealing an illegitimate purpose under the guise of legitimate acts*" under Article 52 of the PRC Contract Law, the General Principles of the PRC Civil Law and other applicable PRC laws and regulations.

2. Enforceability — The Contractual Arrangements are in full compliance with and enforceable under applicable PRC laws and regulations, except that the Contractual Arrangements provide that the arbitral body may award remedies over the shares and/or assets of Guangzhou Baitian and/or injunctive relief against Guangzhou Baitian, and that courts of competent jurisdictions are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitration, while under PRC laws, an arbitral body has not power to grant injunctive relief and may not directly issue a provisional or final liquidation order for the purpose of protecting assets or equity interests in Guangzhou Baitian in case of dispute. In addition, interim remedies or enforcement orders granted by overseas courts may not be recognized or enforceable in China.

For more details of the legality of the Contractual Arrangements, please see the section headed “Contractual Arrangements — Legality of the Contractual Arrangements” in the Prospectus.

Risks associated with the Contractual Arrangements and the actions taken by the Company to mitigate the risks

| No. | Risks associated with the Contractual Arrangements | Mitigation actions taken by the Company |
|---|---|---|
| 1. | If the relevant PRC authorities find that the agreements that establish the structure for operating our virtual worlds and e-learning products in China do not comply with PRC laws and regulations, or if these laws or regulations or their interpretations change in the future, we could be subject to severe penalties, including the shutting down of our websites, or be forced to relinquish our interests in our operations. | Pursuant to the Exclusive Business Consultation and Service Agreement, at any time after the date of such agreements, in the event of any promulgation or change of any law, regulation or rule of China or any interpretation or applicable change on such laws, regulations or rules, the following agreement shall be applicable: if the economic interests of any party under the agreements suffer a significant adverse effect directly or indirectly due to above change of laws, regulations or rules, the agreements should continue to operate pursuant to the original terms. Each of the parties shall obtain a waiver for complying on such change or rule via all legal channels. If any adverse effect on the economic interests of any party may not be eliminated according to this agreement, upon the receipt by other parties of such notice from the affected party, all the parties shall promptly discuss and make all necessary modification to the agreements to maintain the economic interests of the affected party under the agreement. |

| No. | Risks associated with the Contractual Arrangements | Mitigation actions taken by the Company |
|---|---|---|
| 2. | Our Contractual Arrangements may not be as effective in providing operational control as direct ownership. Guangzhou Baitian or its shareholders may fail to perform their obligations under our Contractual Arrangements and certain terms of the Contractual Arrangements may not be enforceable under PRC laws. | Each of the New VIE Agreements and the Termination Agreements contains a dispute resolution provision. Pursuant to such provision, in the event of any dispute relating to the Contractual Arrangements, the parties shall negotiate in good faith to resolve the disputes. In the event the parties fail to reach an agreement on the resolution of such dispute within 30 days, any party may submit such dispute to the South China International Economic and Trade Arbitration Commission for arbitration in accordance with the then effective arbitration rules. The arbitration shall be conducted in Guangzhou, and the language used during arbitration shall be Chinese. The arbitral award shall be final and binding on all parties. The dispute resolution provision in the New VIE Agreements and the Termination Agreements also provides that the arbitral tribunal may award remedies over the assets of Guangzhou Baitian or award injunctive relief (e.g. for the conduct of business or to compel the transfer of assets); and the courts of PRC also have jurisdiction for the grant and/or enforcement of the arbitral award and the interim remedies against the shares in or assets of Guangzhou Baitian. |
| 3. | We may lose the ability to use and enjoy assets held by Guangzhou Baitian that are material to our business operations if Guangzhou Baitian declares bankruptcy or becomes subject to a dissolution or liquidation proceeding. | According to the Exclusive Option Agreement, in the event of a mandatory liquidation required by PRC laws, all of the remaining assets and residual interests of Guangzhou Baitian shall be transferred through a non-reciprocal transfer to Guangzhou WFOE or its appointee after such liquidation at the lowest transfer price permitted by PRC laws. In such case, if the Registered Shareholders receive any payment after the liquidation, they shall return in full such payment to Guangzhou WFOE or its appointee within 10 working days, after the deduction of relevant taxes or payments pursuant to applicable PRC laws. |

| No. | Risks associated with the Contractual Arrangements | Mitigation actions taken by the Company |
|---|---|---|
| 4. | Our Contractual Arrangements may be subject to scrutiny by the PRC tax authorities and additional taxes may be imposed. A finding that we owe additional taxes could substantially reduce our consolidated net income and the value of your investment. | As advised by the Company's PRC legal advisers, who took the view that the Contractual Arrangements will not be challenged by the PRC tax authorities or other government authorities, provided that Beijing WFOE, Guangzhou WFOE and Guangzhou Baitian implement the Contractual Arrangements in accordance with the terms thereof, unless the PRC tax authorities determine that such transactions are not conducted on an arm's length basis. |
| 5. | The Contractual Arrangements between Beijing WFOE for the period between March 31, 2010 and December 4, 2013 and Guangzhou WFOE for the period beginning on December 4, 2013 and Guangzhou Baitian may subject our Group to increased income tax due to the different income tax rates applicable to Beijing WFOE or Guangzhou WFOE and Guangzhou Baitian and adversely affect our results of operations. | Guangzhou Baitian is qualified as a high and new technology enterprise recognized by the relevant authorities in Guangdong and enjoys the preferential tax treatment of a preferential tax rate of 15.0% from 2014 to 2016 upon the renewal of the qualification in 2014. Guangzhou Baitian would use its reasonable endeavours to take all necessary actions to maintain its status as "high and new technology enterprise" in order to continue enjoy a reduced income tax rate of 15% from 2014 to 2016.<br><br>Please also refer to paragraph 4 above. |

| No. | Risks associated with the Contractual Arrangements | Mitigation actions taken by the Company |
|---|---|---|
| 6. | Shareholders of Guangzhou Baitian may potentially have a conflict of interest with us, and they may breach their contracts with us or cause such contracts to be amended in a manner contrary to our interests. | Each of the Registered Shareholders have undertaken that during the period when the Contractual Arrangements remain effective, (i) unless a prior written consent is obtained from Guangzhou WFOE, such shareholder will not engage in, conduct, participate in or use the information obtained from Guangzhou Baitian or any of its affiliates to participate in, directly or indirectly, any business or activity which competes or is likely to compete with the business of Guangzhou Baitian or its subsidiaries (if any), nor will he acquire, hold any interests in or derive any interests from any business which competes or is likely to compete with the business of Guangzhou Baitian or its subsidiaries (if any); (ii) such shareholder will not take any action deviating from the intention and purposes of the New VIE Agreements which may lead to any conflict of interests between Guangzhou WFOE and Guangzhou Baitian or its subsidiaries (if any); and (iii) if any conflict of interests occurs during the performance of the New VIE Agreements by such shareholder, he will act in favor of Guangzhou WFOE as set forth under the New VIE Agreements and in accordance with the directions of Guangzhou WFOE. |
| 7. | We depend on Guangzhou Baitian to provide certain services that are critical to our business. The breach or termination of any of our service agreements with Guangzhou Baitian or any failure of or significant quality deterioration in these services could materially and adversely affect our business, financial condition and results of operations. | To ensure sound and effective operation of the Group after the adoption of the Contractual Arrangements, the relevant business units and operation divisions of the Group will report regularly, which will be no less frequent than on a monthly basis, to the senior management of the Company on the compliance and performance conditions under the Contractual Arrangements and other related matters. In addition, pursuant to the Exclusive Business Service Agreement and the Exclusive Option Agreement, Guangzhou WFOE has the unilateral right to terminate these agreements in the event that the Registered Shareholders or Guangzhou Baitian breaches these agreements. |

| No. | Risks associated with the Contractual Arrangements | Mitigation actions taken by the Company |
| --- | --- | --- |
| 8. | If we exercise the option to acquire equity ownership of Guangzhou Baitian, the ownership transfer may subject us to substantial costs. | According to the Exclusive Option Agreement, 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. |

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.

## TRADEMARK DISPUTE

As disclosed in the Prospectus, the 2014 interim report of the Company and the 2014 annual report of the Company, 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 Beijing Municipal Higher People’s Court rendered an administrative judgment (the “Judgment”) in favour of us, determining that the Disputed Trademark is in breach of the PRC Trademark Law and it should be revoked. The Judgment has become effective and has been dispatched to the Trademark Appeal Board.

We filed a revocation application with the Trademark Office of the Administration for Industry and Commerce of the PRC (the "Trademark Office") to revoke the registration of the Disputed Trademark in August 2014 due to non-usage for three consecutive years under the PRC Trademark Law. The Trademark Office issued its decision (the "Decision") as to the validity of the Disputed Trademark in favour of us on 19 May 2015, revoking the Disputed Trademark and annulling the certificate of trademark of the Disputed Trademark. The Decision has become effective and the nullity announcement of the Disputed Trademark has been published.

Based on the Judgement and the Decision above, the Disputed Trademark will not constitute any obstacles or legal risks for the ordinary use of "Aola Star" trademark by the Company. The Disputed Trademark will not have any adverse effect on the Company's financial condition and profits for the period ended 30 June 2015.

## MATERIAL LITIGATION

As at 30 June 2015, the Company was not involved in any material litigation or arbitration. Nor were the Directors of the Company aware of any material litigation or claims that were pending or threatened against the Company.