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

Annual Report 2015

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Dai Jian *(Chairman)*

Mr. Wu Lili

Mr. Li Chong

Mr. Wang Xiaodong

Dr. Xu Gang

Independent Non-executive Directors

Ms. Liu Qianli

Dr. Wang Qing

Mr. Ma Xiaofeng

AUDIT COMMITTEE

Ms. Liu Qianli *(Chairperson)*

Dr. Wang Qing

Mr. Ma Xiaofeng

NOMINATION COMMITTEE

Mr. Dai Jian *(Chairperson)*

Mr. Ma Xiaofeng

Ms. Liu Qianli

REMUNERATION COMMITTEE

Dr. Wang Qing *(Chairperson)*

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

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STOCK CODE

2100

HEADQUARTERS IN THE PRC

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Guangzhou

Guangdong

PRC

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Codan Trust Company (Cayman) Limited
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Cricket Square
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Grand Cayman KY1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR

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

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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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
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Company Profile

We are one of China's largest online entertainment destination designed for children and one of the top children's web game developers in China with a leading market share.

Our web portal page, 100bt.com, serves as an all-in-one 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 nine virtual worlds, namely, Aobi Island, Aola Star, Dragon Knights, Light of Aoya, Legend of Aoqi, Clashes of Aoqi, Magic Fighter, Amazing Combat and Monster Mobile. Our virtual worlds are mainly 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 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 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 baby and 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. The founder of Bumps to Babes holds 7.5% equity interest in this new venture, which has expanded Bumps to Babes into China as a one-stop-shop for parents to purchase safe, trusted and premium baby products via e-commerce. Its e-commerce platform, BumpsBB (www.bumpsbb.com), was launched in the fourth quarter of 2015 and we are in the process of expanding its presence in China. Currently, over 4,000 of the top-selling baby and maternity products on BumpsBB are sourced from a range of reputable overseas brands, and can be shipped across China at affordable prices.

Financial Summary

INCOME STATEMENT HIGHLIGHT

	Year ended 31 December				
	2015	2014	2013	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**387,105**	506,193	454,996	203,243	83,241
Gross profit	**236,634**	347,738	348,881	138,123	51,313
Operating profit	**56,299**	199,852	248,158	88,233	24,285
Non-International Financial Reporting Standards ("IFRSs") Measures					
— Adjusted Net Profit[1] (unaudited)	**124,556**	234,977	226,800	77,714	22,144

Note:

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

BALANCE SHEET HIGHLIGHT

	As at 31 December				
	2015	2014	2013	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets					
Non-current assets	**464,519**	19,654	37,860	16,624	10,200
Current assets	**1,288,471**	1,664,139	496,803	194,739	69,829
Total assets	**1,752,990**	1,683,793	534,663	211,363	80,029
Equity and liabilities					
Total equity/(deficits)	**1,570,324**	1,509,674	(19,430)	(9,002)	(15,502)
Non-current liabilities	**16,865**	3,305	352,045	120,483	50,549
Current liabilities	**165,801**	170,814	202,048	99,882	44,982
Total liabilities	**182,666**	174,119	554,093	220,365	95,531
Total equity and liabilities	**1,752,990**	1,683,793	534,663	211,363	80,029

Chairman Letter

Dear Shareholders,

In 2015, China underwent a significant shift in social policy. The "One Child" policy, a decades-old rule initiated in the late 1970s that restricted families from having more than one child as part of China's population control measures, already came to an end as announced by the Chinese government in October of 2015. This significant policy change will have far ranging implications on our businesses moving forward. The removal of the one child policy is expected to increase the number of babies born, as families will no longer have to face various penalties for having a second child, which would directly increase demand for baby and maternity products and children entertainment.

BAIOO has already begun implementing strategies to seize the new exciting opportunities that will arise from this in the coming years. We are exploring further opportunities in developing new lines of services for children, including "edutainment" products for 2-6 year olds. In terms of platform availability, we recognize that mobile devices are becoming an essential platform for all users, and 6 of our 7 new products planned for 2016 will be released on mobile devices.

1) HOW "FOCUSING ON FUN" PUT BAIOO BACK ON THE RIGHT PATH

Over a year ago, the popularity of our virtual worlds were dwindling, as user numbers continued to drop despite an unbroken stream of new content. We came to realize that this was being caused by a lack of engagement and user retention in our worlds, as we had been pushing various monetization strategies too heavily, resulting in our virtual worlds moving away from what made them so popular in the first place; providing children with a fun atmosphere unrestricted by cash barriers. I promised to you, our shareholders, that we would fundamentally alter our strategy towards our virtual worlds, moving away from heavy monetization and towards a focus on fun, accessible and healthy content that would make our users come back for more.

I am pleased to see that the performance of our virtual worlds have been stabilized, while more and more old users who had left were enticed to come back to our worlds through incentive mechanisms we initiated. We are encouraged to see that this trend became more obvious in the second half of the year. We were able to stem the outflow of users, and we expect real active user growth in 2016.

2) BECOMING ESSENTIAL TO THE YOUNGER GENERATION IN CHINA

Throughout our growth and expansion as a company, we have kept one key theme consistent: providing the family with products and services that they need to foster a new and healthy generation. Our virtual worlds were created with the goal of providing children with entertaining yet educational experiences, while our move into the baby and maternity segment was to provide parents with a one-stop-shop to purchase high-quality and reliable baby and maternity products. We have already become the largest online destination for children in China, and I am confident that our push into the baby and maternity segment will yield fruitful results in the foreseeable future. In the longer term, we aim to further integrate the BAIOO brand into families in China, providing them with everything from education tools, entertainment, to baby and maternity needs and other services.

In terms of our virtual worlds, we have continued to push educational yet fun content, with a focus on helping children develop both their creative skills as well as improve their knowledge in our games. I expect China's fertility ratio to improve in the coming years thanks to the removal of the one child policy, which will bring exciting opportunities for our virtual worlds to be further integrated into the family. I am confident our 7 new products launches this year, alongside the revitalization of our virtual worlds in terms of content and audience numbers, will bring about a positive wave of momentum in the long term.

In tandem, the baby and maternity market will also have significant opportunities ahead. In the past year of 2015, the total turnover of Chinese e-commerce baby and maternity market almost double from the previous to RMB361 billion, according to iResearch. Although we are not the first mover in the sector, we have a strong international supply chain and a seasoned operation team through our subsidiary Bumps to Babes, the reputable retail brand from Hong Kong. We trial launched the e-platform BumpsBB (www.bumpsbb.com) in the 4th quarter of 2015 in China, and already the platform has seen a growing wave of new parents looking to purchase certified, reliable goods from overseas countries. In addition to the quality goods, we also offer a range of user-friendly services on our platform. For example, in most cases we take care of the customs clearance on behalf of our customers, allowing them to focus solely on product selection. We are confident that Bumps to Babes' long track record of providing high-quality imported baby and maternity products for over 15 years will elevate it above the competition in China, and we are currently implementing plans to expand the outreach of the platform.

3) PREPARED AND POSITIONED FOR NEW CHALLENGES AND OPPORTUNITIES

Ultimately, our goal will be to integrate all of BAIOO's services into an all-in-one platform which will provide parents with all they need for a new family: baby and maternity products, children's entertainment, and educational products. For starters, we are refocusing our online platform, 100bt.com, to become an integrated portal for children in China. 100bt.com will be serving our virtual worlds, animations, cartoons, and other entertainment products, with the goal of becoming an easy-to-access all-in-one platform for all children. In terms of product pipeline, we plan to launch a number of new offerings in 2016 for personal computers ("**PC**") and mobile devices.

Strategically, as we continue to maintain our focus on "fun", we look to maintain our advantages in the market through new product launches, while growing our market share in the baby and maternity segment through furthering Bumps to Babes' presence in China. 2015 was a year of stabilization with contributions from our newly adopted initiatives in meeting a broader need of China family, and we will continue to build on our solid foundation to expand our presence in China and make 2016 a fruitful year as well.

Finally, I would like to thank all of our shareholders, investors and partners who have continued to support us and believe in our potential to succeed, and we look forward to achieving greater things in 2016.

Sincerely,

Dai Jian
Chairman
Baioo Family Interactive Limited

Definitions and Glossaries

DEFINITIONS

"AGM"	the annual general meeting of the Company to be convened and held in accordance with the Articles of Association
"Altratek Guangdong"	Guangdong Altratek Telecommunications Ltd., Co. (廣東阿爾創通信技術股份有限公司) (formerly known as Guangzhou Altratek Telecommunications Company Limited (廣州市阿爾創通信技術有限公司)), our connected person and incorporated on 14 December 2004 and existing under the laws of the PRC
"Articles of Association"	articles of association of the Company as amended, supplemented or revised from time to time
"Audit Committee"	the audit committee of the Board
"Board" or "Board of Directors"	our board of Directors
"Chairman"	the chairman of the Board
"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
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Contractual Arrangements"	a series of agreements entered into among Guangzhou WFOE, Guangzhou Baitian and the Registered Shareholders on 4 December 2013 and amended on 20 March 2014
"Corporate Governance Code"	the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules
"DAE Trust"	a discretionary trust set up by Mr. DAI Jian for which TMF (Cayman) Ltd. acts as the trustee, and the beneficiaries of which are Mr. DAI and his family members

"Director(s)" or "our Director(s)"	the director(s) of our Company or any one of them
"Founders"	Mr. DAI Jian, Mr. WU Lili, Mr. LI Chong, Mr. CHEN Ziming, Mr. WANG Xiaodong and Mr. KAN Wei
"Group" or "our Group" or "BAIOO"	our Company, its subsidiaries and the PRC Operating Entity (the financial results of which have been consolidated and accounted for as a subsidiary of our Company by virtue of the Contractual Arrangements), or, where the context so requires, in respect of the period before our Company became the holding company of its current subsidiaries, our Company's current subsidiaries or the business operated by such subsidiaries or their predecessors (as the case may be)
"Guangzhou Baitian" or "PRC Operating Entity"	Guangzhou Baitian Information Technology Ltd. (廣州百田信息科技有限公司), 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 Tianti"	Guangzhou Tianti Internet Techonology Limited* (廣州天梯網絡科技有限公司), a company with limited liability incorporated on 9 July 2015 under the laws of the PRC, a direct wholly-owned subsidiary of Guangzhou Baitian
"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 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"	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
"Nomination Committee"	the nomination committee of the Board

* For identification purpose only

"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
"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 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 Board
"RSU(s)"	restricted share units granted pursuant to the Pre-IPO RSU Scheme and/or the Post-IPO RSU Scheme
"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(s)"	has the meaning ascribed to it under the Listing Rules
"The Zhen Family Trust"	a discretionary trust set up by Mr. LI Chong for which TMF (Cayman) Ltd. acts as the trustee, and the beneficiaries of which are Mr. LI and his family members
"WHZ Trust"	a discretionary trust set up by Mr. WU Lili for which TMF (Cayman) Ltd. acts as the trustee, and the beneficiaries of which are Mr. WU and his family members

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

GLOSSARY

"ARQPA"	average revenue per QPA, which is revenue from our virtual worlds in a particular quarter divided by the number of quarterly paying accounts in that quarter
"average quarterly ARQPA"	average quarterly average revenue per QPA, which is revenue from our virtual worlds in a particular period divided by the total number of QPAs in that period
"QAAs"	quarterly active accounts, which is the number of active accounts for our virtual worlds in the relevant quarter. A quarterly active account is defined as a registered account that was accessed at least once during a quarter. An account that logged into two virtual worlds in the same quarter is counted as two QAAs. Average QAAs for a particular period is the average of the QAAs in each quarter during that period
"QPAs"	quarterly paying accounts, which is the number of paying accounts in the relevant quarter. An account that paid subscription fees or for virtual items in two virtual worlds in the same quarter is counted as two QPAs. Average QPAs for a particular period is the average of the QPAs in each quarter during that period

Management Discussion and Analysis

BUSINESS OVERVIEW

In 2015, BAIOO was able to stabilize most performance metrics for its online virtual worlds. Our full-year financial metrics dipped as compared to the year of 2014, however we saw a clear steady trend across most financial and operational metrics in the second half of the year, as our renewed strategic focus on engaging products and our cooperation with Bumps To Babes Limited ("**Bumps to Babes**") provided a healthy boost to our businesses. For the year ended 31 December 2015, revenue decreased 23.5% year-over-year to RMB387.1 million, of which 47.5% or RMB183.9 million was recorded in the first half of 2015 and the other 52.5% or RMB203.2 million was recorded in the second half of 2015, showing a positive trend of stabilization with an increase of 10.5% compared with the first half of 2015. For the year ended 31 December 2015, gross profit margin was 61.1%, compared to 59.9% in the first half of 2015, 62.3% in the second half of 2015 and 68.7% in 2014. While our operating metrics were lower in 2015 compared to 2014, we were able to see a trend of stabilization with improved gross profit margin in the second half of 2015, and we remain committed to executing our strategic initiatives to build a solid foundation for us to achieve further improvement in 2016.

In terms of BAIOO's virtual worlds, 2015 was a stable year for user numbers as we were able to turn the downward trend of total user numbers in the first half of 2015 around while recording a marginal uptick in the second half of 2015 through our strategy of re-focusing on fun aspects and removal of certain paywalls in our products. On a year-over-year basis, certain user metrics declined due to our continued account optimization to remove duplicate accounts and inactive ones, alongside the ongoing shift in users from PC to mobile devices. In 2015, average quarterly paying accounts ("**QPAs**") were 2.3 million, compared to 2.4 million in the first half of 2015, 2.2 million in the second half of 2015, and 3.0 million in 2014, indicating a 8.3% decline from the first half to the second half of 2015. Average revenue per quarterly paying accounts ("**ARQPA**") for the year ended 31 December 2015 was RMB38.1, compared to RMB34.3 in the first half of 2015, RMB41.9 in the second half of 2015, and RMB41.3 in 2014, indicating an 22.2% increase in the second half of 2015. Average quarterly active accounts ("**QAAs**") were approximately 49.1 million, compared to 48.1 million in the first half of 2015, 50.1 million in the second half of 2015, and 57.0 million in 2014, indicating a 4.2% increase from the first half to the second half of 2015. We also commercially launched "Monster Mobile" in March 2016, and it has been well-received by the market.

Bumps to Babes, a leading retailer of baby and maternity products in Hong Kong with a strong physical store presence, gained us a foothold into the baby and maternity market in 2015, and we are pleased to say that we have successfully trial launched BumpsBB (www.bumpsbb.com), the e-commerce platform of Bumps to Babes, in China in the fourth quarter of 2015. Leveraging on the Company's extensive understanding of children and their families in China, as well as Bumps to Babes' brand name and extensive logistics network and supplier agreements, we have seen rapid and encouraging growth in China. Revenue-wise, Bumps to Babes contributed more than RMB30.0 million revenue in 2015. We expect this to further ramp up in 2016 thanks to China's removal of the one-child policy as well as further market penetration through various initiatives we have planned for the coming year.

INDUSTRY ANALYSIS

2015 was a challenging year for China economically. With the market bull run and subsequent collapse, alongside the "New Normal" goal of achieving 6.5% year-over-year average GDP growth till 2020, China's economy has slowed down substantially compared to the last decade. The Chinese government is expected to put forward accommodative policies, but will focus less on stimulus packages and increasing the market's role in the economy. While this does not have a significant direct impact on our business, we do anticipate certain headwinds in 2016, particularly as the RMB is expected to depreciate against other currencies.

In terms of our virtual worlds, we continue to see significant opportunities in the year ahead. According to the 2015 China Gaming Industry Report ("**CGIR**"), the number of online gamers in China reached over 500 million in 2015, and recorded revenue of approximately RMB98.7 billion, an increase of almost 36.0% year-on-year. In particular, the CGIR noted that the mobile gaming market showed significant growth, registering revenue of approximately RMB51.5 billion, a substantial increase of 88.0% year-on-year. This means we have significant opportunities to capitalize on in the coming year. 6 of our 7 new products in our pipeline that are scheduled to be released in 2016 will be on mobile devices, and we have additional apps that we are currently exploring to further bolster our push into the mobile sphere. In terms of market trends, we have noticed that certain overseas comic Intellectual Property ("**IP**") originated from other entertainment medium formats are becoming more popular with the audience of children and teenagers, and we believe acquiring such IPs will help us enhance current product portfolio as well as creating new revenue streams. In response to this, we are currently planning a number of adapted products using our current and future IPs which we believe will meet this growing demand, and will provide updates when we believe they are at a suitable stage of development.

In terms of the Company's baby and maternity business, we believe this has very exciting prospects in 2016 and beyond. With the ending of the one-child policy, alongside increasing middle-class spending power and affluence, we expect there will be growing demand for higher quality baby and maternity goods with a focus on products from well-established international brands with higher safety standards. According to iResearch, China's baby and maternity market gross market value is expected to exceed RMB202.7 billion, with an annual compounded growth rate of 30.0%. Having already launched the BumpsBB (www.bumpsbb.com) platform in China, we will be beginning a significant push to further broaden our outreach to potential customers and to capture a larger slice of this fast-growing market. This year, we already opened an additional store in Hong Kong, and plan to accelerate growth in China by partnering the brand with selected offline stores, expanding our coverage in Hong Kong and allowing parents to preview a wide variety of goods that we have available on the platform. Currently there are over 4,000 products available on BumpsBB (www.bumpsbb.com) to Chinese consumers at affordable prices. In Hong Kong, over 15,000 products are available across five of Bumps to Babes' retail locations to local customers. In terms of growth trajectory, we are expecting Bumps to Babes to record strong revenue growth in 2016, targeting active user number of BumpsBB (www.bumpsbb.com) in the millions range. This will be mainly fueled by an extended presence in Hong Kong and a broadening customer base on its e-commerce platform.

OUTLOOK FOR 2016

In 2016, BAIOO will focus on its mission of making it "fun" for children with its expanding product offerings and will continue to leverage its extensive understanding of children and their families in China to pursue growth opportunities. We believe our commitment to executing these initiatives will act as the backbone for our future growth, setting down a solid foundation for our push into the mobile segment, while increasing the reach of our ecommerce platform to capture additional market share in the baby and maternity market. In terms of overall growth, we expect continued improvements on our key performance metrics. As we have always emphasized, we remain committed to providing parents and their children with high-quality, educational products to foster a successful and healthy family. In line with this, we are exploring additional areas and mergers and acquisitions opportunities which will strengthen our IP portfolio and allow us to expand our offerings to even more medium formats that are popular among children and teenagers. BAIOO will continue to maintain its leading position as one of the largest online destinations for children in China, and will continue to build on its competitive edge given its in-depth understanding of children and their parents to provide more integrated and better services to families throughout China.

OPERATION INFORMATION

The following table sets out average QAAs, average QPAs and average quarterly ARQPA for our online virtual worlds for the years indicated below (Note):

	For the Year Ended		
	31 December 2015(1)	31 December 2014	Year-over-year change
	(QAA & QPA in millions, ARQPA in RMB)		
average QAA(2)	**49.1**	57.0	(13.9%)
average QPA(3)	**2.3**	3.0	(23.3%)
average quarterly ARQPA(4)	**38.1**	41.3	(7.7%)

Notes:

(1) As of 31 December 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.

(2) The average QAA for our online virtual worlds was approximately 49.1 million for the year ended 31 December 2015, representing a decrease of approximately 13.9% from last year. This reflected shifting user trends from PCs to mobile devices and the lower proportion of multiple accounts due to our ongoing user account optimization.

(3) The average QPA for our online virtual worlds was approximately 2.3 million for the year ended 31 December 2015, representing a decrease of approximately 23.3% from last year as a result of shifting user trends from PCs to mobile devices.

(4) The average quarterly ARQPA for our online virtual worlds was approximately RMB38.1 for the year ended 31 December 2015, representing a decrease of approximately 7.7% from 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 year ended 31 December 2015 and 2014, respectively:

	For the year ended 31 December 2015 RMB'000	% of Revenue	For the year ended 31 December 2014 RMB'000	% of Revenue
Revenue	387,105	100.0	506,193	100.0
Online business	344,745	89.1	496,396	98.1
Other businesses	42,360	10.9	9,797	1.9
Cost of revenue	(150,471)	(38.9)	(158,455)	(31.3)
Gross profit	236,634	61.1	347,738	68.7
Selling and marketing expenses	(70,924)	(18.3)	(60,641)	(12.0)
Administrative expenses	(72,777)	(18.8)	(61,177)	(12.1)
Research and development expenses	(46,338)	(12.0)	(28,847)	(5.7)
Other income	10,429	2.7	—	—
Other (losses)/gains — net	(725)	(0.2)	2,779	0.6
Operating profit	56,299	14.5	199,852	39.5
Finance income — net	59,070	15.3	34,717	6.9
Share of loss of an associate	(344)	(0.1)	—	—
Fair value loss of convertible redeemable preferred shares	—	—	(327,749)	(64.7)
Profit/(loss) before income tax	115,025	29.7	(93,180)	(18.4)
Income tax expense	(15,595)	(4.0)	(38,522)	(7.6)
Profit/(loss) for the year	99,430	25.7	(131,702)	(26.0)
Other comprehensive income	1,254	0.3	—	—
Total comprehensive profit/(loss) for the year	100,684	26.0	(131,702)	(26.0)
Other financial data				
Adjusted net profit[1] (unaudited)	124,556	32.2	234,977	46.4
Adjusted EBITDA[2] (unaudited)	89,219	23.0	246,637	48.7

Notes:

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

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

Revenue

Our revenue for the year ended 31 December 2015 was RMB387.1 million, representing a 23.5% decrease from RMB506.2 million for the year ended 31 December 2014.

Online Business: Our online business revenue for the year ended 31 December 2015 was RMB344.7 million, representing a 30.6% decrease from RMB496.4 million for the year ended 31 December 2014. This was primarily due to the decrease in QPA and ARQPA as a result of shifting user trends from PCs to mobile devices.

Other Business: Revenue from other businesses for the year ended 31 December 2015 was RMB42.4 million, representing a 332.4% increase from RMB9.8 million for the year ended 31 December 2014, primarily due to additional revenue generated by the sales of baby and maternity products by Bumps to Babes, which we acquired on 8 May 2015.

The following table sets out the breakdown of revenue by line of business for first half and second half year period of 2015, respectively:

	Unaudited For the six months ended 31 December 2015 RMB'000	 30 June 2015 RMB'000	period-over-period change
Online business	**172,437**	172,308	0.1%
Other businesses	**30,738**	11,622	164.5%
Total Revenue	**203,175**	183,930	10.5%

Our online business revenue for the six months ended 31 December 2015 was RMB172.4 million, which was stable as compared with the six months ended 30 June 2015.

Other businesses revenue for the six months ended 31 December 2015 was RMB30.7 million, representing an increase of 164.5% compared with the six months ended 30 June 2015, such increase was primarily due to additional revenue generated by Bumps to Babes, which we acquired on 8 May 2015.

Cost of Revenue

Our cost of revenue for the year ended 31 December 2015 was RMB150.5 million, an 5.0% decrease from RMB158.5 million for the year ended 31 December 2014. This was primarily driven by (i) a RMB20.5 million decrease in employee benefit expenses; (ii) a RMB2.4 million decrease in prepaid card production costs and (iii) a RMB18.3 million increase in cost of goods sold from baby and maternity product sales following the acquisition of Bumps to Babes.

Gross Profit

As a result of the foregoing, our gross profit for the year ended 31 December 2015 was RMB236.6 million, compared with RMB347.7 million for the year ended 31 December 2014. Gross profit margin was 61.1% for the year ended 31 December 2015, which compares with 68.7% for the year ended 31 December 2014. The lower gross profit margin was mainly due to the shift in user trends from PCs to mobile devices and increase in sales of lower gross profit margin products, such as baby and maternity products sold by Bumps to Babes.

Selling and Marketing Expenses

Our selling and marketing expenses for the year ended 31 December 2015 were RMB70.9 million, a 17.0% increase from RMB60.6 million for the year ended 31 December 2014. This was primarily due to additional employee benefit expenses and operating lease rental expenses following the Bumps to Babes acquisition.

Administrative Expenses

Our administrative expenses for the year ended 31 December 2015 were RMB72.8 million, a 19.0% increase from RMB61.2 million for the year ended 31 December 2014. This was primarily driven by (i) a RMB9.1 million increase in employee benefit expenses due to an increase in administrative headcount from 45 as of 31 December 2014 to 59 as of 31 December 2015; and (ii) a RMB1.3 million increase in utility and office expenses.

Research and Development Expenses

Our research and development expenses for the year ended 31 December 2015 were RMB46.3 million, a 60.8% increase from RMB28.8 million for the year ended 31 December 2014. This was primarily driven by increases in research and development projects in the purpose for new mobile and PC games development as well as the e-commerce platform development.

Other Income

The Company recognized RMB10.4 million in other income for the year ended 31 December 2015, compares with nil for the year ended 31 December 2014. The other income was generated as a result of our fulfillment of certain performance conditions attached to government grants.

Operating Profit

As a result of the foregoing, our operating profit for the year ended 31 December 2015 was RMB56.3 million, representing a 71.8% decrease from RMB199.9 million for the year ended 31 December 2014. Our operating profit margin for the year ended 31 December 2015 was 14.5%, compared with 39.5% for the year ended 31 December 2014.

Finance Income — net

Net finance income was RMB59.1 million for the year ended 31 December 2015, compared with net finance income of RMB34.7 million for the year ended 31 December 2014. The increase in net finance income for the year ended 31 December 2015 was primarily attributable to (i) RMB52.3 million in interest income on short-term and long-term deposits; (ii) RMB1.2 million in interest income on bank deposits and (iii) RMB6.3 million in exchange gains regarding non-RMB cash on hands.

Fair Value Loss of Convertible Redeemable Preferred Shares

We had no fair value loss on convertible redeemable preferred shares for the year ended 31 December 2015. This compares with a fair value loss of RMB327.7 million for the year ended 31 December 2014, which was due to the convertible redeemable preferred shares that were exchanged into Ordinary Shares upon completion of the Company's initial public offering ("**IPO**").

Profit/(Loss) before Income Tax

As a result of the foregoing, we had a profit of RMB115.0 million for the year ended 31 December 2015, compared with a loss of RMB93.2 million for the year ended 31 December 2014.

Income Tax Expense

Our income tax expense for the year ended 31 December 2015 was RMB15.6 million, a 59.5% decrease from RMB38.5 million for the year ended 31 December 2014. This was primarily due to the decrease of assessable profit.

Profit/(Loss) for the Year

As a result of the foregoing, we had a profit of RMB99.4 million for the year ended 31 December 2015, compared with a loss of RMB131.7 million for the year ended 31 December 2014.

Non-IFRS Measure — Adjusted Net Profit/EBITDA

Our adjusted net profit for the year ended 31 December 2015 was RMB124.6 million, representing a 47.0% decrease from RMB235.0 million for the year ended 31 December 2014. Our adjusted EBITDA for the year ended 31 December 2015 was RMB89.2 million, representing a 63.8% decrease from RMB246.6 million for the year ended 31 December 2014.

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

	Unaudited For the year ended 31 December 2015 RMB'000	2014 RMB'000
Profit/(loss) for the year	**99,430**	(131,702)
Add:		
Share-based compensation	**25,126**	38,930
Fair value loss of convertible redeemable preferred shares	**—**	327,749
Adjusted net profit	**124,556**	234,977
Add:		
Depreciation and amortization	**8,138**	7,855
Finance income-net	**(59,070)**	(34,717)
Income tax	**15,595**	38,522
Adjusted EBITDA	**89,219**	246,637

LIQUIDITY AND CAPITAL RESOURCES

In 2015, we met our working capital and other capital requirements principally from cash flow generated from our operating activities and funds raised from the capital markets.

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

	As of 31 December 2015 RMB'000	As of 31 December 2014 RMB'000
Total liabilities	**182,666**	174,119
Total assets	**1,752,990**	1,683,793
Gearing ratio(3)	**10%**	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 31 December 2015, our cash and cash equivalents, consisting of cash in the bank and cash on hand, amounted to RMB254.6 million, compared with RMB259.4 million as of 31 December 2014. We had short-term deposits of RMB976.0 million as of 31 December 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 RMB380.0 million as of 31 December 2015, representing bank deposits with an expected maturity of over one year but less than two years. The effective interest rate per annum for bank balances and deposits as of 31 December 2015 was 2.7%, compared with 2.9% as of 31 December 2014. Our policy is to place our cash in interest-bearing principal-protected demand or short-term or long-term deposits with reputable PRC banks. Our cash and cash equivalents, short-term and long-term deposits are denominated in the following currencies:

	As of 31 December 2015 RMB'000	As of 31 December 2014 RMB'000
RMB	**1,455,632**	1,544,733
HK$	**146,282**	78,670
US$	**8,623**	164
Others	**92**	—
	1,610,629	1,623,567

Bank Loans and Other Borrowings

The Group had an overdraft balance of RMB0.2 million as of 31 December 2015.

The Group had a total banking facility of RMB1.8 million as of 31 December 2015, including a RMB1.0 million overdraft facility and a RMB0.8 million rental guarantee.

Treasury Policies

As of 31 December 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 31 December 2015, RMB155.0 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 deposits.

Capital Expenditures and Investments

Our capital expenditures consist of purchases of property and equipment, such as servers and computers, as well as leasehold improvements and intangible assets, such as computer software. In the year ended 31 December 2015, our total capital expenditures were RMB11.9 million, compared with RMB5.9 million for the year ended 31 December 2014. The following table sets out our expenditures for the years indicated:

	For the year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Capital Expenditures		
— Purchase of property and equipment	**11,587**	5,632
— Purchase of intangible assets	**270**	267
Total	**11,857**	5,899

Contingent liabilities

As of 31 December 2015, the Group did not have any material contingent liabilities, guarantees or litigation against it.

Charges on Assets

As of 31 December 2015, there were no charges on the Group's assets.

Material Acquisitions and Future Plans for Major Investment

During the year ended 31 December 2015, the Group: (i) acquired a 74.9% equity stake in Bumps to Babes for a consideration of approximately RMB48.3 million and (ii) invested RMB4.0 million in Beijing Xingmen Dongman Technology Limited Company (北京星門動漫科技有限公司) for its 20% equity stake. For details of the above-mentioned transactions, please refer to the announcements by the Company dated 8 May 2015 and 7 July 2015, respectively.

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 31 December 2015, the Group had 808 full-time employees, 96.5% of whom are based in Guangzhou. The following table sets forth the number of full-time employees of the Group by function as of 31 December 2015:

	As of 31 December 2015	
	Number of employees	**% of Total**
Operations	**377**	**46.7**
Development and research	**296**	**36.6**
Sales and marketing	**76**	**9.4**
General and administration	**59**	**7.3**
Total	**808**	**100.0**

In addition to salary, we also provide various incentives, including share-based awards, such as share options and restricted share units ("**RSUs**") granted pursuant to the share incentive schemes of the Company, and performance-based bonuses to better motivate our employees. As required by PRC law, we contribute to housing funds and maintain mandatory social insurance plans for our employees, covering pension, medical, unemployment, work injury and maternity leave. We are required by 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 year ended 31 December 2015 were approximately RMB28.4 million, compared with RMB28.2 million for the year ended 31 December 2014. We incurred staff costs of approximately RMB190.5 million and RMB182.7 million, for the year ended 31 December 2015 and 2014, representing 49.2% and 36.1% 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 2,440,000 share options and 53,081,950 RSUs outstanding and granted to the grantees (including the directors, senior management members and employees of the Group) thereunder as of 31 December 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 3.9% of our share capital. As of 29 March 2016, 95,780,000 RSUs have been granted to a total of 111 senior management members and employees of the Group, of which 86,000,000 RSUs were outstanding as of 31 December 2015, pursuant to the Post-IPO RSU Scheme.

Dividend

At the Company's annual general meeting held on 19 June 2015, the then Shareholders approved the Board's recommended special dividend of HKD0.035 (equivalent to approximately RMB0.028) per share for the year ended 31 December 2014. Such dividend was paid to the then Shareholders on 17 July 2015.

The Board is pleased to recommend the payment of a special dividend of HKD0.018 (equivalent to approximately RMB0.015) per ordinary share for the year ended 31 December 2015 out of our share premium account, subject to the approval of the Shareholders at the forthcoming AGM to be held on Friday, 27 May 2016. The proposed dividend will be payable on Monday, 27 June 2016 to the Shareholders of whose names appear on the register of members of the Company (the "**Register of Members**") on Friday, 3 June 2016.

Changes since 31 December 2015

There were no other significant changes in the Group's financial position or from the information disclosed under the management discussion and analysis in this annual results announcement for the year ended 31 December 2015.

Biographies of the Directors and Senior Management

DIRECTORS

Executive Directors

DAI Jian (戴堅), aged 48, is a co-founder of our Group and was appointed as our Chairman in November 2011 and Executive Director in April 2012. He is responsible for the overall management, corporate development and strategic planning of our Group.

Mr. DAI has more than 15 years of experience in the information and technology industry. From December 2004 to January 2010 and from December 2010 to present, he was the Executive Director and Manager of Altratek Guangdong, a wireless telecommunication product and service provider, where he was responsible for overall management, resources integration and strategic planning. Prior to that, he co-founded and was the chairman of Guangzhou Elite Enterprise Management Corporation (廣州市伊萊哲企業管理有限公司) ("**Guangzhou Elite**") from November 1999 to November 2004, where he was responsible for overall management, resources integration and strategic planning.

Mr. DAI received his bachelor's degree in computer application from Hunan University (湖南大學) in July 1990.

XU Gang (徐剛), aged 44, was appointed as our Chief Executive Officer in March 2015 and Executive Director in November 2015. He is responsible for the overall management, corporate development and strategic planning of our Group.

Dr. XU has more than 20 years of experience in the telecommunication industry and the mobile internet. Prior to joining the Group, he held various management positions at a number of subsidiaries of China Mobile Communications Corporation ("**CMCC**") since 1996. During his service at CMCC, he planned and executed a number of key initiatives involving new business setup, technology innovation, business development, marketing and brand building. In 2003, Dr. XU was involved in the development of monthly package brands GoTone ("全球通"), MZone ("動感地帶") , and Easy Own ("神州行") in Guangdong Province and helped drive a number of significant achievements in terms of user base and revenue growth of CMCC. In 2005, Dr. XU built a business unit that focused on developing CMCC's internet business-to-business services. Dr. XU then joined Guangdong Mobile Communication Co. Ltd. Zhuhai Branch in 2010 as General Manager. In this position, he managed more than 1,100 team members. Since 2012, he was the Deputy General Manager of the Marketing Department of CMCC, where he was responsible for formulating overall marketing strategies in China.

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

WU Lili (吳立立), aged 48, is a co-founder of our Group and was appointed as Executive Director in September 2009. Mr. WU was appointed as our Chief Executive Officer in March 2010 and relinquished such position in March 2015. He is responsible for overseeing the Company's growth strategies, mergers and acquisitions and other business opportunities.

Mr. WU has more than 15 years of experience in the information technology industry. Prior to joining the Group, he was the Executive Director and Deputy Director of marketing of Altratek Guangdong from September 2007 to June 2009, where he was responsible for resources integration and capital operation, as well as strategic planning and new project development, including the overall management of the company's new Internet business and the integration of the telecom value added services. Prior to that, he was the vice chairman of marketing of Guangzhou Elite from November 1999 to August 2007, where he managed the company's various production lines and marketing agencies in the PRC, and was responsible for the implementation of the company's marketing strategies.

Mr. WU received his MBA degree from the China Europe International Business School (中歐國際工商學院) in September 2004. He also received his master's degree in computer application and bachelor's degree in computer communications from Beijing University of Posts and Telecommunications (北京郵電大學), formerly known as (北京郵電學院) in April 1992 and July 1989, respectively.

LI Chong (李沖), aged 47, is a co-founder of our Group and was appointed as our Chief Operating Officer in September 2009 and Executive Director in September 2009. He is responsible for the overall operations of our Group and the marketing and distribution of our products.

Mr. LI has more than 15 years of experience in the information technology industry. Prior to joining the Group, he was one of the new project leaders of Altratek Guangdong from January 2008 to July 2009, where he was responsible for the design and operation of the company's products. In particular, he was a key participant in the feasibility study and development of Aobi Island. Prior to that, he was the President of Guangzhou Aochuang Information Technology Co., Ltd. (廣州市奧創信息技術有限公司) from October 2000 to December 2008, where he was responsible for the overall operation and management of the company.

Mr. LI received his master's degree in business management from Jinan University (暨南大學) in June 2000. He also received his master's degree in communications and electric systems and bachelor's degree in telecommunications engineering from Beijing University of Posts and Telecommunications (北京郵電大學) in April 1992 and July 1989, respectively.

WANG Xiaodong (王曉東), aged 50, is a co-founder of our Group and was appointed as our Executive Director in December 2013 and Executive Vice President in September 2009. Mr. WANG was also appointed as our Executive Director between September 2009 and March 2010. He is in charge of the overall management of the human resources, user services, public affairs and business cooperation of our Group.

Mr. WANG has more than 17 years of experience in the information technology industry, as well as extensive experience in the education industry. Prior to joining the Group, he was one of the new project leaders of Altratek Guangdong from September 2007 to July 2009, where he was a key participant in the feasibility study and development of Aobi Island. He was specifically responsible for managing human resources, administration and the cooperation with primary schools and other education agencies for the product. He was the Director of Human Resources and Vice President of Guangzhou Elite from August 2001 to December 2008, where he was in charge of the company's operations in northern China, as well as the management and development of the company's human resources department. From April 2001 to August 2001, he was the Associate Dean of Hunan University College of Civil Engineering (湖南大學土木工程學院), where he was responsible for overall student education and management. Prior to that, he was the Associate Director of the department of mechanical engineering of Hunan University (湖南大學) from February 1997 to January 1998, where he was responsible for the overall management of the department.

Mr. WANG received his master's degree in industrial international trade and bachelor's degree in machine design and manufacturing from Hunan University (湖南大學) in December 1998 and July 1988, respectively.

Independent Non-Executive Directors

LIU Qianli (劉千里), aged 40, was appointed as our Independent Non-Executive Director on 18 March 2014.

Ms. LIU has over 12 years of experience in investment banking and corporate finance. From December 2010 to July 2013, Ms. LIU served as the Chief Financial Officer of Phoenix New Media, a media company in China listed on the New York Stock Exchange. Prior to that, she served as the Chief Financial Officer of ChinaEDU Corp., an education services provider in China listed on NASDAQ, from October 2008 to November 2010. From July 2007 to August 2008, she served as Chief Financial Officer of MainOne Inc., an information technology company. Ms. LIU was a Vice President at Lehman Brothers investment banking in Hong Kong and an Associate at Lehman Brothers investment banking in New York from July 2003 to June 2007.

Ms. LIU has been an Independent Non-Executive Director of Feiyu technology International Company Limited since November 2014, a HK-listed developer and operator of mobile games and web games.

Ms. LIU received her MBA degree from MIT Sloan School of Management in June 2003 and her bachelor of arts from Dartmouth College, U.S., in June 1997.

WANG Qing (王慶), aged 47, was appointed as our Independent Non-Executive Director on 18 March 2014.

Dr. WANG has over 15 years of experience in investment banking and corporate finance. Dr. WANG is President and Partner of Shanghai Chongyang Investment Management Co., Ltd, a privately managed fund in China. Before joining Chongyang Investment in April 2013, Dr. WANG was Deputy Head of Investment banking department at China International Capital Corporation ("**CICC**") from June 2011 to April 2013. Dr. WANG joined CICC from Morgan Stanley, where he served as Managing Director and chief economist for Greater China in the research division in Hong Kong from May 2007 to June 2011. Prior to that, Dr. WANG spent 6 years, from June 1999 to October 2005, in Washington, D.C. as an economist with the International Monetary Fund.

Dr. WANG received his Ph.D. in economics from the University of Maryland at College Park, U.S. in August 2000. He received his bachelor's degree and master's degree in economics from Renmin University of China (中國人民大學) in July 1991 and January 1994, respectively.

MA Xiaofeng (馬肖風), aged 52, was appointed as our Independent Non-Executive Director on 18 March 2014.

Mr. MA is the co-founder, chairman and Chief Executive Officer of ATA Inc., a professional services provider for testing, assessment and related services in China, and a public company listed on NASDAQ. Mr. MA has served as Chairman of the board of directors of ATA Online (Beijing) Technology Limited (全美在線(北京)教育科技股份有限公司), which has been listed on the National Equities Exchange and Quotations (全國中小企業股份轉讓系統), also known as the New Third Board (新三板) in China since July 2015.

Save as disclosed above, all the above Directors are not and have not been a director of any other listed companies in Hong Kong or overseas in the past three years.

SENIOR MANAGEMENT

XU Gang (徐剛), aged 44, is our Executive Director and Chief Executive Officer. Please refer to the section headed "— Executive Directors — XU Gang" for his biography.

YEUNG Ka Hong Carl (楊家康), aged 36, was appointed as our Chief Financial Officer in August 2013 and appointed an additional role as the Chief Strategy Officer in January 2015. He oversees corporate finance, investor relations and financial management of our Group, and is also responsible for our Group's strategy planning and implementation, advising on product operations, leading strategic acquisitions, investments or partnerships, and overseeing new business development.

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

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

LI Chong (李沖), aged 47, is our Executive Director and Chief Operating Officer. Please refer to the section headed "— Executive Directors — LI Chong" for his biography.

WANG Xiaodong (王曉東), aged 50, is our Executive Director and Executive Vice President. Please refer to the section headed "— Executive Directors — WANG Xiaodong" for his biography.

DENG Linghua (鄧淩華), aged 40, was appointed as our Chief Technology officer in November 2014. He is responsible for the design, development and testing of our products, as well as the operation, maintenance and upgrade of our network infrastructure and information technology system.

Mr. DENG has more than 16 years of experiences in the information and technology industry. Prior to joining the Group, he was a system structure engineer of Altratek Guangdong, a wireless telecommunication product and service provider from May 2007 to July 2009, where he was a key participant in the technology development of Aobi Island at the early stage, and was responsible for the system structure design, technology team recruitment and research management. Prior to that, Mr. DENG worked with Zhongxing Telecommunication Equipment Corporation (ZTE Corporation) and Shenzhen Sysway Information & Technology Co., Ltd.

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

JOINT COMPANY SECRETARIES

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

YEUNG Ka Hong Carl (楊家康), aged 36, is one of our senior management. Please refer to the section headed "— Senior Management — YEUNG Ka Hong Carl" for his biography.

NGAI Kit Fong (倪潔芳), aged 50, was appointed as the Joint Company Secretary of our Company on 20 December 2013.

She is a director of the Corporate Services Division of Tricor Services Limited. Prior to her employment at Tricor, Ms. NGAI worked in the Hong Kong office of Deloitte Touche Tohmatsu providing both company secretarial and share registration services to her clients. She has over 26 years of experience in corporate services field, providing professional secretarial services to multiple companies listed on the Hong Kong Stock Exchange. Ms. NGAI is currently the Company Secretary of Huiyin Smart Community Co., Ltd. (Stock Code: 1280), China Animal Healthcare Ltd. (Stock Code: 940), Century Sage Scientific Holding Limited (Stock Code: 1450) and Phoenix Healthcare Group Co. Ltd (Stock Code: 1515).

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

Directors' Report

The Board is pleased to present its report and the audited consolidated financial statements of the Group for the year ended 31 December 2015.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company is an investment holding company. The principal activities of the Group are the development and operation of children's online entertainment destination and certain offline businesses in the People's Republic of China (the "**PRC**"). With effect from 8 May 2015, the Group through a newly acquired business began to operate a chain of retail outlets in Hong Kong and an online store specializing in selling baby and maternity products. Details of the principal activities of the principal members of the Group are set out in note 14 to the section headed "Notes to the Financial Statements" of this annual report. The analysis of the Group's revenues and contribution to results by business segments are set out in note 5 to the section headed "Notes to the Financial Statements" of this annual report. There were no other significant changes in the nature of the Group's principal activities during the year ended 31 December 2015.

A review of the business of the Group during the year ended 31 December 2015 (including particulars of important events affecting the Company that have occurred during the year ended 31 December 2015, an analysis of the Group's performance during the year using financial key performance indicators and a discussion on the Group's future business development) is provided in the sections headed "Chairman Letter" and "Management Discussion and Analysis" of this annual report. A description of the principal risks and uncertainties that the Group may be facing and compliance with relevant laws and regulations which have a significant impact on the Group can be found in this directors' report. In addition, the financial risk management objectives and policies of the Group are available in note 39 to the section headed "Notes to the Financial Statements" of this annual report. These discussions form part of this directors' report.

Considering the principal activities of the Group, less destruction has been made directly to the environment, but protecting the environment has always been essential to the Group and has guided our actions to minimize the impact of the Group. In the future, continuous efforts will be made by the Group and our employees in promoting sustainability in environment, social and corporate governance.

RESULTS

The results of the Group for the year ended 31 December 2015 are set out in the section headed "Consolidated Income Statements" of this annual report.

DIVIDENDS

The Board has recommended the payment of a special dividend of HK$0.018 (equivalent to approximately RMB0.015) per Share for the year ended 31 December 2015, subject to the approval of the Shareholders at the AGM to be held on Friday, 27 May 2016. The proposed dividends are expected to be payable on Monday, 27 June 2016 to the Shareholders whose names appear on the register of members of the Company as of Friday, 3 June 2016.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the above AGM, the register of members of the Company will be closed from Wednesday, 25 May 2016 to Friday, 27 May 2016, both dates inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, unregistered holders of shares of the Company shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 24 May 2016.

In addition, the register of members of the Company will be closed from Thursday, 2 June 2016 to Friday, 3 June 2016, both days inclusive, for the purpose of ascertaining the shareholders' entitlement to the special dividend. In order to qualify for the special dividend, all transfers documents accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, no later than 4:30 p.m. on Wednesday, 1 June 2016.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The total net proceeds from the Listing which involved the issue of 706,106,000 Shares amounted to approximately HK$1,382 million after deduction of the underwriting commissions and other estimated expenses. During the year ended 31 December 2015, the net proceeds were utilized in accordance with the proposed applications set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus. The unutilized portion of the net proceeds is currently held in cash and cash equivalents and it is intended that it will be applied in the manner consistent with the proposed allocations in the Prospectus.

FINANCIAL SUMMARY

The Company has been listed on the Main Board of the Stock Exchange since 10 April 2014. A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out in the section headed "Financial Summary" of this annual report. This summary does not form part of the audited consolidated financial statements.

PROPERTY AND EQUIPMENT

Details of movements in the property and equipment of the Group during the year ended 31 December 2015 are set out in note 15 to the section headed "Notes to the Financial Statements" of this annual report.

SHARE CAPITAL AND SHARE INCENTIVE SCHEMES

Details of movements in the Company's share capital and share incentive schemes are set out in notes 22 and 24 to the section headed "Notes to the Financial Statements" of this annual report and the paragraph headed "Equity-linked Agreements/Share Incentive Schemes" below, respectively.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

No member of the Group purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2015.

RESERVES

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2015 are set out in note 23 to the sections headed "Notes to the Financial Statements" and "Consolidated Statement of Changes in Equity" of this annual report, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2015, the Company had no distributable reserves.

CHARITABLE CONTRIBUTIONS

The Group had no charitable contributions during the year ended 31 December 2015.

MAJOR CUSTOMERS AND SUPPLIERS

The customers of the Group consisted of end users from online business and other businesses of the Group.

For the year ended 31 December 2015, the top five sources of cash proceeds from sales of physical and virtual prepaid cards and sales of AoCoins through other payment channels accounted for 43.3% of our total cash proceeds from these sales.

Our top source of cash proceeds from these sales for the year ended 31 December 2015 was our physical prepaid card distributor and accounted for 15.0% of our total cash proceeds from these sales.

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

For the year ended 31 December 2015, charges from our five largest suppliers accounted for 14.3% of our cost of revenues.

None of our Directors, any of their associates or any Shareholders that, to the knowledge of our Directors, own more than 5% of the issued share capital of the Company had any interest in any of our five largest suppliers during the year ended 31 December 2015.

For the year ended 31 December 2015, there was no material dispute between the Group and its suppliers and/or customers.

DIRECTORS

The directors of the Company during the year ended 31 December 2015 and up to the date of this annual report were:

Executive Directors

Mr. DAI Jian *(Chairman)*
Mr. WU Lili
Mr. LI Chong
Mr. WANG Xiaodong
Dr. XU Gang *(Chief Executive Officer)* (appointed on 20 November 2015)

Non-executive Director

Mr. JI Yue (resigned on 20 November 2015)

Independent non-executive Directors

Ms. LIU Qianli
Dr. WANG Qing
Mr. MA Xiaofeng

The Company has received annual confirmations of independence from each of the independent non-executive Directors and as at the date of this annual report still considers them to be independent.

ROTATION AND RE-ELECTION OF DIRECTORS

In accordance with the Article 84(1) of Articles of Association, Mr. WU Lili, Mr. LI Chong and Mr. MA Xiaofeng retire by rotation at the forthcoming AGM and, being eligible, offer themselves for re-election. Dr. XU Gang appointed by the Board to fill a casual vacancy shall hold office until the forthcoming AGM, being eligible, offer himself for re-election at the forthcoming AGM in accordance with the Article 83(3) of the Articles of Association. None of the aforesaid retiring Directors has an unexpired service contract which is not determinable by the Company or any member of the Group within one year without payment of compensation, other than under normal statutory obligations.

The Board recommended the re-appointment of the directors standing for re-election at the AGM.

CHANGES IN DIRECTORS' INFORMATION

Certain changes in Directors' information are set out below pursuant to Rule 13.51B(1) of the Listing Rules:

Name of Director	
WU Lili	The annual basic salary of Mr. WU has been adjusted to RMB600,000 since September 2015.
MA Xiaofeng	Mr. MA has served as chairman of the board of directors of ATA Online (Beijing) Technology Limited（全美在線(北京)教育科技股份有限公司）, which has been listed on the National Equities Exchange and Quotation（全國中小企業股份轉讓系統）, also known as the New Third Board（新三板）in China since July 2015.

Save as the information disclosed above and in published announcements, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out in the section headed "Biographies of the Directors and Senior Management" of this annual report.

DIRECTORS' SERVICE CONTRACTS

None of the aforesaid retiring Directors proposed for re-election at the forthcoming AGM has an unexpired service contract which is not determinable by the Company or any member of the Group within one year without payment of compensation, other than under normal statutory obligations.

Save as disclosed in note 39 to the section headed "Notes to the Financial Statements" of this annual report, there were no other emoluments, pension and any compensation arrangements for the Directors and past Directors which are required to be disclosed under the Listing Rules, or section 383 of the Companies Ordinance (Chapter 622, Laws of Hong Kong) or the Companies (Disclosure of Information about Benefits of Directors) Regulation (Chapter 622G, Laws of Hong Kong). Save as disclosed above, none of the Directors has a service contract with the Company or any member of the Group which is not determinable within one year without payment of compensation, other than statutory obligations.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENT OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in this annual report, no transactions, arrangements or contracts of significance in relation to the Group's business to which the Company or any member of the Group was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of or at any time during the year ended 31 December 2015.

DIRECTORS' EMOLUMENTS

Details of the remuneration of the Directors and those of the five highest paid individuals are set out in note 39 and note 9 to the section headed "Notes to the Financial Statements" of this annual report. The remunerations of the Directors are determined based on the market price and contribution made by such Directors to the Company. There has been no arrangement under which any Director has waived or agreed to waive any emoluments.

PERMITTED INDEMNITY

Permitted indemnity provisions (as defined in section 469 of the Companies Ordinance) for the benefit of the Directors are currently in force and were in force during the year ended 31 December 2015. Pursuant to the Articles of Association, each Director shall be entitled to be indemnified by the Company out of the assets of the Company against all actions, costs, charges, losses, damages and expenses which he/she may sustain or incur or about the execution and discharge of his/her duties or in relation thereto.

The Company has maintianed appropriate Directors' and officers' liability insurance coverage for the Directors during the year ended 31 December 2015.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year ended 31 December 2015.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 31 December 2015, the interests and short positions of the Directors and the Chief Executive of the Company in the Shares, underlying Shares and debentures of the Company or 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 otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Name	Position	Relevant company (including associated corporation)	Capacity/Nature of interest	Number of Shares/ underlying Shares held	Approximate percentage of shareholding[10]
DAI Jian[1]	Chairman and Executive Director	The Company	Founder of a discretionary trust Interest of controlled corporation	749,460,000(L)[9]	26.22%(L)
		The Company	Beneficial owner	10,000,000(L)	0.35%(L)
WU Lili[2]	Executive Director	The Company	Founder of a discretionary trust Interest of controlled corporation	447,112,000(L)	15.64%(L)
LI Chong[3]	Executive Director	The Company	Founder of a discretionary trust Interest of controlled corporation	203,304,000(L)	7.11%(L)
WANG Xiaodong[4]	Executive Director	The Company	Founder of a discretionary trust Interest of controlled corporation	74,544,000(L)	2.61%(L)
XU Gang[5]	Executive Director and Chief Executive Officer	The Company	Beneficial owner	30,000,000(L)	1.05%(L)
LIU Qianli[6]	Independent Non-Executive Director	The Company	Beneficial owner	200,000(L)	0.01%(L)
WANG Qing[7]	Independent Non-Executive Director	The Company	Beneficial owner	200,000(L)	0.01%(L)
MA Xiaofeng[8]	Independent Non-Executive Director	The Company	Beneficial owner	200,000(L)	0.01%(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. In addition, 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 31 December 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 8,000,000 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 the Company under the Pre-IPO RSU Scheme.

(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) Dr. XU is interested in 30,000,000 RSUs granted to him under the Post-IPO RSU Scheme entitling him to receive 30,000,000 Shares subject to vesting. As at 31 December 2015, none of the RSUs granted to Dr. XU was vested in accordance with the vesting schedule as specified under the relevant grant letter and the rules relating to the Post-IPO RSU Scheme.

(6) Ms. LIU is interested in 200,000 RSUs granted to her under the Pre-IPO RSU Scheme entitling her to receive 200,000 Shares subject to vesting. As at 31 December 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 140,000 Shares underlying the RSUs are held by ZEA.

(7) Dr. WANG is interested in 200,000 RSUs granted to him under the Pre-IPO RSU Scheme entitling him to receive 200,000 Shares subject to vesting. As at 31 December 2015, 60,000 RSUs granted to Dr. 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 140,000 Shares underlying the RSUs are held by ZEA.

(8) Mr. MA is interested in 200,000 RSUs granted to him under the Pre-IPO RSU Scheme entitling him to receive 200,000 Shares subject to vesting. As at 31 December 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 140,000 Shares underlying the RSUs are held by ZEA.

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

(10) These percentages are calculated on the basis of 2,858,672,000 Shares in issue as at 31 December 2015.

Save as disclosed above, as at 31 December 2015, none of the Directors and Chief Executive of the Company and their respective associates had registered an interest or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that are required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 31 December 2015, the following persons have interests or short positions in the Shares or underlying shares or debentures as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of shareholder	Capacity/Nature of Interest	Number of Shares	Approximate percentage of shareholding[8]
TMF (Cayman) Ltd.[1]	Trustee of trusts	1,571,000,000(L)[6]	54.96%(L)
DAE Holding Investments Limited[2]	Trust holding company	749,460,000(L)	26.22%(L)
Stmoritz Investment Limited[2]	Registered owner	749,460,000(L)	26.22%(L)
DAI Jian[2] [5]	Founder of a discretionary trust Interest of controlled corporation	749,460,000(L)	26.22%(L)
Bright Stream Holding Limited[3]	Registered owner	447,112,000(L)	15.64%(L)
WHEZ Holding Ltd. [3]	Trust holding company	447,112,000(L)	15.64%(L)
WU Lili[3]	Founder of a discretionary trust Interest of controlled corporation	447,112,000(L)	15.64%(L)
LNZ Holding Limited[4]	Registered owner	203,304,000(L)	7.11%(L)
Golden Water Management Limited[4]	Trust holding company	203,304,000(L)	7.11%(L)
LI Chong[4]	Founder of a discretionary trust Interest of controlled corporation	203,304,000(L)	7.11%(L)
The Core Trust Company Limited[6]	Trustee of a trust	149,214,000(L)	5.22%(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 and/or any vesting of the RSUs under the Pre-IPO Share Option Scheme, Pre-IPO RSU Scheme and/or 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 and/or any vesting of the RSUs under the Pre-IPO Share Option Scheme, Pre-IPO RSU Scheme and/or 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 and/or any vesting of the RSUs under the Pre-IPO Share Option Scheme, Pre-IPO RSU Scheme and/or 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 31 December 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 8,000,000 Shares underlying the RSUs are held by ZEA.

(6) The Core Trust Company Limited is the trustee to administer the Pre-IPO Share Option Scheme, the Pre-IPO RSU Scheme and the Post-IPO RSU Scheme.

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

(8) These percentages are calculated on the basis of 2,858,672,000 Shares in issue as at 31 December 2015.

Save as disclosed above, as at 31 December 2015, the Directors and the Chief Executive of the Company are not aware of any other person who had an interest or short position in the Shares or underlying Shares of the Company or any 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 336 of the SFO.

EQUITY-LINKED AGREEMENTS/SHARE INCENTIVE SCHEMES

In order to incentivize the Directors, senior management and other employees of the Group for their contribution to the Group and to attract and retain suitable personnel of our Group, the Company adopted the Pre-IPO Share Option Scheme, the Pre-IPO RSU Scheme and the Post-IPO RSU Scheme.

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

During the year ended 31 December 2015, no option has been cancelled. As at 31 December 2015, there were a total of 2,440,000 Options outstanding. If all the outstanding Options are exercised, there would be a dilution effect on the issued share capital of the Company of approximately 0.09% as at 31 December 2015. Save as set out above, no further Options have been or would be granted by the Company after the Listing pursuant to the Pre-IPO Share Option Scheme.

The Company 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 Option Scheme pursuant to its scheme rules. As at 31 December 2015, no Shares underlying the Options had been allotted and issued to Duoduo Holding Limited.

Movements of the Options under the Pre-IPO Share Option Scheme during the year ended 31 December 2015

Name of Grantees	Nature	Number of Shares represented by Options at 1 January 2015	Date of grant	Exercise price (US$)	Exercised during the year	Lapsed during the year	Number of Shares represented by Options at 31 December 2015	Vesting Period	Exercise period	Approximate percentage of issued Shares of the Company
Directors	–	–	–	–	–	–	–	–	–	–
Senior management member of the Company	–	–	–	–	–	–	–	–	–	–
DENG Linghua (鄧凌華)	Options	1,500,000	20 June 2010	0.0045	1,500,000	–	–	Note 1	Note 2	–
	Sub-total	1,500,000		–	1,500,000	–	–			–
Other employees of the Group										
4 employees	Options	924,000	20 June 2010	0.0045	328,000	–	596,000	Note 1	Note 2	0.02%
20 employees	Options	1,700,000	20 June 2010	0.0090	378,000	–	1,322,000	Note 1	Note 2	0.05%
2 employees	Options	552,000	15 January 2011	0.0090	30,000	–	522,000	Note 1	Note 2	0.02%
	Sub-total	3,176,000		–	736,000	–	2,440,000			0.09%
Total	Options	4,676,000		–	2,236,000	–	2,440,000			0.09%

Note:

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

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

(3) Approximate percentage of issued Shares of the Company is calculated by dividing the Options held by the relevant grantees by the issued and outstanding Shares of the Company (as enlarged by the exercise in full of all the Options granted under the Pre-IPO Share Option Scheme) as at 31 December 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, the Company 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 grantees under the Pre-IPO Share Option Scheme.

Further details of the Pre-IPO Share Option Scheme are set out in note 24 to the section headed "Notes to the Financial Statements" of this annual report and the Prospectus.

Outstanding RSUs

1) Pre-IPO RSU Scheme

As at 31 December 2015, there were a total of 53,081,950 RSUs outstanding under the Pre-IPO RSU Scheme. If all the outstanding RSUs under the Pre-IPO RSU Scheme are vested according to the relevant vesting schedules, there would be a dilution effect on the issued share capital of the Company of approximately 1.95% as at 31 December 2015.

Prior to the Listing on 10 April 2014, the Company appointed The Core Trust Company Limited 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 the Pre-IPO RSU Scheme. To increase the public float, the Company further 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 the Directors and the senior management under our Pre-IPO RSU Scheme on 10 June 2014. As at 31 December 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.

2) Post-IPO RSU Scheme

As at 31 December 2015, there were a total of 86,000,000 RSUs outstanding under the Post-IPO RSU Scheme. If all the outstanding RSUs under the Post-IPO RSU Scheme are vested according to the relevant vesting schedules, there would be a dilution effect on the issued share capital of the Company of approximately 3.16% as at 31 December 2015.

The Company appointed The Core Trust Company Limited as the trustee and Baiduo Investment Holding Limited, a company incorporated in the BVI and an independent third party, as the nominee to administer the Post-IPO RSU Scheme pursuant to its scheme rules. As at 31 December 2015, 47,890,000 Shares have been issued and allotted to Baiduo Investment Holding Limited.

Movements of the RSUs under the Pre-IPO RSU Scheme and the Post-IPO RSU Scheme during the year ended 31 December 2015

Name of Grantees	Nature	Number of Shares underlying the RSUs at 1 January 2015	Granted during the year	Date of grant	Consideration (US$)	Vested during the year	Lapsed during the year	Number of Shares underlying the RSUs at 31 December 2015	Vesting Schedule	Approximate percentage of issued Shares of the Company[5]
(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	–	17 March 2014	–	60,000	–	140,000	Note 2	0.00%
WANG Qing (王慶)	RSUs	200,000	–	17 March 2014	–	60,000	–	140,000	Note 2	0.00%
MA Xiaofeng (馬肖風)	RSUs	200,000	–	17 March 2014	–	60,000	–	140,000	Note 2	0.00%
	Sub-total	10,600,000	–			2,180,000	–	8,420,000		0.28%
(b) Senior management member(s) of the Company										
YEUNG Ka Hong Carl (楊家康)	RSUs	8,000,000	–	1 October 2013	–	2,750,000	–	5,250,000	Note 1	0.18%
	RSUs	10,000,000	–	18 February 2014	–	2,000,000	–	8,000,000	Note 1	0.28%
	Sub-total	18,000,000	–			4,750,000	–	13,250,000		0.46%
(c) Grantees holding RSUs representing more than 5,000,000 Shares (other than the Directors and senior management members of the Company)										
LI Wei (李偉)	RSUs	5,920,000	–	1 October 2013	–	–	5,920,000	–	Note 1	0.00%
	Sub-total	5,920,000	–	–	–	–	5,920,000	–	–	0.00%
(d) Other grantees (other than the grantees disclosed in paragraphs 1a, 1b and 1c above)										
218 employees	RSUs	66,131,200	–	1 October 2013	–	16,250,450	21,132,800	28,747,950	Note 1	1.01%
9 employees	RSUs	5,890,000	–	18 February 2014	–	1,178,000	2,048,000	2,664,000	Note 1	0.09%
	Sub-total	72,021,200	–			17,428,450	23,180,800	31,411,950		1.10%
	Total	106,541,200	–			24,358,450	29,100,800	53,081,950		1.86%

Name of Grantees	Nature	Number of Shares underlying the RSUs at 1 January 2015	Granted during the year	Date of grant	Consideration (US$)	Vested during the year	Lapsed during the year	Number of Shares underlying the RSUs at 31 December 2015	Vesting Schedule	Approximate percentage of issued Shares of the Company[5]
(2) Post-IPO RSU Scheme										
(a) Director(s)										
XU Gang (徐剛)	RSUs	–	30,000,000	10 July 2015[3]	–	–	–	30,000,000	Note 3	1.05%
(b) Senior management member(s) of the Company										
YEUNG Ka Hong Carl (楊家康)	RSUs	–	4,000,000	10 July 2015	–	800,000	–	3,200,000	Note 4	0.11%
DENG Linghua (鄧凌華)	RSUs	–	10,000,000	10 July 2015	–	2,000,000	–	8,000,000	Note 4	0.28%
	Sub-total	–	14,000,000			2,800,000	–	11,200,000		0.39%
(c) Grantees holding RSUs representing more than 5,000,000 Shares (other than the Directors and senior management members of the Company)										
XUE Gang (薛剛)	RSUs	–	5,000,000	10 July 2015	–	–	–	5,000,000	Note 4	0.17%
	Sub-total	–	5,000,000			–	–	5,000,000		0.17%
(d) Other grantees (other than the grantees disclosed in paragraphs 2a, 2b and 2c above)										
107 employees	RSUs	–	46,780,000	10 July 2015	–	220,000	6,760,000	39,800,000	Note 4	1.39%
	Sub-total	–	46,780,000			220,000	6,760,000	39,800,000		1.39%
	Total	–	95,780,000			3,020,000	6,760,000	86,000,000		3.01%

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 at 36 months after the date of grant; and
- 30% of the RSUs 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 RSUs granted to the subjected RSU grantee under the Post-IPO RSU Scheme shall be vested in accordance with the vesting schedule as follow:

- 20% of the RSUs on 5 March 2016;
- 20% of the RSUs on 5 March 2017;
- 30% of the RSUs on a quarterly basis from 5 March 2017 to 5 March 2018; and
- 30% of the RSUs on a quarterly basis from 5 March 2018 to 5 March 2019.

The grant of certain RSUs to the subjected RSU grantee under the Post-IPO RSU Scheme was approved by the independent shareholders of the Company on 14 August 2015.

(4) For details of the vesting schedules for the RSUs granted to the subjected RSU grantees under the Post-IPO RSU Scheme, please refer to the announcement of the Company dated 10 July 2015.

(5) Approximate percentage of issued Shares of the Company is calculated by dividing the RSUs held by the relevant grantees by the issued and outstanding Shares of the Company (as enlarged by the vest in full of all the RSUs granted under the Pre-IPO RSU Scheme and the Post-IPO RSU Scheme) as at 31 December 2015.

Further details of the Pre-IPO RSU Scheme and the Post-IPO RSU Scheme are set out in note 24 to the section headed "Notes to the Financial Statements" of this annual report and the Prospectus.

Equity-linked Agreements

Save as disclosed above, the Group had no other equity-linked agreements during the year ended 31 December 2015.

DIRECTORS' RIGHT TO ACQUIRE SHARES

Save as disclosed above under the paragraphs headed "Equity-linked Agreements/Share Incentive Schemes" and "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares and Debentures of the Company" above, at no time during the year ended 31 December 2015 were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any of the Directors or chief executive of the Company or their respective associates (as defined under the Listing Rules), or were any such rights exercised by them; or was the Company or a specified undertaking (within the meaning of the Companies Ordinance) of the Company, a party to any arrangement to enable the directors or chief executive of the Company or their respective associates (as defined under the Listing Rules) to acquire such rights in any other body corporate.

CONNECTED TRANSACTIONS

The Board confirmed that none of the related party transactions set out in note 36 to the section headed "Notes to the Financial Statements" of this annual report constituted connected transactions or continuing connected transaction under Chapter 14A of the Listing Rules during the year ended 31 December 2015. Further, save as disclosed below, the Group has not entered into any connected transactions or continuing connected transactions which are required to be disclosed in this annual report pursuant to the Listing Rules during the year ended 31 December 2015. The Directors confirm they have complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Grant of RSUs to Connected Person

On 10 July 2015, the Group has conditionally offered to grant 30,000,0000 RSUs to Dr. XU Gang (an Executive Director and Chief Executive Officer of the Company) in accordance with the terms of the Post-IPO RSU Scheme. Such aforesaid conditional grant of RSUs to such connected person has been approved by the independent shareholders of the Company at the extraordinary general meeting convened on 14 August 2015.

The conditional grant of RSUs and the related transactions constitute non-exempt connected transactions for the Company in accordance with the Listing Rules. The Group recognized a share-based compensation expense of RMB6,024,000 during the year ended 31 December 2015 for these connected transactions. For details, please see the announcement of the Company dated 10 July 2015, the circular of the Company dated 30 July 2015 and note 39(a) to the section headed "Notes to the Financial Statements" of this annual report.

Non-exempt Continuing Connected Transactions

Reference is made to the Prospectus, pages 46 to 50 of the Company's annual report (the "**2014 Annual Report**") for the year ended 31 December 2014 and pages 67 to 73 of the Company's interim report (the "**2015 Interim Report**") for the six months ended 30 June 2015 regarding the Contractual Arrangements. The Company wishes to provide further information in relation to the Contractual Arrangements for the year ended 31 December 2015.

1) **Reasons for using the Contractual Arrangements**

   Details of the reasons for using the Contractual Arrangements are set out in sections headed "Contractual Arrangements" and "Connected Transactions — Non-exempt Continuing Connected Transactions" in the Prospectus.

2) Operating entity of the Group controlled through the Contractual Arrangements

The online children's interactive entertainment and e-learning services provided by the Group are respectively prohibited and restricted to foreign investment in the PRC pursuant to the applicable PRC laws and regulations. Accordingly, the Group has entered into the Contractual Arrangements narrowly tailored to provide the Group with supervision and control over Guangzhou Baitian which holds the licenses and regulatory approvals that are essential to the Group's business operations.

During the year ended 31 December 2015, the following entity controlled by the Group through the Contractual Arrangements:

Name of the PRC Operating Entity	Kind of legal entity/place of establishment and operation	Registered owners	Business activities
As at 31 December 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 28.37% by Mr. WU Lili 12.90% by Mr. LI Chong 7.08% by Mr. CHEN Ziming 4.73% by Mr. WANG Xiaodong	Operating the virtual worlds and e-learning products of the Group

On 9 July 2015, Guangzhou Baitian established Guangzhou Tianti which is principally engaged in providing software and information technology services to facilitate Guangzhou Baitian's role and function under the Contractual Arrangements. Guangzhou Tianti is not a party to any of the Contractual Arrangements. For details, please see note 14 to the section headed "Notes to the Financial Statements" of this annual report.

3) **Revenue and Assets subject to the Contractual Arrangements**

The revenue, profit and total assets subject to the Contractual Arrangements are set out as follows:

	Year ended 31 December 2015 RMB'000	Year ended 31 December 2014 RMB'000
Revenue	**352,450**	504,937
Profit for the year	**80,241**	192,047

	As at 31 December 2015 RMB'000	As at 31 December 2014 RMB'000
Total assets	**827,300**	733,171

For the year ended 31 December 2015, the revenue and profit subject to the Contractual Arrangements amounted to approximately 91.0% (2014: 99.8%) and 80.7% (2014: -145.8%) of the revenue and profit for the year of the Group, respectively.

As at 31 December 2015, the total assets subject to the Contractual Arrangements amounted to approximately 47.2% (2014: 43.6%) of the total assets of the Group.

Transactions carried out during the year ended 31 December 2015, which have been eliminated in the consolidated financial statements of the Group, are set out as follows:

- For the year ended 31 December 2015, the service fees provided by Guangzhou WFOE to Guangzhou Baitian pursuant to the Contractual Arrangements amounted to RMB3,640,777 (2014: RMB679,612).

4) **Contractual Arrangements in Place**

For the year ended 31 December 2015, the Contractual Arrangements consist of four agreements: (a) the exclusive business consultation and service agreement, (b) the proxy agreement, (c) the share pledge agreement and (d) the exclusive option agreement. The PRC legal advisers of the Company have advised that the Contractual Arrangements as a whole and each of the agreements comprising the Contractual Arrangements are legal, valid and binding on the parties and are enforceable under applicable PRC laws and regulations. For the year ended 31 December 2015, there were no new Contractual Arrangements entered into, renewed or reproduced among Guangzhou Baitian, its shareholders and Guangzhou WFOE. There was no change in the Contractual Arrangements under which they were adopted for the year ended 31 December 2015.

Further details of the major terms of the Contractual Arrangements have been set out in the sections headed "Connected Transactions" and "Contractual Arrangements" in the Prospectus, "Directors' Report — Connected Transactions" in the 2014 Annual Report and "Other Information — Compliance with the Qualification Requirement" in the 2015 Interim Report, respectively.

5) **Change in the Contractual Arrangements and/or Circumstances and Latest Regulatory Development in Using Contractual Arrangements**

There was no material change in the Contractual Arrangements and/or the circumstances under which they were adopted for the year ended 31 December 2015.

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 (《中華人民共和國外國投資法 (草案徵求意見稿)》) (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 the Contractual Arrangements. Taking into account the facts that the consultation stage for public comment of the Draft FIL ended in February 2015, a number of legislative stages have to be undergone before the promulgation and implementation of the new Foreign Investment Law and information on how existing contractual arrangements would be dealt with is still outstanding, there is no definite timeline when the Draft FIL will come into effect. Accordingly, the Company believes that any attempt to evaluate the potential impact that it will have on the Contractual Arrangements and the business of our Group would be premature. In order to continuously monitor the development of the Draft FIL to assess the possible impact on the Contractual Arrangements, the Board will continuously monitor any updates on the Draft FIL and seek guidance from our legal advisors on a regular basis to ensure compliance with all relevant rules and regulations in the PRC at all times and inform the public in due course.

In addition, the Board noted that on 4 February 2016, as approved by the General Administration of Press and Publication (the "**GAPP**"), the Ministry of Industry and Information Technology issued the Regulations on Administration of Internet Publication Services (《網絡出版服務管理規定》) (the "**New Internet Publication Regulations**") which came into force from 10 March 2016 and the Interim Regulations on Administration of Internet Publication (《互聯網出版管理暫行規定》) issued on 27 June 2002 was superseded. The New Internet Publication Regulations reiterate foreign enterprises are prohibited to invest in the Internet publications business preserved the license requirement for any company that engages in Internet publication activities which includes the publication of online games through Internet. Guangzhou Baitian, as an Internet content provider, holds a valid network cultural business permit issued by the Ministry of Culture and a valid internet publication license issued by the GAPP in relation to publication of all games currently operated by the Group through the Internet. The Group complied with the New Internet Publication Regulations in all material respects.

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

Details of the risks associated with the Contractual Arrangements and actions taken by the Company to mitigate the risks associated with the Contractual Arrangements are set out in section headed "Other Information — Requirements related to Contractual Arrangements (other than Relevant Foreign Ownership Restrictions)" in the 2015 Interim Report.

7) **The extent to which the Contractual Arrangements relating to requirements other than the foreign ownership restriction**

As at 31 December 2015, the Company has no update to disclose in relation to the qualification requirements as required under the Regulations on the Administration of Foreign-Invested Telecommunications Enterprises (《外商投資電信企業管理規定》), which were promulgated by the State Council on 11 December 2001 and amended on 10 September 2008. Details of the extent to which the Contractual Arrangements relate to requirements other than the foreign ownership restriction are set out in section headed "Other Information — Requirements related to Contractual Arrangements (other than Relevant Foreign Ownership Restrictions)" in the 2015 Interim Report.

8) **Unwinding of the Contractual Arrangements**

Up to the date of this annual report, there has not been any unwinding of any Contractual Arrangements, nor has there been any failure to unwind any Contractual Arrangements when the restrictions that led to the adoption of the Contractual Arrangements are removed.

9) **Waiver from the Stock Exchange**

As disclosed in the sections headed "Waivers from Strict Compliance with the Listing Rules and Exemption from Strict Compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance — Waiver in respect of Non-exempt Connected Transactions" and "Connected Transactions" in the Prospectus, the Company had applied for, and had been granted a specific waiver to the Company from strict compliance with the connected transactions requirement of Chapter 14A of the Listing Rules in respect of the Contractual Arrangements.

10) **Directors' view**

The Directors (including the independent non-executive Directors) are of the view that the Contractual Arrangements and the transactions contemplated thereunder are fundamental to the Group's legal structure and business operations, that such transactions are on normal commercial terms and are fair and reasonable, or advantageous, so far as the Group is concerned and in the interests of the Company and the Shareholders as a whole.

The independent non-executive Directors reviewed the Contractual Arrangements and confirmed that (i) the continuing connected transactions carried out during the year ended 31 December 2015 (the "**Continuing Connected Transactions**") have been entered into in the ordinary and usual course of business of the Group, (ii) the Continuing Connected Transactions have been entered into on normal commercial terms or better, (iii) the Continuing Connected Transactions have been entered into according to the Contractual Arrangements governing each of the Continuing Connected Transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole, (iv) no new agreements within the Group have been entered into from the Listing Date till the end of the year ended 31 December 2015, and (v) no dividends or other distributions have been made by Guangzhou Baitian to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group.

11) Auditor's view

Further, the Company's external auditor, PricewaterhouseCoopers ("PwC"), was engaged to report on the Group's Continuing Connected Transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. PwC has issued his unqualified letter containing its findings and conclusions in respect of the Continuing Connected Transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules.

A copy of PwC's letter on the Continuing Connected Transactions of the Group for the year ended 31 December 2015 has been provided by the Company to the Stock Exchange.

PRINCIPAL RISKS AND UNCERTAINTIES

The Company has identified principal risks and uncertainties that the Group faces with respect to economic risks, operational risks, regulatory risks, financial risks, and specific risks related to the Group's corporate structure. The Group's business, future results of operations and prospects could be materially and adversely affected by those risks and uncertainties. The following highlights the principal risks and uncertainties of the Group and it is not meant to be exhaustive. There may be other risks and uncertainties which are not known to the Group or which may not be material now but turn out to be material in the future.

Economic Risks

— A severe or prolonged downturn of the PRC economy.

— Negative effect on the operational, financing or investing activities of the Group due to fluctuations in foreign currency exchange rates, inflation, fluctuations of interest rates and other measures relating to financial policies in PRC.

Operational Risks

— Failure to compete in the competitive environment which the Group operates in or to keep up with technological developments.

— If the Group fails to continuously strengthen its existing games and launch new games, or if its top games lose their popularity, the Group may not be able to retain existing players and attract new players, which will adversely affect the business and results of the operation of the Group.

Regulatory Risks

— Failure to adhere to laws, regulations and rules, or to obtain or maintain all applicable permits and approvals.

— Adverse effects arising from change in laws and regulations affecting the businesses of the Group.

Financial Risks

— Details of financial risks are set out in note 39 to the section headed "Notes to the Financial Statements" of this annual report.

Risks related to the Contractual Arrangements

— Details of risks related to the corporate structure of the Group are set out in the paragraph "Risks associated with the Contractual Arrangements and actions taken by the Company to mitigate the risks associated with the Contractual Arrangements" above under the section headed "Connected Transactions".

RELATED PARTY TRANSACTIONS

Details of related party transactions during the year ended 31 December 2015 are set out in note 36 to the section headed "Notes to the Financial Statements" of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its Directors, the Board confirms that the Company has maintained the amount of public float as required under the Listing Rules since its Listing until 31 December 2015.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year ended 31 December 2015, none of the Directors or their respective associates had engaged in or had any interest in any business which competes or may compete with the business of the Group.

RETIREMENT BENEFIT SCHEME

Details of retirement benefit scheme of the Group are set out in note 9 to the section headed "Notes to the Financial Statements" of this annual report.

EVENTS AFTER THE YEAR ENDED 31 DECEMBER 2015

There was no subsequent events between the end of reporting period and the date of this annual report that would cause material impact on the Group.

CORPORATE GOVERNANCE

Information on the corporate governance practices adopted by the Company is set out in the section headed "Corporate Governance Report" of this annual report.

TRADEMARK DISPUTE

In relation to a third-party trademark squatting on the Chinese characters of "Aola Star" and "Light of Aola" and related logos in trademark classes (the "**Disputed Trademarks**") shortly after the open beta launch of Aola Star, the Group obtained the decisions (the "**Decisions**") in favour of the Company from the Trademark Appeal Board of the State Administration of Industry and Commerce (the "**Trademark Appeal Board**") in April 2014 and from the Trademark Office of the Administration for Industry and Commerce (the "**Trademark Office**") in May 2015 and the administrative judgment (the "**Judgment**") in favour of the Company from the Beijing Municipal Higher People's Court in March 2015, respectively. Based on the Decisions and the Judgement, the Disputed Trademarks was revoked and/or annulled and therefore will not constitute any obstacles or legal risks for the ordinary use of "Aola Star" trademark by the Company.

In addition, the Group submitted the application (application number: 14537068, the "**Application**") to the Trademark Office to register "Aola Star" on 16 May 2014. After the vetting of the Trademark Office and the Trademark Appeal Board, the Application was preliminary approved and was entered into the publication period for three months on 6 December 2015. Upon the completion of the publication period, the Group will be granted such trademark registration and obtain the exclusive right to the use of "Aola Star" trademark.

For further details of the Disputed Trademarks, please refer to the Prospectus, the 2014 Annual Report and 2015 Interim Report.

MATERIAL LITIGATION AND COMPLIANCE MATTERS

For the year ended 31 December 2015, the Company was not involved in any material litigation or arbitration and the Directors were not aware of any material litigation or claims that were pending or threatened against the Company.

For the year ended 31 December 2015 and up to the date of this report, to the best knowledge of the Directors, the Group complied with applicable laws, rules and regulations in all material respects.

REVIEW BY THE AUDIT COMMITTEE

The Audit Committee has reviewed the accounting principles and policies adopted by the Group and discussed the Group's internal controls and financial reporting matters with the management. The Audit Committee has also reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2015.

PROFESSIONAL TAX ADVICE RECOMMENDED

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

APPRECIATION

The Group would like to express its appreciation to all the staff for their outstanding contribution towards the Group's development. The Board wishes to sincerely thank the management for their dedication and diligence, and they are the key factors for the Group to continue its success in future. Also, the Group wishes to extend its gratitude for the continued support from its Shareholders, customers, and business partners. The Group will continue to deliver sustainable business development, so as to meet its business objectives for 2016 and realize higher values for its Shareholders and other stakeholders.

AUDITOR

PricewaterhouseCoopers retired and a resolution for their re-appointment as auditor of the Company will be proposed at the forthcoming AGM. There have been no other changes of auditor in the past three years.

ON BEHALF OF THE BOARD
DAI JIAN
Chairman and Executive Director

Hong Kong
29 March 2016

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

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

Throughout the year ended 31 December 2015 (the "**Review Period**"), the Company has applied the principles and complied with all the code provisions as set out in the Corporate Governance Code.

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code during the Review Period.

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

BOARD OF DIRECTORS

The Board of the Company comprises the following directors:

Executive Directors:

Mr. DAI Jian *(Chairman of the Board and Chairperson of Nomination Committee)*
Mr. WU Lili *(Member of Remuneration Committee)*
Mr. LI Chong
Mr. WANG Xiaodong
Dr. XU Gang *(Chief Executive Officer) (Appointed on 20 November 2015)*

Non-executive Director:

Mr. JI Yue *(Resigned on 20 November 2015)*

Independent Non-executive Directors:

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

The biographical information of the Directors are set out in the section headed “Biographies of the Directors and Senior Management” of this annual report.

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

Chairman and Chief Executive Officer

The position of Chairman is held by Mr. DAI Jian and the position of chief executive officer of the Company is held by Dr. XU Gang. The Chairman provides leadership to the Board and is responsible for determining the broad strategic direction of the Company and high level oversight of management. The role of chief executive officer focuses on the Company’s overall management, corporate development and strategic planning of the Company. Their respective responsibilities are clearly defined and set out in writing.

Independent Non-executive Directors

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

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

Non-executive Directors and Directors' Re-election

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

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

Responsibilities, Accountabilities and Contributions of the Board and Management

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

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

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

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

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

Continuous Professional Development of Directors

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

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

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

Records of training received by each existing Directors during the Review Period are summarized below:

Directors	Types of training
Executive Directors	
Mr. DAI Jian	C
Mr. WU Lili	C
Mr. LI Chong	A, C
Mr. WANG Xiaodong	A, B, C
Dr. XU Gang *(Appointed on 20 November 2015)*	C
Independent Non-Executive Directors	
Ms. LIU Qian Li	C
Dr. WANG Qing	B, C
Mr. MA Xiaofeng	A, C

A Attending in-house briefing(s)

B Attending seminar(s) and training(s)

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

BOARD COMMITTEES

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

The majority of the members of each Board committee are independent non-executive Directors and the list of the chairman and members of each Board committee is set out in the section header "Corporate Information" of this annual report.

Audit Committee

The Company established the Audit Committee on 19 March 2014 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C3 of the Corporate Governance Code. On 20 November 2015, Mr. JI Yue, a member of the Audit Committee, resigned as a non-executive Director. Following his resignation, Mr. MA Xiaofeng, an independent non-executive Director, has been appointed as a member of the Audit Committee. The Audit Committee currently comprises three members namely, Ms. LIU Qianli (as chairman), Dr. WANG Qing and Mr. MA Xiaofeng (including one independent non-executive director who possesses appropriate professional qualifications or accounting or related financial management expertise). The primary duties of the Audit Committee are to assist the Board by providing an independent view of effectiveness of the financial reporting system, risk management and internal control systems of the Group, overseeing the audit process and performing other duties and responsibilities as assigned by the Board.

The Audit Committee held two meetings to review interim and annual financial results and reports in respect of the Review Period and significant issues on the financial reporting system and compliance procedures, risk management and internal control systems, scope of work and appointment of external auditor, connected transactions and arrangements for employees to raise concerns about possible improprieties.

The Audit Committee also met the external auditor twice without the presence of the executive Directors during the Review Period.

Remuneration Committee

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

The Remuneration Committee met once to review and make recommendation to the Board on the remuneration policy and structure of all the Directors and senior management of the Company during the Review Period.

Nomination Committee

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

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

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

The Nomination Committee met once to review the independence of the independent non-executive Directors and structure, size and composition of the Board during the Review Period.

Corporate Governance Functions

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

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

FRAMEWORK FOR DISCLOSURE OF INSIDE INFORMATION

The Company has put in place a framework for the disclosure of inside information in compliance with the SFO. The framework sets out the procedures and internal controls for the handling and dissemination of inside information in a timely manner so as to allow all the shareholders and stakeholders to apprehend the latest position of the Group. The framework and its effectiveness are subject to review on a regular basis according to established procedures.

ATTENDANCE RECORD OF DIRECTORS AND COMMITTEE MEMBERS

The attendance records of each Director at the Board and Board committee meetings and the general meetings of the Company held during the Review Period are set out in the table below:

	Attendance/Number of Meeting(s)					
	Board	Nomination Committee	Remuneration Committee	Audit Committee	AGM	EGM
Executive Directors						
Mr. DAI Jian	6/6	1/1	–	–	1/1	0/1
Mr. WU Lili	5/6	–	1/1	–	1/1	0/1
Mr. LI Chong	6/6	–	–	–	1/1	1/1
Mr. WANG Xiaodong	6/6	–	–	–	1/1	0/1
Dr. XU Gang *(Appointed on 20 November 2015)*	2/2	–	–	–	–	–
Non-Executive Director						
Mr. JI Yue *(Resigned on 20 November 2015)*	2/4	–	–	2/2	0/1	0/1
Independent Non-Executive Directors						
Ms. LIU Qianli	3/6	1/1	–	2/2	0/1	0/1
Mr. WANG Qing	2/6	–	1/1	1/2	1/1	0/1
Mr. MA Xiaofeng	3/6	1/1	1/1	–	0/1	0/1

Apart from regular Board meetings, the Chairman also held a meeting with the independent non-executive Directors without the presence of executive Directors during the Review Period.

DIRECTORS' RESPONSIBILTY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2015.

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

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the section headed "Independent Auditor's Report" of this annual report.

AUDITOR'S REMUNERATION

The remuneration paid/payable to the external auditor of the Company, PricewaterhouseCoopers, were RMB3,800,000 and RMB700,000 in respect of audit services and non-audit services for the Review Period, respectively. The non-audit services for thie Review Period included providing professional service on mergers and acquisitions, tax advisory and other relevant services.

INTERNAL CONTROLS

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

COMPANY SECRETARIES

Mr. YEUNG Ka Hong Carl is the chief financial officer, chief strategy officer and the in-house company secretary of the Company. He is supported by Ms. NGAI Kit Fong of Tricor Services Limited, an external service provider, acting as the joint company secretary. Mr. Yeung Ka Hong Carl is Ms. Ngai's primary contact person at the Company.

During the Review Period, Mr. YEUNG Ka Hong Carl and Ms. NGAI Kit Fong have undertaken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

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

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

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

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

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

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

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

Putting Forward Enquiries to the Board

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

Contact Details

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

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

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavors to maintain an ongoing dialogue with shareholders and in particular, through annual general meetings and other general meetings. At the 2015 AGM of the Company held on 19 June 2015 and at the EGM of the Company held on 14 August 2015, the Directors (or their delegates as appropriate) were available to meet shareholders and answer enquires.

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

Independent Auditor's Report

羅兵咸永道

To the shareholders of BAIOO Family Interactive Limited

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of BAIOO Family Interactive Limited ("the Company") and its subsidiaries set out on pages 67 to 152, which comprise the consolidated balance sheet as at 31 December 2015, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

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

Independent Auditor's Report

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Other Matters

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 March 2016

Consolidated Income Statement

	Note	Year ended 31 December 2015 RMB'000	2014 RMB'000
Revenue	5	**387,105**	506,193
Cost of revenue	6	**(150,471)**	(158,455)
Gross profit		**236,634**	347,738
Selling and marketing expenses	6	**(70,924)**	(60,641)
Administrative expenses	6	**(72,777)**	(61,177)
Research and development expenses	6	**(46,338)**	(28,847)
Other income	7	**10,429**	—
Other (losses)/gains — net	8	**(725)**	2,779
Operating profit		**56,299**	199,852
Finance income	10	**59,723**	34,854
Finance costs	10	**(653)**	(137)
Finance income — net	10	**59,070**	34,717
Share of loss of an associate		**(344)**	—
Fair value loss of convertible redeemable preferred Shares		**—**	(327,749)
Profit/(loss) before income tax		**115,025**	(93,180)
Income tax expense	11	**(15,595)**	(38,522)
Profit/(loss) for the year		**99,430**	(131,702)
Attributable to:			
— Shareholders of the Company		**98,909**	(131,702)
— Non-controlling interest		**521**	—
		99,430	(131,702)
Earnings/(losses) per share (expressed in RMB per share)	12		
— Basic		**0.0366**	(0.0551)
— Diluted		**0.0359**	(0.0551)

The notes on pages 74 to 152 are integral parts of these consolidated financial statements.

Consolidated Statement Of Comprehensive Income

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Profit/(loss) for the year	**99,430**	(131,702)
Other comprehensive income		
Items that may be reclassified to profit or loss		
Currency translation differences	**1,254**	—
Total comprehensive income/(loss) for the year	**100,684**	(131,702)
Attributable to:		
— Shareholders of the Company	**99,778**	(131,702)
— Non-controlling interest	**906**	—
	100,684	(131,702)

The notes on pages 74 to 152 are integral parts of these consolidated financial statements.

Consolidated Balance Sheet

	Note	As at 31 December 2015 RMB'000	2014 RMB'000
ASSETS			
Non-current assets			
Property and equipment	15	**16,312**	10,943
Intangible assets	16	**50,003**	383
Investment in an associate		**3,656**	—
Prepayments and other receivables	20	**9,608**	733
Deferred income tax assets	31	**4,940**	7,595
Long-term deposits	21	**380,000**	—
		464,519	19,654
Current assets			
Inventories	18	**16,277**	—
Trade receivables	19	**6,161**	6,425
Prepayments and other receivables	20	**34,106**	33,339
Short-term deposits	21	**975,991**	1,364,200
Financial assets at fair value through profit or loss		**1,298**	—
Cash and cash equivalents	21	**254,638**	259,367
Prepaid tax		**—**	808
		1,288,471	1,664,139
Total assets		**1,752,990**	1,683,793
EQUITY			
Share capital	22	**8**	8
Share premium	22	**1,581,855**	1,636,621
Reserves	23	**48,338**	49,916
Accumulated losses	25	**(77,962)**	(176,871)
		1,552,239	1,509,674
Non-controlling interest		**18,085**	—
Total equity		**1,570,324**	1,509,674

Consolidated Balance Sheet

	Note	As at 31 December 2015 RMB'000	2014 RMB'000
LIABILITIES			
Non-current liabilities			
Long-term payable	26	**9,793**	—
Advances under government grants	27	**1,560**	—
Deferred revenue	28	**2,842**	3,305
Deferred income tax liabilities	31	**2,670**	—
		16,865	3,305
Current liabilities			
Trade payables	29	**11,467**	1,945
Other payables and accruals	30	**38,865**	36,778
Amounts due to related parties	36	**1,075**	—
Income tax liabilities		**2,276**	—
Advances under government grants	27	**3,273**	1,810
Advances from customers and distributors	28	**57,828**	73,664
Deferred revenue	28	**50,801**	56,617
Bank overdrafts		**216**	—
		165,801	170,814
Total liabilities		**182,666**	174,119
Total equity and liabilities		**1,752,990**	1,683,793

The notes on pages 74 to 152 are integral parts of these consolidated financial statements.

These consolidated financial statements on pages 67 to 152 were approved for issue by the Board of Directors on 29 March 2016 and were signed on its behalf.

Dai Jian
Director

Li Chong
Director

Consolidated Statement Of Changes in Equity

		Attributable to shareholders of the Company						
							Non-	
			Share		Accumulated		controlling	
		Share Capital	premium	Reserves	losses	Total	interest	Total equity
	Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2014		5	–	25,734	(45,169)	(19,430)	–	(19,430)
Comprehensive loss								
Loss for the year		–	–	–	(131,702)	(131,702)	–	(131,702)
Other comprehensive income		–	–	–	–	–	–	–
Total comprehensive loss		–	–	–	(131,702)	(131,702)	–	(131,702)
Transactions with owners, recognized directly in equity								
Issuance of ordinary shares related to initial public offering ("IPO"), net off underwriting commissions, other issuance costs and listing expenses		2	1,120,079	–	–	1,120,081	–	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	23	–	–	70	–	70	–	70
– Exercise of share options		–	1,942	(1,084)	–	858	–	858
Restricted Share Unit ("RSU") Scheme:								
– Value of employee services	23	–	–	38,860	–	38,860	–	38,860
– Vesting of RSUs		–	13,664	(13,664)	–	–	–	–
Dividend paid to pre-IPO shareholders		–	(154,127)	–	–	(154,127)	–	(154,127)
Buy-back and cancellation of shares		–	(27,200)	–	–	(27,200)	–	(27,200)
Total transactions with owners, recognized directly in equity		3	1,636,621	24,182	–	1,660,806	–	1,660,806
Balance at 31 December 2014		8	1,636,621	49,916	(176,871)	1,509,674	–	1,509,674

Consolidated Statement Of Changes in Equity

	Note	Attributable to shareholders of the Company						
		Share Capital	Share premium	Reserves	Accumulated losses	Total	Non-controlling interest	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2015		8	1,636,621	49,916	(176,871)	1,509,674	–	1,509,674
Comprehensive income								
Profit for the year		–	–	–	98,909	98,909	521	99,430
Other comprehensive income		–	–	869	–	869	385	1,254
Total comprehensive income		–	–	869	98,909	99,778	906	100,684
Transactions with owners, recognized directly in equity								
Share Option Scheme:								
– Exercise of share options		–	175	(101)	–	74	–	74
RSU Scheme:								
– Value of employee services	23	–	–	25,126	–	25,126	–	25,126
– Vesting of RSUs		–	19,531	(19,531)	–	–	–	–
Acquisition of a subsidiary	35	–	–	–	–	–	17,823	17,823
Final dividend of 2014		–	(74,472)	–	–	(74,472)	–	(74,472)
Recognition of a financial liability in respect of the put option granted to the non-controlling interest	35	–	–	(7,941)	–	(7,941)	(644)	(8,585)
Total transactions with owners, recognized directly in equity		–	(54,766)	(2,447)	–	(57,213)	17,179	(40,034)
Balance at 31 December 2015		8	1,581,855	48,338	(77,962)	1,552,239	18,085	1,570,324

The notes on pages 74 to 152 are integral parts of these consolidated financial statements.

Consolidated Statement Of Cash Flows

	Note	Year ended 31 December 2015 RMB'000	2014 RMB'000
Cash flows from operating activities			
Cash generated from operations	33	**62,029**	236,638
Interest received		**1,218**	2,867
Income tax paid		**(9,968)**	(44,019)
Net cash generated from operating activities		**53,279**	195,486
Cash flows from investing activities			
Acquisition of a subsidiary, net of cash acquired	35	**(35,522)**	—
Purchase of property and equipment and intangible assets		**(11,857)**	(4,768)
Payments for investment in an associate		**(3,185)**	—
Proceeds from disposals of fixed assets		**—**	10
Interest received from short-term deposits		**52,270**	7,568
Proceeds from short-term deposits upon maturity		**688,209**	250,000
Investment in short-term deposits		**(300,000)**	(1,414,200)
Investment in long-term deposits		**(380,000)**	—
Restricted cash released		**—**	10,000
Net cash generated from/(used in) investing activities		**9,915**	(1,151,390)
Cash flows from financing activities			
Proceeds from short-term borrowings		**—**	24,683
Repayments of short-term borrowings		**—**	(30,820)
Buy-back of ordinary shares		**—**	(27,200)
Exercise of share options		**74**	858
Interest paid		**—**	(154)
Proceeds from issuance of ordinary shares		**—**	1,204,331
Payment of commissions and listing expenses		**—**	(83,126)
Dividend paid to the Company's shareholders		**(74,472)**	(154,127)
Net cash (used in)/generated from financing activities		**(74,398)**	934,445
Net decrease in cash and cash equivalents		**(11,204)**	(21,459)
Cash and cash equivalents at beginning of the year		**259,367**	280,932
Foreign exchange gains/(losses) on cash and cash equivalents		**6,259**	(106)
Cash and cash equivalents at end of the year		**254,422**	259,367
Cash and cash equivalents comprises:			
Bank overdrafts		**(216)**	—
Cash and banks	21	**254,638**	259,367
Cash and cash equivalents		**254,422**	259,367

The notes on pages 74 to 152 are integral parts of these consolidated financial statements.

Notes to the Financial Statements

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"). With effect from 8 May 2015, the Group through a newly acquired business began to operate a chain of retail outlets in Hong Kong and an online store specializing in selling baby and maternity products.

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

These financial statements are presented in Renminbi ("RMB"), unless otherwise stated, and have been approved for issue by the Board of Directors of the Company on 29 March 2016.

2 Summary of significant accounting policies

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

2.1 Basis of preparation

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

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

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.1 Changes in accounting policy and disclosure

(a) Amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2015. The adoption of these amended standards does not have any significant impact to the results and financial position of the Group.

IAS 19 (Amendment)	Defined Benefit Plans: Employee Contributions
IFRSs (Amendment)	Annual Improvements 2010–2012 Cycle and 2011–2013 Cycle

The adoption of the improvements made in the 2010–2012 Cycle has required additional disclosures in the segment note. Other than that, the remaining amendments are not material to the Group.

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

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.1 Changes in accounting policy and disclosure (continued)

(c) New and amended standards not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015, and have not been applied in preparing these consolidated financial statements.

		Effective for annual periods beginning on or after
IAS 1 (Amendment)	Disclosure initiative	1 January 2016
IFRS 14	Regulatory Deferral Accounts	1 January 2016
IFRS 11 (Amendment)	Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
IAS 16 and IAS 38 (Amendment)	Clarification of Acceptable Methods of Depreciation and Amortization	1 January 2016
IAS 16 and IAS 41 (Amendment)	Agriculture: bearer plants	1 January 2016
IFRS 10 and IAS 28 (Amendment)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Note
IAS 27 (Amendment)	Equity Method in Separate Financial Statements	1 January 2016
IFRS 10, IFRS 12 and IAS 28 (Amendment)	Investment entities: applying the consolidation exception	1 January 2016
IFRSs (Amendment)	Annual Improvements 2012–2014 Cycle	1 January 2016
IAS 7 (Amendment)	Statement of cash flows	1 January 2017
IAS 12 (Amendment)	Income taxes	1 January 2017
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 9	Financial Instruments	1 January 2018
IFRS 16	Leases	1 January 2019

Note: In December 2015, the effective date of this amendment was postponed indefinitely.

The Group is in the process of making an assessment of the impact of these new and revised IASs and IFRSs upon initial application and is not yet in a position to state whether these new and revised IASs and IFRSs will have any significant impact on the Company's results of operations and financial position.

2 Summary of significant accounting policies (continued)

2.2 Subsidiaries

2.2.1 Consolidation

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

(a) Business combinations

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

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

Acquisition-related costs are expensed as incurred.

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

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

2 Summary of significant accounting policies (continued)

2.2 Subsidiaries (continued)

2.2.1 Consolidation (continued)

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

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

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

(b) ***Changes in ownership interests in subsidiaries***

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

(c) ***Disposal of subsidiaries***

When the Group ceases to have control over a subsidiary, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in relation to that entity are accounted for on the same basis as would be required if the Group had directly disposed of the related assets or liabilities. This means if a gain or loss previously recognized in other comprehensive income would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss and if a revaluation surplus previously recognized in other comprehensive income would be transferred directly to retained earnings on the disposal of the asset, the Group transfers the revaluation surplus directly to retained earnings.

2 Summary of significant accounting policies (continued)

2.2 Subsidiaries (continued)

2.2.2 Separate financial statements

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

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

2.3 Associate

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognized in the income statement, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount adjacent to "share of profit of investments accounted for using equity method" in the income statement.

2 Summary of significant accounting policies (continued)

2.3 Associate (continued)

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of an associate have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in an associate are recognized in the income statement.

2.4 Segment reporting

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

2.5 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within "finance income or expenses". All other foreign exchange gains and losses are presented in the income statement within "other gains — net".

2 Summary of significant accounting policies (continued)

2.5 Foreign currency translation (continued)

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

i. assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

ii. income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

iii. all resulting currency translation differences are recognized in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

2.6 Property and equipment

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

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

2 Summary of significant accounting policies (continued)

2.6 Property and equipment (continued)

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

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

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

Construction in progress represents leasehold improvements under construction stated at cost less any impairment loss. Construction in progress is transferred to leasehold improvements when completed and ready for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

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

2.7 Intangible assets

(a) 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.

2 Summary of significant accounting policies (continued)

2.7 Intangible assets (continued)

(b) Trademark

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.

(c) Computer software

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

(d) Research and development expenditures

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

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

2 Summary of significant accounting policies (continued)

2.8 Impairment of non-financial assets

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

2.9 Financial assets

2.9.1 Classification

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

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade receivables", "other receivables", "cash and cash equivalents", "short-term deposits" and "long-term deposits" in the balance sheet (Notes 2.13 and 2.14).

2 Summary of significant accounting policies (continued)

2.9 Financial assets (continued)

2.9.2 Recognition and measurement

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

2.10 Offsetting financial instruments

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

2.11 Impairment of financial assets

Assets carried at amortized cost

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

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

2 Summary of significant accounting policies (continued)

2.11 Impairment of financial assets (continued)

Assets carried at amortized cost (continued)

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

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

2.12 Inventories

Inventories comprising 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 weighted average method. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.13 Trade receivables and other receivables

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

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

2.14 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks and short-term highly liquid investments with original maturity of three months or less, and bank overdrafts. In the consolidated and entity balance sheet, bank overdrafts are shown in current liabilities.

2 Summary of significant accounting policies (continued)

2.15 Share capital

Ordinary shares are classified as equity. Please refer to Note 2.20 for treatment for convertible redeemable preferred shares.

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

2.16 Trade payables

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

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

2.17 Put option liability

Long-term payable of the Group is the put option liability. Put option is the financial instrument granted by the Group that the counterparty may have the right to request the Group to purchase its own equity instruments for cash or other financial assets when certain conditions are met. If the Group does not have the unconditional right to avoid delivering cash or another financial assets under the put option, it has to recognize a financial liability at the present value of the estimated future cash outflows under the put option. The financial liability is initially recognized at fair value. Subsequently, if the Group revises its estimates of payments, the Group will adjust the carrying amount of the financial liability to reflect actual and revised estimated cash outflows. The Group will recalculate the carrying amount by computing the present value of revised estimated future cash outflows at the financial instrument's original effective interest rate and the adjustments will be recognized as income or expenses in the consolidated income statement. If the put option expires without delivery, the carrying amount of the liability is reclassified as equity.

The put option liability is the current liability unless the put option can only be exercised 12 months after the end of the reporting period.

2 Summary of significant accounting policies (continued)

2.18 Borrowings

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

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

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

2.19 Borrowing costs

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

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

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

Borrowing costs include interest expense, finance charges in respect of finance lease and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. The exchange gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the entity had borrowed funds in its functional currency, and the borrowing costs actually incurred on foreign currency borrowings. Such amounts are estimated based on interest rates on similar borrowings in the entity's functional currency.

2 Summary of significant accounting policies (continued)

2.20 Convertible redeemable preferred shares

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

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

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

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

All convertible redeemable preferred shares of the Company had been converted into ordinary shares of the Company upon the Company's IPO.

2.21 Current and deferred income tax

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

(a) Current income tax

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

2 Summary of significant accounting policies (continued)

2.21 Current and deferred income tax (continued)

(b) Deferred income tax

Inside basis differences

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

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

Outside basis differences

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

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

(c) Offsetting

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

2.22 Employee benefits

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

2 Summary of significant accounting policies (continued)

2.23 Share-based payments

(a) Equity-settled share-based payments transactions

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

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

— including any market performance conditions;

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

— including the impact of any non-vesting conditions.

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

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

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

(b) Share-based payments transactions among group entities

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

2 Summary of significant accounting policies (continued)

2.24 Provisions

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

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

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

2.25 Revenue recognition

Online business

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

(a) Revenue from operation of online virtual worlds

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

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

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

2 Summary of significant accounting policies (continued)

2.25 Revenue recognition (continued)

Online business (continued)

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

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

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

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

(b) Revenue from other online games

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

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

2 Summary of significant accounting policies (continued)

2.25 Revenue recognition (continued)

Online business (continued)

(b) Revenue from other online games (continued)

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

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

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

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

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

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

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

2 Summary of significant accounting policies (continued)

2.25 Revenue recognition (continued)

Other business

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

(a) Sales of goods — retail

The Group operates a chain of retail outlets for selling baby and maternity products. Sales of goods are recognized when a group entity sells a product to the customer. Retail sales are usually in cash or by debit/credit card.

(b) Advertising revenue

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

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

(c) Licensing fees

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

2 Summary of significant accounting policies (continued)

2.26 Advances from customers and distributors and deferred revenue

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

2.27 Cost of revenue

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

2.28 Interest income

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

2.29 Government grants

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

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

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

2.30 Leases

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

2.31 Dividend distribution

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

3 Financial risk management

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

The Group's foreign exchange risk primarily arose from the cash and cash equivalents denominated in HK$ and long-term payables denominated in HK$ for the put option granted to the non-controlling interest. If RMB had strengthened/weakened by 1% against HK$ with all other variables held constant, the post-tax profit for the year ended 31 December 2015 would have been approximately lower/higher by RMB1,315,000 (2014: post-tax loss for the year higher/lower by RMB749,000).

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

(ii) Interest rate risk

For the years ended 31 December 2015 and 2014, management of the Group is of the opinion that interest rate risk (such as interest rate risk on bank deposits) was not material to the Group.

(b) Credit risk

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

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

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

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

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

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

(c) Liquidity risk

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

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

The table below analyzes the Group'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
At 31 December 2015						
Trade payables	**11,467**	**–**	**–**	**–**	**–**	**11,467**
Other payables and accruals (excluding other tax liabilities and staff costs and welfare accruals)	**9,543**	**–**	**–**	**–**	**–**	**9,543**
Amounts due to related parties	**1,075**	**–**	**–**	**–**	**–**	**1,075**
Bank overdrafts	**216**	**–**	**–**	**–**	**–**	**216**
Long-term payable	**–**	**–**	**12,686**	**–**	**–**	**12,686**
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

3 Financial risk management (continued)

3.2 Capital management

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

The Group monitors capital by regularly reviewing the capital structure and gearing ratio. This ratio is calculated as total liabilities divided by total assets. As part of this review, the directors of the Company consider the cost of capital and the risks associated with the issued share capital. The Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or repurchase the Company's shares. Besides, the Group's strategy was to maintain the gearing ratio within 40%.

The gearing ratios were as follows:

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Total liabilities	**182,666**	174,119
Total assets	**1,752,990**	1,683,793
Gearing ratio	**10%**	10%

3.3 Fair value estimation

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

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

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

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

The Group has no significant assets and liabilities that are measured at fair value as at 31 December 2015 and 2014.

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

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

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

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

Specific valuation techniques used to value financial instruments include:

— Quoted market prices or dealer quotes for similar instruments

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

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

There were no changes in valuation techniques.

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

The following table presents the changes in level 3 instruments for the year ended 31 December 2015.

	Financial assets at fair value through profit or loss RMB'000
At 1 January 2015	**—**
Addition	**1,298**
At 31 December 2015	**1,298**

The following table presents the changes in level 3 instruments for the year ended 31 December 2014.

	Convertible redeemable preferred shares RMB'000
At 1 January 2014	349,962
Change in fair value recognized in profit or loss	327,749
Foreign exchange loss	4,553
Conversion of convertible redeemable preferred shares into ordinary shares	(682,264)
At 31 December 2014	—

The Group determines the fair value of the Group's level 3 financial instrument carried at fair value at each of the reporting dates.

Except for Series A-1 Preferred Shares, the carrying amounts of financial assets including cash and cash equivalents, financial assets at fair value through profit or loss, short-term deposits, long-term deposits, trade and other receivables; and financial liabilities including trade payables, amounts due to related parties, other payables and accruals and long-term payable, approximated their respective fair value at each of the reporting dates.

4 Critical accounting estimates and judgments

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

4.1 Critical accounting estimates and assumptions

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

(a) Estimates of Player Relationship Period for online business

As described in Note 2.25, the Group recognizes revenue from durable virtual items in self-developed online virtual worlds and revenue from third party developed games ratably over Player Relationship Period. The determination of Player Relationship Period for the relevant game is made based on the Group's best estimate that takes into account all known and relevant information at the time of assessment. Such estimates are subject to re-evaluation on a semi-annual basis. Any adjustments arising from changes in Player Relationship Period as a result of new information will be accounted for as a change in accounting estimates.

(b) Current income tax and deferred tax

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

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

Deferred income tax is provided on temporary differences arising on distributions of retained earnings by subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Specifically, for the potential timing differences arising from the distribution of retained earnings of the Company's subsidiaries in the PRC to the Company, management has assessed the availability of distributable revenues (see Note 11(d)) and funds held by the Company and concluded that the PRC subsidiaries are unlikely to distribute their retained earnings in the foreseeable future. As a result, no deferred tax liability on PRC withholding tax ("WHT") has been provided as at 31 December 2015 and 2014.

4 Critical accounting estimates and judgments (continued)

4.1 Critical accounting estimates and assumptions (continued)

(c) Recognition of share-based compensation expenses

As mentioned in Note 24, the Group has granted share options and RSUs to its employees. The directors have used the Binomial option-pricing model and discounted cash flow method to determine the total fair value of the options and Pre-IPO RSUs granted, respectively, which is to be expensed over the vesting period. Significant estimates on assumptions, such as vesting period, underlying equity value, risk-free interest rate, expected volatility and dividend yield, are required to be made by the directors in applying the Binomial option-pricing model and discounted cash flow method.

(d) Estimation of the put option liability

The Group granted a put option to the non-controlling interest owners whereby they have the right to request the Group to repurchase their equity interests in the non-wholly owned subsidiary. The repurchase price was determined by reference to the revenue or profit to be generated by the subsidiary in future periods. The Group will initially recognize a financial liability at the present value of the estimated future cash outflows under the put option arrangement, and at the end of each subsequent period, the Group will revisit their estimations. If the Group revises its estimate of this liability, the Group will adjust the carrying amount of the financial liability to reflect actual and revised estimated cash outflows and the adjustments will be recognized as income or expenses in the consolidated income statement.

(e) Impairment estimation of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.7. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations (Note 16).

As at 31 December 2015, if the budgeted gross margin is lower by 1.5 percentage points, or the long-term growth rate is lower by 0.5 percentage points or the discount rate is raised by 1.0 percentage point in the value-in-use calculation, with other variables being held constant, the recoverable amount of goodwill would still exceed its carrying amount and no impairment will be required.

4 Critical accounting estimates and judgments (continued)

4.2 Critical judgments in applying the Group's accounting policies

(a) Subsidiaries arising from contractual arrangements

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

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

— exercise effective financial and operational control over Guangzhou Baitian;

— exercise equity holders' voting rights over Guangzhou Baitian;

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

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

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

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

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

5 Segment information

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

— Online business

— Other businesses

Revenues from the Group's other businesses mainly include revenue from sales of baby and maternity products, 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 (losses)/gains — net, finance income — net, share of loss of an associate, fair value loss of convertible redeemable preferred shares and income tax expense are not included in the measure of the segments' performance which is used by CODM as a basis for the purpose of resource allocation and assessment of segment performance.

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

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

5 Segment information (continued)

The segment revenues provided to the Group's CODM for the reportable segments for the years ended 31 December 2015 and 2014 are as follows:

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Online business		
— Online virtual worlds	**344,458**	495,616
— Other online games	**287**	780
Sub-total	**344,745**	496,396
Other businesses	**42,360**	9,797
Total	**387,105**	506,193

The Company is domiciled in the Cayman Islands while the Group mainly operates its business in the PRC. For the year ended 31 December 2015, the geographical information on the total revenues is as follows:

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Revenue		
— Mainland China	**352,615**	506,193
— Others	**34,490**	—
Total	**387,105**	506,193

There is no concentration risk in terms of customers (which include end users from online business and customers from other business) as no single external customer contributed more than 10% of the Group's total revenue for the years ended 31 December 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 total revenue account for 88.0% and 94.2% of the total revenue for the each of the years ended 31 December 2015 and 2014. The percentages of revenue contributed by the following online virtual worlds is not presented for the years when such amount is less than 10% of the Group's total revenue in a particular year.

5 Segment information (continued)

	Year ended 31 December	
	2015	2014
Legend of Aoqi	**45.6%**	38.1%
Aola Star	**29.8%**	33.3%
Aobi Island	**12.6%**	10.4%
Dragon Knights	**N/A**	12.4%

CODM reviews the performance of and allocates resources to operating segments based on revenue of each segment. The reconciliation of revenue to profit before income tax for the years ended 31 December 2015 and 2014 is shown in the consolidated income statement.

As at 31 December 2015, the total non-current assets, other than financial instruments and deferred tax assets, located in Mainland China and other areas were RMB19,811,000 (2014: RMB11,326,000) and RMB50,983,000 (2014: Nil), respectively.

6 Expenses by nature

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Employee benefit expenses (Note 9)	**190,530**	182,725
Promotion and advertising expenses	**50,090**	50,950
Cost of inventories sold (Note 18)	**19,905**	—
Bandwidth and server custody fees	**19,404**	19,337
Operating lease rentals in respect of office premises	**17,858**	8,552
Professional fees	**9,400**	10,599
Depreciation of property and equipment and amortization of intangible assets (Notes 15 and 16)	**8,138**	7,855
Auditor's remuneration		
—Audit services	**3,800**	3,500
—Non-audit services	**700**	—
Travelling and entertainment expenses	**4,170**	4,517
Prepaid card production expenses	**3,373**	5,813
Utilities and office expenses	**3,268**	1,642
Payment handling fees	**2,331**	2,891
Prepaid card delivery expenses	**1,113**	1,630
Others	**6,430**	9,109
Total cost of revenue, selling and marketing expenses, administrative expenses and research and development expenses	**340,510**	309,120

7 Other income

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Government grants	**10,402**	—
Others	**27**	—
	10,429	—

8 Other (losses)/gains — net

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Foreign exchange (losses)/gains	**(722)**	3,519
Others	**(3)**	(740)
	(725)	2,779

9 Employee benefit expenses

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Wages, salaries and discretionary bonuses	**131,825**	115,606
Pension costs — defined contribution plans (Note (a))	**9,895**	6,960
Other social security costs, housing benefits and other employee benefits	**23,684**	21,229
Share-based compensation expenses — Share Option Scheme and RSU Scheme	**25,126**	38,930
	190,530	182,725

(a) Pension costs — defined contribution plans

Employees of the Group companies in the PRC are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. For the year ended 31 December 2015, the Group contributes funds which are calculated on a fixed percentage of 14% (2014: 12%) of the employees' salary (subject to a floor and cap) as set by local municipal governments to each scheme locally to fund the retirement benefits of the employees.

9 Employee benefit expenses (continued)

(b) Five highest paid individuals

The five highest paid individuals include two (2014: four) directors whose emoluments are reflected in the analysis shown in Note 39 for the year ended 31 December 2015. The emoluments paid and payable to the remaining three (2014: one) individuals for each of the year ended 31 December 2015 are as follows:

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Wages and salaries	**4,014**	2,285
Discretionary bonuses	**1,416**	315
Pension costs — defined contribution plans	**72**	19
Other social security costs, housing benefits and other employee benefits	**102**	30
Share-based compensation expenses — Share Option Scheme and RSU Scheme	**10,419**	8,032
	16,023	10,681

The emoluments within the following bands:

	Year ended 31 December	
	2015	2014
RMB2,000,000 to RMB3,000,000	**1**	—
RMB3,000,000 to RMB5,000,000	**1**	—
RMB9,000,000 to RMB10,000,000	**1**	—
RMB10,000,000 to RMB11,000,000	**—**	1

(c) For the years ended 31 December 2015 and 2014, neither directors, chief executive nor the highest paid individuals received any emolument from the Group as an inducement to join, upon joining the Group as compensation for loss of office, and no arrangement under which a director, chief executive or the highest paid individual waived or agreed to waive any of the emoluments.

10 Finance income — net

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Finance income:		
— Interest income on bank deposits and other term deposits	**53,464**	34,854
— Net foreign exchange gains	**6,259**	—
	59,723	34,854
Finance costs:		
— Interest expense	**(653)**	(137)
Finance income — net	**59,070**	34,717

11 Income tax expense

The income tax expense of the Group for the years ended 31 December 2015 and 2014 is analyzed as follows:

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Current income tax	**13,021**	37,007
Deferred income tax (Note 31)	**2,574**	1,515
Income tax expense	**15,595**	38,522

11 Income tax expense (continued)

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

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Profit/(loss) before income tax	**115,025**	(93,180)
Tax calculated at income tax rates applicable to profits of the consolidated entities in their respective jurisdictions (Note a, b, c)	**14,114**	34,390
Tax effects of:		
Tax losses for which no deferred income tax asset was recognized	**392**	237
Super deduction for research and development expenses (Note c)	**(3,027)**	(1,431)
Expenses not deducted for income tax purposes:		
— Share-based compensation	**3,769**	5,840
— Others	**347**	(514)
Income tax expense	**15,595**	38,522

The low effective income tax rate for the year ended 31 December 2015 was mainly because the interest income of the Company is exempted from tax as the Company is exempted from Cayman Islands income tax under the Companies Law of Cayman Islands.

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

11 Income tax expense (continued)

(a) Cayman Islands income tax

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

(b) Hong Kong profits tax

Hong Kong profits tax provision has been provided at the rate of 16.5% on the estimated assessable profits for the years ended 31 December 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, which was qualified as "High and New Technology Enterprise" ("HNTE") in 2011 and was entitled to a preferential income tax rate of 15% on its estimated assessable profits for the years ended 31 December 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 the Group's entities in ascertaining their assessable profits for the years ended 31 December 2015 and 2014.

(d) WHT

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

For the years ended 31 December 2015 and 2014, the Group did not have any plan to require its PRC subsidiaries to distribute their retained earnings to the Company as the Company's share premium is distributable under the Cayman Island Laws. Accordingly, no deferred income tax liability on WHT was accrued as at the end of each reporting period (Note 31).

12 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 less shares held for RSU Scheme during the year.

	Year ended 31 December	
	2015	2014
Earnings/(losses) attributable to shareholders of the Company (RMB'000)	**98,909**	(131,702)
Weighted average number of ordinary shares in issue less shares held for RSU Scheme	**2,699,943,341**	2,388,894,833
Basic earnings/(losses) per share (in RMB/share)	**0.0366**	(0.0551)

(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 year ended 31 December 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 year) 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.

For the year ended 31 December 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 was made to basic losses per share to derive the diluted losses per share for the year ended 31 December 2014 as each of the types of potential ordinary shares was anti-dilutive.

12 Earnings/(losses) per share (continued)

(b) Diluted (continued)

	Year ended 31 December 2015
Earnings	
Earnings attributable to shareholders of the Company (RMB'000)	**98,909**
Interest expense on convertible debt (net of tax)	**—**
Earnings used to determine diluted earnings per share (RMB'000)	**98,909**
Weighted average number of ordinary shares	
Weighted average number of ordinary shares in issue less shares held for RSU Scheme	**2,699,943,341**
Adjustments for:	
— Share options	**2,863,711**
— RSUs	**51,160,438**
Weighted average number of ordinary shares for diluted earnings per share	**2,753,967,490**
Diluted earnings per share (in RMB/share)	**0.0359**

13 Net foreign exchange gains

The exchange differences (charged)/credited to the consolidated income statement are included as follows:

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Finance income — net (Note 10)	**6,259**	—
Other (losses)/gains — net (Note 8)	**(722)**	3,519
	5,537	3,519

14 Subsidiaries

The following is a list of the principal subsidiaries as at 31 December 2015:

Name of the company	Issued and fully paid share capital/ registered capital	Proportion of equity interest held by the Group (%)	Proportion of equity interest held by the non-controlling interest (%)	Principal activities and place of operation
Directly held by the Company				
Baitian Technology Limited (“Baitian Hong Kong”)	HK$10,000	100%	—	Investment holding, Hong Kong
Baioo Technology Limited (“Baitian BVI”)	US$50,000	100%	—	Investment holding, British Virgin Islands
Bababaobei Commerce Limited (“BCL”)	US$50,000	92.5%	7.5%	Investment holding, British Virgin Islands
Indirectly held by the Company				
廣州百田信息科技有限公司 (“Guangzhou Baitian”)	RMB10,010,000	100%	—	Online interactive entertainment and education service for children, the PRC
百多（廣州）信息科技有限公司 (“Guangzhou WFOE”)	US$500,000	100%	—	Research and development of computer software, the PRC
Bumps To Babes Limited (“Bumps”)	HK$1,000	69.3%	30.7%	Sales of baby and maternity products, Hong Kong
巴巴寶貝（廣州）電子商務有限公司 (“Bababaobei GZ”)	RMB10,000,000	92.5%	7.5%	Sales of baby and maternity products online, the PRC
廣州天梯網絡科技有限公司 (“Guangzhou Tianti”)	RMB2,000,000	100%	—	Software and information technology services, the PRC

(a) The directors of the Company considered that the non-controlling interest of any non-wholly owned subsidiaries are not significant to the Group. Therefore, no summarised financial information of the relevant subsidiaries is presented separately.

(b) Significant restrictions

Cash and cash equivalents, short-term deposits and long-term deposits of the Group, amounting to RMB767,008,000 are held in China and are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the country, other than through normal dividends.

15 Property and equipment

	Servers RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2014						
Cost	19,407	3,189	349	5,371	–	28,316
Accumulated depreciation	(9,382)	(1,998)	(250)	(3,580)	–	(15,210)
Net book amount	10,025	1,191	99	1,791	–	13,106
Year ended 31 December 2014						
Opening net book amount	10,025	1,191	99	1,791	–	13,106
Additions	3,754	946	633	299	–	5,632
Depreciation charge	(5,556)	(786)	(105)	(1,307)	–	(7,754)
Disposals	–	–	(41)	–	–	(41)
Closing net book amount	8,223	1,351	586	783	–	10,943
At 31 December 2014						
Cost	23,161	4,135	941	5,670	–	33,907
Accumulated depreciation	(14,938)	(2,784)	(355)	(4,887)	–	(22,964)
Net book amount	8,223	1,351	586	783	–	10,943
Year ended 31 December 2015						
Opening net book amount	8,223	1,351	586	783	–	10,943
Acquisition of a subsidiary (Note 35)	–	314	667	–	–	981
Additions	1,841	1,040	278	589	7,839	11,587
Depreciation charge	(5,220)	(924)	(230)	(899)	–	(7,273)
Currency translation differences	–	18	45	11	–	74
Closing net book amount	4,844	1,799	1,346	484	7,839	16,312
At 31 December 2015						
Cost	24,942	4,989	3,237	6,272	7,839	47,279
Accumulated depreciation	(20,098)	(3,190)	(1,891)	(5,788)	–	(30,967)
Net book amount	4,844	1,799	1,346	484	7,839	16,312

15 Property and equipment (continued)

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

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Cost of revenue	**5,149**	6,522
Administrative expenses	**1,085**	749
Research and development expenses	**790**	466
Selling and marketing expenses	**249**	17
	7,273	7,754

Construction work in progress as at 31 December 2015 mainly comprised leasehold improvements under construction.

16 Intangible assets

	Goodwill RMB'000	Computer software RMB'000	Trademark RMB'000	Total RMB'000
At 1 January 2014				
Cost	—	306	—	306
Accumulated amortization	—	(89)	—	(89)
Net book amount	—	217	—	217
Year ended 31 December 2014				
Opening net book amount	—	217	—	217
Additions	—	267	—	267
Amortization charge	—	(101)	—	(101)
Closing net book amount	—	383	—	383
At 31 December 2014				
Cost	—	573	—	573
Accumulated amortization	—	(190)	—	(190)
Net book amount	—	383	—	383
Year ended 31 December 2015				
Opening net book amount	**—**	**383**	**—**	**383**
Acquisition of a subsidiary (Note 35)	**33,306**	**—**	**15,938**	**49,244**
Additions	**—**	**270**	**—**	**270**
Amortization charge	**—**	**(135)**	**(730)**	**(865)**
Currency translation differences	**—**	**—**	**971**	**971**
Closing net book amount	**33,306**	**518**	**16,179**	**50,003**
At 31 December 2015				
Cost	**33,306**	**754**	**16,932**	**50,992**
Accumulated amortization and impairment	**—**	**(236)**	**(753)**	**(989)**
Net book amount	**33,306**	**518**	**16,179**	**50,003**

16 Intangible assets (continued)

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

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Selling and marketing expenses	**730**	—
Cost of revenue	**93**	74
Administrative expenses	**30**	1
Research and development expenses	**12**	26
	865	101

(a) Impairment test for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified. The goodwill of the Group is related to acquisition of Bumps (Note 35) which is considered as one CGU for impairment test purpose. The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the retail sector in which the CGU operates.

The key assumptions, long term growth rate and discount rate used in the value-in-use calculations in 2015 are as follows.

	31 December
	2015
Gross margin (% of revenue)	**46%**
Long term growth rate	**3%**
Pre-tax discount rate	**13.3%**

Gross margin is the average margin as a percentage of revenue over the five-year forecast period. It is based on the current sales margin levels and its expectations for the market development.

The long term growth rates used are consistent with the forecasts included in industry reports.

The discount rates used are pre-tax and reflect specific risks relating to the relevant operating segment.

17 Financial instruments by category

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Assets as per balance sheet		
Loans and receivables:		
— Trade receivables (Note 19)	**6,161**	6,425
— Other receivables (excluding prepayments) (Note 20)	**37,507**	32,688
— Short-term deposits (Note 21)	**975,991**	1,364,200
— Long-term deposits (Note 21)	**380,000**	—
— Cash and cash equivalents (Note 21)	**254,638**	259,367
	1,654,297	1,662,680
Assets at fair value through the profit & loss:		
— Financial assets at fair value through profit or loss	**1,298**	—
	1,655,595	1,662,680
Liabilities as per balance sheet		
Financial liabilities at amortized cost:		
— Long-term payable (Note 26)	**9,793**	—
— Trade payables (Note 29)	**11,467**	1,945
— Other payables and accruals (excluding other tax liabilities and staff costs and welfare accruals) (Note 30)	**9,543**	7,199
Amount due to related parties (Note 36(b))	**1,075**	—
Bank overdrafts	**216**	—
	32,094	9,144

18 Inventories

The inventories are mainly merchandise purchased for the Group's retail business.

The cost of inventories recognized as expense and included in "cost of revenue" amounted to RMB19,905,000 for the year ended 31 December 2015 (2014: Nil).

19 Trade receivables

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Receivables from third parties	**6,161**	6,425
Less: allowance for impairment	**—**	—
	6,161	6,425

As at 31 December 2015 and 2014, the fair values of trade receivables approximate their carrying amounts.

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

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
0–30 days	**4,234**	1,776
31–60 days	**168**	98
61–90 days	**22**	64
91–180 days	**1,737**	4,487
	6,161	6,425

(b) Advertising revenues of the Group are mainly generated on sales with credit terms determined on individual basis with normal credit periods of 90 to 120 days from the respective invoice dates. As at 31 December 2015 and 2014, there were no significant balances that were past due. These receivables are due from several online payment collection channels and advertising agencies with whom the Group had not experienced any recoverability difficulties. The aging of these trade receivables is less than 120 days.

(c) There was no allowance for impairment of trade receivables as at 31 December 2015 and 2014.

(d) As at 31 December 2015 and 2014, trade receivables were denominated in RMB and their fair value approximated their carrying amounts.

19 Trade receivables (continued)

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

(f) Trade receivables mainly include receivables from third party advertising agencies. There was concentration risk in terms of receivables from advertising agencies as at 31 December 2015 and 2014. Two advertising agencies accounted for over 25% of the total trade receivables as at 31 December 2015 and 2014 as shown in the table below:

	As at 31 December	
	2015	2014
Advertising agency 1	**36%**	28%
Advertising agency 2	**9%**	37%

20 Prepayments and other receivables

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Included in non-current assets		
Interests receivable	**4,725**	—
Rental and other deposits	**4,060**	733
Prepayment	**823**	—
	9,608	733
Included in current assets		
Interests receivable	**21,471**	26,220
Prepayment	**5,384**	1,384
Rental and other deposits	**737**	1,407
Others	**6,514**	4,328
	34,106	33,339
Less: allowance for impairment of other receivables	**—**	—
	43,714	34,072

20 Prepayments and other receivables (continued)

As at 31 December 2015 and 2014, the carrying amounts of prepayments and other receivables were primarily denominated in RMB and approximated their fair values. As at 31 December 2015 and 2014, there were no significant balances that were past due.

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

21 Cash and cash equivalents and term deposits

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Long-term deposits (Note a)	**380,000**	—
Short-term deposits (Note b)	**975,991**	1,364,200
Cash and cash equivalents		
— Cash at bank and on hand (Note c)	**254,638**	259,367
	1,610,629	1,623,567
Maximum exposure to credit risk (Note e)	**1,610,508**	1,623,525

21 Cash and cash equivalents and 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 year.

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

(c) All cash in bank balances were demand deposits in nature.

(d) The effective interest rate per annum for cash in bank balances and term deposits was approximately 2.7% (2014: 2.9%).

(e) 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.

Cash and cash equivalents and term deposits are denominated in the following currencies:

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
RMB	**1,455,632**	1,544,733
HK$	**146,282**	78,670
US$	**8,623**	164
Others	**92**	—
	1,610,629	1,623,567

22 Share capital and share premium

As at 31 December 2015, the total number of issued ordinary shares of the Company was 2,858,672,000 (2014: 2,808,546,000) shares which included 140,447,150 (2014: 119,935,600) shares held under the RSU Scheme.

	Number of shares	Nominal value of shares US$'000	Share Capital RMB'000	Share Premium RMB'000	Total RMB'000
Issued and fully paid:					
As at 1 January 2014	1,691,076,000	1	5	—	5
IPO (Note a)	706,106,000	1	2	1,120,079	1,120,081
Conversion of convertible redeemable preferred shares to ordinary shares (Note b)	400,000,000	—	1	682,263	682,264
Share Option Scheme:					
— Exercise of share options	24,124,000	—	—	1,942	1,942
RSU Scheme:					
— Issuance of shares held for RSU Scheme	27,240,000	—	—	—	—
— Vesting of RSUs	—	—	—	13,664	13,664
Buy-back and cancellation of shares (Note c)	(40,000,000)	—	—	(27,200)	(27,200)
Dividend paid to pre-IPO shareholders (Note 32)	—	—	—	(154,127)	(154,127)
As at 31 December 2014	2,808,546,000	2	8	1,636,621	1,636,629

22 Share capital and share premium (continued)

	Number of shares	Nominal value of shares US$'000	Share Capital RMB'000	Share Premium RMB'000	Total RMB'000
Issued and fully paid:					
As at 1 January 2015	2,808,546,000	2	8	1,636,621	1,636,629
Share Option Scheme:					
— Exercise of share options	2,236,000	–	–	175	175
RSU Scheme:					
— Issuance of shares held for RSUs Scheme	47,890,000	–	–	–	–
— Vesting of RSUs	–	–	–	19,531	19,531
2014 final dividend payable to equity holders of the Company (Note 32)	–	–	–	(74,472)	(74,472)
As at 31 December 2015	2,858,672,000	2	8	1,581,855	1,581,863

(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 of approximately RMB15,977,000, were approximately HKD1,411,926,000 (equivalent to RMB1,120,081,000).

(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) The Company acquired 40,000,000 of its own shares through purchases on the Hong Kong Stock Exchange during the year ended 31 December 2014 for cash totaling HKD34,227,000 (equivalent to RMB27,200,000) and deducted the amount from share premium upon cancellation of the shares.

23 Reserves

	Other reserves RMB'000 (Note a)	Statutory reserves RMB'000 (Note b)	Share-based compensation reserve RMB'000 (Note 24)	Translation RMB'000	Total RMB'000
As at 1 January 2014	10,010	5,005	10,719	–	25,734
Share Option Scheme:					
— Value of employee services	–	–	70	–	70
— Exercise of share options	–	–	(1,084)	–	(1,084)
RSU Scheme:					
— Value of employee services	–	–	38,860	–	38,860
— Vesting of RSUs	–	–	(13,664)	–	(13,664)
As at 31 December 2014	10,010	5,005	34,901	–	49,916
As at 1 January 2015	**10,010**	**5,005**	**34,901**	**–**	**49,916**
Share Option Scheme:					
— Exercise of share options	**–**	**–**	**(101)**	**–**	**(101)**
RSU Scheme:					
— Value of employee services	**–**	**–**	**25,126**	**–**	**25,126**
— Vesting of RSUs	**–**	**–**	**(19,531)**	**–**	**(19,531)**
Recognition of a financial liability in respect of the put option granted to the non-controlling interest	**(7,941)**	**–**	**–**	**–**	**(7,941)**
Currency translation difference	**–**	**–**	**–**	**869**	**869**
As at 31 December 2015	**2,069**	**5,005**	**40,395**	**869**	**48,338**

23 Reserves (continued)

(a) The reserves represent capital contribution injected by Guangzhou Baitian's shareholders into Guangzhou Baitian upon its establishment and the financial liability in respect of the put option granted to the non-controlling interest with a right to require the Group to acquire the remaining equity interest in the non-wholly owned subsidiary (Note 35(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, it is required to appropriate 10% of the annual net profits of the companies incorporated in the PRC now comprising the Group, after offsetting any prior years' losses as determined under the PRC accounting standards, to the statutory surplus reserve fund before distributing any net profit. When the balance of the statutory surplus reserve fund reaches 50% of the registered capital of the companies, any further appropriation is at the discretion of shareholders. The statutory surplus reserve fund can be used to offset prior years' losses, if any, and may be capitalized as capital, provided that the remaining balance of the statutory surplus reserve fund after such issue is no less than 25% of registered capital.

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

24 Share-based payments

(a) Share Option Scheme

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

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

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

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

24 Share-based payments (continued)

(a) Share Option Scheme (continued)

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

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

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

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

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

	Average exercise price in US$ per share under the option	Number of shares under the option
As at 1 January 2014	0.006	28,800,000
Exercised	0.006	(24,124,000)
Forfeited	—	—
As at 31 December 2014	0.006	4,676,000
As at 1 January 2015	**0.006**	**4,676,000**
Exercised	**0.005**	**(2,236,000)**
Forfeited	**—**	**—**
As at 31 December 2015	**0.008**	**2,440,000**

24 Share-based payments (continued)

(a) Share Option Scheme (continued)

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

The related weighted average share price at the time of exercise for share options exercised during the year was HK$0.73 (2014: HK$1.15) per share.

As at 31 December 2015, options granted over 596,000, 1,322,000 and 522,000 shares will expire in 2020, 2020 and 2021 with exercise price of US$0.0045, US$0.009 and US$0.009 per share, respectively.

The directors have used the Binomial option-pricing model to determine the fair value of the share options as at the grant date. Key assumptions, such as the discount rate and projections of future performance, are required to be determined by the directors with best estimates.

(b) RSU Scheme(s)

On 30 September 2013, the Board of Directors of the Company resolved and adopted the Pre-IPO RSU Scheme with the objective of recognizing the contributions by employees and giving incentives thereto in order to retain them for the continuing operation and development of the Group and attract suitable personnel for further development of the Group.

Pursuant to the resolution above, unless otherwise duly approved by the shareholders of the Company, the ordinary shares in aggregate underlying all RSUs under the Pre-IPO RSU Scheme shall not exceed 188,733,600 ordinary shares.

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

The Company granted 142,004,000 RSUs to certain employees and 600,000 RSUs to the Company’s Independent Non-Executive Directors under the Pre-IPO RSU Scheme. Each RSU is conditional on the grantee completing one to four years’ service and can be converted into one ordinary share upon vesting.

24 Share-based payments (continued)

(b) RSU Scheme(s) (continued)

On 18 March 2014, the Board of Directors of the Company resolved and conditionally adopted the Post-IPO RSU Scheme, which took effect on 10 April 2014, pursuant to which, the total number of shares underlying the RSUs that may be granted under the Post-IPO RSU Scheme was initially 56,488,440 Shares, representing 2% of the total number of shares in issue on the listing date of 10 April 2014 which is subject to annual refreshment by shareholder approval.

The Post-IPO RSU Scheme is the share-based incentive scheme that the Company has in place to motivate its employees after its listing.

On 19 June 2015, at the annual general meeting of the Company, the shareholders approve an amendment to the Post-IPO RSU Scheme to increase the limit from 2% of the number of shares of the Company in issue on 10 April 2014 to 4% of the Company's issued share capital as of the approval date.

On 10 July 2015, the Company granted RSUs representing an aggregate of 65,780,000 shares to 110 grantees and 30,000,000 RSUs to Dr. XU Gang, pursuant to the Post-IPO RSU Scheme. Each RSU is conditional on the grantee completing one to four years' service and can be converted into one ordinary share upon vesting.

24 Share-based payments (continued)

(b) RSU Scheme(s) (continued)

Movements in the number of RSUs outstanding are as follows:

	Number of restricted share units
As at 1 January 2014	**115,076,000**
Granted	**27,240,000**
Forfeited	**(13,394,400)**
Exercised	**(22,380,400)**
As at 31 December 2014	**106,541,200**
As at 1 January 2015	**106,541,200**
Granted	**95,780,000**
Forfeited	**(35,860,800)**
Exercised	**(27,378,450)**
As at 31 December 2015	**139,081,950**

For the RSUs granted before the IPO, the directors used the discounted cash flow method to determine the underlying equity fair value of the Company and adopted an equity allocation method to determine the fair value of the RSUs as at the grant date.

The related weighted average share price at the time of the conversion of RSUs into ordinary shares during the year was HK$0.55 (2014: HK$1.15) per share.

25 Accumulated losses

	RMB'000
As at 1 January 2014	(45,169)
Loss for the year	(131,702)
As at 31 December 2014	(176,871)
As at 1 January 2015	**(176,871)**
Profit for the year	**98,909**
As at 31 December 2015	**(77,962)**

26 Long-term payable

Long-term payable as at 31 December 2015 was the present value of the amount payable to acquire the remaining equity interest under the put option granted to the non-controlling shareholder of Bumps.

27 Advances under government grants

(a) Advances under government grants included in current liabilities

Certain conditions are required to fulfill before the Group is entitled to government grants. Since some of the attached conditions are related to certain key performance indicators for the financial year 2016, as at 31 December 2015, the Group was uncertain whether all attached conditions can be met. Accordingly, the cash received was recorded as advances under government grants.

(b) Advances under government grants included in non-current liabilities

This balance represented the government grants related to property and equipment to be credited to profit or loss on a straight-line basis over the expected useful lives of the related assets.

28 Advances from customers and distributors and deferred revenue

As at 31 December 2015 and 2014, advances from customers and distributors primarily consisted of prepayments from prepaid card distributors or prepayments from Paying Players in the form of Aocoins that have not yet been consumed or converted into online virtual world tokens. Deferred revenue primarily consisted of unused online virtual world tokens, unamortized prepaid membership subscription fees and unamortized revenue derived from the sales of durable virtual items.

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

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Included in non-current liabilities		
Membership subscription	**1,654**	2,069
Virtual worlds/web games (Note a)	**1,188**	1,236
	2,842	3,305
Included in current liabilities		
Advances from customers and distributors	**57,828**	73,664
Membership subscription	**29,247**	31,482
Virtual worlds/web games (Note a)	**21,446**	25,135
Others	**108**	—
	108,629	130,281
	111,471	133,586

(a) Deferred revenue of virtual worlds/web games primarily consists of the unamortized durable in-game virtual items, where the Group continues to have obligations as described in Note 2.25 and online virtual world tokens held by Paying Players which have not yet been used to purchase in-game virtual items, as at 31 December 2015 and 2014. Deferred game revenue will be recognized as revenue when all of the revenue recognition criteria are met.

29 Trade payables

Trade payables primarily relate to the purchase of inventory for the retailing of baby and maternity products, services for server custody, outsourcing game development and the revenue collected by the Group's own platforms to be shared with other developers under cooperation agreements.

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

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
0–30 days	**7,043**	1,693
31–60 days	**3,405**	1
61–180 days	**647**	2
181–365 days	**372**	249
	11,467	1,945

(a) As at 31 December 2015 and 2014, the fair value of trade payables approximated their carrying amounts.

30 Other payables and accruals

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Staff costs and welfare accruals	**28,190**	27,250
Commission payable to distributors	**2,365**	1,049
Professional service fees payable	**4,681**	5,274
Other tax liabilities (Note b)	**1,132**	2,329
Others	**2,497**	876
	38,865	36,778

(a) As at 31 December 2015 and 2014, the fair value of other payables and accruals approximated their carrying amounts.

(b) The balances represent liabilities relating to value-added tax and other related taxes in the PRC.

31 Deferred income tax

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

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Deferred income tax assets:		
— to be recovered after 12 months	**302**	496
— to be recovered within 12 months	**4,638**	7,099
	4,940	7,595

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Deferred income tax liabilities:		
— to be recovered after 12 months	**2,484**	—
— to be recovered within 12 months	**186**	—
	2,670	—

The gross movement on the deferred income tax account is as follows:

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
At beginning of the year	**7,595**	9,110
Acquisition of a subsidiary (Note 35)	**(2,630)**	—
Recognized in profit or loss (Note 11)	**(2,574)**	(1,515)
Currency translation differences	**(121)**	—
At end of the year	**2,270**	7,595

31 Deferred income tax (continued)

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets	Deferred revenue	Advance under government grants	Accruals	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2014	3,387	—	5,723	—	9,110
Recognized in profit or loss	85	272	(1,872)	—	(1,515)
As at 31 December 2014	3,472	272	3,851	—	7,595
Recognized in profit or loss	(658)	453	(3,851)	1,361	(2,695)
Currency translation differences	—	—	—	40	40
As at 31 December 2015	**2,814**	**725**	**—**	**1,401**	**4,940**

Deferred income tax liabilities	Intangible assets acquired in business combination at fair value
	RMB'000
As at 1 January 2014 & 2015	—
Acquisition of a subsidiary (Note 35)	2,630
Recognized in profit or loss	(121)
Currency translation differences	161
As at 31 December 2015	2,670

31 Deferred income tax (continued)

Deferred income tax assets are recognized for tax losses carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The Group did not recognize deferred income tax assets of RMB738,000 and RMB341,000 in respect of losses amounting to RMB3,312,000 and RMB1,574,000 that can be carried forward against future taxable income for the years ended 31 December 2015 and 2014, respectively, as it is uncertain that future taxable income will be available in those subsidiaries against which the tax losses can be utilized. Tax losses amounting to RMB907,000 and RMB1,350,000 will expire in 2019 and 2020, respectively. The remaining tax losses have no expiry date.

As at 31 December 2015 and 2014, no deferred income tax liability had been provided for in respect of the PRC withholding tax that would be payable on the unremitted earnings of approximately RMB581,135,000 and RMB499,824,000, respectively. Such earnings are expected to be retained by the PRC subsidiaries and not to be remitted to a foreign investor in the foreseeable future based on management's estimation of overseas funding requirements.

32 Dividend

The dividends paid in 2015 and 2014 were RMB74,472,000 and RMB154,127,000, respectively. The Board of Directors of the Company proposed a special dividend of HK$0.018 (equivalent to approximately RMB0.015) per ordinary share out of the share premium account, totaling approximately RMB40,976,000. Such dividend is to be approved by the shareholders at the annual general meeting ("AGM") on 27 May 2016. These financial statements do not reflect this dividend payable as a liability as at 31 December 2015.

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Special dividend paid of US$25 million (Note (a))	**–**	154,127
Proposed special dividend of HK$0.018 equivalent to approximately RMB0.015 (2014: HK$0.035) per ordinary share	**40,976**	74,472
	40,976	228,599

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

33 Cash generated from operations

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Profit/(loss) after income tax	**99,430**	(131,702)
Adjustments for:		
— Income tax expense (Note 11)	**15,595**	38,522
— Depreciation of property and equipment (Note 15)	**7,273**	7,754
— Amortization of intangible assets (Note 16)	**865**	101
— Profit on disposal of fixed assets	**—**	(57)
— Share-based compensation expenses (Note 24)	**25,126**	38,930
— Finance income — net (Note 10)	**(59,070)**	(34,717)
— Share of loss of an associate	**344**	—
— Fair value loss of convertible redeemable preferred shares	**—**	327,749
— Foreign exchange losses	**722**	4,659
Changes in working capital (excluding the effects of acquisition and currency translation differences on consolidation):		
— Inventories	**(4,876)**	—
— Trade receivables	**401**	(2,570)
— Prepayments and other receivables	**(8,859)**	3,389
— Financial assets at fair value through profit or loss	**(1,298)**	—
— Trade payables	**3,995**	(1,556)
— Other payables and accruals	**1,473**	(16,149)
— Advances from customers and distributors	**(15,836)**	503
— Advances under government grants	**3,023**	1,810
— Deferred revenue	**(6,279)**	(28)
Cash generated from operations	**62,029**	236,638

Non-cash transaction

The principal non-cash transaction is the issue of shares as consideration for the acquisition mentioned in Note 35.

34 Commitments

(a) Capital commitments

Capital expenditure contracted for at the end of the year but not yet incurred is as follows:

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Leasehold improvement	**18,324**	—

(b) Operating lease commitments

The Group leases buildings for daily operations under non-cancellable operating leases. The lease expenditure charged to profit or loss for the years ended 31 December 2015 and 2014 is disclosed in Note 6.

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

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Not later than 1 year	**13,923**	10,615
Later than 1 year and not later than 5 years	**62,880**	11,747
Over 5 years	**95,176**	—
	171,979	22,362

35 Business combination

On 8 May 2015, the Group's wholly-owned subsidiary, BCL acquired 74.9% equity interest in Babababei Trading Limited ("BTL") with a wholly-owned subsidiary, Bumps, 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 ("Vendor"). Bumps is engaged principally in operating superstores for baby and maternity 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, 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 baby and maternity products, through a well-established brand name, Bumps, 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 arose from a number of factors including expected synergies through combining a highly skilled workforce, experiences in the retail of baby and maternity products and understanding of mother and baby market.

The following table summarizes the consideration paid for BTL, and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date.

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

35 Business combination (continued)

	8 May 2015 RMB'000
Recognized amounts of identifiable assets acquired and liabilities assumed	
Provisional fair value	
Cash and banks	117
Property and equipment	981
Intangibles:	
— Trademark	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 consolidated income statement for the year ended 31 December 2015)	1,739

35 Business combination (continued)

	8 May 2015 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**

(a) Provisional fair value of acquired identifiable intangible assets

The fair value of the acquired identifiable intangible assets, the trademark, of RMB15,938,000 is provisional 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 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 RMB34,490,000 and net profit of RMB336,000 to the Group for the period from 8 May 2015 to 31 December 2015. Had Bumps been consolidated from 1 January 2015, the consolidated income statement would have shown revenue of RMB404,350,000 and profit of RMB99,598,000 on a pro-forma basis.

(d) Other arrangements associated with the acquisition of Bumps

On 8 May 2015, associated with the acquisition, BCL granted to the Vendor a put option with a right 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 the estimated future cash out flow of the Group to fulfil the full obligations, together with a debit to other reserve within equity of the Group.

36 Related party transactions

The ultimate parent of the Group is TMF (Cayman) Ltd. (incorporated in the Cayman Islands).

In addition to those disclosed elsewhere in the financial statements, the following transactions were carried out with related parties:

(a) Name and relationship with related parties

The following individual and entity are related parties of the Group that had balances and/or transactions with the Group for the years ended 31 December 2015 and 2014:

Name	Relationship
Mr. Dai Jian	Chairman
Beijing Xingmen Dongman Technology Limited Company ("Beijing Xingmen")	An associate of the Group

(b) Balances with related parties

(i) Amounts due to related parties

Name of related parties	As at 31 December	
	2015	2014
	RMB'000	RMB'000
— Beijing Xingmen	**875**	—
— Mr. Dai Jian	**200**	—
	1,075	—

The amounts due to related parties are unsecured, interest-free and repayable on demand.

(c) Transactions with a related party

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Purchase of service:		
— Beijing Xingmen	**187**	—

36 Related party transactions (continued)

(d) Key management personnel compensations

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

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Wages, salaries and bonuses	**10,991**	11,654
Pension costs — defined contribution plans	**211**	180
Other social security costs, housing benefits and other employee benefits	**292**	279
Share-based compensation expenses	**19,118**	13,329
	30,612	25,442

37 Contingencies

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

38 Balance sheet and reserve movement of the Company

	Note	As at 31 December 2015 RMB'000	2014 RMB'000
ASSETS			
Non-current assets			
Interests in subsidiaries		**232,578**	49,658
Current assets			
Prepayments and other receivables		**13,111**	15,583
Amounts due from subsidiaries		**21,852**	79,265
Short-term deposits		**652,991**	801,200
Financial assets at fair value through profit or loss		**1,298**	—
Cash and cash equivalents		**63,777**	67,498
		753,029	963,546
Total assets		**985,607**	1,013,204
EQUITY			
Share capital		**8**	8
Share premium		**1,581,855**	1,636,621
Reserves	a	**40,395**	34,901
Accumulated losses	a	**(651,720)**	(670,337)
Total equity		**970,538**	1,001,193
LIABILITIES			
Current liabilities			
Other payables and accruals		**4,932**	2,774
Amounts due to subsidiaries		**10,137**	9,237
		15,069	12,011
Total liabilities		**15,069**	12,011
Total equity and liabilities		**985,607**	1,013,204

The balance sheet of the Company was approved by the Board of Directors on 29 March 2016 and were signed on its behalf.

Dai Jian
Director

Li Chong
Director

38 Balance sheet and reserve movement of the Company (continued)

(a) Reserve movement of the Company

	Share-based compensation reserve RMB'000 (Note 24)	Accumulated losses RMB'000
At 1 January 2014	10,719	(351,667)
Loss for the year	—	(318,670)
Share Option Scheme:		
— Value of employee services	70	—
— Exercise of share options	(1,084)	—
RSU Scheme:		
— Value of employee services	38,860	—
— Vesting of RSUs	(13,664)	—
At 31 December 2014	34,901	(670,337)
At 1 January 2015	**34,901**	**(670,337)**
Profit for the year	**—**	**18,617**
Share Option Scheme:		
— Exercise of share options	**(101)**	**—**
RSU Scheme:		
— Value of employee services	**25,126**	**—**
— Vesting of RSUs	**(19,531)**	**—**
At 31 December 2015	**40,395**	**(651,720)**

39 Benefits and interests of directors (disclosures required by section 383 of the Hong Kong Companies Ordinance (Cap. 622), Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) and HK Listing Rules)

(a) Directors' and chief executives' emoluments

The remunerations of the directors and the chief executive for each of the years ended 31 December 2015 and 2014 are set out below:

Year ended 31 December 2015:

	Emoluments paid or receivable in respect of a person's services as a director, whether of the company or its subsidiary undertaking									
Name	Fees RMB'000	Salaries RMB'000	Discretionary bonus RMB'000	Housing allowance RMB'000	Employer's contribution to retirement benefit scheme RMB'000	Other social security costs, housing benefits and other employee benefits RMB'000	Estimated money value of Share-based compensation RMB'000	Remunerations paid or receivable in respect of accepting office as director RMB'000	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking RMB'000	Total RMB'000
Executive Directors										
Mr. Dai Jian	–	1,380	136	–	25	41	3,892	–	–	5,474
Mr. Wu Lili (i)	–	1,082	82	–	68	74	–	–	–	1,306
Mr. Li Chong	–	1,080	90	–	25	41	–	–	–	1,236
Mr. Wang Xiaodong	–	816	146	–	24	41	–	–	–	1,027
Dr. Xu Gang (Chief Executive Officer("CEO")) (i)	–	1,828	254	–	21	34	6,024	–	–	8,161
Non-executive Director										
Mr. Ji Yue (ii)	–	–	–	–	–	–	–	–	–	–
Independent Non-Executive Directors										
Ms. Liu Qianli (iv)	283	–	–	–	–	–	89	–	–	372
Dr. Wang Qing (iv)	283	–	–	–	–	–	89	–	–	372
Mr. Ma Xiaofeng (iv)	227	–	–	–	–	–	89	–	–	316

39 Benefits and interests of directors (disclosures required by section 383 of the Hong Kong Companies Ordinance (Cap. 622), Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) and HK Listing Rules) (continued)

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

Year ended 31 December 2014 (restated):

	Emoluments paid or receivable in respect of a person's services as a director, whether of the company or its subsidiary undertaking									
Name	Fees RMB'000	Salaries RMB'000	Discretionary bonus RMB'000	Housing allowance RMB'000	Employer's contribution to retirement benefit scheme RMB'000	Other social security costs, housing benefits and other employee benefits RMB'000	Estimated money value of Share-based compensation RMB'000	Remunerations paid or receivable in respect of accepting office as director RMB'000	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking RMB'000	Total RMB'000
Executive Directors										
Mr. Dai Jian	–	1,380	715	–	22	38	5,287	–	–	7,442
Mr. Wu Lili	–	1,332	711	–	61	58	–	–	–	2,162
Mr. Li Chong	–	1,080	690	–	22	38	–	–	–	1,830
Mr. Chen Ziming (iii)	–	900	75	–	19	38	–	–	–	1,032
Mr. Wang Xiaodong	–	816	668	–	19	38	–	–	–	1,541
Non-executive Director										
Mr. Ji Yue (ii)	–	–	–	–	–	–	–	–	–	–
Independent Non-Executive Directors										
Ms. Liu Qianli (iv)	–	275	–	–	–	–	119	–	–	394
Dr. Wang Qing (iv)	–	275	–	–	–	–	119	–	–	394
Mr. Ma Xiaofeng (iv)	–	245	–	–	–	–	119	–	–	364

(i) Dr. Xu Gang was appointed as the CEO of the Company and Mr. Wu relinquished his position as the CEO but will remain an executive Director on 5 March 2015. Dr. Xu was appointed as the executive director of the Company on 20 December 2015.

(ii) Mr. Ji Yue resigned from non-executive director of the Company on 20 November 2015.

(iii) Mr. Chen Ziming resigned from executive director of the Company on 20 November 2014.

(iv) Ms. Liu Qianli, Dr. Wang Qing and Mr. Ma Xiaofeng were appointed as independent non-executive directors of the Company on 18 March 2014.

39 Benefits and interests of directors (disclosures required by section 383 of the Hong Kong Companies Ordinance (Cap. 622), Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) and HK Listing Rules) (continued)

(b) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.