BAIOO Family Interactive Limited
百 奧 家 庭 互 動 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2100)

2014 ANNUAL RESULTS ANNOUNCEMENT

The board of directors (the "**Board**") of BAIOO Family Interactive Limited ("**BAIOO**" or the "**Company**") is pleased to announce the consolidated results of the Company, its subsidiaries and its controlled entity in the PRC (the "**Group**") for the year ended 31 December 2014.

Financial Summary

INCOME STATEMENT HIGHLIGHT

	Year ended 31 December		Year-on-year
	2014	2013	change
	RMB'000	*RMB'000*	%
Revenue	**506,193**	454,996	11.3%
Gross profit	**347,738**	348,881	-0.33%
Operating profit	**199,852**	248,158	-19.5%
Non-International Financial Reporting Standards ("IFRSs") Measures			
— Adjusted Net Profit(1) (unaudited)	**234,977**	226,800	3.60%
— Adjusted EBITDA(2) (unaudited)	**246,637**	263,512	6.40%

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 period.

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

BALANCE SHEET HIGHLIGHT

	As of 31 December 2014 *RMB'000*	As of 31 December 2013 *RMB'000*
Assets		
Non-current assets	**19,654**	37,860
Current assets	**1,664,139**	496,803
Total assets	**1,683,793**	534,663
Equity and liabilities		
Total equity/(deficits)	**1,509,674**	(19,430)
Non-current liabilities	**3,305**	352,045
Current liabilities	**170,814**	202,048
Total liabilities	**174,119**	554,093
Total equity/(deficits) and liabilities	**1,683,793**	534,663

Management Discussion and Analysis

BUSINESS OVERVIEW

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

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

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

OUTLOOK FOR 2015

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

OPERATION INFORMATION

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

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

Note:

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

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

The average QPA for our online virtual worlds was approximately 3.0 million for the year ended 31 December 2014, representing an increase of approximately 3.4% compared with last year as a result of the increasing popularity of our online virtual worlds.

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

OVERALL BUSINESS AND FINANCIAL PERFORMANCE

YEAR ENDED 31 DECEMBER 2014

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

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

Note:

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

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

Revenue

Our revenue for the year ended 31 December 2014 was RMB506.2 million, representing an 11.3% increase from RMB455.0 million for the year ended 31 December 2013.

Online Business: Our online business revenue for the year ended 31 December 2014 was RMB496.4 million, an 11.2% increase from RMB446.3 million for the year ended 31 December 2013. This was primarily benefited from revenue growth of our existing major titles such as Legend of Aoqi and Aola Star, contributing an increase in ARQPA from RMB38.3 to RMB41.3 for the year ended 31 December 2013 and 2014. The increase in ARQPA was due to the increased monetization rate of our virtual worlds resulting from their continued increase in popularity.

Other Business: Our other businesses revenue for the year ended 31 December 2014 was RMB9.8 million, a 12.6% increase from RMB8.7 million for the year ended 31 December 2013, primarily due to an increase in in-game advertising revenue.

Cost of revenue

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

Gross Profit

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

Selling and Marketing Expenses

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

Administrative Expenses

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

Research and Development Expenses

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

Other Income

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

Operating Profit

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

Finance Income — net

We had net finance income of RMB34.7 million for the year ended 31 December 2014, compared with net finance income of RMB7.6 million for the year ended 31 December 2013. Net finance income for the year ended 31 December 2014 was primarily attributable to (i) RMB32.0 million in interest income on short-term deposits and (ii) RMB2.9 million in interest income on bank deposits.

Fair Value Loss of Convertible Redeemable Preferred Shares

We had fair value loss of convertible redeemable preferred shares of RMB327.7 million and RMB237.2 million for year ended 31 December 2014 and 2013 respectively, due to the continued increase in the equity value of the Company. But after 10 April 2014, the impact of convertible redeemable preferred shares has disappeared due to the convertible redeemable preferred shares exchanged to ordinary shares at the moment of the Company's successful IPO.

(Loss)/profit before Income Tax

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

Income Tax Expense

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

Loss for the year

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

Non-IFRSs Measure — Adjusted Net Profit/EBITDA

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

Note:

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

Cash and Cash Equivalents and Short-Term Deposits

As of 31 December 2014, our cash and cash equivalents consisted of cash in bank and cash on hand which amounted to RMB259.4 million, compared with RMB280.9 million as of 31 December 2013. The cash in bank balances as of 31 December 2014 were demand deposits. We also had short-term deposits of RMB1,364.2 million as of 31 December 2014, representing bank deposits which we intend to hold for over three months but less than one year. The effective interest rate per annum for cash in bank balances and short-term deposits as of 31 December 2014 was 2.9%, compared with 1.2% as of 31 December 2013. Our policy is to place our cash in interest-bearing principal-protected demand or short-term deposits with reputable PRC banks.

Restricted cash

As of 31 December 2014, the Group had no restricted cash.

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

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

Bank Loans and Other Borrowings

In September 2013, we entered into a general banking facility agreement with China Merchants Bank Co., Ltd., Hong Kong Branch ("**China Merchants Bank HK**") in connection with a term loan facility of up to the lower of (i) US$5.0 million or (ii) 95% of the amount under an RMB standby letter of credit issued by China Merchants Bank Co., Ltd., Guangzhou Branch in favor of China Merchants Bank HK, guaranteed by Guangzhou Baitian Information Technology Limited ("Guangzhou Baitian"), available for drawdown within six months from the date of the facility. The aggregate amount available for drawdown under this facility is US$5.0 million. As of 19 March 2014, we had a total drawdown of US$5.0 million under this facility. Subsequently, on 15 May 2014, Baitian Hong Kong made a loan repayment of US$5.0 million to China Merchants Bank HK. As of 31 December 2014, we had no bank loans and other borrowings.

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

Treasury policies

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

Foreign currency risk

As of 31 December 2014, RMB78.8 million of our financial resources were held in deposits in non-RMB currencies. Since there are no cost-effective hedges against the fluctuation of RMB, there is a risk that we may experience a loss as a result of any foreign currency exchange rate fluctuations in connection with our deposits.

Capital Expenditures and Investments

Our capital expenditures consist of purchase of property and equipment such as servers and computers and intangible assets of computer software. In 2014, our total capital expenditures were RMB5.9 million, compared with RMB10.3 million in 2013. The following table sets out our expenditures for the years indicated:

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

Contingent liabilities

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

Charges on assets

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

Material acquisitions and future plans for major investment

During the year ended 31 December 2014, the Group did not conduct any material acquisitions or disposals. In addition, the Group currently has no specific plans for major investments or acquisitions for major capital assets or other businesses. However, the Group will continue to identify new opportunities for business development.

Employees and staff costs

As of 31 December 2014, the Group had 731 full-time employees, all of whom are based in Guangzhou. The following table sets forth the number of our full-time employees by function as of 31 December 2014:

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

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

Pursuant to our Pre-IPO Share Option Scheme and Pre-IPO RSU Scheme, we had granted to our senior management and employees share options for the purchase of an aggregate of 28,800,000 Shares and an aggregate of 142,316,000 RSUs to our directors, senior management and employees prior to our IPO. For the year ended 31 December 2014, an aggregate of 24,124,000 Shares were issued to our senior management and employees upon exercise of the granted share options that had vested, and an aggregate of 22,380,400 Shares were issued to our senior management and employees upon vesting of the granted RSUs while a total number of 13,394,400 granted RSUs were forfeited due to departure of certain employees. As of 31 December 2014, there were a total of

4,676,000 share options and 106,541,200 RSUs outstanding and owned by a total of 266 directors, senior management members and employees of the Group. Further details of these schemes, together with details of the options and RSUs granted under such schemes, are set out in the section headed "Employee Incentive Schemes" in the — Director's Report in the Company's 2014 annual report.

In the future, we will continue to grant RSUs to our employees to incentivize them pursuant to the Post-IPO RSU Scheme. Currently, the maximum aggregate number of the Shares underlying all the RSUs which we may grant pursuant to the Post-IPO RSU Scheme is 56,488,440 shares, representing approximately 2% of our share capital at the time of our IPO. As of 31 December 2014, no RSUs had been granted by us pursuant to the Post-IPO RSU Scheme. In addition, we intend to amend, subject to approval by our Shareholders at the general meeting of shareholders to be held on 19 June 2015, the Post-IPO RSU Scheme and increase the total number of Shares underlying this scheme to 4% of the total shares of our company as of the date of approval.

Dividend

In 2014, we have declared a special dividend of RMB154,127,000 (US$25.0 million) to our pre-IPO shareholders payable after the Listing and contingent on us having sufficient share premium and/or distributable reserves subsequent to the Listing. On 29 April 2014, such special dividend has been paid to our pre-IPO shareholders after sufficient funds were available in our share premium account.

Other than the special dividend set out above, the Board has recommended the payment of a special dividend of HK$0.035 (equivalent to approximately RMB0.028) per ordinary share for the year ended 31 December 2014 out of our share premium account, subject to the approval of the shareholders of the Company at the annual general meeting to be held on 19 June 2015 (the "**2015 AGM**"). Such proposed dividend will be payable on Friday, 17 July 2015 to the shareholders of the Company whose names appear on the register of members of the Company on Friday, 26 June 2015.

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December 2014 RMB'000	2013 RMB'000
Revenue	2	**506,193**	454,996
Cost of revenue	3	**(158,455)**	(106,115)
Gross profit		**347,738**	348,881
Selling and marketing expenses	3	**(60,641)**	(47,644)
Administrative expenses	3	**(61,177)**	(33,247)
Research and development expenses	3	**(28,847)**	(28,546)
Other income		**—**	1,551
Other gains — net		**2,779**	7,163
Operating profit		**199,852**	248,158
Finance income	4	**34,854**	7,656
Finance costs	4	**(137)**	(17)
Finance income — net	4	**34,717**	7,639
Fair value loss of convertible redeemable preferred shares		**(327,749)**	(237,228)
(Loss)/profit before income tax		**(93,180)**	18,569
Income tax expense	5	**(38,522)**	(38,788)
Loss for the year		**(131,702)**	(20,219)
Attributable to:			
—Shareholders of the Company		**(131,702)**	(20,219)
Loss per share (expressed in RMB per share)	6		
—Basic and diluted		**(0.0551)**	(0.0128)

	Note	Year ended 31 December 2014 RMB'000	2013 RMB'000
Dividend	7	**228,599**	—

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

CONSOLIDATED BALANCE SHEET

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

	Note	As of 31 December **2014** ***RMB'000***	 2013 *RMB'000*
LIABILITIES			
Non-current liabilities			
Deferred revenue		**3,305**	2,083
Convertible redeemable preferred shares		**—**	349,962
		3,305	352,045
Current liabilities			
Trade payables	*9*	**1,945**	3,501
Other payables and accruals		**36,778**	55,173
Amount due to a related party		**—**	5
Income tax liabilities		**—**	6,204
Advances from customers and distributors		**73,664**	73,161
Advance from government grant		**1,810**	—
Deferred revenue		**56,617**	57,867
Borrowings		**—**	6,137
		170,814	202,048
Total liabilities		**174,119**	554,093
Total equity and liabilities		**1,683,793**	534,663
Net current assets		**1,493,325**	294,755
Total assets less current liabilities		**1,512,979**	332,615

1 Basis of preparation

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

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

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

(a) New and amended standards adopted by the Group

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

IAS 32 (Amendment)	'Financial instruments: Presentation' on asset and liability offsetting
IFRS 10, 12 and IAS 27 (Amendment)	Consolidation for investment entities
IAS 36 (Amendment)	'Impairment of assets' on recoverable amount disclosures
IAS 39 (Amendment)	'Financial Instruments: Recognition and Measurement' — 'Novation of derivatives'
IFRIC 21	Levies
IFRSs (Amendment)	Annual Improvements 2010 — 2012 Cycle

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

(b) New and amended standards not yet adopted

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

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

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

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

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

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

2 Segment information

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

— Online business

— Other business

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

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

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

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

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

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

There is no concentration risk in terms of customers (which include end users from online business and customers from other business) as no single external customer contributed more than 10% of the Group's total revenue for the years ended 31 December 2014 and 2013. However, revenue of the Group is mainly derived from self-developed online virtual worlds operations and the Group depends on the success of a limited number of online virtual worlds to generate revenue. As summarized in the table below, the online virtual worlds contributing more than 10% of the Group's total revenue account for 94.2% and 92.3% of the total revenue for the each of the years ended 31 December 2014 and 2013. The respective percentage of revenue contributed by the following online virtual worlds is not presented for the periods when such amount is less than 10% of the Group's total revenue in a particular year.

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

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

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

3 Expenses by nature

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

4 Finance income — net

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

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

5 Income tax expense

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

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

(a) Cayman Islands income tax

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

(b) Hong Kong profits tax

Hong Kong profits tax rate is 16.5% for the years ended 31 December 2014 and 2013. No Hong Kong profits tax has been provided for, as there was no assessable profit that was subject to profits tax for the years ended 31 December 2014 and 2013.

(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 2014 and 2013.

According to the relevant laws and regulations promulgated by the State Tax Bureau of the PRC that was effective from 2008 onwards, enterprises engaging in research and development activities are entitled to claim 150% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year ("Super Deduction"). The Group has made its best estimate for the Super Deduction to be claimed for the Group's entities in ascertaining their assessable profits for the years ended 31 December 2014 and 2013.

(d) PRC withholding tax ("WHT")

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

For the years ended 31 December 2014 and 2013, the Group did not have any plan to require its PRC subsidiaries to distribute their retained earnings to the Company as the Company's share premium is distributable under Cayman Island laws. Accordingly, no deferred income tax liability on WHT was accrued as of the end of each reporting period.

6 Loss per share

(a) Basic

Basic loss per share is calculated by dividing the loss attributable to the shareholders of the Company by the weighted average number of ordinary shares in issue during the year. In addition, the number of ordinary shares outstanding has also been adjusted retroactively for the proportional change in the number of ordinary shares outstanding as a result of share splits (with consequential effect on diluted loss per share) for the years ended 31 December 2014 and 2013.

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

(b) Diluted

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

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

7 Dividend

The dividends paid in 2014 were RMB154,127,000 (US$25.0 million) (2013: Nil). The Board has proposed a special dividend of HK$0.035 (equivalent to approximately RMB0.028) per ordinary share out of the share premium account, totaling approximately RMB74,472,000. Such dividend is to be approved by the shareholders of the Company at the 2015 AGM. These financial statements do not reflect this dividend payable.

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Special dividend paid of US$25.0 million *(Note (a))*	**154,127**	—
Interim dividend paid of HK$— (2013: HK$nil) per ordinary share	**—**	—
Proposed special dividend of HK$0.035 equivalent to approximately RMB0.028 (2013: HK$nil) per ordinary share	**74,472**	—
	228,599	—

(a) On 18 March 2014, the shareholders of the Company resolved to declare a special dividend of US$25.0 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.

8 Trade receivables

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

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

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 of 31 December 2014 and 2013, there were no significant balances that were past due. These receivables are due from several online payment collection channels and advertising agencies with whom the Group had not experienced any recoverability difficulties. The ageing of these trade receivables is less than 120 days.

9 Trade payables

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

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

Audit Committee and Review of Financial Statements

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters. The Audit Committee has also reviewed the Group's results for the year ended 31 December 2014. Based on this review and discussions with the management, the Audit Committee was satisfied that the financial statements were prepared in accordance with applicable accounting standards and fairly present the Group's financial position and results for the year ended 31 December 2014.

Compliance with the Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") 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. On specific enquiries, all the directors of the Company (the "**Directors**") have confirmed that they had complied with all relevant requirements as set out in the Model Code during the period from 10 April 2014 (the "**Company's Listing Date**") to 31 December 2014.

Compliance with the Corporate Governance Code

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

The Company has applied the principles and complied with all applicable code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules during the period from the Company's Listing Date to 31 December 2014.

Purchase, Sale or Redemption of the Company's Listed Securities

During the year ended 31 December 2014, the Company repurchased a total of 40,000,000 shares of the Company on the Stock Exchange at an aggregate price paid of HK$34,226,586.60 before expenses.

Details of the share repurchase are as follows:

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

Special Dividend

The Board has recommended the payment of a special dividend of HK$0.035 (equivalent to approximately RMB0.028) per ordinary share for the year ended 31 December 2014, subject to the approval of the shareholders of the Company at the 2015 AGM. Such proposed dividend will be payable on Friday, 17 July 2015 to the shareholders of the Company whose names appear on the register of members of the Company on Friday, 26 June 2015.

The register of members of the Company will be closed from Thursday, 25 June 2015 to Friday, 26 June 2015, both days inclusive, during which no transfer of Shares will be registered. In order to qualify for the proposed special dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Share Registrar, 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 Wednesday, 24 June 2015.

Closure of Register of Members for 2015 AGM

The register of members of the Company will be closed from Wednesday, 17 June 2015 to Friday, 19 June 2015, both days inclusive, during which no transfer of shares will be registered. In order to qualify for attending and voting at the 2015 AGM or any adjournment thereof, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 16 June 2015.

Publication of 2014 Annual Results and Annual Report

The annual results announcement is published on the Company's website (http://www.baioo.com.hk) and the website of Hong Kong Exchanges and Clearing Limited (http://www.hkex.com.hk). The annual report of the Company for the year ended 31 December 2014 will be dispatched to the shareholders of the Company and available on the above websites in due course.

By order of the Board
DAI JIAN
Chairman

Hong Kong, 27 March 2015

As of the date of this announcement, the Directors of the Company are:

Executive Directors:
Mr. DAI Jian *(Chairman)*
Mr. WU Lili
Mr. LI Chong
Mr. WANG Xiaodong

Non-executive Director:
Mr. Ji Yue

Independent Non-executive Directors:
Ms. LIU Qianli
Mr. WANG Qing
Mr. MA Xiaofeng