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BACKGROUND

The online children's interactive entertainment and e-learning services provided by our Group are respectively prohibited and restricted to foreign investment in the PRC pursuant to the applicable PRC laws and regulations. Please refer to the section headed "Regulations — Restrictions or Prohibition on Foreign Investment in Telecommunication and Internet Information Services and Internet Cultural Operations (Excluding Music)" for details.

Guangzhou Baitian is the primary operating entity within our Group in the PRC engaging in the online children's interactive entertainment and e-learning businesses. It holds the licenses and regulatory approvals that are essential to the Group's business operations, including the ICP license, Network Cultural Business Permit and the Approval for Providing Online Educational Services and Internet Publication License. Foreign investors are prohibited from holding any equity interest in Guangzhou Baitian under the applicable PRC laws and regulations, including the Catalog, the FITE Regulations and the MIIT Circular. Please refer to the section headed "Regulations" for further details. As a result, we are not allowed to acquire any equity interest in Guangzhou Baitian under the applicable PRC laws and regulations.

In order to achieve the Group's business purposes and in line with common practice in industries in the PRC subject to foreign investment restrictions, we have adopted the Contractual Arrangements to exercise and maintain control over the operations of Guangzhou Baitian, obtain its entire economic benefits and prevent leakage of assets and values to the registered shareholders of Guangzhou Baitian in the PRC. In addition, as a result of the Contractual Arrangements, Guangzhou Baitian's financial position and results of operations were consolidated into our financial position and results of operations under IFRS as if it were a wholly-owned subsidiary of our Group during the Track Record Period.

We commenced a series of corporate activities since 2009 to avail ourselves to international capital markets and gain effective control over Guangzhou Baitian. On March 31, 2010, after Beijing WFOE, our wholly-owned subsidiary, was incorporated in PRC, Beijing WFOE, Guangzhou Baitian and the then registered shareholders of Guangzhou Baitian, namely Ms. DAI (as a nominee of Mr. DAI), Mr. WU, Mr. LI, Mr. CHEN and Mr. WANG, entered into a series of agreements (the "Old VIE Agreements"), consisting of:

- (i) the *Exclusive Business Consultation and Service Agreement* (獨家諮詢與服務協議), pursuant to which Beijing WFOE agreed to provide exclusive management and consultation services to Guangzhou Baitian and Guangzhou Baitian agreed to pay service fees to Beijing WFOE;
- (ii) the *Proxy Agreement* (股東表決權委託協議), pursuant to which the registered shareholders of Guangzhou Baitian irrevocably delegated the voting rights and other shareholder rights of Guangzhou Baitian to Beijing WFOE;
- (iii) the *Share Pledge Agreement* (股權質押協議), pursuant to which the registered shareholders of Guangzhou Baitian pledged all their equity interests in Guangzhou Baitian to Beijing WFOE to provide security on the performance of contractual obligations of Guangzhou Baitian and the registered shareholders of Guangzhou Baitian under the Contractual Arrangements; and
- (iv) the *Exclusive Option Agreement* (獨家購買權協議), pursuant to which the registered shareholders of Guangzhou Baitian and Guangzhou Baitian agreed to exclusively grant to Beijing WFOE an irrevocable option to acquire all or any of the equity interests of Guangzhou Baitian from the registered shareholders of Guangzhou Baitian and/or all or any of the assets from Guangzhou Baitian when and to the extent allowed by the then applicable PRC laws.

On October 29, 2013, we established Guangzhou WFOE, a new PRC subsidiary wholly-owned by Baitian Hong Kong. Shortly after its incorporation, Guangzhou WFOE replaced Beijing WFOE to become the entity in the Group controlling Guangzhou Baitian for its locational advantage. On December 4, 2013, Beijing WFOE, Guangzhou Baitian and the registered shareholders of Guangzhou Baitian as of December 4, 2013, namely

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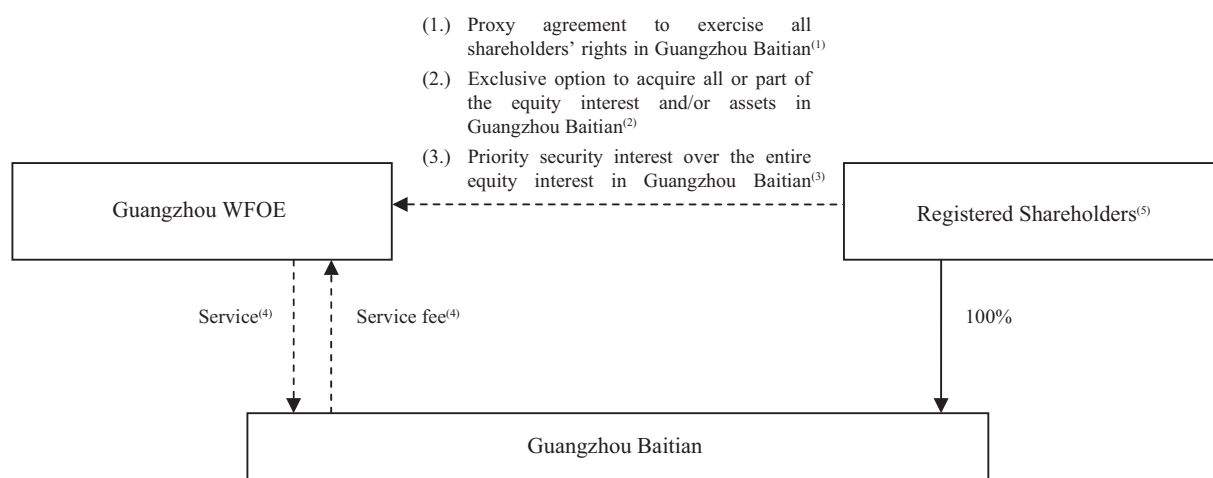
Mr. DAI, Mr. WU, Mr. LI, Mr. CHEN and Mr. WANG (the “Registered Shareholders” and each a “Registered Shareholder”), and Ms. DAI entered into termination agreements for the Old VIE Agreements (the “Termination Agreements”), while on the same day, Guangzhou WFOE, Guangzhou Baitian and the Registered Shareholders entered into the New VIE Agreements in a form substantially similar to the Old VIE Agreements, which were further amended on March 20, 2014 by taking into account.

In addition, on December 4, 2013 and December 5, 2013, each of the Registered Shareholders and their spouses signed a written undertaking to Guangzhou WFOE in relation to the Contractual Arrangements.

DETAILS OF CONTRACTUAL ARRANGEMENTS

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

Note:



1. Please refer to the section headed “ Contractual Arrangements – Proxy Agreement” of this prospectus for details.
2. Please refer to the section headed “ Contractual Arrangements – Exclusive Option Agreement” of this prospectus for details.
3. Please refer to the section headed “ Contractual Arrangements – Share Pledge Agreement” of this prospectus for details.
4. Please refer to the section headed “ Contractual Arrangements – Exclusive Business Consultation and Service Agreement” of this prospectus for details.
5. Registered Shareholders are the Founders.
6. “————→” denotes direct legal and beneficial ownership in the equity interest and “-----→” denotes contractual relationship.

Exclusive Business Consultation and Service Agreement

Guangzhou WFOE and Guangzhou Baitian entered into the Exclusive Business Consultation and Service Agreement on December 4, 2013, which was further amended on March 20, 2014, pursuant to which Guangzhou Baitian is obliged to pay service fees to Guangzhou WFOE for the services such as technology consultation, market information collection and personnel training provided by Guangzhou WFOE to Guangzhou Baitian to support its operations. The amount of service fees and calculation method shall be determined by Guangzhou WFOE at its sole discretion for the best interests of Guangzhou WFOE in order to optimize the use of profits retained in Guangzhou Baitian to facilitate its business operations, such as strengthening its IT infrastructure and enlarging its business scales where necessary and other working capital and general corporate purpose. Guangzhou WFOE will enjoy all the economic interests of Guangzhou Baitian, consisting of the service fees and the economic interests remaining in Guangzhou Baitian for the sustainable development of its business operations. Under the Exclusive Business Consultation and Service Agreement, Guangzhou WFOE may, at its

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sole discretion and without any restriction, adjust the payment terms, collection ratio and/ or the amount of service fees. Guangzhou Baitain shall deliver to Guangzhou WFOE its management documents and operating data at the request of Guangzhou WFOE.

The Company's PRC legal advisers, Jun He Law Offices, is of the opinion that such payment of service fees and the aforementioned restrictive provisions are not subject to any legal or regulatory requirements in the PRC and do not violate any PRC laws.

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

This agreement also provides that Guangzhou WFOE has ownership of the intellectual property rights arising from (i) the services rendered by Guangzhou WFOE to Guangzhou Baitian pursuant to this agreement and (ii) work performed by Guangzhou Baitian (except for the purposes of sustaining or obtaining licenses for Guangzhou Baitain's business operations or tax benefits). If PRC law does not allow Guangzhou WFOE to own any of these intellectual property rights, Guangzhou Baitian may hold these rights, but has the obligation to transfer them, as soon as PRC law allows or the need for sustaining or obtaining licenses for Guangzhou Baitain's business operations or tax benefits no longer exists, to Guangzhou WFOE at the lowest price permitted by PRC laws. Moreover, Guangzhou WFOE is entitled to use, free of charge, all of the intellectual property rights developed or created during the operations of Guangzhou Baitian. As of the Latest Practicable Date, Guangzhou Baitain held almost all the intellectual property rights owned by our Group. Our PRC legal advisers, Jun He Law Offices, are of the opinion that (i) it is legal for Guangzhou WFOE to hold these intellectual property rights pursuant to the terms of the New VIE Agreements; and (ii) that Guangzhou Baitian is in no violation of the requirements of the Administrative Measures for the Licensing of Telecommunication Business Operations 《電信業務經營許可管理辦法》 and the Circular of the Ministry of Information Industry on Intensifying the Administration of Foreign Investment in Value-added Telecommunications Services 《信息產業部關於加強外商投資經營增值電信業務管理的通知》.

Proxy Agreement

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

This agreement may only be terminated in the event that (i) all equity interests held by the Registered Shareholders or all assets of Guangzhou Baitian have been transferred to Guangzhou WFOE or its appointee,

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(ii) Guangzhou WFOE unilaterally terminates this agreement, or (iii) termination is required by the applicable PRC laws or regulations.

Exclusive Option Agreement

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

When Guangzhou WFOE exercises this option to purchase any equity interest owned by any Registered Shareholder in Guangzhou Baitian, such Registered Shareholder shall promptly transfer such equity interest to Guangzhou WFOE or its appointee and all other Registered Shareholders shall waive their respective right of first refusal (if any) in respect of such equity interest to be transferred by the selling Registered Shareholder. In addition, the selling Registered Shareholder shall provide necessary support to facilitate the transfer of equity interest and/or assets, including providing necessary legal documents, registering the transfer and obtaining approvals from the relevant authorities.

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

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

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Share Pledge Agreement

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

Our PRC legal advisers, Jun He Law Offices, confirm that Guangzhou Baitian has duly registered the Share Pledge Agreement with the relevant PRC legal authority.

Shareholder Undertakings and Spouse Undertakings

On December 4, 2013, each of the Registered Shareholders signed an undertaking (“Shareholder Undertakings”) pursuant to which each of the Registered Shareholders irrevocably undertakes that:

- (a) in the event of death, incapacity or any other event which causes the inability of such shareholder to perform his day-to-day obligations, such shareholder will transfer, unconditionally and free of charge, all of the equity interests held by him in Guangzhou Baitian to Guangzhou WFOE (if allowed by the then applicable PRC laws) or its appointee (as the case may be);
- (b) such shareholder acknowledges that his spouse is fully aware of his execution of the New VIE Contracts and consented that such shareholder is the sole beneficiary of all the rights and interests and solely assumes all of the obligations under the New VIE Agreements; his spouse shall not enjoy any interests or rights under the New VIE Agreements, nor assume any obligations thereunder; further, such shareholder and his spouse agree that, in the event of divorce, all of the equity interests held by such shareholder in Guangzhou Baitian shall not be deemed as mutual assets, but assets solely owned by such shareholder;
- (c) such shareholder has sole discretion to make independent decisions in relation to Guangzhou Baitian, which shall not be subject to or be influenced by his spouse’s decision; in the event of divorce, such shareholder will ensure that adequate preventive measures are taken to ensure the due performance of the New VIE Agreements and will not take any actions deviating from the intention for executing the New VIE Agreements;
- (d) unless a prior written consent is obtained from Guangzhou WFOE, such shareholder will not engage in, conduct, participate in or use the information obtained from Guangzhou Baitian or any of its Affiliates to participate in, directly or indirectly, any business or activity which competes or is likely to compete with the business of Guangzhou Baitian or its subsidiaries (if any), nor will he acquire, hold any interests in or derive any interests from any business which competes or is likely to compete with the business of Guangzhou Baitian or its subsidiaries (if any);

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- (e) such shareholder will not take any action deviating from the intention and purposes of the New VIE Agreements which may lead to any conflict of interests between Guangzhou WFOE and Guangzhou Baitian or its subsidiaries (if any);
- (f) if any conflict of interests occurs during the performance of the New VIE Agreements by such shareholder, he will act in favor of Guangzhou WFOE as set forth under the New VIE Agreements and in accordance with the directions of Guangzhou WFOE; and
- (g) such shareholder will not, in any event, request Guangzhou Baitian for any return or compensation for his relevant contribution in the share capital of Guangzhou Baitian.

Furthermore, in December, 2013, each of the spouses of such shareholders signed an undertaking (“Spouse Undertakings”) pursuant to which each of the spouses irrevocably undertake that:

- (a) she is fully aware of the execution of the New VIE Agreements and consents that her spouse is the sole beneficiary of all the rights and interests and solely assumes obligations under the New VIE Agreements; furthermore, she shall not enjoy any interests or rights under the New VIE Agreements, nor assume any obligations thereunder;
- (b) all of the equity interests held by her spouse in Guangzhou Baitian shall be deemed as assets solely owned by her spouse, not mutual assets jointly owned by her and her spouse, and
- (c) she will not participate in the operation or management of Guangzhou Baitian, nor will claim any interests or rights in Guangzhou Baitian’s equities or assets; in the event of divorce (as the case may be), her spouse has sole discretion to decide how to dispose of his interests or assets in Guangzhou Baitian.

Dispute resolution

Each of the New VIE Agreements and the Termination Agreements contains a dispute resolution provision. Pursuant to such provision, in the event of any dispute relating to the Contractual Arrangements, the parties shall negotiate in good faith to resolve the disputes. In the event the parties fail to reach an agreement on the resolution of such dispute within 30 days, any party may submit such dispute to the South China International Economic and Trade Arbitration Commission for arbitration in accordance with the then effective arbitration rules. The arbitration shall be conducted in Guangzhou, and the language used during arbitration shall be Chinese. The arbitral award shall be final and binding on all parties. The dispute resolution provision in the New VIE Agreements and the Termination Agreements also provides that the arbitral tribunal may award remedies over the assets of Guangzhou Baitian or award injunctive relief (e.g. for the conduct of business or to compel the transfer of assets); and the courts of PRC also have jurisdiction for the grant and/or enforcement of the arbitral award and the interim remedies against the shares in or assets of Guangzhou Baitian. However, our PRC legal advisers, Jun He Law Offices, have advised that the above provisions may not be enforceable under the PRC laws. For instance, the arbitral tribunal has no power to grant such injunctive relief. In addition, interim remedies or enforcement order granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in China.

Succession

As advised by our PRC legal advisers, the provisions set out in the Contractual Arrangements are also binding on any successors of the Registered Shareholders as if the successor was a signing party to the Contractual Arrangements. Although the Contractual Arrangements do not specify the identity of successors to such shareholders, under the succession law of the PRC, statutory successors may include the spouse, children, parents, brothers, sisters, paternal grandparents and the maternal grandparents, and as such any breach by the successors would be deemed to be a breach of the Contractual Arrangements. In case of a breach, Guangzhou WFOE can enforce its rights against the successors. Pursuant to the Contractual Arrangements, any successor of the Registered Shareholders shall assume any and all rights and obligations of the Registered Shareholders under the Contractual Arrangements as if the successor was a signing party to such Contractual Arrangements.

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In addition, each of the Registered Shareholders and their spouses has executed irrevocable undertakings which stipulate certain matters to succession of the rights and obligations under the Contractual Arrangements. Please refer to the sub-section headed “— Shareholder Undertakings and Spouse Undertakings.”

The Company’s PRC legal advisers are of the view that (i) the Contractual Arrangements provide protection to the Group even in the event of death of any Registered Shareholders and (ii) the death of such Registered Shareholder would not affect the validity of the Contractual Arrangements, and Guangzhou WFOE can enforce its right under the Contractual Arrangements against the successors of such Registered Shareholder.

Arrangements to address potential conflicts of interests

Each of the Registered Shareholders have executed irrevocable undertakings which address potential conflicts of interests that may arise in connection with the Contractual Arrangements. Please refer to the sub-section headed “— Shareholder Undertakings and Spouse Undertakings.”

Loss sharing

None of the agreements constituting the Contractual Arrangements provide that Guangzhou WFOE is obligated to share the losses of Guangzhou Baitian or provide financial support to Guangzhou Baitian. Moreover, Guangzhou Baitian is a limited liability company and shall be solely liable for its own debts and losses with assets and properties owned by it. Under PRC laws and regulations, Guangzhou WFOE, as the primary beneficiary of Guangzhou Baitian, is not expressly required to share the losses of Guangzhou Baitian or provide financial support to Guangzhou Baitian.

Despite the foregoing, since the Group (i) conducts its businesses in the PRC through Guangzhou Baitian, which holds the requisite PRC licenses and approvals for the Group’s business, and (ii) Guangzhou Baitian’s financial condition and results of operations are consolidated into the Group’s financial condition and results of operations under the applicable accounting principles, the Company’s business, financial condition and results of operations would be adversely affected if Guangzhou Baitian suffer losses. However, due to the restrictive provisions in the Exclusive Option Agreement, the potential losses suffered by Guangzhou Baitian and adverse effects on Guangzhou WFOE and the Company can be limited and controlled by Guangzhou Baitian to a certain extent.

Liquidation

According to the Exclusive Option Agreement, in the event of a mandatory liquidation required by PRC laws, all of the remaining assets and residual interests of Guangzhou Baitian shall be transferred through a non-reciprocal transfer to Guangzhou WFOE or its appointee after such liquidation at the lowest transfer price permitted by PRC laws. In such case, if the Registered Shareholders receive any payment after the liquidation, they shall return in full such payment to Guangzhou WFOE or its appointee within 10 working days, after the deduction of relevant taxes or payments pursuant to applicable PRC laws.

Termination

Other than the Share Pledge Agreement, which shall remain valid until all the contractual obligations of the Registered Shareholders and Guangzhou Baitian under the Contractual Arrangements have been fully performed, each of the Contractual Arrangements has a termination provision that unless otherwise required by the applicable PRC laws, the Registered Shareholders and Guangzhou Baitian are not entitled to unilaterally terminate the Contractual Arrangements. The Contractual Arrangements may only be terminated in the event that (i) all equity interests of Guangzhou Baitian held by the Registered Shareholders and all assets of Guangzhou Baitian have been transferred to Guangzhou WFOE or its appointee, (ii) Guangzhou WFOE unilaterally terminates the Contractual Arrangements or (iii) required by the applicable PRC laws or regulations. In addition, pursuant to the Exclusive Business Service Agreement and the Exclusive Option Agreement, Guangzhou WFOE

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has the unilateral right to terminate these agreements in the event that the Registered Shareholders or Guangzhou Baitian breach these agreements.

Insurance

The Company does not maintain an insurance policy to cover the risks relating to the Contractual Arrangements.

Company's confirmation

As of the Latest Practicable Date, the Company has not encountered any interference or encumbrance from any PRC governing bodies in operating its businesses through Guangzhou Baitian under the Contractual Arrangements.

Please refer to the section headed "Business — Our Businesses — Legal Proceedings and Compliance" for details of the compliance history of our Group.

Given that the Contractual Arrangements will constitute continuing connected transactions of our Company, a waiver has been sought from and has been granted by the Stock Exchange, details of which are disclosed in the section headed "Connected Transactions."

Legality of the Contractual Arrangements

PRC Legal Opinions

Jun He Law Offices, the Company's PRC legal advisers, after taking reasonable actions and steps to reach its legal conclusions including interviews with competent PRC regulatory authorities in August 2013, are of the below legal opinions that:

- (a) Guangzhou WFOE, Beijing WFOE and Guangzhou Baitian are duly established and validly existing under the PRC laws, and has obtained or completed all requisite approvals, permits, registrations or filings for carrying their respective business operations as required by the applicable PRC laws, regulations and rules;
- (b) the Contractual Arrangements as a whole and each of the agreements comprising the Contractual Arrangements are legal, valid and binding on the parties thereto, and do not, individually or collectively, constitute a breach of any PRC laws and regulations and will not be deemed invalid or ineffective under those laws and regulations; in particular, the Contractual Arrangements do not violate the provisions of the PRC Contract Law including "*concealing illegal intentions with a lawful form*," the General Principles of the PRC Civil Law and other applicable PRC laws and regulations;
- (c) each of the agreements comprising the Contractual Arrangements does not violate any provisions of the articles of association of Guangzhou WFOE and Guangzhou Baitian;
- (d) the Contractual Arrangements do not require any approvals from the PRC governmental authorities except that the Share Pledge Agreement is subject to registration requirement with the relevant Administration of Industry and Commerce, registration of which has been completed;
- (e) the Contractual Arrangements are in full compliance with and enforceable under applicable PRC laws and regulations, except that the Contractual Arrangements provide that the arbitral body may award remedies over the shares and/or assets of Guangzhou Baitian and/or injunctive relief against Guangzhou Baitian, and that courts of competent jurisdictions are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal, while under PRC laws, an arbitral body has no power to grant injunctive relief and may not directly issue a provisional or final liquidation order for the purpose of protecting assets of or equity interests in Guangzhou Baitian in case of disputes. In addition, interim remedies or enforcement orders granted by overseas courts may not be recognizable or enforceable in China;

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- (f) the consummation of the Company's shares on the Stock Exchange is not a violation of the Rules on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors 《關於外國投資者併購境內企業的規定》, which was adopted by six PRC regulatory agencies, including the MOFCOM and the CSRC, and effective since September 2006;
- (g) the Contractual Arrangements are narrowly tailored to minimize the potential conflict with relevant PRC laws and regulations; and
- (h) the PRC regulatory authorities and their representatives who attended the interviews in August 2013 as mentioned in the below paragraphs are competent and authorized to interpret the Contractual Arrangements.

Recent press articles reported that a recent Supreme People's Court ruling and two arbitral decisions from the Shanghai International Economic and Trade Arbitration Commission invalidated certain contractual agreements which were considered to be entered into with the intention of circumventing foreign investment restrictions in the PRC in contravention of the PRC Contract Law and the General Principles of the PRC Civil Law. It has been further reported that these court rulings and arbitral decisions may increase (i) the possibility of the PRC courts and/or arbitration panels taking similar actions against contractual structures commonly adopted by foreign investors to engage in restricted businesses in the PRC and (ii) the incentive for shareholders of Guangzhou Baitian under such contractual structures to renege on their contractual obligations. Our PRC legal advisers, Jun He Law Offices, are of the view that the (i) the Contractual Arrangements entered into by the Group are not in breach any applicable PRC Laws and regulations and the relevant terms of our Contractual Arrangements do not fall within any of the circumstances under Section 52 of the PRC Contract Law pursuant to which the contracts would be determined to be invalid; (ii) our corporate structure and the Contractual Arrangements are distinguishable from the facts in the Supreme People's Court case; (iii) the Supreme People's Court case may not be considered as authority in deciding other cases as it is not a guiding case specifically published by the Supreme People's Court of the PRC (指導性案例) which should be followed by lower level people's courts throughout China; and (iv) decisions of the arbitral tribunals are not published and have no binding effect on future arbitration cases in China.

On December 11, 2001, the State Council promulgated Regulations for the Administration of Foreign-invested Telecommunications Enterprises (the "FITE Regulations"), which were subsequently amended on September 10, 2008. Under the FITE Regulations, foreign ownership of companies that provide value-added telecommunication services, which include the operation of online interactive entertainment services and online educational services, is limited to 50%. In addition, a foreign investor who invests in a value-added telecommunications business in the PRC must possess prior experience in operating value-added telecommunications businesses and a proven track record of business operations overseas ("Qualification Requirement"). Currently, none of the applicable PRC laws, regulations or rules provides clear guidance or interpretation on the Qualification Requirement. Despite the lack of clear guidance or interpretation on the Qualification Requirement, we have been gradually building up our track record of overseas business operations and plan to take additional steps in order to comply with the Qualification Requirement, so as to be qualified to acquire the entire equity interests of Guangzhou Baitian when the restrictions on the percentage of foreign ownership in telecommunications services and on foreign ownership in online culture products and businesses are lifted. We currently maintain and will continue to maintain a server in Hong Kong to support our overseas users, who can purchase our physical prepaid cards distributed by our local distributor in Hong Kong or purchase our virtual prepaid cards or AoCoins online. We will launch a Hong Kong website prior to the Listing targeting overseas players of our virtual worlds. Through the Hong Kong website, we can better capture and analyze overseas uses data, providing useful user insights for our overseas expansion. We will also launch a Hong Kong website offering investor relations and other corporate information immediately upon the Listing. Moreover, we will undertake feasibility studies on further development and marketing of our interactive entertainment products for the overseas markets in order to formulate and optimize our strategic plan in expanding our current businesses to overseas countries.

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We expect that the aggregate expenditures incurred and to be incurred for taking the steps mentioned above will not exceed RMB2,000,000. We will maintain close contact with the relevant PRC regulatory authorities and seek specific guidance as to the Qualification Requirement in due course. In addition, we undertake to provide periodic updates in our annual and interim reports as requested by the Stock Exchange after the Listing to inform the investing public of our efforts and actions taken to comply with the Qualification Requirement as well as the progress of our efforts.

Interviews with the Competent PRC authorities

In August 2013, the Joint Sponsors have conducted the following on-site interviews with the competent PRC authorities seeking regulatory assurance of the Contractual Arrangements adopted by the Group in the PRC:

- (a) an on-site interview with Guangdong Cultural Department (廣東省文化廳), the competent PRC authority to administer and regulate the overall online game industry;
- (b) an on-site interview with Guangdong Telecommunication Bureau (廣東省通信管理局), whose authority over the online game and online education industries is limited to issuing ICP licenses to online game and online education operators; and
- (c) an on-site interview with Guangdong Press and Publication Bureau and Guangdong Publication Bureau (廣東省新聞出版局廣東省出版局) (whose name was changed to Guangdong Press and Publication, Radio, Film and Television Bureau and Guangdong Copyright Bureau (廣東省新聞出版廣電局廣東省版權局) in October 2013), whose authority over online game industry is limited to examining and approving online games from the publication perspective.

Based on confirmations made by the PRC authorities during the interviews, the PRC legal advisers are of the view that the Contractual Arrangements does not violate any PRC laws and regulations for the below reasons:

- (a) The officers consulted in the interviews are authorized representatives of the relevant PRC authorities.
- (b) Guangdong Cultural Department (廣東省文化廳), the competent PRC regulatory authority to administer and regulate the overall online game industry, has confirmed during the interview that the Contractual Arrangements do not violate any PRC laws and regulations concerning the online game business operated by the Company.
- (c) Guangdong Telecommunication Bureau (廣東省通信管理局), whose authority over the online game and online education industries is limited to issuing ICP licenses to online game and online education operators, has confirmed during the interview that there is no legal basis for it to administer and regulate the Contractual Arrangement and thus Guangdong Telecommunication Bureau (廣東省通信管理局) did not express any objection to the Contractual Arrangement.
- (d) according to the Regulation on Three Provisions as well as the corresponding interpretation, and as confirmed by Guangdong Press and Publication, Radio, Film and Television Bureau and Guangdong Copyright Bureau (廣東省新聞出版廣電局廣東省版權局), Guangdong Cultural Department (廣東省文化廳) is authorized to administer and regulate the overall online game industry, while the authority of Guangdong Press and Publication, Radio, Film and Television Bureau and Guangdong Copyright Bureau (廣東省新聞出版廣電局廣東省版權局) is limited to approving and reviewing the publication of online games before launch on the Internet and the online games will be administrated and regulated by the MOC only once such games are lunched online. No implementation rule or interpretation on Article IV of the 2009 GAAP Notice has been issued by the GAAP or any other PRC regulatory authority. Pursuant to the 2009 GAAP Notice, in the event that any online game company violates the notice, the GAAP will, collectively with other PRC regulatory authorities, impose administrative proceedings or penalties on such company. In practice, Guangdong Press and Publication, Radio, Film and Television Bureau and Guangdong Copyright Bureau (廣東省新聞出版廣電局廣東省版權局) has never, individually or collectively with other PRC regulatory authorities, imposed any administrative proceedings or penalties

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on any online game company under Article IV of the 2009 GAAP Notice. Therefore, considering that Guangdong Cultural Department (廣東省文化廳), the competent PRC government authority to administer the online game business of the Company, has confirmed during the interview that the Contractual Arrangements do not violate any PRC laws and regulations, Guangdong Press and Publication, Radio, Film and Television Bureau and Guangdong Copyright Bureau (廣東省新聞出版廣電局廣東省版權局) cannot individually impose any administrative proceedings or penalties on Guangzhou Baitian pursuant to Article IV of the 2009 GAAP Notice without the endorsement of Guangdong Cultural Department (廣東省文化廳).

- (e) Other than the above-mentioned interviews with the above PRC authorities, no additional interview with any PRC governmental authority is required for regulatory assurance of the Contractual Arrangements adopted by the Group in the PRC.

Joint Sponsors' View

The Joint Sponsors are of the view that the Contractual Arrangements adopted by the Group have complied with the requirements set out in the listing decision (HKEx-LD43-3) issued by the Stock Exchange in 2005 and amended in November 2011, August 2012, November 2012, December 2012 and November 2013, respectively.

Accounting aspects of the Contractual Arrangements

Consolidation of financial results of Guangzhou Baitian

According to IFRS 10, Consolidated Financial Statements, a subsidiary is an entity that is controlled by another entity (known as the parent). An investor controls an investee when it is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Although our Company does not directly or indirectly own Guangzhou Baitian, the Contractual Arrangements as mentioned above enable our Company to exercise control over Guangzhou Baitian during the Track Record Period.

Under the Exclusive Business Consultation and Service Agreement entered into by and among Guangzhou WFOE and Guangzhou Baitian, it was agreed that, in consideration of the services provided by Guangzhou WFOE, Guangzhou Baitian will pay yearly service fee to Guangzhou WFOE. The amount of service fees and calculation method shall be determined by Guangzhou WFOE at its sole discretion for the best interests of Guangzhou WFOE. Under the Exclusive Business Consultation and Service Agreement, Guangzhou WFOE may adjust the service fees, at its sole discretion, based on the principle of maintaining the balance of profit and loss for Guangzhou Baitian so as to allow Guangzhou Baitian to retain sufficient working capital to carry out its business. Guangzhou Baitian shall deliver to Guangzhou WFOE its management documents and operating data at the request of Guangzhou WFOE. Accordingly, Guangzhou WFOE has the ability, at its sole discretion, to extract substantially all of the economic benefit of Guangzhou Baitian through the Exclusive Business Consultation and Service Agreement.

In addition, under the Exclusive Option Agreement among the parties, Guangzhou WFOE has absolute control over the distribution of dividends or any other form of profit to the shareholders of Guangzhou Baitian as Guangzhou WFOE's prior written consent is required.

Further, under the Proxy Agreement, Guangzhou WFOE assumes all rights as shareholder and exercises control over Guangzhou Baitian, including the right to propose, convene and attend shareholders' meetings, the right to amend the Articles of Association of Guangzhou Baitian, the right to sell, transfer, dispose of, or impose security on any shares and/ or assets, the right to exercise shareholders' voting rights and to nominate and elect director and/or senior management members of Guangzhou Baitian. As a result of these agreements, the Company has obtained control of Guangzhou Baitian through Guangzhou WFOE and, under the Company's sole discretion,

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can receive substantially all of the economic interest returns generated by Guangzhou Baitian. Accordingly, Guangzhou Baitian's results of operations, assets and liabilities, and cash flows are consolidated into the Company's financial statements during the relevant times.

In this regard, our Reporting Accountant, PricewaterhouseCoopers, has issued unqualified opinions on our Group's consolidated financial information for the years ended December 31, 2011, 2012 and 2013 which include the financial results of Guangzhou Baitian being consolidated into our Group's financial information as if it was our Group's subsidiary, is included in the Accountant's Report in Appendix I to this prospectus.