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OVERVIEW

We are China’s largest online entertainment destination designed for children as measured by revenue in 2013, according to the iResearch Report. We were the number one children’s web game developer in China in 2013 with over 40% market share in terms of children’s web game spending, according to the same source.

Our web portal page, 100bt.com, serves as a platform focused on children of ages six through fourteen, allowing them to explore our virtual worlds, purchase our virtual currency, interact with other users, access our e-learning and cartoon products and communities, and participate in a variety of other activities. Through 100bt.com, users can register and use a single account, represented by a unique “Duoduo” ID, to access all of our products and services.

Since we commenced our operations, we have developed, commercially launched and currently operate six virtual worlds, namely, Aobi Island, Aola Star, Dragon Knights, Light of Aoya, Legend of Aoqi and Clashes of Aoqi, using our evolutionary and user-driven product development and operation model that has become one of the core components of our success. All five of our virtual worlds in commercial operation in full year 2013 ranked among the top 12 web games for children in China as measured by Baidu search index, according to the iResearch Report. These virtual worlds have won various industry awards and gained strong brand awareness and loyalty among children in China. Our average quarterly active user accounts increased from 24.2 million in 2011 to 40.9 million in 2012 and 58.8 million in 2013.

We are passionate about bringing joy to children and help them learn while having fun. Our content is designed first and foremost for children. Through our years of operation, we have gained significant knowledge and an in-depth understanding of children’s behavior and needs. Additionally, under our evolutionary and user-driven model, we release weekly episodes for each of our virtual worlds to engage users and increase stickiness, mitigating the life cycle issues typically faced by traditional online game developers. At the same time, we are able to reduce investment risk by gradually scaling up resources committed in product development and maximize our content success rate.

Our age-appropriate content creates a safe and fun environment for our users. In addition, we believe the limited amount of new content in our weekly episodes encourages Internet use and use of our virtual worlds in moderation. Together with the fun-learning elements we incorporate into the games and activities within our virtual worlds, our products have gained the trust of parents and endorsement by regulators, such as the “Web Game Pioneer Award” from the MOC in 2011 at the China International Digital Content Expo and recognition as an “Excellent Cultural Product” recommended for children by the China Youth League in 2012.

Leveraging our understanding of children’s needs through our years of experience in producing entertainment and fun-learning products designed for children, we have also ventured into other types of online content and services that we believe complement our existing product portfolio to meet the expanding online needs of children. For example, in September 2013, we released an open beta version of our online tutorial platform WenTa, which stands for “Ask Him,” accessible through both mobile and PC. WenTa allows children to seek assistance on a variety of school curriculum subjects through a massive database of question and solution sets or getting online help directly from a network of teachers or other users. We have also developed Tuyaban, which stands for “Drawing Board,” our popular online drawing and cartoon community where users can create artwork using our drawing toolkit and share their works with the rest of the community, and Quanquan, which stands for “Circles,” our online forum.

We have grown rapidly during the Track Record Period. Our revenue has increased from RMB83.2 million in the year ended December 31, 2011 to RMB203.2 million in the year ended December 31, 2012 and

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RMB455.0 million in the year ended December 31, 2013. We had net profit of RMB2.7 million and RMB6.3 million for the years ended December 31, 2011 and 2012 and net loss of RMB20.2 million for the year ended December 31, 2013. Our adjusted net profit, which excludes share-based compensation and the fair value change of convertible redeemable preferred shares and derivative financial instruments, was RMB22.1 million, RMB77.7 million and RMB226.8 million during those same periods. Please refer to the section headed “Financial Information — Non-IFRS Measures” for details.

STRENGTHS

We believe the following key strengths distinguish us from our competitors and position us for significant growth in the future:

Leading online destination designed for children in China

We operate the largest online entertainment destination designed for children as measured by revenue in 2013, according to the iResearch Report. Our web portal page, 100bt.com, is a centralized platform for interactive children’s content through which users can access all six of our virtual worlds and entertainment, e-learning and other products and services using one registered account. We have a fast-growing user base, with average QAAs increasing from 24.2 million in 2011 to 40.9 million in 2012 and 58.8 million in 2013. The popularity of our virtual worlds and the quality of our content, combined with our user-driven product development and operating model of releasing new weekly episodes, has kept our users highly engaged and loyal to our virtual worlds, as evidenced by the fact that average quarterly repeat visits of our active accounts was 12.9, 13.1 and 13.2 for the years ended December 31, 2011, 2012 and 2013, respectively.

Strong brand recognition among children in China

Representing our core brand values of “Dreams, Friendship and Development,” our virtual worlds and their characters have gained strong awareness among children and parents in China. According to the iResearch Report, all five of our virtual worlds in commercial operation in full year 2013 ranked among the top 12 web games for children in China, as measured by Baidu search index. Our strong brand recognition among children has led to high levels of word-of-mouth referrals and allowed us to enjoy low user acquisition costs, as evidenced by our historically modest marketing and advertising budget in spite of our rapidly growing user base. Our virtual worlds have won numerous industry awards, including Aobi Island as “Best Children’s Social Game” at the Third Web Game and Social Network Site Operations Conference in 2010, Aobi Island receiving the Golden Page Award for being one of China’s Top 10 Web Games at the Fourth China Web Games and Mobile Games Summit in 2011, and Dragon Knights receiving the same award the following year. We have also leveraged our virtual worlds’ strong brands to form synergistic, cross-marketing partnerships with well-known third-party brands such as Kraft and Yili to enhance both our brands and theirs. We believe that the strength of our brands has contributed to our continued leadership position.

Deep understanding of children’s needs

As the leading provider of interactive online content for children in China, we have accumulated an extensive knowledge base and deep understanding of children’s behavior and needs with respect to online activity and consumption. Our content is designed first and foremost for children, and as a result the core focus of our product development team is the likes, needs and habits of children. We have rigorous content selection standards and an ongoing product improvement process that has allowed us to consistently produce popular content among our user base. We have built a systematic approach to collect data on and analyze our users’ needs from their online behavior, fan events, user surveys and user feedback to our customer support team. This data provides significant insight to guide our new content creation process and serve as a catalyst for product innovation.

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Our substantial experience in content creation and insight into what children need have allowed us to identify new types of online content and services that complement our existing product portfolio to meet the expanding online needs of children. For example, recognizing that children are more engaged if their entertainment is intellectually challenging and stimulating, we have included “fun learning” components throughout our virtual worlds. As our experience expanded in this area, we recognized that there was a strong need from children for after-school assistance with difficult homework assignments and exam preparation that their parents could not help with. In response, in September 2013 we released an open beta version of our online tutorial platform, WenTa. We believe that our knowledge and understanding of what children want and need will consistently fuel our innovation.

Products that evolve with the user

We have developed and optimized an evolutionary and user-driven model that has become one of the core components of our success. Under this model, we update our virtual worlds through weekly episode releases upon open beta launch, with a focus on providing the best user experience through constant content optimization, and gradually scale up resources committed through each product development stage in line with the growing viability of the product. In addition, upon commercialization of a virtual world, we transfer its development staff to operations to continue working on its optimization, including weekly episode releases. This approach enables us to retain greater flexibility in improving the virtual world’s design and content in response to user feedback.

This model benefits us in the following ways:

- *Minimizing upfront investment.* Our products can be released in relatively short periods of time with low resource commitment, and gradually evolve in line with user needs. This allows us to minimize upfront costs and reduce investment risk.
- *Increasing user stickiness.* Our operating model of releasing uninterrupted weekly episodes greatly stimulates our users’ interests and expectations, leading to increased repeat visits and user stickiness.
- *Mitigating life cycle issues.* We can mitigate the life cycle issues typically faced by traditional online game developers by keeping our user base engaged through weekly episode updates to content and storylines, as evidenced by the fact that our oldest virtual world, Aobi Island, which was released in September 2008, remains one of our most popular products.
- *Maximizing success rate.* Through this evolutionary model, we significantly increase the success rate of our content development efforts. All proposals for new virtual worlds that were approved by our project committee have been successfully launched and are still in operation to date, with six virtual worlds commercially launched. According to the iResearch report, all five of our virtual worlds in commercial operation in full year 2013 ranked among the top 12 web games for children in China, as measured by Baidu search index.
- *High barrier to entry.* Our operating model of releasing uninterrupted weekly episodes for each of our virtual worlds after open beta launch requires experience and know-how not customary for conventional online game developers. The operations team for each of our virtual worlds consistently creates episodes with new games and activities and storyline updates fifty-two weeks a year, and must quickly and continuously commercialize this content to support our business growth. It is difficult for conventional game developers and other potential market entrants that are more accustomed to long product development cycles to successfully replicate our short development and optimization cycle.

Trusted by parents

Through our commitment to create a safe and fun environment with age-appropriate content and our understanding of children’s needs, our products and services have gained the trust of parents and regulators. We have designed our content to be both fun and healthy, with learning and social development elements valued by parents. Our operating model of uninterrupted releases of weekly episodes with limited content inherently promotes healthy Internet usage habits and prevents excessive use. Additionally, we have implemented robust

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security, cleanliness and anti-excess features, such as profanity filters, parental controls and server downtime during the late night. These features enable parents to allow their children to spend time in our virtual worlds with ease of mind and have gained us the support of regulatory authorities. As a result, we have received various government endorsements, such as the “Web Game Pioneer Award” from the MOC in 2011 at the China International Digital Content Expo and recognition as an “Excellent Cultural Product” recommended for children by the China Youth League in 2012. This trust from parents and regulators has complemented the popularity of our virtual worlds with children to increase the strength of our brands.

Seasoned and complementary management team

We are led by a seasoned management team with an average of approximately 12 years of professional experience. Members of our management team have worked closely together since 1999 and have developed strong synergies in working and management style with their diverse yet complementary backgrounds. Their strong business vision and execution capabilities have led to a significant proven track record of building successful businesses throughout their careers. Prior to founding our company, members of our management team together co-founded two other successful companies in different industries. Their success also evidences their ability to identify emerging opportunities and formulate and execute business plans to capitalize on those opportunities. Furthermore, our chief financial officer has extensive capital markets experience and has previously served as the chief financial officer of two publicly-listed technology companies. Finally, we believe that, as parents themselves, the members of our management team have an intimate understanding of their own and other children’s needs, and are incentivized to provide the best products and services for the healthy growth of children.

STRATEGIES

Our vision is to provide enjoyable entertainment and educational content to families around the world. To that end, we have adopted the following key strategies:

Increase our addressable market

Despite the trust that parents have in our platform, much of our revenue currently still comes from the pocket money of the children using our products. Over time, we aim to expand our addressable market to the families of the users underlying our 58.8 million average QAAs (in 2013) through several near-term initiatives. First, we will continue to enhance user experience for our entertainment offerings to include more fun-learning elements that draw and encourage family participation. Second, we will tap into the children’s education market, which accounted for 21.4% of total children’s spending in China in 2012, according to the iResearch Report, by further expanding WenTa to cover more subjects and launching additional new interactive educational applications. Third, we plan to expand Tuyaban, our online drawing and cartoon community, to encourage children to develop their artistic interests and proudly share their creations with their family. We believe that these and future initiatives will engage the families of our users, which will in turn drive an increase in our paying users and ARQPA.

Expand our online product offerings

We will continue to develop and strengthen our core product line – our virtual worlds. We commercially launched Clashes of Aoqi, a virtual world spun off from Legend of Aoqi, in January 2014, and plan to launch two additional new virtual worlds in 2014. We will also expand and increase our investment and efforts in WenTa, our recently launched online tutorial platform in open beta, in line with the growth in its user base and activity, strength of brand and potential monetization and profitability. In addition, observing the popularity of Tuyaban, we plan to expand it into an independent platform and community for cartoon and animation creation, sharing and services. We believe these new product offerings will help attract new users, increase user activity on our platform and enhance user loyalty, creating new monetization opportunities.

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Strengthen our brand

Our virtual worlds currently enjoy very strong brand recognition and the reputation of our *Baitian* brand is growing among children and parents. We will continue to reinforce *Baitian*’s image among parents and regulators as a trusted and safe destination for children, including through the expansion of our offline business. To date, our growth has relied primarily on cost-effective word-of-mouth marketing, and we intend to continue leveraging the user base of our high-quality, fun and safe products as our primary marketing channel. We also plan to increase the licensing of our popular characters and content to media and consumer product companies, which could further strengthen our brand recognition. Additionally, we will continue to invest in our development and growth of our franchises through projects such as movies, television, print media and toys featuring our most popular characters. Leveraging the popularity of our virtual worlds among children, we have been and will continue selectively franchising our intellectual properties to third parties to manufacture and sell toys of our virtual world characters and books based on our virtual world storylines. In addition, in November 2013, we entered into a memorandum of understanding with a leading PRC movie production company to produce an animated movie based on the Aola Star virtual world and characters. We will manage this development in a systematic and prudent way focusing on maintaining profitability and minimizing upfront investment.

Continue to execute our mobile strategy

Since our founding, we have recognized the opportunities provided by connected mobile devices and have invested strategically in developing mobile technology. Most of our entertainment, e-learning and other products and services are mobile ready. Through our analysis of children’s online behavior, we have concluded that children today prefer to explore our virtual worlds at home through PCs. In contrast, we launched WenTa, our online tutorial platform, for mobile devices and PCs concurrently, as we believe that children are more likely to access WenTa through mobile devices because they offer the convenience to upload images of questions through photographs taken on their mobile devices. In addition, we launched the mobile version of Quanquan, our online forum, and commenced close beta test of a mobile game based on the main characters of our virtual worlds in the first quarter of 2014, and plan to launch simultaneously both mobile and PC versions of a new virtual world in the fourth quarter of 2014. Going forward, we will launch additional mobile dedicated content and services and continue to invest in multi-device technologies to enhance user experience, drive user engagement and ensure user convenience.

Expand into new international markets

We intend to leverage our strong brand recognition, expertise in the industry and unique product development and operating model to expand into new international markets over time. To ensure successful launches and operations in new international markets, we will hire and retain as necessary experienced teams familiar with local cultural dynamics and tastes. We believe that the online children’s entertainment and e-learning sector in international markets present significant untapped growth potential for our business, and we can capture that potential by identifying the elements of our content’s success that can be translated across different cultures to create products and services suitable for various markets.

OUR BUSINESSES

Our core business has been online interactive entertainment and fun-learning for children of ages six through fourteen through the development and operation of our virtual worlds, which feature enjoyable games and activities with fun-learning elements, weaved throughout engaging cartoon storylines. Leveraging the success and popularity of our brands, we have also licensed our original content and characters to third parties. Additionally, as we gained a greater understanding of our user base through the operation of our virtual worlds, we launched an online tutorial service to meet the learning needs of children. These products and services are created by our evolutionary and user-driven product development and operating model, which has driven our track record of successful offerings popular with children and trusted by parents.

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100bt.com Platform

Our web portal page, 100bt.com, serves as a platform focused on children of ages six through fourteen, allowing them to explore our virtual worlds, manage payment for and purchases of in-game currency, post in forums, access our e-learning and cartoon products and communities, and participate in a variety of other activities. Through 100bt.com, users can register and use a single account, represented by a unique “Duoduo” ID, to access all of our products and services.

Virtual Worlds

We offer interactive virtual worlds for children between the ages of six and fourteen. In these virtual worlds, users adopt avatars and participate in various games and fun-learning activities set against the background of each world’s ever-evolving storyline and theme. As they explore these worlds, children can socially interact with other users, personalize their avatars and learn about the world’s story and its inhabitants. An episode that contains new games, fun-learning activities and storyline updates is released each week for each virtual world. All of our virtual worlds promote our core *Baitian* brand values of “Dreams, Friendship and Development.”

Our virtual worlds provide an enjoyable entertainment experience that also benefits our users’ social developmental growth. Each world is designed with specific developmental objectives for its target age group in mind, and contains various avenues for social interaction between users. For example, children can organize parties and other social events, participate in costume parades with other users, role play as various professions and visit their neighbors’ houses. Additionally, users are only able to complete certain quests in virtual worlds as a member of a team. The social developmental aspect of our content is also bolstered by our large user base, which creates additional user stickiness as children are able to encounter more peers with similar interests. Additionally, our virtual worlds also encourage positive social values and morals by promoting social responsibility, teamwork, respect and honesty in their storylines. Our content also aims to impart knowledge in a wide of variety subjects, from traditional Chinese culture to science experiments.

Our operating model of releasing weekly episodes promotes healthy usage among our users, which, combined with our enjoyable content and our platform’s robust security features, such as content and language filters, restrictions on access time and parental controls, provides parents with the comfort to allow their children to use our products and services. Additionally, we have released without interruption new weekly episodes for each of our virtual worlds since its launch.

Users can participate in various activities when exploring our virtual worlds. These activities include:

- Playing new games and fun-learning activities that are included in each world’s weekly episode;
- Decorating and personalizing the appearance of their in-world avatar with a variety of clothing, accessories and flair, and their in-game personal space, typically in the form of a virtual house, with a variety of furniture and adornments;
- Completing quests assigned by non-player characters (“NPCs”), for in-world experience and rewards;
- Being a part of communities within the virtual world and participating in large-scale in-world events with other users; and
- Raising and caring for virtual pets.







Most of the features of our virtual worlds are available to users free of charge. Once a virtual world is commercially launched, users can pay an RMB10 per month subscription fee to access certain premium features. These premium features include allowing the user to enter full-capacity servers, a special VIP-tag, gift packs with virtual items and the ability for the user’s avatar to fly within the virtual world. Each online virtual world has its own subscription. The subscription fee can be paid directly through our payment platform, or using AoCoins, our virtual currency.

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After a virtual world is commercially launched, we also generate revenue through sales of virtual items and services that enhance the in-game experience of our users through enhancing the powers, abilities, attractiveness and social interaction of their avatars. These items include flashy clothing and accessories, vehicles, mounts and enhanced features and abilities for in-game pets. Our virtual items and services can only be purchased with virtual world tokens, and are not available through the accumulation of rewards through participation in games and activities within the virtual worlds. Tokens for individual virtual worlds are in turn converted from AoCoins. We generally determine the price of each virtual item based on an analysis of certain benchmarks, such as the level of demand for the virtual item and the price of similar virtual items offered in the virtual worlds of our competitors. We adjust the pricing of virtual items based on our users’ consumption patterns and other factors, and on occasion offer discounts through special promotions.

Our virtual worlds have created a number of characters that have become very popular with children in China, and we have licensed these original characters for third-party use. As the strength of these character brands increase, we expect to continue to leverage their popularity for offline purposes such as licensing and cross-marketing.

The following table sets out details of our virtual worlds:

Product/Service		Date of Open Beta Launch	Description	Current Status
Aobi Island (奧比島)		September 2008	Fantasy island social networking based on dress-up and virtual houses	Commercial operation
Aola Star (奧拉星)		July 2010	Space-themed adventure focusing on battles and pet collection	Commercial operation
Dragon Knights (龍鬥士)		April 2011	Real-time battle adventure targeting boy users	Commercial operation
Light of Aoya (奧雅之光)		July 2011	Casual social community focusing on dress-up targeting girl users	Commercial operation
Legend of Aoqi (奧奇傳說)		April 2012	Fantasy adventure focusing on pet collection and strategic battles	Commercial operation
Clashes of Aoqi (奧奇戰記)		September 2013	Fantasy adventure focusing on turn-based battles	Commercial operation

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Aobi Island



Aobi Island was open beta launched in September 2008 and is our oldest and one of our most successful virtual worlds. Users role-play the part of the Aobi, bear-like creatures inhabiting the island, and embark on a series of adventures and interactions with the island’s inhabitants, environment and other users. Aobi Island is unique in that it does not have a leveling or battling system, and instead focuses on social community to encourage users to interact with each other and become unique characters in the world’s storyline via dress-up and virtual houses. With many games and activities that teach children social and developmental skills, Aobi Island contains numerous fun-learning elements which provide children the opportunity to satisfy their entertainment needs while gaining important knowledge about the real world. These elements include a job system, where users can act as doctors, restaurateurs, zookeepers or architects, among others, to discover and develop their interests; a mail system to teach users about cultures and customs of the world; a system for raising, caring for and evolving pets; and a banking and ATM system.

According to the iResearch Report, Aobi Island was the third most popular children’s virtual world in China as measured by Baidu search index in 2013. Aobi Island has won various awards within the industry, including “Best Children’s Social Game” at the Third Web Game and Social Network Site Operations Conference in 2010 and the Golden Page Award for being one of China’s Top 10 Web Games at the Fourth China Web Games and Mobile Games Summit in 2011.

Aola Star



Aola Star is a space-themed adventure set in a futuristic space world. Users play the role of an “Aola,” a courageous creature who travels around the universe to battle the forces of evil, protect the environment and bring peace to the galaxy. Aola Star primarily revolves around a pet evolution and battle system, focusing on collecting and developing “Yabi,” various creatures living in space. It also has fun-learning games and activities such as the “奥拉十萬問,” or “One Hundred Thousand Aola Questions,” a trivia quiz game that lets users answer questions about various topics in exchange for in-world rewards; and an association system, where users can join groups such as the Animal Association, Yabi Association and Adventure Association and gain knowledge about those topics while interacting with other like-minded users.

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According to the iResearch Report, Aola Star was the fourth most popular children’s virtual world in China as measured by Baidu search index in 2013. Aola Star was awarded the “Innovative Online Game Award” at the Ninth China International Internet Culture Expo in 2011 and the “China Internet Animation Brand Award” at the Tenth China International Internet Culture Expo in 2012.

Dragon Knights



Dragon Knights is a virtual world set in Airsland, a sky-world of floating islands created by a mysterious and powerful dragon and co-inhabited by humans and dragons. Users play the role of a “Dragon Knight,” young warriors who battle the forces of the black dragon army. Dragon Knights is currently our only virtual world that uses a 2-D side-scrolling battle system. Users can choose to either battle alone, or form and/or join a legion where they can fight alongside other users. Additionally, users can choose to hone their skills against NPCs, or test their might against other users in single or team battles.

According to the iResearch Report, Dragon Knights was the eighth most popular children’s virtual world in China as measured by Baidu search index in 2013. Dragon Knights was awarded the Golden Page Award for being one of China’s Top 10 Web Games in 2011 at the Fifth China Web Games and Mobile Games Summit in 2012.

Light of Aoya



Light of Aoya is a virtual world set in a fantasy universe where users serve as the protectors of the Light of Aoya and fight the forces of the Shadow Empire. This virtual world is targeted toward young girls and uses elements such as fashion design and beautiful environments to attract its audience. Within this world, users are able to design clothing outfits and accessories, customize their dwellings and gardens and raise their pets while progressing through the Light of Aoya storyline. Games and activities in Light of Aoya are set against beautiful backgrounds such as ancient Chinese wonderlands, Gothic castles, Persian palaces and Japanese shrines to expose users to world history and architecture.

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According to the iResearch Report, Light of Aoya was the eleventh most popular children’s virtual world as measured by Baidu search index in 2013.

Legend of Aoji



Legend of Aoji is a virtual world focused on pet collection, pet evolution and strategic turn-based pet battles. Users play the role of an Aoji, one of a race of creatures who strive for adventure and its own legend. Through collecting pet companions and exploring various games and activities in the world of Aoji, users are able to learn about a wide variety of subjects and expand their thirst for knowledge. Legend of Aoji is known for its unique turn-based battle system where users rely on strategic formations and planning to achieve victory.

According to the iResearch Report, Legend of Aoji was the fifth most popular children’s virtual world in China as measured by Baidu search index in 2013.

Clashes of Aoji



Clashes of Aoji is a sequel to Legend of Aoji that takes place in the same universe as Legend of Aoji, but with action role-playing game elements in addition to the Aoji pet collection system. Users choose one of three special job classes for their in-world avatar, each with special powers and attributes, and battle with the help of their pets. Additionally, Clashes of Aoji has a quiz system where users can learn new knowledge and earn rewards through answering questions about traditional Chinese culture, such as Chinese holidays, musical instruments and literature.

E-Learning

WenTa (問他), which stands for “Ask Him,” is our online tutorial platform. WenTa’s open beta was launched in September 2013, as we recognized that there was a strong need from children for after-school assistance with difficult homework assignments and exam preparation that their parents could not help with. Through WenTa, our users can easily and quickly seek assistance on a broad range of school curriculum subjects in our database

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using our efficient, proprietary search algorithms. We have assembled, through internal compilation and third party sources, a massive database of over one million question and solution sets (including explanations on how to arrive at the solution) commonly encountered by students in homework or preparation for exams. In the event that they are unable to find a solution through database searches, users can also access direct online assistance from a network of teachers and experts. Users can also contribute solutions to other users’ questions. The solutions provided by teachers and users contribute to the organic growth of the database. We have also instituted a system to encourage and reward users who correctly answer other users’ questions.

WenTa can be free of charge to use. As of the date of [REDACTION], WenTa offers tutoring assistance in the most common subjects taught in PRC elementary, middle and high schools. We expect to increase our investment and efforts in this service in line with the growth in its user base and activity, strength of brand and potential monetization and profitability.

WenTa is available on both iOS/Android and PC platforms to ensure the convenient access for students.

As we continue to assess the needs of children, we expect to introduce additional products to cater to their educational and learning requirements.

Other Platform Products and Services

Tuyaban (塗鴉板)

Tuyaban, which stands for “Drawing Board,” is our online drawing and cartoon community where users can create artwork using our online drawing toolkit and share their creations with a vast community. Users have the option of drawing freehand or starting from a number of preset cartoon models, backgrounds and ornaments. Users can also save unfinished works online to continue at a later time. Once their creation is complete, a user can publish it to the wider Tuyaban community and receive comments and praise from their fellow artists. As of the date of [REDACTION], over half a million pieces of artwork have been published by our users on Tuyaban. Through feedback from the Tuyaban community, we have identified a strong need for and interest in cartoon drawing tutorials, and expect to expand Tuyaban into a full fledged cartoon and animation platform that offers tutorials, cartoon creation tools and cartoon sharing services.

Quanquan (圈圈)

Quanquan, or “Circles,” is an online forum designed to allow children to find friends with common interests, learn about new things and express themselves online. Users can join forums, or social “Circles,” for a variety of topics, including our virtual worlds, cartoons and animation, movies, zodiac signs, jokes and humor. Through Quanquan, users can also chat with online friends from any of our virtual worlds through their unique Duoduo ID. As of December 31, 2013, Quanquan had approximately 6.9 million registered users. In the first quarter of 2014, we launched the mobile version of Quanquan.

Planet of Light (陽光星球)

Planet of Light is a farming and city-building simulation social network game designed for children of ages six to fourteen. Users role-play as the creator of a small planet and participate in various aspects of farm and city management such as planting, growing, harvesting and selling crops, constructing buildings and managing resources. Users can also interact with each other to receive special rewards to decorate their planets.

Aoduo Park (奧多樂園)

Aoduo Park is a fun-learning product designed for children of ages three through six. Through enjoyable activities such as playing house, doodling and creating and enacting animated stories, Aoduo Park is designed with the social developmental needs and characteristics of young children in mind and provides them with a healthy online environment where they can interact with other users and learn new things outside of traditional education.

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Zhiliao (知了)

Zhiliao is an encyclopedia-style resource database focused on topics that our users are most interested in, including our virtual worlds, elementary and middle school subjects and extracurricular activities. Users can post questions and have them answered by other users with shared similar experiences.

Third-party Games

We operate on our platform several web games developed by third parties on a revenue-sharing basis.

Franchising and Licensing

Our other businesses currently consist of advertising for third parties in our content, licensing our franchises, such as our virtual worlds’ characters, for third-party use and using our franchises for print media and toys and third parties advertise through product placement or promotions in our virtual worlds or on our websites. We are careful to control the amount of advertising in our products and services to ensure that the quality of user experience is not negatively impacted. Additionally, we license the use of our content, such as characters and artwork from our virtual worlds, for third-party use in various media and websites, as well as license our virtual worlds’ games and activities directly for use in their websites. We also receive royalties from publishing of print media and proceeds from sales of toys based on our franchises.

Revenues from other businesses currently account for an insignificant portion of our total revenues. We are expanding our other businesses through (i) leveraging the increasing strength of our brand to obtain more advertising and licensing business and (ii) expanding our business to include areas such as television and movies. For example, in November 2013, we entered into a memorandum of understanding with a leading PRC movie production company to produce an animated movie based on the Aola Star virtual world and characters.

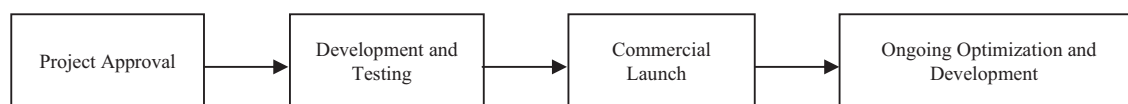
Our Product Pipeline

We plan to release two new virtual worlds: a virtual world for PC based on the world and characters of Dragon Knights with more casual gameplay in the third quarter of 2014, and a virtual world for both PC and mobile based on a popular fantasy book series for children in China in the fourth quarter of 2014. The first virtual world involves real-time battle adventures and is targeted towards boys. The second virtual world involves a mix of social networking and battles and is targeted towards both boys and girls. These products are currently in the development and testing stage. In addition, we plan to release a movie based on the characters of Aola Star and commence commercial operation of WenTa.

Product Development

We have developed a user-driven evolutionary product development and operating model that has allowed us to continually produce successful products and content while minimizing investment risk and development expenses.

Our product development process can be divided into the four stages as set forth in the chart below. It generally takes approximately one year for a product to progress from project approval to revenue generation, although a product may be brought online in a much shorter period of time. Our in-depth understanding of the needs of children and focus on user experience is prevalent through all parts of this development process.



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Project approval

Product development commences with the approval of a new product concept. Our product development team leverages previous experience with successful product launches, analysis of various data on user trends and habits and their in-depth understanding of the children’s online entertainment market to identify a new product concept with strong potential for success. The project team then conducts market research, including interviewing and reviewing feedback from our user base, to assess the viability of the concept. A preliminary project proposal is then created covering the major aspects of the new concept for approval by our executive management’s project committee. This process typically takes one to four months.

Development and testing

Once the proposal is approved by the project committee, a dedicated project team is assembled to create the product prototype. The team typically initially consists of three to five members and eventually grows to approximately thirty to forty members as the product nears open beta. We conduct test marketing of the product with our target audience through channels such as in-school demonstrations and interviews with children. The product is then further optimized to be approved for open beta testing by the project committee. This process typically takes six to ten months. Once the product reaches the open beta stage, new accounts can be created by all of our users.

Commercial launch

The new product is considered to be commercially launched once we have (i) obtained any necessary governmental and regulatory approval to collect payment for sales of virtual products and services and (ii) concluded the open beta testing stage. It typically takes approximately two to three months for a product to progress from open beta to commercial launch.

Ongoing optimization and development

New episodes will be released for commercially launched virtual worlds on a weekly basis. Storyline arcs may span across multiple episodes. As the product becomes more successful and evolves with its growing user base and expanding content, the product development team may grow to fifty to seventy members. The product is then continuously optimized and improved based on user feedback and analysis of collected data on user tastes and preferences. The product development team and our management consistently monitor the performance of the product and prepare monthly workplans.

Although all of our products are developed primarily for the PC platform, they are based on underlying technology that is mobile-ready and can be easily transferrable to mobile platforms without significant investment.

Over the course of continuously developing successful content for virtual worlds under this model, we have also been able to get a greater understanding into the needs of our user base, which has helped us identify fun-learning and cartoon and animation services as new areas for expansion. We believe that our product development and operating model can be easily adapted to create successful content in fun-learning and cartoon and animation services.

Safety and Security

We have established a system of stringent protection mechanisms to prevent excessive use, ensure child safety and facilitate parental supervision. Our security features include our unique operating model of weekly episodes, robust content and language filters, restrictions on access time and a government-sanctioned parental control and monitoring program. We believe that these measures reinforce our brand as one trusted by parents and regulators

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that will promote the healthy use of our virtual worlds in moderation and protect children from inappropriate content and influences online.

Our unique operating model of releasing new episodes for each virtual world on a weekly basis provides us with an inherent mechanism against excessive use. The limited content of each weekly episode ensures that our users have sufficient time for other activities in their lives, while still remaining engaged in anticipation of future episodes. Also, we have daily server downtime between the hours of midnight and 6:00 am to encourage healthy Internet usage habits for children. We have designed a usage time control system to promote the use of our virtual worlds in moderation, with measures such as reminding children to rest regularly and reducing rates of game rewards and progression after prolonged periods of use. These measures encourage our users to moderate their use of our virtual worlds and develop healthy usage habits.

Additionally, we recognize the imperative nature of protecting children’s privacy online and have implemented extensive measures to safeguard our users’ identities. We remind users not to share personal information online throughout our content and communications with them. We also encourage children to use a series of pre-designed phrases to communicate with others within our virtual worlds. While we allow online chatting to foster our user communication, we also have robust content and language filters to prevent the sharing of telephone numbers or other personal information and screen out language that we consider inappropriate for children. Chats are also monitored from time to time by our staff moderators to prevent the use of abusive language and other inappropriate behavior, and we impose bans of varying length on users who are found to have engaged in inappropriate behavior. We encourage users to report offenses or violations of our terms of service to us, which are then handled by our staff on a case-by-case basis.

We also participate in the Project for Parental Monitoring of Minors in Online Games, a “parental watch” project launched by the MOC and a number of major online gaming companies. Under this project, we have instituted a sophisticated monitoring system, through which parents and guardians can choose to register email addresses and phone numbers and tie them to their children’s user accounts. Parents are able to monitor their children’s time spent in our virtual worlds, suspend accounts and monitor new account registrations.

Marketing and Promotion

Since our inception, user referral and word-of-mouth marketing has been our most effective means of acquiring new users. We believe that children’s inherent nature to share their hobbies and interests with each other and desire for a sense of belonging has contributed greatly to our growth.

Additionally, our large user base allows us to conduct effective and targeted cross-selling across each of our virtual worlds. Within the content of each of our virtual worlds, we place various links and promotions referring users to our other virtual worlds that they may be interested in. Under the terms of our distribution agreements, our provincial distributors are required to promote our prepaid cards through our distribution network, which covers over 20,000 retail outlets in over 300 cities across China as of December 31, 2013. From time to time, we have also advertised on search engines and Internet game portals to reach new users. Through cross-selling and the promotional efforts of our third-party distributors and retail outlets, we are able to obtain ancillary benefits and efficiently utilize our marketing expenses.

Since 2010, we have conducted over one hundred fan meet-and-greets and dozens of school events across China where our users can see their favorite characters from our virtual worlds in person. We also attend animation, toy and book festivals and exhibitions, such as the South China Book Festival and organize fanfests to promote our virtual worlds among children. We use these opportunities to get to know our fans and user base and obtain feedback from them and their parents.

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Brand

We operate in China under *Baitian*, our corporate brand. Our virtual worlds and their popular characters represent our core brand values of “夢想、友誼、成長,” which means “Dreams, Friendship and Development,” and have gained strong awareness among children and parents in China. All of our products and services are designed to reflect and promote these core values, forming a strong foundation for our brand across our platform. Our strong brand recognition among children has led to high levels of word-of-mouth referrals, which has allowed us to enjoy low user acquisition costs, as evidenced by our historically modest marketing and advertising budget in spite of our rapidly growing number of registered accounts.

We also work with advertising agencies who contract with us to display on our websites advertisements of products of major consumer companies such as Kraft and Yili. We also license our brands to these companies for use in their own advertisement campaigns, leveraging the strength of our brands and creating synergistic partnership with these companies.

User Services

Users can access our virtual worlds by creating an account and setting up a unique Duoduo ID, which may be used across all of our virtual worlds and to access all of our products and services. This account number is also used to store and purchase AoCoins, our virtual currency, which is used to convert into tokens for in-game purchases within individual virtual worlds.

As of December 31, 2013, we had a dedicated user service team of 65 employees serving our rapidly expanding user base. We aim to ensure the quality of user experience and our user service department reflects our commitment to fulfilling that goal. Through our advanced call center system and proprietary user service management platform, our team is able to efficiently address our users’ online and offline inquiries, complaints and feedback.

We have designed clear and efficient user service workflows and quality control mechanisms to ensure the highest quality of service for users with each of our virtual worlds. Each member of our user services team receives in-depth training on how to communicate with children and their parents. Our user service team is also required to play the games and activities in our virtual worlds to ensure that they have extensive knowledge of our content. Additionally, the data and information we receive from service inquiries contribute to our large user data management system, which allows us to understand our users’ needs, analyze their habits and provide improved and customized service.

Our customer service team is on call 365 days per year, 14 hours per day. During the Track Record Period, our customer service team had a call pickup rate of over 98%, customer satisfaction rate of over 95% and issue resolution rate of 100%.

Payment and Distribution

Payment

Purchases of virtual goods and services are paid for with virtual world tokens converted from AoCoins, our virtual currency. Each virtual world has its own type of token. Users can recharge AoCoins into their accounts through physical prepaid cards or virtual prepaid cards.

Each of our prepaid cards contains a unique access code and password that enables users to recharge their AoCoins account at pay.100bt.com, our payment services website. Our prepaid cards are offered in denominations of RMB10, RMB20 and RMB30 to provide flexibility to our users. Our physical prepaid cards also come in a variety of designs with characters and artwork from our virtual worlds, giving them secondary

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value as collectibles for our users. Payment through physical prepaid cards accounts for a majority of payments that we receive from our users. We sold a total of 8.3 million, 20.2 million and 40.1 million physical prepaid cards in the years ended December 31, 2011, 2012 and 2013, respectively.

In addition to physical prepaid cards, we also provide our users with the option of purchasing AoCoins through virtual prepaid cards or directly on our payment site. Users can also recharge their AoCoin accounts directly on our payment site at pay.100bt.com using online payment for payment channels such as credit card and debit card, Bill99, Alipay, mobile recharge cards for all three of China’s major mobile network providers and SMS payment. We pay a processing fee to banks and other third-party payment channels in connection with such payments.

Distribution

We sell our physical prepaid cards through a nationwide network of third-party distributors. We have entered into distribution agreements with one third-party distributor from each province in China, with limited exceptions. The provincial distributors resell our prepaid cards to sub-distributors who in turn distribute them to over 20,000 retail outlets in over 300 cities across China, as of December 31, 2013. These retail outlets include newsstands and convenience stores, ideally at locations easily accessible by our user base.

We enter into distribution agreements with our distributors on terms of various length, usually longer over one year, depending on the qualification of and our relationship with the distributor. Our distribution agreements are typically on a non-exclusive basis and are renewable upon agreement of both parties. The terms of our distribution agreements typically provide for sales of prepaid cards to our distributors at a pre-negotiated discount to the cards’ face value and a monthly sales target. We typically offer the same discount rate to each of our distributors and subsequent adjustments to the discount rate are applied to all of our distributors. We typically adjust the discount rate that we offer to our distributors based on our competitive position in the industry and have reduced our discount rate during the Track Record Period. Under our distribution agreements, our distributors are not allowed to return any unsold prepaid cards. We typically collect payment from our distributors prior to delivery of the prepaid cards. We select and evaluate our distributors based on rigid performance criteria, including monthly sales targets set out in the distribution agreements. We also review the necessary government registrations and qualifications of potential distributors before contracting with them to ensure the reliability and credibility of our business parties. Most of our distributors are privately held companies specialized in or with a division specialized in card distribution. As of the Latest Practicable Date, we are not aware of any of our distributors holding any direct or indirect interest in our Company or being funded by any connected persons of our Company or their respective associates.

We also offer virtual prepaid cards as a supplemental payment channel particularly useful for underdeveloped areas. Our virtual prepaid cards are sold via one nationwide distributor responsible for sub-distribution to B2C, B2B, C2C and other platforms. This distributor of virtual prepaid cards receives similar pre-negotiated discounts and performance bonuses as distributors of physical prepaid cards.

The following table sets forth the breakdown of our total cash proceeds by each payment channel during the Track Record Period.

	For the Year Ended December 31,		
	2011	2012	2013
	(RMB’000)		
Cash proceeds by each payment channel			
— Physical prepaid card distributors	65,452	173,651	388,964
— Virtual prepaid card distributors	13,981	32,081	65,995
— Third-party payment vendors	11,825	27,884	54,648
Total	<u>91,258</u>	<u>233,616</u>	<u>509,607</u>

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In the years ended December 31, 2011, 2012 and 2013, the top five sources of cash proceeds from sales of physical and virtual prepaid cards and sales of AoCoins through other payment channels accounted for 48.4%, 54.5% and 53.3% of our total cash proceeds from these sales. Our top five distributors for each of 2011, 2012 and 2013 included one distributor of both physical prepaid cards and virtual prepaid cards, one third party payment vendor and three physical prepaid card distributors. Our top source of cash proceeds from these sales for the years ended December 31, 2011, 2012 and 2013 was our sole virtual prepaid card distributor, which is also our physical prepaid card distributor for Sichuan province, and accounted for 17.9%, 16.2% and 15.1% of our total cash proceeds from these sales. We had 32, 28 and 32 distributors in 2011, 2012 and 2013 respectively. 88.9% of our distributors in 2012 were our distributors in 2011 and 84.4% of our distributors in 2013 were our distributors in 2012.

As of the Latest Practicable Date, none of the Directors, their associates or any shareholders of the Company (who owned or to the knowledge of the Directors owned more than 5% of the Company’s issued share capital) had any interest in any of our five largest sources of cash proceeds from prepaid cards.

Suppliers

We primarily rely on third-party suppliers for stored-value cards, servers and bandwidth.

Stored-value cards

We typically purchase the stored-value cards used as our physical prepaid cards from third-party vendors through purchase orders on an as-needed basis. These vendors custom manufacture physical prepaid cards based on our specifications, such as size, artwork and denomination.

Server hosting and bandwidth leasing

We select our server hosting and bandwidth vendors through bidding processes. We typically enter into server hosting or bandwidth leasing agreements with our vendors for initial terms ranging from one to three years, which are typically automatically renewable upon expiration unless one party notifies the other party otherwise in writing prior to expiration. Under our server hosting or bandwidth leasing agreements:

- Vendors provide server hosting or bandwidth services on a 24-hour basis and provide us with technical reports;
- We generally pay fixed service fees to these vendors on a monthly basis;
- Vendors are responsible for maintaining equipment that we provide;
- We are entitled to use IP addresses distributed by the vendors, subject to the relevant PRC laws and regulations concerning Internet security; and
- We are entitled to terminate the agreements if the vendors fail to meet certain service standards.

Charges from our five largest suppliers for each of the years ended December 31, 2011, 2012 and 2013 accounted for 21.1%, 21.3% and 22.8%, respectively, of our cost of revenues during those periods.

As of the Latest Practicable Date, none of the Directors, their associates or any shareholders of the Company (who owned or to the knowledge of the Directors owned more than 5% of the Company’s issued share capital) had any interest in any of our five largest suppliers.

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Information Technology

We have developed and established a strong information technology foundation to support our operations. The core of this foundation is our research and development team of 175 personnel who are responsible for developing and maintaining our software, hardware and network infrastructure, including 22 operations support and maintenance specialists who ensure reliable and fast access by our users across China. As of the date of this [REDACTION], we have not had a system-wide malfunction where users were unable to access their accounts or enter our virtual worlds.

Our proprietary software engine underlying all of our virtual worlds allows our product development teams to create, develop and release content quickly and efficiently. We have also developed proprietary data mining, management and analysis software to collect user information such as playing time, online purchasing habits and various other trends, which provides us with a greater understanding of our user base’s requirements and allows us to optimize our content to tailor to those requirements. Our proprietary software has high scaling capacity and is expected to be able to serve our operational needs for the present and foreseeable future.

We have built a robust hardware infrastructure network to fully support our fast-growing operations. As of December 31, 2013, we maintained over 900 servers, most of which are located in third-party Internet data centers in two cities in China.

We believe that our information technology provides us with:

- *Scalability.* Through our proprietary software engine for our virtual worlds and our clustered architecture for distributed data processing, we are able to improve performance and support increasing numbers of both concurrent and registered users by increasing our number of servers.
- *Stability.* To ensure the stability of our systems, we have adopted a load-balancing approach with multiple servers capable of handling the same services. In the event that a server malfunctions, our system will automatically disable that server to ensure continuity of service. We also have both real-time and total data backup mechanisms to ensure against database server failure. In addition, we have a number of monitoring mechanisms in place to assess the performance of our hardware infrastructure network so potential issues can be detected and repaired in a timely manner.
- *Security.* We utilize a combination of hardware firewalls and securities policies for our software engines to defend against outside attacks. Our data is protected by robust encryption algorithms. To protect our users’ accounts and personal information, our system requires our users to set passwords with sufficient length and complexity. In the event that a user forgets his or her passwords, multiple verification steps must be taken before he or she can retrieve his or her account. We have also built hardware and software infrastructure in our system to prevent hacking. Direct online purchase of AoCoins on our own platform, pay.100bt.com, will become an increasingly important payment channel for our users, and we are committed to ensure the security of this payment channel. If a user stays logged in on the payment platform for more than a certain period of time, its payment session will automatically lapse, at which point our users are automatically logged out in a secured mode. User information transmitted throughout the payment process on pay.100bt.com is also secured, with multiple steps of password protection and identify verification. No users can transfer AoCoins to other users, or to purchase AoCoins or virtual items for other users. Our information platform closely monitors user activity and behavior information, allowing us to react quickly in the event of any payment security issues.

In addition to the aforementioned security measures, we also have strict internal controls in place to restrict access to our software, hardware and data by our employees only on an as-needed basis.

During the Track Record Period and the subsequent period up to the Latest Practicable Date, we did not experience any material network disruptions or incidents of hacker attacks.

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Intellectual Property

We recognize the importance of intellectual property rights to our business and are committed to the development and protection of our intellectual property rights. We rely on copyright, trademark and other intellectual property laws, as well as confidentiality and license agreements with our employees, distributors and others, to protect our intellectual property rights. Our employees are generally required to enter into a standard employment contract that assigns to us all ownership rights over inventions, designs and other technologies developed by them on our behalf.

As of the Latest Practicable Date, we have received approval for 196 trademark registrations and have 129 pending trademark registration applications in China. We also have seven trademarks registered and 23 pending trademark registration applications in Hong Kong. Our trademarks primarily cover the names and logos associated with our virtual worlds and our *Baitian* brand. In addition, we have obtained 16 copyright registrations for software we developed and 20 copyright registrations for artwork produced and owned by us. We also have 113, three and two registered domain names in PRC, Hong Kong and Taiwan, respectively, including www.100bt.com, our primary operating website, and www.baitianinfo.com and www.baioo.com.hk, our corporate information websites.

From time to time, we have licensed our trademarks and copyrights for third-party use, as well as licensed third-party games to operate on a revenue sharing basis. To minimize our exposure to risks of infringing third parties' intellectual property rights as a result of our operating third parties' online games, we have built in our contracts with these third party game developers various protection clauses. These clauses provide that the third party game developer must possess the intellectual properties associated with the games it licenses to us, and in the event that we suffer any loss resulting from the game developer's breach of such undertaking, the game developer must indemnify us for such loss. Revenues from these types of arrangements are not material to our business.

Despite our precautions, third parties may obtain and use our intellectual property without our consent. Unauthorized use of our intellectual property by third parties and the expenses incurred in protecting our intellectual property rights may adversely affect our business. Historically, we have also encountered disputes where our trademark registration application has been contested by a third party. For example, a third party has registered seven trademarks and is in the process of registering one trademark for the Chinese characters of “Aola Star” and “Light of Aola” and related logos in trademark classes that are relevant to our business. As a result, we are unable to register for trademark protection these Chinese characters and our self-designed logos currently used for Aola Star, one of our virtual worlds.

We believe the third party's registration constitutes trademark squatting because the third party registered these trademarks several days after our open beta launch of Aola Star, does not have any actual business operations and we are currently not aware of any actual use of these characters and logos by the third party. As such, in February 2013, we filed a trademark cancellation application for the third party's registrations with the Trademark Appeal Board, who accepted our application in October 2013 and is currently reviewing our application. Pursuant to relevant regulations, the third party is given a 30-day period from the date Trademark Appeal Board accepts our case to provide response or evidence to reject our arguments and support the validity of its trademark registration in the application. Since October 2013, the third party has not provided any response or evidence within the 30-day period as requested by the Trademark Appeal Board to deny the trademark squatting allegation.

Before a decision is made by the Trademark Appeal Board as to the validity of these trademark registrations, the third party may bring claims in competent PRC courts against us for intellectual property infringement. We are advised by our PRC legal advisers that if the court decides that the third party has the intention of trademark squatting, it will most likely stay the case pending the result of our application. In the event that the court decides to proceed with the trial due to the particular facts of the case, we are advised by our PRC legal advisers that we may be able to raise the “first-to-use” defense provided for under the new PRC Trademark Law, which will take effect on May 1, 2014. The new PRC Trademark Law has not yet come into effect, and there is uncertainty

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whether it has retrospective effect as to acts occur prior to its effectiveness. However, if the court decides that the new PRC Trademark Law has retrospective effect, in addition to the defense of trademark squatting, we will also raise the “first-to-use” defense to vigorously defend our case.

In the event that the court decides that we have infringed upon the third party’s intellectual property rights, under PRC law, we may be ordered to cease using the relevant Chinese characters and logos, and, depending on whether the third party has used the registered trademarks during the three years prior to the date the third party brings the claim, compensate the third party for an amount equal to the third party’s losses or our profits resulting from such use of the registered trademarks or, if the amount of profits cannot be ascertained, an amount up to RMB500,000 pursuant to the current PRC Trademark law or RMB3,000,000 pursuant to the new PRC Trademark law, as determined by the court. With respect to the period for which our profits are calculated under PRC law, we are advised by our PRC legal advisers and trademark agent of the following: (i) if the third party brings a claim against us in court within two years from the date on which the third party became or should reasonably be expected to become aware of the infringing act, the relevant time period is from the date on which we first used the registered trademarks to the date when we cease using the registered trademarks; and (ii) if the third party brings the claim after two years, the relevant period is two years preceding the date on which the third party brings the claim.

We are advised by our PRC legal advisers that if there is no evidence that the third party has used the trademarks in dispute during the past three years prior to the date the third party brings the claim, the court, while having full discretion to make its decision considering the other specific facts of the case, is most likely to order that the infringing party ceases using the trademarks without also ordering economic compensation. We are not aware of any actual use by the third party and the third party has not so far provided any evidence to the Trademark Appeal Board to prove any actual use. In light of the above, our PRC legal advisers is of the view that the likelihood that we will be ordered to make economic compensation to the third party is relatively low.

Aola Star was launched in July 2010, and, with our active marketing and promotional activities, has gained wide popularity in China by July 2011 when the third party’s registration of these trademarks became effective. Therefore, the third party should reasonably be expected to have become aware of our use of these trademarks since July 2011. Up to the Latest Practicable Date, more than two years have passed and the third party has not brought any claim against us. Therefore, if the third party were to bring a claim against us in the future for intellectual property infringement, and in the unlikely event that we are ordered by the court to make economic compensation, we believe that the relevant period for which our profits will be calculated would most likely be two years preceding the date the third party brought the claim.

Revenue generated from Aola Star contributed to 46.2%, 46.2% and 35.4% of our total revenues for the years ended December 31, 2011, 2012 and 2013, respectively. In the event that we are ordered to cease using the relevant Chinese characters and logos, the Directors are of the view that there will be no material adverse impact on our business and operation based on the following reasons: (i) we believe that Aola Star is popular among children mostly because of its engaging storyline, exciting in-game activities and fun-learning elements, thus a change of virtual world name and the name of the avatar our users adopt is unlikely to affect the children’s game-playing experience and enjoyment in our virtual world; and (ii) we continue to own the domain name, aola.100bt.com, as well as our main website 100bt.com, through which users can log into Aola Star. As such, even if we change the name of Aola Star and the name of the avatar, users who want to play Aola Star can continue to return to the virtual world through the same websites.

Please refer to the section headed “Risk Factors — Risks Related to Our Business — We are involved in a trademark dispute surrounding certain Chinese characters and logos used in one of our virtual worlds, which may subject us to litigation that may have a material adverse impact on our financial condition” for additional information regarding our existing and potential intellectual property disputes.

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Please refer to the section headed “Statutory and General Information — Further information about the business of our Company — 2. Our material intellectual property rights” in Appendix IV to [REDACTION] for details of our material intellectual property rights.

Competition

We believe that the PRC online children’s entertainment market is characterized by the following barriers to entry for success:

- *Size of user base.* Due to the social nature of online entertainment for children and the importance that users place on interaction with others, user base size is a strong barrier to entry for new competitors. New entrants to the market may not be able to acquire a sufficiently large user base to fulfill user demand for social interaction, or may incur significant marketing and user acquisition costs.
- *Brand.* Children users typically demonstrate significant brand loyalty to their favorite games and virtual worlds. In addition, parents and regulatory authorities are more trusting of the security and healthy nature of existing, well-established brands for children.
- *Talent.* The creation of successful online children’s entertainment requires a product development team with significant insight and experience into the mindsets and demands of children. As children have rapidly changing preferences for entertainment through the various stages of childhood and into adolescence, it is necessary for development teams to adapt to these changes and release products on an expedient basis. New entrants to the market without established brands and operations may not be able to recruit and retain such a strong product development team to keep up with the industry’s short product development cycle.
- *Technology and know-how.* Product development and operations in the online children’s entertainment industry also require significant technological capabilities and know-how. Strong data management and analytical abilities, software platform and technology infrastructure, among others, are critical to be successful in the industry.

Our principal competitors in the PRC online entertainment for children market are Tencent, the developer of Roco Kingdom, and Taomee, the developer of Seer and Mole’s World. Our other competitors include operators of children’s web games, children’s entertainment websites and developers of mobile applications focused on children’s entertainment and learning. Certain of our existing and potential competitors, in particular publicly-listed foreign and China-based media and game operators, have significantly greater financial and marketing resources and name recognition than us. Please refer to the section headed “Risk Factors — Risks Related to Our Business — Competition within the children’s online industry and the broader entertainment industry may be intense and our existing and potential users may be attracted to virtual worlds and games developed by our competitors as well as other forms of entertainment, resulting in decreases in our user base and monetization rate and causing our business to suffer. Our competitors may launch similar products that may be more competitive than ours.”

Our principal competitors in the PRC online education services market for children include large, well-known Internet companies such as Baidu and Alibaba, who have recently entered into the online education market, as well as a number of other companies.

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Employees

As of December 31, 2013, we had 597 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 December 31, 2013:

	Number of Employees	% of Total
Operations	386	64.7
Development and research	159	26.6
Sales and marketing	18	3.0
General and administration	34	5.7
Total	597	100.0

We hold campus recruiting sessions at key universities throughout China and provide internship programs at our Company for college students in order to attract top graduates. We sometimes make lateral hires through headhunting firms. We also post job opportunities through social networking platforms. New hires are offered various trainings and assigned to mentors so that they can quickly become adapted to our corporate culture and acquire the knowledge and skills required for their positions. We have a fair and open system of conducting performance reviews of our employees and make decisions such as promotion, demotion and salary or bonus adjustments based on the results of these performance reviews.

We enter into standard employment contracts and agreements regarding confidentiality, intellectual properties and non-compete with all our full-time employees. We also hired a small number of part-time staff and interns, with whom we enter into separate contracts in accordance with PRC law.

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. The total amount of contributions we made for employee social insurance plans for the years ended December 31, 2011, 2012 and 2013 were approximately RMB5.9 million, RMB9.9 million and RMB18.5 million, respectively. We also grant share options and restricted shares to our employees to incentivize them to contribute to our growth.

Our employees have not formed any employee union or association. We believe that we maintain a good working relationship with our employees and we did not experience any labor disputes during the Track Record Period.

Insurance

In addition to the mandatory employee social insurance, we maintain medical insurance for all our employees, covering work related injuries and certain medical needs. We do not have any other commercial insurance covering our material assets. Nor do we maintain business interruption insurance or insurance policies against risks relating to the Contractual Arrangements. We believe our insurance coverage is line with industry practice and is adequate in light of our current business operations. Please refer to the section headed “Risk Factors — Risks Related to Our Business — We have not purchased any insurance to cover our main assets and business and our limited insurance coverage could expose us to significant costs and business disruption” for details.

Properties

As of the Latest Practicable Date, we do not own any property. We leased seven properties, six of which are located in Guangzhou with a lease expiry date of December 31, 2014 and one of which is located in Beijing with a lease expiry date of October 31, 2014, with an aggregate gross floor area of approximately 5,205 square meters

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and each ranging from a gross floor area of approximately 15 square meters to 830 square meters. These properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules and are principally used as our office premises for our operations. Six of the seven leases have not been registered with the relevant local authority as required by PRC law. However, according to our PRC legal advisers, Jun He Law Offices, lease registration is not a mandatory condition for the validity of the lease agreements and the absence of the registration will not affect the legality of the lease agreements or impede our ability to use the relevant properties. Our PRC legal advisers also advised us that, pursuant to the Provisions of Guangzhou Municipality on House Tenancy Administration issued by the Guangzhou government, we will not be subject to any administrative penalties as a result of such non-registration. In addition, we are of the view that we can relocate to other comparable properties, if necessary, without suffering from significant costs or operational burden.

Legal Proceedings and Compliance

Other than the potential trademark claim regarding “Aola Star” and the proceeding under Section 122 of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), we are not currently a party to, or are aware of, any legal, arbitral or administrative proceedings, investigations or claims. Nor have we experienced any incidents of non-compliance which, in the opinion of our management, is likely to materially and adversely affect our business, financial condition or results of operations. Furthermore, we have not encountered any material claim, complaint or dispute in relation to the operations of our virtual worlds or our other products and services. Our PRC legal advisers, Jun He Law Offices, have advised us that, during the Track Record Period and the subsequent period up to the Latest Practicable Date, except as described below, we had complied with applicable PRC laws and regulations in all material respects and were not subject to any material administrative proceedings or penalties for any non-compliance under PRC law.

- As stated in “Regulations — Online Games Administration Measures,” the publication and commercial operation of online games requires the approval of the GAPP and the filing of the same with the MOC. However, we did not complete such procedures before we commercially launched Planet of Light, a small-scale social networking game, in November 2012, based on our understanding of the approval and filing procedures after communicating with relevant local authorities. However, in the opinion of our PRC legal advisers, we have not complied with the relevant PRC regulations, according to which we may be subject to administrative penalties, including a fine of up to RMB20,000 for the failure to make the filing with the MOC and a fine of approximately RMB100,000 to RMB200,000 for the failure to obtain the Internet publication approval from the GAPP. The GAPP may also order that we cease operating the unapproved game or the platform offering the game. To remediate such non-compliance, we have completed the filing with the MOC for Planet of Light and the Internet publication approval has been obtained from GAPP. Planet of Light accounted for nil, RMB9,229 and RMB68,170 of our revenues in the years ended December 31, 2011, 2012 and 2013. We have not received any notice of administrative investigation or penalties from the relevant authorities. In the opinion of our PRC legal advisers, our historical non-compliance as described above will not have a material adverse effect on our business operations.
- As stated in “Regulations — Regulations on Internet Audio-visual Programs,” enterprises engaging in the business of transmitting audio-visual programs must apply for and obtain the Audio-visual Program License. However, we did not apply for such license when in June 2012 we started to cooperate with certain video websites in China whereby our users can access the audio-visual programs on these video websites by clicking into links placed in our website and using our video players. We failed to apply for the Audio-visual License because we did not consider providing a link on our website to audio-visual programs offered by a third party’s website would be determined by the competent authority as transmitting audio-visual programs. Moreover, as stated in “Regulations — Regulations on Internet Audio-visual Programs,” pursuant to the relevant regulations, even if we were to apply for the Audio-visual License, we wouldn’t be qualified to do so. In the opinion of our PRC legal advisers, we have not complied with the relevant PRC regulations. Pursuant to the relevant regulations, if the competent authority determines that the circumstance of our non-compliance is not severe, it should issue us a warning and order us to rectify, and

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it may also order us to pay a fine of RMB30,000; if the competent authority determines that the circumstance of our non-compliance is severe, it should order us to cease operating the audio-visual program business or the platform offering the business and to pay a fine of between one to two times of the total investment amount. Our total investment amount for the audio-visual program was de minimis, as it only entailed placing links on our website to third-party video sites. To remediate such non-compliance, we have ceased offering such services in September 2013, and have not received any notice of administrative investigation or penalties from the relevant authorities. In the opinion of our PRC legal advisers, our historical non-compliance as described above will not have a material adverse effect on our business operations.

- Section 122 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) requires that the directors of Baitian Hong Kong shall present before the company at each of its annual general meetings the profit and loss accounts and balance sheet of Baitian Hong Kong since its incorporation, which shall be updated to a date falling no more than nine months before the date of the annual general meeting. The directors of Baitian Hong Kong failed to present any profit and loss accounts or balance sheets of Baitian Hong Kong (the “Baitian Hong Kong Accounts”) at its annual general meetings for 2010, 2011 and 2012 (the “Section 122 Non-compliant Matter”). The reason causing the Section 122 Non-compliant Matter was due to Baitian Hong Kong’s directors’ unfamiliarity with the Hong Kong law and their reliance on the company secretary agent engaged by Baitian Hong Kong in dealing with secretarial matters and compliance requirements imposed on Baitian Hong Kong by the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), who did not inform them of such statutory requirement in Hong Kong. Shortly after discovery of the Section 122 Non-compliant Matter in December 2013, the directors of Baitian Hong Kong engaged a Hong Kong barrister and filed originating summons and an affirmation to the Hong Kong High Court for relief (the “Requested Relief”), and the Hong Kong High Court issued an order on March 13, 2014 that (a) the requirement under section 122(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) to lay the Baitian Hong Kong Accounts at annual general meetings for the years of 2010, 2011, 2012 and 2013 be substituted to a requirement to lay the same at a general meeting of Baitian Hong Kong to be held in accordance with the articles of association of Baitian Hong Kong and the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) within 28 days of such order and (b) the period of nine months referred to in section 122(1A) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) in respect of the Baitian Hong Kong Accounts be extended to such period up to and including the date of such general meeting. Subsequently, a written resolution in lieu of an extraordinary general meeting pursuant to the articles of association of Baitian Hong Kong was adopted on March 14, 2014 where the Baitian Hong Kong Accounts, together with directors’ reports of Baitian Hong Kong for the same period, were approved and adopted by the Company, the sole shareholder of Baitian Hong Kong. In order to avoid the reoccurrence of such non-compliance by Baitian Hong Kong after [REDACTION], we have established internal control procedures to have our joint company secretaries supervise this particular matter, who will ensure that our reporting accountant will review and prepare the audited financial accounts of Baitian Hong Kong and the directors of Baitian Hong Kong will present such audited financial accounts before the Company at Baitian Hong Kong’s general meeting for approval in full compliance with the section 122 requirement under the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) after [REDACTION].

The Directors believe that the Company has established adequate internal control systems to ensure that necessary government filings, approval and permits have been obtained and maintained by the Company in connection with our business operations. See “— Risk Management” for more details regarding our enhanced internal control procedures with respect to legal compliance.

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Risk Management

We are dedicated to the establishment and maintenance of a robust internal control system. We have adopted and implemented risk management policies and corporate governance measures in various aspects of our business operations such as financial reporting, information risk management, legal compliance and intellectual property rights management and human resources management.

Financial Reporting Risk Management

We have adopted comprehensive accounting policies in connection with our financial reporting risk management. We provide ongoing trainings to our finance staff to ensure that these policies are well-observed and effectively implemented.

As of December 31, 2013, our finance team consisted of nine employees, and is headed by our chief financial officer, who has extensive experience in public company financial reporting. Other senior members of our finance department are all experienced in finance and accounting.

Information Risk Management

We have adopted measures to protect user data accumulated on our platform and prevent technical issues in our network infrastructure and information technology system. Our information technology department is responsible for protecting user data and ensuring the stability of our network infrastructure and information technology system. Our information technology team consists of 237 employees, and is led by our chief technology officer, who has approximately thirteen years of experience in information technology industry.

We use various information management systems in our operations. To ensure information security, employee access to internal information is restricted and employees are not allowed to access certain internal information without authorization. We have adopted internal policies to ensure that authorization is tailored to employee seniority and department function so that certain information can only be obtained on an as-need basis.

We have adopted various policies on database operation to prevent information leakage and loss of data. Key information in the database such as user password is protected by robust encryption algorithms. We also keep records of all database operations and non-routine database operations are not permitted unless such operations are necessary and have been approved jointly by our chief operating office, chief technology officer and the heads of relevant departments. We also use monitoring systems to monitor the data operating status of the server and alert relevant departments to abnormal situation. In addition, our daily maintenance, fire protection measures, access control system and other measures help maintain the physical condition of our network infrastructure. We also have a data back-up system through which our data is stored on servers of different locations on a weekly basis to reduce the risk of data loss. Our information technology department conducts backup recovery tests semi-annually to examine the status of this back-up system. Further, most of our full-time employees are required to sign confidentiality and non-compete agreements, pursuant to which they undertake to keep confidential any user data and operational, financial and product information of the Company that they obtain by virtue of their employment with the Company.

Legal Compliance and Intellectual Property Rights Risk Management

Compliance with PRC laws and regulations, especially laws and regulations governing in the online game industry, as well as the protection of our intellectual property rights and the prevention of liabilities resulting from potential intellectual properties infringement are major focus areas of our operational risk management. We have a dedicated legal team that is responsible for monitoring any changes in PRC laws and regulations and ensuring the ongoing compliance of our operations with PRC law. Our legal team also works with our outside legal counsel to ensure we have obtained and maintained all the necessary permits and licenses required for our

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operations as we launch new products or enter into new business segments. To prevent similar incidents of non-compliance as disclosed in [REDACTION] from recurring, our management is committed to staying informed of the latest laws and regulations governing our business activities, and working with our legal team and outside legal advisers to take all necessary actions to ensure compliance with such laws and regulations. In situations where the relevant laws and regulations are not clear as to what action should or should not be taken, we will take the conservative approach to avoid any potential compliance issues.

As we develop a new product, our research and development team submits the project proposal to our senior management for approval. The proposal materials are also subject to review by our legal department, which conducts searches to ensure that the idea and design embedded in our new product proposal would not infringe upon any third parties’ existing intellectual property rights. Our legal department also ensures the timely application for trademark, copyright or patent registrations for, as well as the timely filing with relevant authorities of, our new products. As to the licensed products published in our platform, we limit our exposure to non-compliance by requesting the third party to provide all the necessary legal titles to the product and the qualifications that they are required hold under PRC laws and regulations. We also engage external counsel or external intellectual property agent to assist us in legal compliance and the prevention and resolution of issues related to intellectual property rights.

Human Resource Risk Management

We have established internal control policies covering various aspects of human resource management such as recruiting, training, work ethics and legal compliance.

We adopt high standards in recruitment with strict procedures to ensure the quality of new hiring. Moreover, we provide a mentor program for each of the fresh graduates that we hire, which we believe are effective in equipping them with the skill set and work ethics that we required of our employees. We provide specialized trainings tailored to the needs of our employees in different departments. We also hold weekly workshops where our product development and technical staff can share their design ideas and work experience.

Our employee handbook contains summaries of the relevant laws and regulations governing our business and industry, as well as guidelines regarding best commercial practice, work ethics and the prevention of fraud, negligence and corruption. Our employees are required to provide a written confirmation that he or she understands and is committed to observing the requirements set forth in our employee handbook. We have also made available an anonymous reporting channel through which potential violation of our internal policies or illegal acts at all levels of the Company can be timely reported to the management and appropriate measures can be taken to minimize damage.

Corporate Governance Measures

We established an Audit Committee on March 19, 2014, the primary duties of which are to assist our Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of our Group, overseeing the audit process and performing other duties and responsibilities as assigned by our Board. The Audit Committee consists of LIU Qianli, WANG Qing and JI Yue. We also established an internal audit department in December 2013.

Ongoing Measures to Monitor the Implementation of Risk Management Policies

Our Audit Committee and senior management monitor the implementation of our risk management policies across the Company on an ongoing basis to ensure that our internal control system is effective in identifying, managing and mitigating risks involved in our operations.

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Licenses and Permits

Our PRC legal advisers, Jun He Law Offices, have advised us that, during the Track Record Period and the subsequent period up to the Latest Practicable Date, except as disclosed in [REDACTION], we had obtained all requisite licenses, approvals and permits from the relevant government authorities that are material for our business operations in China and such licenses, approvals and permits remained in full effect, and no circumstances existed that would render their revocation or cancellation. Our PRC legal advisers also advised us that there is no legal impediment to renew such licenses, approvals and permits as long as we comply with relevant requirements of PRC laws and regulations. The following table sets forth details of our material licenses and permits:

License/Permit	Holder	Granting Authority	Grant Date	Expiry Date
License of Value-added Telecommunication Business (Internet Content Provider License)	Guangzhou Baitian	Guangdong MIIT	April 28, 2012	August 10, 2014
Network Cultural Business Permit	Guangzhou Baitian	MOC	October 21, 2013	June 25, 2015
Internet Publication License	Guangzhou Baitian	GAPP	April 5, 2012	April 5, 2017
High and New Technology Enterprise Certificate (高新技術企業證書)	Guangzhou Baitian	Guangdong Provincial Department of Science and Technology (廣東省科學技術廳), Guangdong Provincial Department of Finance (廣東省財政廳), Guangdong Provincial State Administration of Taxation (廣東省國家稅務局), Guangdong Local Taxation Bureau (廣東省地方稅務局)	November 17, 2011	valid for 3 years

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Awards and Recognition

During the Track Record Period, we have received numerous awards and recognition in respect of the quality and popularity of our virtual worlds and our brand, for example:

Award/Recognition	Award date	Awarding Institution/Authority	Entity/Product
Women and Children’s Favorite Brand	November 2009	China Women and Children Development Center	Aobi Island
China Internet Animation Brand Award	October 2010	Eighth China International Digital Content Expo	Guangzhou Baitian
Best Children Social Game in 2010	December 2010	Third Web Game and SNS Operation Summit	Aobi Island
Golden Web Award: Top 10 Web Game in 2010	April 2011	China Web Games Summit IV	Aobi Island
Golden Web Award: Children’s Favorite Game in 2010	April 2011	China Web Games Summit IV	Aobi Island
2010-2011 Baidu Web Game Award	July 2011	Baidu Game Billboard	Aobi Island
Innovative Online Game Award	October 2011	Ninth China International Digital Content Expo	Aola Star
Golden Web Award: Top 10 Web Game in 2011	April 2012	China Web Games and Mobile Games Summit V	Dragon Knights
Green Game	November 2012	Professional Committee for Youth Green Game	Aobi Island, Dragon Knights, Light of Aoya, Aoduo Park
China Internet Animation Brand Award	December 2012	Tenth China International Digital Content Expo	Aola Star
21st Century Business Model Award	January 2013	21st Century Business Model Award Committee	Guangzhou Baitian