The following discussion should be read in conjunction with our audited consolidated financial information, together with the accompanying notes, as set forth in the Accountant's Report in Appendix I to this prospectus. Our consolidated financial information have been prepared in accordance with IFRS which may differ in material aspects from generally accepted principles in other jurisdiction, including the United States.

The following discussion and analysis contains certain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as factors which we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties. Factors that could cause or contribute to such differences include those disclosed in the section headed "Risk Factors."

OVERVIEW

We operate the largest online entertainment destination designed for children in China, according to the iResearch Report. We ranked first in revenues generated from children's web games in China in 2013, according to the same source. We have successfully developed and currently operate six commercially launched virtual worlds, which feature enjoyable games and activities with fun-learning elements, weaved throughout engaging cartoon storylines. 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.

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 RMB455.0 million in the year ended December 31, 2013. We had net profit of RMB2.7 million and RMB6.3 million in the years ended December 31, 2011 and 2012, respectively, and net loss of RMB20.2 million in the year ended December 31, 2013. Our adjusted net profit was RMB22.1 million, RMB77.7 million and RMB226.8 million during those same periods. Please refer to the section headed "Non-IFRS Measures" for details."

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations are affected by several key factors, including the following:

General Development of Children's Online Entertainment Industry in China

Historically, our core business has been the development and operation of virtual worlds for children in China, which we expect to continue to be our principal revenue source. As a result, our results of operations will be affected by the development of children's online entertainment industry in China, including the overall economic development, the increased penetration of Internet and mobile Internet, the changing regulatory environment and Chinese parents' evolving perception toward children's online entertainment. Our revenue depends on the spending of our users, which may in turn depend on the disposable income of the families of our users and their discretionary spending on children's media and online entertainment.

Competition

We compete with other children's online entertainment and game developers, and may face competition from other, more established online game developers for adults should they decide to enter into our industry segment. In addition, we face competition from various other online and offline entertainment choices available to children. Our ability to successfully maintain and expand user interest and compete in the industry will significantly affect our results of operations.

Ability to Grow Active User Base

Our business depends on our ability to further grow our active user base, which in turn depends on the attractiveness of our virtual worlds. We have developed and currently operate six commercially launched virtual worlds since we commenced our business in 2008, including four virtual worlds that we commercially launched since the start of the Track Record Period. We have also been able to maintain and increase the popularity of our virtual worlds through our operating model of releasing weekly episodes that attract the continued interest of our users. 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. As a result, our average quarterly active user accounts increased from 24.2 million in 2011 to 58.8 million in 2013. We plan to launch two additional virtual worlds in 2014. The continued success of our existing virtual worlds, as well as the attractiveness of our new virtual worlds, is critical to our business and results of operations.

Monetization of Our User Base

All of our virtual worlds can be free to play. We derive a substantial majority of our revenues from user purchases of premium membership subscriptions and in-world virtual items, each of which enhances users' game playing experience. As a result, our revenue depends on our ability to convert non-paying users into paying users and to improve our ARQPA, which in turn depends on our ability to, through collecting user feedback and analyzing user behavior, design premium features and virtual items that are attractive to our users. We increased our average QPA penetration ratio from 2.9% in 2011 to 5.0% in 2013, and increased our average quarterly ARQPA from RMB28.6 to RMB37.7 during the same periods. Our ability to further improve monetization of our user base will significantly affect our revenue and profitability.

Expansion of Our Online Product Offerings and into New Markets

We expanded into the online education and e-learning market in September 2013 with the open beta launch of WenTa, our online tutorial platform. We also plan to launch additional PC-based virtual worlds and expand into mobile games and mobile virtual worlds. Furthermore, we intend to expand our operations into select international markets to capitalize on our strong brand recognition, expertise in the industry and unique product development and operating model. As we do not yet have experience and track record in these new business areas, our ability to attract user interest, expand our active user base and monetize such user base will have a significant impact on our results of operations and business prospects.

Expansion of Our Offline Product Offerings

Our virtual worlds have created a number of characters that have become very popular with children in China. As the brand value of these characters increase, we expect to leverage their popularity for offline purposes such as licensing and cross-marketing, and to expand into markets such as print media, television and movies. Our ability to leverage our brands to generate revenues from offline product offerings will have a significant impact on our results of operations and business prospects.

BASIS OF PRESENTATION

Our Company, previously known as Baitian Information Limited, was incorporated in the Cayman Islands on September 25, 2009 as an exempted company with limited liability. The Company is an investment holding company and its subsidiaries are principally engaged in developing and operating virtual worlds for children (the "Listing Business") in the PRC.

Throughout the Track Record Period, our Listing Business has been carried out by Guangzhou Baitian, our PRC operating entity, which is under the control of the Controlling Shareholder. Guangzhou Baitian and the Listing Business are under the effective control of Beijing WFOE and Guangzhou WFOE, and ultimately the Company through the Contractual Arrangements. The termination of the Old VIE Agreements and the effectiveness of the New VIE Agreements does not result in any changes in the substance or management of our business or the Controlling Shareholder before and after the such changes. Accordingly, the financial information of the companies now comprising the Group, including Guangzhou Baitian, is presented on a consolidated basis for all periods presented under IFRS.

Intercompany transaction balances and unrealized gains/losses on transactions between Group companies are eliminated on consolidation.

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

We have identified certain accounting policies that are significant to the preparation of our consolidated financial information. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items. In each case, the determination of these items requires management judgments based on information and financial data that may change in future periods. When reviewing our consolidated financial information, you should consider (i) our critical accounting policies, (ii) the judgments and other uncertainties affecting the application of such policies and (iii) the sensitivity of reported results to changes in conditions and assumptions.

We set forth below the accounting policies that we believe are of critical importance to us or involve the most significant estimates and judgments used in the preparation of our financial information. Our significant accounting policies, estimates and judgments, which are important for an understanding of our financial condition and results of operations, are set forth in detail in Notes 2 and 4 of Section II to the Accountant's Report in Appendix I to this prospectus.

Revenue Recognition

We derive revenue from our online business, primarily comprising (i) the development and operation of the Company's virtual worlds ("virtual worlds revenue") and (ii) the operation of other online games ("other online games"), and our offline businesses, namely in-game advertising and intellectual property licensing ("revenue from other businesses"). Our revenue is net of business tax and related surcharges.

Virtual Worlds Revenue

Our virtual worlds can be free to play, and virtual worlds revenue is generated through (i) membership subscription fees that provide premium features to users and (ii) the sale of virtual items that enhance users' in-game experience. Virtual items are purchased using our virtual currency, AoCoins, which are in turn purchased through various payment channels. There is no expiration date on AoCoins and virtual world tokens.

Revenue earned from membership subscription fees is recognized by applying the time-based model. Our paying users pay a membership subscription fee for a certain number of calendar days (the "Subscription Period") and enjoy certain premium features and privileges during the Subscription Period. Revenue generated from subscription fees are recognized over the subscription period on a straight-line basis.

Revenue earned from the sale of virtual items is recognized by applying the item-based model. Under the item-based model, revenue is recognized over the estimated lives of the virtual items purchased or consumed. Upon the sales of virtual items, we typically have an implied obligation to provide the service which enables the virtual items to be displayed and used in the respective virtual worlds. As a result, the proceeds from the sales of virtual items are initially recorded in deferred revenue and are recognized as revenue subsequently only when the services have been rendered. To determine when services have been rendered to respective paying users, we categorize our virtual items into two types:

- Consumable virtual items represent items that will be extinguished shortly after consumption by a specific user action. Paying users will not continue to benefit from the virtual items thereafter. Revenue is recognized upon consumption.
- Durable virtual items represent virtual items that are accessible to a user over an extended period of time. The life of a durable item approximately equals the period during which paying users use it. For revenue derived from durable items, we have adopted a policy by using the period of paying users' relationships with us on a virtual world-by-world basis ("User Relationship Period") to approximate the period during which paying users use durable virtual items. Revenue from sales of durable virtual items of a specific virtual world is recognized ratably over the user relationship period of that virtual world. For more discussions of our determination of User Relationship Period, please see "— Estimates of User Relationship Period for Online Businesses."

Revenue from Other Online Games

In addition to our self-developed virtual worlds, we also operate games developed by third-party developers and other self-developed social games, such as Planet of Light and Aoduo Park. Similar to our self-developed virtual worlds, the third-party web games that we operate can be free to play, and users pay for virtual items for better in-game experience. Revenue is derived from sales of virtual items in these games, which is shared between us and the game developers pursuant to pre-determined ratios set forth in revenue sharing agreements between us and the game developers. Our self-developed social games are free to play.

The third-party web games operated on our platform are hosted, maintained and updated by the third-party game developers, while we mainly provide access to the game and technical support throughout the period in which users play the game. We have evaluated and determined that we are not the primary obligor in the services rendered to the paying users from our platform. Accordingly, we record our revenue net of the portion of sharing of revenue with the game developers.

To determine when the service has been rendered to the paying users, we have determined that an implied obligation exists to the paying users to continue providing access to the games such that the paying users can utilize the virtual items purchased using virtual world tokens. We do not have access to the data on the consumption details and the types of virtual items purchased by the paying users, given that games are hosted, managed and administered by the game developers. However, we maintain individual paying users' purchase history of AoCoins which are converted to virtual world tokens to exchange for virtual items. As such, we have adopted a policy to recognize revenues for both consumable and durable items purchased using virtual world tokens over the user relationship period on a game-by-game basis.

Revenue from Other Businesses

Revenues from our other businesses mainly include advertising revenue and licensing revenue from licensing our proprietary cartoon images to merchandisers and book publishers.

Virtual World Advertising Revenue

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

We enter into advertising contracts with third party advertising agencies that represent advertisers. Contract terms generally range from one to three months. Third party advertising agencies are generally billed at the end of the display period and payments are due usually within three months.

Customers can purchase multiple advertising spaces with different display periods in the same contract. When such multiple-element arrangements exist, the amount of revenue allocated to each element is based upon the relative fair values of the various elements. The fair values of each element are determined based on the stand-alone selling price of each of the elements in our standard advertising price list. We recognize revenue on the elements delivered and defers the recognition of revenue for the fair value of the undelivered elements until the remaining obligations have been satisfied. Where all of the elements within an arrangement are delivered uniformly over the agreement period, the revenues are recognized on a straight line basis over the contract period.

Intellectual Property Licensing Revenue

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

Estimates of User Relationship Period for Online Businesses

Upon the sale of virtual items, we typically have an implied obligation to provide services in connection with such virtual items. In the case of our virtual worlds, we need to maintain the virtual items to be displayed and used by the paying users in the relevant virtual world; in the case of games developed by third parties, we need to enable the paying users to have continued access to the relevant game, allowing them to utilize the virtual items purchased. As a result, we recognize revenue from durable items in our virtual worlds and revenue from third-party developed games ratably over a user relationship period, which commences when the durable items are purchased by paying users. For example, after a paying user purchases a virtual shirt in a virtual world, revenue recognition commences from the time when the virtual shirt is purchased, regardless whether the virtual shirt will be used by the paying user.

The determination of user relationship period in the relevant virtual world or game is made on an individual virtual world or game basis based on paying user data, such as log-in data and purchase records. If there is insufficient user data to determine the user relationship period, such as in the case of a newly launched virtual world, we estimate the user relationship period based on other similar types of virtual worlds we develop, taking into account the virtual world profile, the target audience and the appeal to paying users of different demographics, until the newly launched virtual world establishes its own track record. We re-assess the user relationship period semi-annually based on paying user data as of the date of reassessment, and the most updated estimated user relationship period will be applied for each virtual world or game for revenue recognition prospectively. The current user relationship periods reassessed as of December 31, 2013 for our virtual worlds and games vary between approximately 150 days to 400 days. We applied this most updated user relationship period information in the calculation of revenue from the sales of durable virtual items for the years ended December 31, 2011, 2012 and 2013, considering that this information could best simulate the paying user behavior for each virtual world or game during the Track Record Period because it was collected from a larger user base.

Prepaid Cards

We allow paying users to make payments either by way of purchasing prepaid cards sold through a number of distributors or by way of payments through online payment channels. We have evaluated the roles and responsibilities in delivery of game experience to the paying users and concluded that we take the primary responsibilities in the sales of prepaid cards and collection of payments from paying users.

For prepaid cards sold through distributors, we are unable to make a reasonable estimate of gross revenue because the distributors have the discretion to determine the actual price to the end users in a predetermined range. Accordingly, such revenue is recognized based on the net amount received from the distributors. For payments received via online payment channels, the online payment channels charge us payment handling fees at pre-agreed rates over the total payments received, and these fees are recorded in cost of revenue.

Prepaid cards expire on the expiration date pre-printed thereon, which is generally two years after the date of card production. Proceeds from expired prepaid cards that have never been activated are recognized as revenue upon expiration of the cards. These proceeds accounted for an immaterial portion of our revenue during the Track Record Period, and we expect them to remain immaterial in the foreseeable future.

Business Tax and Value-Added Tax

The Group is subject to business tax at a rate of 3% and related surcharges on revenues from its online business, and prior to November 1, 2012, subject to business tax at a rate of 5% and related surcharges on revenues from its other businesses. Revenues are net of business tax and related surcharges. Effective November 1, 2012 and December 1, 2012, revenues from our other businesses and from third-party developed web games, respectively, became subject to VAT at a rate of 6%. Since those dates, we have recognized revenues from other businesses, third-party developed web games and our offline business net of VAT.

Advances from Customers and Deferred Revenue

Advances from customers are prepayments from prepaid card distributors or prepayments from paying users in the form of AoCoins that have not yet been consumed or converted into tokens for individual virtual worlds, and upon the consumption or conversion, are recognized as revenue according to the prescribed revenue recognition policies described above. Deferred revenue primarily consists of unused virtual world currency, unamortized prepaid membership subscription fees and unamortized revenue derived from the sales of durable virtual items. Deferred revenue balances which we expect to be recognized as revenue within one year are classified as current liabilities and the remaining are classified as non-current liabilities.

Research and Development Expenses

Research expenditure is recognized as an expense as incurred. Costs incurred in connection with development projects, including the design and testing of new or improved game products, are capitalized as intangible assets when recognition criteria are satisfied. These criteria include: (i) it is technically feasible to complete the online virtual world product so that it will be available for use or sale; (ii) the management intends to complete the online virtual world product for use or sale; (iii) there is an ability to use or sell the online virtual world product; (iv) it can be demonstrated how the online virtual world product will generate probable future economic benefits; (v) adequate technical, financial and other resources to complete the development and to use or sell the online virtual world product are available; and (vi) the expenditure attributable to the online virtual world product during its development can be reliably measured. Other development expenditures that do not meet these criteria are recognized as expenses as incurred. During the Track Record Period, we could not (x) determine whether it was technically feasible to complete the online virtual world product so that it would be available for use or sale, (y) determine whether a online virtual world product would generate probable future economic benefit as the online virtual world was in development phase, or (z) reliably measure the expenditure attributable to each online virtual world during its development phase. As no development costs during the Track Record Period met all of the aforementioned criteria, no such costs could be capitalized as intangible assets.

Current Income Tax and Deferred Tax

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

Estimates

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

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

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

Historically, our estimates of current and deferred income tax have been in line with our actual tax liabilities.

Current Income Tax

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

Deferred Income Tax

Inside Basis Differences

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

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

Outside Basis Differences

Deferred income tax is provided for on temporary differences arising on investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by us and it is probable that the temporary difference will not reverse in the foreseeable future. As for the potential timing differences arising from the declaration of distributable profits of our subsidiaries in the PRC, management made assumption of the future dividend declaration plan with reference to future use of funds and our expansion plans and concluded that the distributable profits will not be declared in foreseeable future. As a result, no deferred tax liability should be provided as of December 31, 2011, 2012 and 2013.

Offsetting

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

Convertible Redeemable Preferred Shares

Convertible redeemable preferred shares are classified as financial liabilities. The conversion options which are not settled by exchanging a fixed amount of cash in the Company's functional currency for a fixed number of our ordinary shares lead to a derivative component. Convertible redeemable preferred shares comprise a derivative component, a liability component and, as a result of any discretion, an equity component.

At initial recognition, the derivative and liability components are measured at fair value. Any excess of the proceeds over the amount initially recognized for the derivative and liability components is attributed to the equity component. This amount is recognized in equity and is not remeasured subsequent to initial recognition. When discretionary dividends to the convertible redeemable preferred shares are declared by the directors, the amount of such dividends is debited directly to equity, net of any related income tax benefit (if applicable). Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the derivative and liability components are designated as a financial liability at fair value through profit or loss, with changes in fair value being recorded in profit or loss.

The convertible redeemable preferred shares are classified as non-current liabilities unless we have an obligation to settle the liability within 12 months after the end of the reporting period.

Our Series A Preferred Shares are not traded in an active market and their fair value is determined by using valuation techniques. Our Directors have used the discounted cash flow method to determine the underlying equity value of the Company and adopted the equity allocation model to determine the fair value of the Series A Preferred Shares. Under the equity allocation model, we first determine the underlying equity value of the Company, and then allocate the equity value to ordinary shares, preferred shares, employee share options and restricted share units. Please refer to Note 30 of Section II to the Accountant's Report in Appendix I to this prospectus for details of the key assumptions of the valuations.

Changes in fair value of Series A Preferred Shares were recorded in the line item fair value loss of convertible redeemable preferred shares. We had fair value loss of convertible redeemable preferred shares of RMB18.7 million, RMB71.2 million and RMB237.2 million in the years ended December 31, 2011, 2012 and 2013.

Recognition of Share-based Compensation Expenses

Equity-settled Share-Based Payment Transactions

We have granted share options to our employees. The directors have used the binomial option-pricing model to determine the total fair value of the options granted, which is to be expensed over the vesting period. Significant estimates on assumptions, such as vesting period, underlying equity value, risk-free interest rate, expected volatility and dividend yield, are required to be made by the directors in applying the binomial option-pricing model.

The following table sets out our share-based compensation expenses for the periods indicated:

	For the Year Ended December 31,		
	2011	2012	2013
		(RMB'000)	
Share-based Compensation Expenses			
Cost of revenue	86	84	5,843
Selling and marketing expenses	28	27	337
Administrative expenses	8	8	2,344
Research and development expenses	92	91	1,267
Total	**214**	**210**	**9,791**

Subsidiaries Arising from Contractual Arrangements

Our wholly-owned subsidiaries, Beijing WFOE and Guangzhou WFOE, have entered into the Contractual Arrangements with Guangzhou Baitian and its shareholders throughout the relevant periods. The Contractual Arrangements are irrevocable and enabled Beijing WFOE and currently enable Guangzhou WFOE, and ultimately, us to:

- exercise effective financial and operational control over Guangzhou Baitian;
- exercise equity holders' voting rights of Guangzhou Baitian;
- receive substantially all of the economic interest returns generated by Guangzhou Baitian in consideration for the business support, technical and consulting services provided by Beijing WFOE or Guangzhou WFOE, at Beijing WFOE or Guangzhou WFOE's discretion, respectively and as applicable;
- obtain an irrevocable and exclusive right to purchase the entire equity interest in Guangzhou Baitian from its shareholders; and
- obtain a pledge over the entire equity interest of Guangzhou Baitian from its shareholders as collateral security for all of Guangzhou Baitian's payments due to Beijing WFOE or Guangzhou WFOE and to secure performance of Guangzhou Baitian's obligations under the Old VIE Agreements or New VIE Agreements, respectively.

We do not directly hold any equity interest in Guangzhou Baitian. However, as a result of the Contractual Arrangements, we have rights to variable returns from our subsidiaries' Contractual Arrangements with Guangzhou Baitian and have the ability to affect those returns through our power over Guangzhou Baitian, and as such are considered to control Guangzhou Baitian. Consequently, we regard Guangzhou Baitian as an indirect subsidiary under IFRSs. We have included the financial position and results of Guangzhou Baitian in our consolidated financial statements.

However, the Contractual Arrangements may not be as effective as direct legal ownership in providing us with direct control over Guangzhou Baitian and uncertainties presented by the PRC legal system could impede our beneficiary rights of the results, assets and liabilities of Guangzhou Baitian. We believe that the Contractual Arrangements are in compliance with relevant PRC laws and regulations and are legally binding and enforceable.

DESCRIPTION OF SELECTED INCOME STATEMENT LINE ITEMS

The following summarizes components of certain items appearing in the Accountant's Report in Appendix I to this prospectus, which we believe will be helpful in understanding the period-to-period discussion that follows below.

Revenue

We generate revenues from two business segments: online business and other businesses.

Online business. Our online business revenue consists of (i) revenue derived from our virtual worlds and (ii) revenue derived from other online games, including our share of the revenue derived from third-party developed games operated on our platform.

Other businesses. Our other businesses revenue consists of (i) revenue generated from in-game advertising and (ii) intellectual property licensing.

The following table sets forth our revenue breakdown by segment and by virtual world for the periods indicated:

	For the Year Ended December 31,					
	2011		2012		2013	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
Revenue by Segment						
Online business						
Virtual worlds	78,886	94.8	195,349	96.1	444,021	97.6
Aola Star	38,471	46.2	93,957	46.2	161,131	35.4
Legend of Aoqi	—	—	12,974	6.4	126,817	27.9
Dragon Knights	2,200	2.6	35,311	17.4	73,885	16.2
Aobi Island	38,215	45.9	42,743	21.0	58,349	12.8
Light of Aoya	—	—	10,364	5.1	23,839	5.2
Clashes of Aoqi	—	—	—	—	—	—
Other online games	3	0.0	2,078	1.0	2,314	0.5
Subtotal	78,889	94.8	197,427	97.1	446,335	98.1
Other businesses	4,352	5.2	5,816	2.9	8,661	1.9
Total	83,241	100.0	203,243	100.0	454,996	100.0

Our virtual worlds can be free to play, and revenues are generated through collecting fees for premium membership subscriptions that provide certain features and privileges to the users during the subscription period and through the sale of virtual items that enhance users' in-game experience.

Our revenue from virtual worlds is affected by the following key metrics:

- *Quarterly Active Accounts.* Quarterly active accounts, or QAAs, refer to the number of active accounts for our virtual worlds in the relevant quarter. A quarterly active account is defined as a registered account that was accessed at least once during the quarter. An account that logged into two virtual worlds in the same quarter is counted as two QAAs. The average QAAs for our virtual worlds increased significantly from 2011 to 2013, and are directly affected by (i) the number of virtual worlds that we have developed and launched in the relevant period and (ii) the popularity of these virtual worlds. Our virtual worlds became increasingly popular as we offered more engaging content to our users based on ongoing analysis of user data indicating user preferences and interest, and as our existing users continued to promote them through word-of-mouth marketing.

The following table sets forth a breakdown of our average QAAs by virtual world for the periods indicated:

	For the Year Ended December 31,		
	2011	2012	2013
	(in thousands)		
Aola Star	7,615	12,150	14,932
Legend of Aoqi	—	6,162	14,522
Dragon Knights	3,533	8,936	13,226
Aobi Island	11,315	10,041	10,512
Light of Aoya	1,700	3,602	4,277
Clashes of Aoqi	—	—	1,318
All Virtual Worlds	24,162	40,890	58,786

- *Quarterly Paying Accounts.* Quarterly paying accounts, or QPAs, refer to the number of paying accounts for our virtual worlds in the relevant quarter. An account that paid subscription fees or for virtual items in two virtual worlds in the same quarter is counted as two QPAs. Both the average QPAs for our virtual worlds and our QPA penetration rate (calculated by dividing QPAs by QAAs for the relevant quarter) increased from 2011 to 2013 as we commercially launched more virtual worlds and as our existing virtual worlds and their virtual items became increasingly popular. Our virtual items became increasingly popular and effective in converting active users into paying users as we enhanced the design and function of our virtual items based on ongoing user data analysis.

The following table sets forth a breakdown of our average QPAs by virtual world for the periods indicated:

	For the Year Ended December 31,		
	2011	2012	2013
	(in thousands)		
Aola Star	283	627	924
Legend of Aoqi	—	126	904
Dragon Knights	37	303	495
Aobi Island	369	402	467
Light of Aoya	—	111	156
Clashes of Aoqi(1)	—	—	—
All Virtual Worlds	689	1,568	2,945

Notes:

(1) We did not derive revenues from Clashes of Aoqi in 2011, 2012 and 2013, as this virtual world commenced sales of virtual items and subscriptions on January 3, 2014.

- *Average Revenue Per Quarterly Paying Account.* Average revenue per quarterly paying account, or ARQPA, is calculated as revenue from our virtual worlds in a particular quarter divided by the QPAs in that quarter. Average quarterly ARQPA is calculated as revenue from our virtual worlds in a particular period divided by the total number of QPAs in that period. ARQPA for each of our games increased from 2011 to 2013 as we optimized our virtual item pricing strategies based on ongoing analysis of user data indicating user behavior, including their spending patterns.

The following table sets forth a breakdown of our average quarterly ARQPA by virtual world for the periods indicated:

	For the year ended December 31,		
	2011	2012	2013
		(RMB)	
Aola Star	34.0	37.5	43.6
Legend of Aoqi	—	25.7	35.1
Dragon Knights	14.8	29.2	37.3
Aobi Island	25.9	26.6	31.2
Light of Aoya	—	23.3	38.3
Clashes of Aoqi(1)	—	—	—
All Virtual Worlds	28.6	31.1	37.7

Notes:

(1) We did not derive revenues from Clashes of Aoqi in 2011, 2012 and 2013, as this virtual world commenced sales of virtual items and subscriptions on January 3, 2014.

For the years ended December 31, 2011, 2012 and 2013, our revenue was RMB83.2 million, RMB203.2 million and RMB455.0 million, respectively. Revenue from our online business for the years ended December 31, 2011, 2012 and 2013 was RMB78.9 million, RMB197.4 million and RMB446.3 million, respectively, while revenue from our other businesses was RMB4.4 million, RMB5.8 million and RMB8.7 million, respectively.

Cost of Revenue

Our cost of revenue primarily comprises (i) employee benefit expenses, (ii) bandwidth and server custody fees, (iii) cost of production of physical prepaid cards and (iv) depreciation and amortization of property and equipment and intangible assets. For the years ended December 31, 2011, 2012 and 2013, our cost of revenue were RMB31.9 million, RMB65.1 million and RMB106.1 million, respectively, representing 38.4%, 32.0%, and 23.3% of our revenue, respectively.

The following table sets forth our cost of revenue breakdown by type for the periods indicated

	For the Year Ended December 31,		
	2011	2012	2013
		(RMB'000)	
Cost of Revenue by Segment			
Employee benefit expenses	19,478	42,252	70,724
Bandwidth and server custody fees	5,590	10,477	16,617
Prepaid card production costs	1,446	3,454	6,000
Depreciation and amortization	2,770	3,835	4,761
Others	2,644	5,102	8,013
Total	31,928	65,120	106,115

Online business. The substantial majority of our total cost of revenue is attributable to our virtual worlds. This cost of revenue primarily consists of (i) employee benefit expenses, (ii) bandwidth and server custody fees, (iii) prepaid card production costs and (iv) depreciation and amortization.

Employee benefit expenses under cost of revenue primarily consist of wages, pension costs, other social security costs, housing benefits and share-based compensation expenses for employees associated with the ongoing operations and development of weekly episodes for virtual worlds in open beta or commercial operation.

Employee benefit expenses under cost of revenue represented approximately 61.0%, 64.9% and 66.6% of our total cost of revenue during the years ended December 31, 2011, 2012 and 2013, respectively.

Bandwidth and server custody fees are fees that we pay to telecommunications service providers for bandwidth and to Internet data centers where we host our servers. We expect that our bandwidth and server custody fees to increase in line with the growth in our user base and as we release more virtual worlds and other products and services. Bandwidth and server custody fees represented approximately 17.5%, 16.1% and 15.7% of our total cost of revenue during the years ended December 31, 2011, 2012 and 2013, respectively.

Prepaid card production costs are our cost of producing physical prepaid cards for AoCoins, our virtual currency. These physical cards are made to our specifications and purchased from third-party vendors. Prepaid card production costs represented approximately 4.5%, 5.3% and 5.7% of our total cost of revenue during the years ended December 31, 2011, 2012 and 2013, respectively.

Depreciation and amortization of property and equipment and intangible assets primarily consist of (i) depreciation of our servers and (ii) amortization of intangible assets, such as acquired computer software.

Other businesses. Our cost of revenue for our other businesses accounted for an insignificant part of our total cost of revenue for each of the years ended December 31, 2011, 2012 and 2013.

Gross Profit

Gross profit represents the excess of revenue over cost of revenue. For the years ended December 31, 2011, 2012 and 2013, our gross profit was RMB51.3 million, RMB138.1 million and RMB348.9 million, respectively.

Selling and Marketing Expenses

Our selling and marketing expenses are primarily related to our online business, mainly comprising (i) promotion and advertisement expenses, (ii) employee benefit expenses and (iii) physical prepaid card delivery expenses. Promotion and advertisement expenses include commissions paid to prepaid card distributors, costs of advertisements to generate user traffic for 100bt.com and our virtual worlds by placing online advertisements on search engines, video, music, literature and game portal websites in China, as well as costs of user promotional events. Employee benefit expenses primarily consist of wages, pension costs, other social security costs, housing benefits and share-based compensation expenses for our sales and marketing personnel. Physical prepaid card delivery expenses primarily consist of shipping and transport costs to send our physical prepaid cards to our distributors. For the years ended December 31, 2011, 2012 and 2013, our selling and marketing expenses were RMB12.3 million, RMB30.0 million and RMB47.6 million, representing 14.8%, 14.8% and 10.5% of our revenue, respectively.

Administrative Expenses

Our administrative expenses primarily comprise (i) wages, salaries and share-based compensation expenses for our senior management and administration staff, (ii) rental costs for our office premises and utilities costs, (iii) professional fees and (iv) other miscellaneous administrative expenses. For the years ended December 31, 2011, 2012 and 2013, our administrative expenses were RMB6.7 million, RMB11.1 million and RMB33.2 million, representing 8.0%, 5.5% and 7.3% of our revenue, respectively.

Research and Development Expenses

Our research and development expenses are primarily related to our online business, mainly comprising the expenses incurred in connection with the development and testing of our virtual worlds before they are launched for open beta, which consists primarily of wages, salaries, benefits pension contributions and share-based compensation expenses for our research and development staff. For the years ended December 31, 2011, 2012 and 2013, our research and development expenses were RMB10.5 million, RMB9.2 million and RMB28.5 million, representing 12.6%, 4.5% and 6.3% of our revenue, respectively. Our research and development expenses are often incurred several quarters before we begin to generate revenue. In addition, we may not always be successful in generating an acceptable return on our research and development investments. As a result, our operating margin could be adversely affected by our increased investments in research and development.

Other Income

Our other income consists of government grants received by Guangzhou Baitian, our PRC operating entity. For the years ended December 31, 2011, 2012 and 2013, our other income were RMB0.5 million, RMB0.1 million and RMB1.6 million, representing 0.6%, 0.1% and 0.3% of our revenue, respectively.

Other Gains — Net

Our other gains primarily consist of currency exchange gains. For the years ended December 31, 2011, 2012 and 2013, we had other gains (net) of RMB2.0 million, RMB0.3 million and RMB7.2 million, representing 2.4%, 0.1% and 1.6% of our revenue, respectively.

Finance Income — Net

Our finance income represents interest income on short-term investments and bank deposits. For the years ended December 31, 2011, 2012 and 2013, our finance income net of finance costs was RMB0.7 million, RMB2.8 million and RMB7.7 million, representing 0.8%, 1.4% and 1.7% of our revenue, respectively. Short-term investments consist of investments in RMB-denominated financial products with floating interest rates ranging from 3% to 4.8% per annum with a maturity period of 7 to 50 days offered by a financial institution in the PRC.

Fair Value Loss of Convertible Redeemable Preferred Shares

Our fair value loss of convertible redeemable preferred shares represents changes in the fair value of Series A Preferred Shares issued in March 2010. For the years ended December 31, 2011, 2012 and 2013, our fair value loss of Series A Preferred Shares was RMB18.7 million, RMB71.2 million and RMB237.2 million, representing 22.5%, 35.0% and 52.1% of our revenue, respectively. Prior to the Global Offering, the Series A Preferred Shares are not traded in an active market and the fair value at respective reporting dates is determined using valuation techniques. Please refer to Note 30 of Section II to the Accountant's Report in Appendix I to this prospectus for details of the key assumptions of the valuations. Upon the completion of the Global Offering, the Offer Price will be used to re-measure as fair value of the Series A Preferred Shares, and the difference between the fair value of the Series A Preferred Shares as of December 31, 2013 and the Offer Price will be recognized as fair value gain or loss in the income statement in 2014. Assuming the completion of the Global Offering in the year ending December 31, 2014 with the indicative Offer Price ranging from HK$2.00 to HK$2.60, the estimated total fair value loss to be recorded in relation to the Series A Preferred Shares in the year ending December 31, 2014 will be approximately HK$354.9 million to HK$594.9 million. Upon the completion of the Global Offering, the Series A Preferred Shares will be automatically converted into our Ordinary Shares on a one-to-one basis, and there will be no fair value gain or loss associated with the Series A Preferred Shares going forward. In addition, the liabilities for the Series A Preferred Shares will be derecognized and accounted as an increase in our share capital and capital reserve.

Fair Value Loss of Derivative Financial Instruments

Pursuant the Series A Transaction Agreements, we had the right to request the Pre-IPO Investors to purchase from us 256,410 Series A Preferred Shares at a price of US$2.925 per Share for aggregate consideration of

US$750,000. This right expired on March 31, 2011 and was not exercised. This right was accounted for as a derivative financial instrument at fair value through profit or loss until its expiration. Upon expiration of this right, the related derivative financial instrument was derecognized.

Income Tax

Cayman Islands. We are incorporated in the Cayman Islands as an exempted company with limited liability under the Company Law of Cayman Islands and accordingly are exempted from Cayman Islands income tax.

Hong Kong. Our subsidiaries incorporated in Hong Kong were subject to a profits tax at the rates of 16.5% for 2011, 2012 and 2013. No provision for Hong Kong profits tax was made as we had no estimated assessable profits arising in Hong Kong during the Track Record Period.

PRC. The statutory income tax rate of Guangzhou Baitian is 25%. However, in 2011, Guangzhou Baitian was qualified as a "High and New Technology Enterprise" ("HNTE") under the EIT Law and as a result was entitled to a preferential income tax rate of 15% on its estimated assessable profits for the years ended December 31, 2011, 2012 and 2013. Guangzhou Baitian will be subject to a reassessment of the "High and New Technology Enterprise" qualification in 2014 in order to prolong the preferential income tax rate of 15% for another three years. We expect Guangzhou Baitian to continue to be qualified as a "High and New Technology Enterprise" in its reassessment 2014 and continue to enjoy the preferential tax rate.

According to relevant laws and regulations promulgated by SAT that have been in effect since 2008, enterprises engaging in research and development activities are entitled to claim 150% of their research and development expenses incurred as tax deductible expenses when determining their assessable profits for that year. We have made our best estimate for such deduction to be claimed for Guangzhou Baitian in ascertaining its assessable profits during the Track Record Period.

Pursuant to the EIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the PRC effective from January 1, 2008. A lower withholding tax rate may be applied if there is a tax arrangement between the PRC and the jurisdiction of the foreign investors. As we do not have any plan to distribute the retained earnings in our PRC subsidiaries, no deferred income tax liability on withholding tax was accrued as of December 31, 2013.

As of the Latest Practicable Date, we have paid all relevant taxes applicable to us and have no disputes or unresolved tax issues with relevant tax authorities.

RESULTS OF OPERATIONS

The following table sets forth our consolidated statements of comprehensive income for the periods indicated:

	For the Year Ended December 31,					
	2011	% of Revenue	2012	% of Revenue	2013	% of Revenue
	(RMB'000)		(RMB'000)		(RMB'000)	
Revenue	83,241	100.0	203,243	100.0	454,996	100.0
Online business	78,889	94.8	197,427	97.1	446,335	98.1
Other businesses	4,352	5.2	5,816	2.9	8,661	1.9
Cost of revenue	(31,928)	(38.4)	(65,120)	(32.0)	(106,115)	(23.3)
Gross profit	51,313	61.6	138,123	68.0	348,881	76.7
Selling and marketing expenses	(12,330)	(14.8)	(30,012)	(14.8)	(47,644)	(10.5)
Administrative expenses	(6,672)	(8.0)	(11,095)	(5.5)	(33,247)	(7.3)
Research and development expenses	(10,490)	(12.6)	(9,153)	(4.5)	(28,546)	(6.3)
Other income	500	0.6	107	0.1	1,551	0.3
Other gains — net	1,964	2.4	263	0.1	7,163	1.6
Operating profit	24,285	29.2	88,233	43.4	248,158	54.5
Finance income — net	690	0.8	2,755	1.4	7,639	1.7
Fair value loss of derivative financial instruments	(536)	(0.6)	—	—	—	—
Fair value loss of convertible redeemable preferred shares	(18,688)	(22.5)	(71,214)	(35.0)	(237,228)	(52.1)
Profit before income tax	5,751	6.9	19,774	9.7	18,569	4.1
Income tax expense	(3,045)	(3.7)	(13,484)	(6.6)	(38,788)	(8.5)
Profit/(loss) for the year	2,706	3.3	6,290	3.1	(20,219)	(4.4)
Total comprehensive income/(loss) for the year	2,706	3.3	6,290	3.1	(20,219)	(4.4)
Other financial data						
Adjusted net profit[(1)] (unaudited)	22,144	26.6	77,714	38.2	226,800	49.8
Adjusted EBITDA[(1)] (unaudited)	28,097	33.8	93,071	45.8	263,512	57.9

Notes:

(1) Please refer to the section headed "Non-IFRS Measures" for details.

NON-IFRS MEASURES

To supplement our consolidated financial statements which are presented in accordance with IFRS, we also use adjusted net profit and adjusted EBITDA as additional financial measures. We present these financial measures because they are used by our management to evaluate our operating performance. We also believe that these non-IFRS measures provide useful information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as our management and in comparing financial results across accounting periods and to those of our peer companies.

Adjusted Net Profit

We define adjusted net profit as net income or loss excluding share-based compensation and fair value loss of convertible redeemable preferred shares and derivative financial instruments. Adjusted net profit eliminates the effect of non-cash share-based compensation expenses and non-cash fair value change of preferred shares and derivative financial instruments which have been and may continue to be significant recurring factors in our business prior to the completion of the Global Offering. The term of adjusted net profit is not defined under

IFRS. The use of adjusted net profit has material limitations as an analytical tool, as adjusted net profit does not include all items that impact our net profit for the year.

Adjusted EBITDA

Adjusted EBITDA, as we present it, represents net income or loss before income taxes, finance income, depreciation and amortization, further adjusted to exclude share-based compensation expense and fair value loss of convertible redeemable preferred shares and derivative financial instruments.

The use of adjusted EBITDA has certain limitations because it does not reflect all items of income and expenses that affect our operations. Items excluded from adjusted EBITDA are significant components in understanding and assessing our operating and financial performance. Depreciation expense, amortization, income taxes and net finance income as well as share-based compensation expenses and fair value loss of convertible redeemable preferred shares and derivative financial instruments have been and may continue to be incurred in our business and are not reflected in the presentation of adjusted EBITDA. Each of these items should also be considered in the overall evaluation of our results. Additionally, adjusted EBITDA does not consider changes in working capital, capital expenditures and other investing activities and should not be considered as a measure of our liquidity. The term of adjusted EBITDA is not defined under IFRS, and adjusted EBITDA is not a measure of profit for the year/period, operating profit or liquidity presented in accordance with IFRS.

We compensate for these limitations by reconciling the financial measures to the nearest IFRS performance measure, all of which should be considered when evaluating our performance. The following table reconciles our adjusted net profit and adjusted EBITDA for the years presented to the most directly comparable financial measure calculated and presented in accordance with IFRS, which is net profit:

	For the Year Ended December 31,		
	2011	**2012**	**2013**
		(RMB'000)	
Profit/(loss) for the year	2,706	6,290	(20,219)
Add:			
Share-based compensation	214	210	9,791
Fair value loss of convertible redeemable preferred shares	18,688	71,214	237,228
Fair value loss of derivative financial instruments	536	—	—
Adjusted net profit (unaudited)	22,144	77,714	226,800
Add:			
Depreciation and amortization	3,598	4,628	5,563
Finance income — net	(690)	(2,755)	(7,639)
Income tax	3,045	13,484	38,788
Adjusted EBITDA (unaudited)	28,097	93,071	263,512

In light of the foregoing limitations for other financial measures, when assessing our operating and financial performance, you should not consider adjusted net profit and adjusted EBITDA in isolation or as a substitute for our profit for the year, operating profit or any other operating performance measure that is calculated in accordance with IFRS. In addition, because these measures may not be calculated in the same manner by all companies, they may not be comparable to other similar titled measures used by other companies.

Year Ended December 31, 2013 Compared with Year Ended December 31, 2012

Revenue. Our revenue for 2013 was RMB455.0 million, a 123.9% increase from RMB203.2 million for 2012.

Online Business. Our online business revenue for 2013 was RMB446.3 million, a 126.1% increase from RMB197.4 million for 2012. This was primarily attributable to an increase in average QPAs from approximately 1.6 million in 2012 to 2.9 million in 2013 and an increase in average quarterly ARQPA from RMB31.1 to RMB37.7 during the same period. The increase in average QPAs was primarily due to increased paying accounts from Legend of Aoqi, Aola Star and Dragon Knights, and to a lesser extent, increased paying accounts from Aobi Island and Light of Aoya, as a result of their increasing popularity. The increase in average quarterly ARQPA was primarily due to the increased monetization rate of our virtual worlds resulting from their continued increase in popularity.

Other Businesses. Our other businesses revenue for 2013 was RMB8.7 million, a 48.9% increase from RMB5.8 million for 2012, primarily due to an increase in advertising revenue as our brands became more popular.

Cost of Revenue. Our cost of revenue for 2013 was RMB106.1 million, a 63.0% increase from RMB65.1 million for 2012. This was primarily attributable to (i) an RMB28.5 million increase in employee benefit expenses as a result of (a) increased operations headcount from 329 as of December 31, 2012 to 386 as of December 31, 2013, (b) higher employee salaries and (c) an RMB5.8 million increase in share-based compensation expenses for operations personnel and (ii) an RMB6.1 million increase in server and bandwidth costs.

Gross Profit Margin. As a result of the foregoing, our gross profit margin for 2013 was 76.7%, as compared to 68.0% for 2012.

Selling and Marketing Expenses. Our selling and marketing expenses for 2013 were RMB47.6 million, a 58.7% increase from RMB30.0 million for 2012. This was primarily attributable to (i) an RMB14.9 million increase in promotion and advertising expenses due to increases in commissions paid to prepaid card distributors and fees paid to our promotional partners in line with our business growth, (ii) an RMB1.0 million increase in transport and delivery costs for sending our physical prepaid cards to our distributors in line with our business growth and (iii) an RMB1.0 million increase in employee benefit expenses as a result of increased sales and marketing headcount from 16 as of December 31, 2012 to 18 as of December 31, 2013 and higher employee salaries.

Administrative Expenses. Our administrative expenses for 2013 were RMB33.2 million, a 199.7% increase from RMB11.1 million for 2012. This was primarily attributable to (i) an RMB9.4 million increase in employee benefit expenses as a result of (a) increased administrative headcount from 21 as of December 31, 2012 to 34 as of December 31, 2013, (b) higher employee salaries and (c) an RMB2.3 million increase in share-based compensation expenses for administrative personnel and (ii) an RMB10.0 million increase in professional service fees incurred in connection with the Global Offering.

Research and Development Expenses. Our research and development expenses for 2013 were RMB28.5 million, a 211.9% increase from RMB9.2 million for 2012. This was primarily attributable to an RMB16.6 million increase in employee benefit expenses as a result of (i) increased research and development headcount from 52 as of December 31, 2012 to 159 as of December 31, 2013 due to product development efforts for new virtual worlds and other products and services, including Clashes of Aoqi, a new mobile game based on the main characters of our virtual worlds and a mobile version of Quanquan, our online forum, (ii) higher employee salaries and (iii) an RMB1.2 million increase in share-based compensation expenses for research and development personnel.

Other Income. Our other income for 2013 was RMB1.6 million, compared to RMB0.1 million for 2012. This was attributable to an RMB1.5 million increase in government grants as a result of our fulfilment of performance conditions attached to a government grant, which led to the release of additional funding to us.

Operating Profit. As a result of the foregoing, our operating profit for 2013 was RMB248.2 million, representing a 181.3% increase from RMB88.2 million for 2012. Our operating profit margin for 2013 was 54.5%, compared with 43.4% for 2012.

Finance Income (Net). We had net finance income of RMB7.6 million for 2013, compared to net finance income of RMB2.8 million for 2012. Net finance income for 2013 was primarily attributable to (i) RMB6.0 million in interest income on bank deposits and (ii) RMB1.6 million in interest income on short-term investments in RMB-denominated financial products. Finance income for 2012 was primarily attributable to (i) RMB1.8 million in interest income on short-term investments in RMB-denominated financial products and (ii) RMB1.0 million in interest income on bank deposits.

Fair Value Loss of Convertible Redeemable Preferred Shares. We had fair value loss of convertible redeemable preferred shares of RMB71.2 million and RMB237.2 million in 2012 and 2013, respectively, due to the continued increase in the equity value of our company.

Profit before Income Tax. As a result of the foregoing, our profit before income tax for 2013 was RMB18.6 million, a 6.1% decrease from RMB19.8 million for 2012.

Income Tax Expense. Our income tax expense for 2013 was RMB38.8 million, a 187.7% increase from RMB13.5 million for 2012. This was primarily attributable to an increase in taxable profit for Guangzhou Baitian.

Profit/(loss) for the Year. As a result of the foregoing, we had a loss of RMB20.2 million for 2013, compared to a profit of RMB6.3 million for 2012.

Adjusted Net Profit/EBITDA. Our adjusted net profit for 2013 was RMB226.8 million, representing a 191.8% increase from RMB77.7 million for 2012. Our adjusted EBITDA for 2013 was RMB263.5 million, representing a 183.1% increase from RMB93.1 million for 2012. Please refer to the section headed "Non-IFRS Measures" for details.

Year Ended December 31, 2012 Compared with the Year Ended December 31, 2011

Revenue. Our revenue for 2012 was RMB203.2 million, a 144.2% increase from RMB83.2 million for 2011.

Online Business. Our online business revenue for 2012 was RMB197.4 million, a 150.3% increase from RMB78.9 million for 2011. This was primarily attributable to an increase in average QPAs from approximately 688,000 in 2011 to 1.6 million in 2012 and an increase in average quarterly ARQPA from RMB29 to RMB31 during the same period. The increase in average QPAs was primarily due to new paying accounts from Legend of Aoqi and Light of Aoya, which were commercially launched in 2012, and increased paying accounts from Aola Star, Dragon Knights and Aobi Island as a result of their increasing popularity. The increase in average quarterly ARQPA was primarily due to the increased monetization rate of our virtual worlds resulting from their continued increase in popularity.

Other Businesses. Our other businesses revenue for 2012 was RMB5.8 million, a 33.6% increase from RMB4.4 million for 2011, primarily due to an increase in advertising revenue as our brands became more popular.

Cost of Revenue. Our cost of revenue for 2012 was RMB65.1 million, a 104.0% increase from RMB31.9 million in 2011. This was primarily attributable to (i) an RMB22.8 million increase in employee benefit expenses as a result of increased operations headcount from 186 as of December 31, 2011 to 329 as of December 31, 2012 and higher employee salaries, (ii) an RMB4.9 million increase in server and bandwidth costs growth and (iii) an RMB2.0 million increase in cost of production for our physical prepaid cards, all in line with our business growth.

Gross Profit Margin. As a result of the foregoing, our gross profit margin for 2012 was 68.0%, as compared to 61.6% for 2011.

Selling and Marketing Expenses. Our selling and marketing expenses for 2012 were RMB30.0 million, a 143.4% increase from RMB12.3 million for 2011. This was primarily attributable to (i) an RMB15.6 million increase in promotion and advertising expenses due to increases in commissions paid to prepaid card distributors and fees paid to our promotional partners in line with our business growth, (ii) an RMB1.2 million increase in employee benefit expenses as a result of increased sales and marketing headcount from 12 as of December 31, 2011 to 16 as of December 31, 2012 and higher employee salaries and (iii) an RMB0.5 million increase in transport and delivery costs for sending our physical prepaid cards to our distributors in line with the growth in our business.

Administrative Expenses. Our administrative expenses for 2012 were RMB11.1 million, a 66.3% increase from RMB6.7 million for 2011. This was primarily attributable to (i) an RMB2.7 million increase in employee benefit expenses as a result of salary paid to a member of senior management, partially offset by decreased administrative headcount from 24 as of December 31, 2011 to 21 as of December 31, 2012 and higher employee salaries and (ii) an RMB0.7 million increase in professional service fees.

Research and Development Expenses. Our research and development expenses for 2012 were RMB9.2 million, a 12.7% decrease from RMB10.5 million for 2011. This was primarily attributable to (i) an RMB0.8 million decrease in employee benefit expenses as a result of a decrease in research and development headcount from 104 as of December 31, 2011 to 52 as of December 31, 2012 as Legend of Aoqi was commercially launched in 2012 and its product development team was reclassified as operations headcount thereafter and (ii) an RMB0.3 million decrease in utilities and offices expenses.

Other Income. Our other income for 2012 was RMB0.1 million, representing a decrease from RMB0.5 million for 2011. This was primarily attributable to a decrease in the amount and number of government grants received, which may vary from year to year.

Operating Profit. As a result of the foregoing, our operating profit for 2012 was RMB88.2 million, representing a significant increase from RMB24.3 million for 2011. Our operating profit margin for 2012 was 43.4%, compared with 29.2% for 2011.

Finance Income. Our finance income for 2012 were RMB2.8 million, representing an increase from RMB0.7 million for 2011. Finance income for 2012 was primarily attributable to (i) RMB1.8 million in interest income on short-term investments in RMB-denominated financial products and (ii) RMB1.0 million in interest income on bank deposits. Finance income for 2011 was primarily attributable to (i) RMB0.6 million in interest income on bank deposits and (ii) RMB0.1 million in interest income on short-term investments in RMB-denominated financial products.

Fair Value Loss of Convertible Redeemable Preferred Shares. We had fair value loss of convertible redeemable preferred shares of RMB18.7 million and RMB71.2 million in 2011 and 2012, respectively, due to the continued increase in the equity value of our company.

Profit before Income Tax. As a result of the foregoing, our profit before income tax for 2012 was RMB19.8 million, representing a significant increase from RMB5.8 million for 2011.

Income Tax Expense. Our income tax expense for 2012 was RMB13.5 million, a 342.8% increase from RMB3.0 million for 2011. This was primarily attributable to an increase in taxable profit for Guangzhou Baitian.

Profit for the Year. As a result of the foregoing, our profit for 2012 was RMB6.3 million, representing a significant increase from RMB2.7 million for 2011.

Adjusted Net Profit/EBITDA. Our adjusted net profit for 2012 was RMB77.7 million, representing a 250.9% increase from RMB22.1 million for 2011. Our adjusted EBITDA for 2012 was RMB93.1 million, representing a 231.2% increase from RMB28.1 million for 2011. Please refer to the section headed "Non-IFRS Measures" for details.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

We have historically met our working capital and other capital requirements principally from cash flow generated from our operating activities. Going forward, we believe that our liquidity requirements will be satisfied by using a combination of cash flow generated from our operating activities, other funds raised from the capital markets from time to time and the proceeds from this Global Offering.

The following table presents selected cash flow data from our consolidated cash flow statements for the periods indicated:

	For the Year Ended December 31,		
	2011	2012	2013
	(RMB'000)		
Net cash generated from operating activities	43,517	131,786	303,557
Net cash used in investing activities	(6,368)	(5,192)	(218,708)
Net cash (used in)/generated from financing activities	(298)	—	5,368
Net increase in cash and cash equivalents	36,851	126,594	90,217
Cash and cash equivalents at end of year	64,187	190,768	280,932

Net Cash Generated from Operating Activities

Net cash generated from operating activities consisted primarily of our profit for the year, adjusted by income tax paid and non-cash items, such as depreciation of property and equipment, amortization of intangible assets and share-based compensation, and adjusted by changes in working capital, such as trade receivables, prepayments and other receivables, trade payables, advances from customers, other payables and accruals and deferred revenue. The fluctuations of cash flows from operating activities largely correspond to the changes in our profit for the year.

Our net cash generated from operating activities was RMB303.6 million. This net cash generated from operating activities is based on loss after income tax of RMB20.2 million, positively adjusted by (i) increases in advances from customers of RMB35.6 million and deferred revenue of RMB27.5 million as a result of the growth of our business, (ii) an increase in other payables and accruals of RMB29.9 million, (iii) income tax expense of RMB38.8 million and (iv) non-cash items, including fair value loss of convertible redeemable preferred shares of RMB237.2 million and depreciation of property and equipment of RMB5.5 million.

For 2012, our net cash generated from operating activities was RMB131.8 million. This net cash generated from operating activities is based on profit before income tax of RMB19.8 million, positively adjusted by (i) increases in advances from customers of RMB21.3 million and deferred revenue of RMB17.7 million as a result of the growth of our business, (ii) an increase in other payables and accruals of RMB14.3 million, (iii) income tax expense of RMB17.0 million and (iv) non-cash items, including fair value loss of convertible redeemable preferred shares of RMB71.2 million and depreciation of property and equipment of RMB4.6 million.

For 2011, our net cash generated from operating activities was RMB43.5 million. This net cash generated from operating activities is based on profit before income tax of RMB5.8 million, positively adjusted by (i) increases in deferred revenue of RMB6.6 million and advances from customers of RMB5.9 million as a result of the growth of our business, (ii) an increase in other payables and accruals of RMB5.8 million and (iii) non-cash items, including fair value loss of convertible redeemable preferred shares of RMB18.7 million and depreciation of property and equipment of RMB3.6 million.

Net Cash Used in Investing Activities

For 2013, our net cash used in investing activities was RMB218.7 million, primarily attributable to (i) cash used in short-term deposits of RMB200.0 million, (ii) an increase in restricted cash of RMB10.0 million and (iii) purchase of property and equipment of RMB10.3 million.

For 2012, our net cash used in investing activities was RMB5.2 million, primarily attributable to purchase of property and equipment of RMB7.0 million, offset by interest received from short-term investments of RMB1.8 million.

For 2011, our net cash used in investing activities was RMB6.4 million, primarily attributable to purchase of property and equipment of RMB6.5 million, offset by interest received from short-term investments of RMB0.1 million.

Net Cash Generated from/Used in Financing Activities

For 2013, our net cash generated from financing activities was RMB5.4 million, due to RMB6.1 million in proceeds from short-term borrowings, partially offset by payment of listing expenses of RMB0.8 million.

We did not have net cash used in or generated from financing activities in 2012.

For 2011, our net cash used in financing activities was RMB0.3 million, due to issuance costs of our convertible redeemable preferred shares.

Net Current Assets and Liabilities

The following table sets forth the breakdown of our current assets and current liabilities as of the dates indicated below:

	As of December 31,			As of January 31,
	2011	2012	2013	2014
	(RMB'000)			(unaudited)
Current Assets				
Trade receivables	2,694	3,370	3,855	3,984
Prepayments and other receivables	2,948	601	12,016	11,779
Short-term deposits	—	—	200,000	200,000
Cash and cash equivalents	64,187	190,768	280,932	360,063
Total current assets	69,829	194,739	496,803	575,826
Current Liabilities				
Trade payables	479	1,244	3,501	4,207
Other payables and accruals	8,396	22,712	55,178	24,100
Income tax liabilities	5,174	4,927	6,204	3,504
Advances from customers	16,235	37,566	73,161	148,589
Advances from government grants	—	1,500	—	—
Deferred revenue	14,698	31,933	57,867	68,330
Borrowing	—	—	6,137	9,310
Total current liabilities	44,982	99,882	202,048	258,040
Net current assets	24,847	94,857	294,755	317,786

As of January 31, 2014, we had net current assets of RMB317.8 million, as compared with our net current assets of RMB294.8 million as of December 31, 2013. This change was mainly attributable to (i) an increase in cash and cash equivalents of RMB79.1 million, primarily due to increased cash from operations due to increased sales of prepaid cards during the school winter holidays and Chinese New Year and (ii) a decrease in other payables and accruals of RMB31.1 million, primarily due to the payment of employee bonuses, partially offset by (i) an increase in advances from customers of RMB75.4 million, primarily due to increased sales of prepaid cards to distributors in preparation for the school winter holidays and Chinese New Year and (ii) an increase in deferred revenue of RMB10.5 million due to increased purchases of virtual items for the same reason.

As of December 31, 2013, we had net current assets of RMB294.8 million, as compared to our net current assets of RMB94.9 million as of December 31, 2012. This change was mainly attributable to (i) an increase in short-term deposits of RMB200.0 million and (ii) an increase in cash and cash equivalents of RMB90.2 million, primarily due to increased cash from operations, partially offset by (i) an increase in advances from customers of RMB35.6 million, primarily due to increased sales of prepaid cards to distributors in line with the growth of our business, (ii) an increase in deferred revenue of RMB25.9 million, primarily due to increased sales of prepaid cards to distributors in line with the growth of our business and (iii) an increase in other payables and accruals of RMB32.5 million, primarily due to an increase in salaries payable of RMB18.8 million, professional fees payable of RMB10.2 million and other taxes payable of RMB0.5 million.

As of December 31, 2012, we had net current assets of RMB94.9 million, as compared to our net current assets of RMB24.8 million as of December 31, 2011. This change was mainly attributable to (i) an increase in cash and equivalents of RMB126.6 million, primarily due to increased cash from operations, partially offset by (i) an increase in advances from customers of RMB21.3 million, primarily due to an increase of sales of prepaid cards in line with the growth of our business, (ii) an increase in deferred revenue of RMB17.2 million, primarily due to increased sales of prepaid cards to distributors in line with the growth of our business and (iii) an increase in other payables and accruals of RMB14.3 million, primarily due to an increase in salaries payable of RMB11.2 million.

Capital Expenditures and Investments

The following table sets out our expenditures for the periods indicated:

	For the Year Ended December 31,		
	2011	2012	2013
		(RMB'000)	
Capital Expenditures			
— Purchase of property and equipment	6,489	6,891	10,202
— Purchase of intangible assets	—	147	114
Total	6,489	7,038	10,316

Our capital expenditures consists of purchase of property and equipment such as servers and computers and intangible assets of computer software. During the years ended December 31, 2011, 2012 and 2013, our total capital expenditures were RMB6.5 million, RMB7.0 million, and RMB10.3 million, respectively. The increase of RMB0.5 million in our total capital expenditures from 2011 to 2012 was primarily due to the increase in our purchase of property and equipment in line with our business growth. The increase of RMB3.3 million in our total capital expenditures from 2012 to 2013 was primarily due to the increase in our purchase of property and equipment in line with our business growth.

Capital Commitments

We had no significant capital expenditures contracted for but not provided for as of December 31, 2011, 2012 and 2013.

Operating Lease Commitments

The following table sets out our total commitments for future minimum lease payments under non-cancellable operating leases as of each date indicated:

	As of December 31,		
	2011	2012	2013
		(RMB'000)	
Contracted:			
Not later than 1 year	2,474	4,676	9,572
Later than 1 year and not later than 5 years	858	4,275	1,653
Total	3,332	8,951	11,225

Working Capital

We finance our working capital needs primarily through cash flow from operating activities. Taking into account the financial resources available to the Group, including cash flow from operating activities and the estimated net proceeds from the Global Offering, our Directors are of the view that, after due and careful inquiry, the Group has sufficient available working capital for our present requirements for at least the next 12 months from the date of this prospectus.

Trade Receivables

The balance of trade receivables at the end of each period consists of (i) the receivables from advertising agencies and (ii) receivables from online payment vendors.

Our trade receivables increased from RMB2.7 million as of December 31, 2011 to RMB3.4 million as of December 31, 2012 and further to RMB3.9 million as of December 31, 2013. The following table sets forth an aging analysis, based on the recognition date of our trade receivables as of each date indicated:

	As of December 31,		
	2011	**2012**	**2013**
		(RMB'000)	
0-30 days	231	638	3,713
30-60 days	—	—	142
91-180 days	2,463	2,732	—
Total	2,694	3,370	3,855

The following table sets forth our average trade receivables turnover days for the periods indicated:

	For the Year Ended December 31,		
	2011	**2012**	**2013**
Trade receivables turnover days[(1)]	8.0	5.4	2.9

Note:

(1) The trade receivables turnover days for a certain period is the average of trade receivables balance at the start and end of the period, divided by revenue for that period and multiplied by 365 days for a year.

Our trade receivables turnover days for the year ended December 31, 2012 decreased to 5.4 days from 8.0 days for the year ended December 31, 2011, primarily due to the increase of our revenues as a result of the expansion of our business. Our trade receivables turnover days further decreased from 5.4 days for the year ended December 31, 2012 to 2.9 days for the year ended December 31, 2013 for the same reason.

Prepayments and Other Receivables

The following table sets out our prepayments and other receivables as of each date indicated:

	As of December 31,		
Group	**2011**	**2012**	**2013**
		(RMB'000)	
Included in non-current assets			
Prepayments	—	83	1,043
Rentals and other deposits	175	335	355
Input VAT to be deducted	—	597	4,029
	175	1,015	5,427
Included in current assets			
Prepayments	2,577	519	4,683
Other receivables from related parties	24	—	—
Rentals and other deposits	170	23	429
Receivables due from government	100	—	—
Interest receivable	—	—	3,261
Prepaid listing fees	—	—	3,358
Others	77	59	285
	2,948	601	12,016
Less: allowance for impairment of other receivables	—	—	—
Total	3,123	1,616	17,443

Our prepayments and other receivables as of December 31, 2011, 2012 and 2013 were RMB3.1 million, RMB1.6 million and RMB17.4 million, respectively.

Prepayments. Prepayments included in current assets primarily consists of prepayments of advertising fees and bandwidth costs. Prepayments included in current assets decreased from RMB2.6 million as of December 31, 2011 to RMB0.5 million as of December 31, 2012 primarily as a result of a decrease in advertising fee prepayment of RMB1.4 million and bandwidth prepayment of RMB1.0 million, and increased to RMB4.7 million as of December 31, 2013 primarily as a result of an increase in advertising fee prepayment of RMB3.8 million.

Interest receivable. Interest receivable primarily consists of interest on short-term deposits.

Input VAT to be deducted. Input VAT to be deducted primarily relates to purchases of fixed assets and advertising fees. Input VAT to be deducted increased from nil as of December 31, 2011 to RMB0.6 million as of December 31, 2012 primarily because we became eligible for input VAT deductions, and increased to RMB4.0 million as of December 31, 2013 for the same reason.

Cash and Cash Equivalents and Short-Term Deposits

Our cash and cash equivalents consist of cash in bank and cash on hand, and as of December 31, 2011, 2012 and 2013 amounted to RMB64.2 million, RMB190.8 million and RMB280.9 million, respectively. All cash in bank balances as of these dates were demand deposits with effective interest rates per annum of approximately 1.3%, 1.1% and 1.2%, respectively. We also had short-term deposits of RMB200.0 million as of December 31, 2013, representing bank deposits which we intend to hold for over three months but less than one year. Our policy is to place our cash in interest-bearing principal-protected demand or short-term deposits with reputable PRC banks.

Trade Payables

Our trade payables primarily relate to (i) the purchase of services for server custody and (ii) costs of prepaid card manufacturing. Our trade payables as of December 31, 2011, 2012 and 2013 were RMB0.5 million, RMB1.2 million and RMB3.5 million, respectively. From December 31, 2011 to December 31, 2012, our trade payables increased by RMB0.7 million, or 159.7%. From December 31, 2012 to December 31, 2013, our trade payables increased by RMB2.3 million, or 181.4%.

The following table sets forth an ageing analysis of our trade payables as of the dates indicated:

	As of December 31,		
	2011	2012	2013
	(RMB'000)		
0-30 days	479	1,244	2,606
31-60 days	—	—	886
61-180 days	—	—	2
181-365 days	—	—	7
Total	479	1,244	3,501

The following table sets forth our average trade payables turnover days for the periods indicated:

	For the Year Ended December 31,		
	2011	2012	2013
Trade payables turnover days(1)	6.0	4.8	8.2

Note:

(1) The trade payables turnover days for a certain period is the average of trade payables balance at the start and end of the period, divided by cost of revenue for that period and multiplied by 365 days for a year.

We settle our trade payables after the work is completed by third parties. Our trade payables turnover days for the year ended December 31, 2012 decreased to 4.8 days from 6.0 days for the year ended December 31, 2011, primarily due to our increased cost of revenue as a result of the expansion of our business. Our trade payables turnover days for the year ended December 31, 2013 increased to 8.2 days from 4.8 days for the year ended December 31, 2012 primarily due to delayed payment settlement to a server custody provider. Our Directors confirm that we did not have material defaults in payments of trade payables during the Track Record Period.

Other Payables and Accruals

The following table sets forth our other payables and accruals as of the dates indicated:

	As of December 31,		
	2011	2012	2013
	(RMB'000)		
Staff costs and welfare accruals	6,745	18,022	36,862
Commission payable to distributors	359	2,981	5,941
Other tax liabilities	1,178	980	1,508
Professional service fees payable	—	504	10,658
Due to related parties	5	5	5
Others	109	220	204
Total	8,396	22,712	55,178

Our other payables and accruals as of December 31, 2011, 2012 and 2013 were RMB8.4 million, RMB22.7 million and RMB55.2 million, respectively. Our other payables and accruals increased from December 31, 2011 to December 31, 2012 by RMB14.3 million, or 170.5%, primarily due to (i) an increase of RMB11.3 million in staff costs and welfare accrual as we increased our headcount from 326 as of December 31, 2011 to 418 as of December 31, 2012 and (ii) an increase of RMB2.6 million in commission payable to distributors as a result of increased sales of our prepaid cards. Our other payables and accruals increased from December 31, 2012 to December 31, 2013 by RMB32.5 million, or 142.9%, primarily due to (i) an increase of RMB18.8 million in staff costs and welfare accrual as we increased our headcount from 418 as of December 31, 2012 to 597 as of December 31, 2013, (ii) an increase of RMB10.2 million in professional service fees payable as we accrued payment of certain professional fees for the Global Offering and (iii) an increase of RMB3.0 million in commission payable to distributors as a result of increased sales of our prepaid cards.

Our Directors confirm that we did not have material defaults in payment of other payables during the Track Record Period.

Amounts Due from/to Related Parties

As of December 31, 2011, 2012 and 2013, we had (i) receivables arising from operations due from Mr. DAI Jian of RMB24,000, nil and nil, respectively and (ii) payables arising from operations due to Mr. WU Lili of RMB5,000, RMB5,000 and RMB5,000, respectively. These balances mainly arose from advances from/to Messrs. DAI and WU for our business operations. The amount due to Mr. WU was settled in February 2014. We had no material related party transactions during the Track Record Period.

INDEBTEDNESS

Bank Loans and Other Borrowings

In September 2013, we entered into a general banking facility with China Merchants Bank Co., Ltd., Hong Kong Branch ("China Merchants Bank HK") in connection with a term loan facility of up to the lower of (i) US$5.0 million or (ii) 95% of the amount under an RMB standby letter of credit issued by China Merchants Bank Co., Ltd., Guangzhou Branch in favor of China Merchants Bank HK, guaranteed by Guangzhou Baitian, available for drawdown within six months from the date of the facility. The aggregate amount available for drawdown under this facility is US$5.0 million. As of January 31, 2014, we have drawn down US$1.5 million under this facility.

As of January 31, 2014, we had outstanding bank borrowings of US$1.5 million and financial liabilities of RMB350.0 million recognized as fair value through profit or loss of convertible redeemable preferred shares. If the Pre-IPO Investor exercise the redemption right pursuant to the Series A Transaction Agreements, the agreed redemption value of the convertible redeemable preferred shares would be US$3.3 million. The Pre-IPO Investors did not exercise the redemption right as of January 31, 2014. As of January 31, 2014, there were no material covenants on any of our outstanding debt and we did not have any other bank loans, debt securities, borrowings, indebtedness or mortgages.

Contingent Liabilities

We are not currently involved in any material legal proceedings, nor are we aware of any pending or potential material legal proceedings involving us. If we were involved in such material legal proceedings, we would record any loss or contingency when, based on information then available, it is likely that a loss has been incurred and the amount of the loss can be reasonably estimated.

As of the Latest Practicable Date, we did not have any material contingent liabilities or guarantees.

Off-balance Sheet Commitments and Arrangements

As of the Latest Practicable Date, we had not entered into any off-balance sheet commitments and arrangements.

KEY FINANCIAL RATIOS

The following table sets forth certain of our key financial ratios as at the dates indicated:

	As of December 31,		
	2011	2012	2013
Current ratio (times)(1)	1.6	1.9	2.5
Return on equity (%)(2)	66.2%	70.0%	68.6%
Return on total assets (%)(3)	27.7%	36.8%	42.4%

Notes:

(1) Current ratio is calculated by dividing current assets by current liabilities.

(2) Return on equity is calculated by dividing adjusted net profit for the period by adjusted shareholders' equity at the end of the period, which is the sum of total (deficits)/equity and the fair value of convertible redeemable preferred shares, and multiplied by 100%.

(3) Return on total assets is calculated by dividing adjusted net profit for the period by total assets at the end of the period and multiplied by 100%.

Current Ratio

Our current ratio increased from 1.6 times as of December 31, 2012 to 1.9 times as at December 31, 2012, primarily due to a significant increase in cash and cash equivalents due to increased cash generated from our operations, partially offset by increases in deferred revenue and advances from customers as a result of increased sales of virtual items and prepaid cards. Our current ratio increased from 1.9 times as of December 31, 2012 to 2.5 times as of December 31, 2013 due to the significant increase in current assets, which in turn resulted from the increase in our cash and cash equivalents as a result of our rapidly growing business, partially offset by increases in deferred revenue and advances from customers as a result of increased sales of virtual items and prepaid cards.

Return on Equity

Our return on equity increased from 66.2% for the year ended December 31, 2011 to 70.0% for the year ended December 31, 2012 primarily due to the significant increase in our adjusted net profit as a result of our rapidly expanding business during those same periods. Our return on equity decreased from 70.0% for the year ended December 31, 2012 to 68.6% for the year ended December 31, 2013 due to a significant increase in adjusted equity in 2013 resulting from retained earnings.

Return on Total Assets

Our return on total assets increased from 27.7% for the year ended December 31, 2011 to 36.8% for the year ended December 31, 2012, primarily due to the significant increase in our adjusted net profit as a result of our rapidly expanding business during the same periods. Our return on total assets increased from 36.8% for the year ended December 31, 2012 to 42.4% for the year ended December 31, 2013, primarily due to the significant increase in our adjusted net profit as a result of our rapidly expanding business during the same periods.

MARKET RISK DISCLOSURE

We are exposed to various types of market risks, including foreign exchange risk, interest rate risk, credit risk and liquidity risk.

Foreign Exchange Risk

We mainly operate in the PRC and a substantial portion of our revenue, cost of revenue and expenses are denominated in RMB. We also use RMB as our reporting currency.

As of December 31, 2011, 2012 and 2013, we did not have significant foreign exchange risk for operations. We do not hedge against any fluctuation in foreign currency.

Interest Rate Risk

We do not believe that interest rate risk (such as interest rate risk on bank deposits and short-term borrowings) was not material to the Group.

Price Risk

We are exposed to price risk with respect of the Series A Preferred Shares carried at fair value with changes in fair value recognized in the profit or loss. The fair value of Series A Preferred Shares is affected by changes in fair value. We are not exposed to commodity price risk.

For the years ended December 31, 2011, 2012 and 2013, if the Group's equity value had increased/decreased by 5% with all other variables held constant, profit before income tax for the year would have been approximately RMB0.9 million, RMB3.6 million and RMB11.9 million lower/higher, respectively.

Credit Risk

Our credit risk relates mainly to our deposits placed with banks, short-term investments, trade receivables and other receivables. Our investment policy for cash on hand is to place it in short-term bank deposits or short-term principal-protected financial products with no longer than three months maturity.

As of December 31, 2011, 2012 and 2013, all of our cash at bank and on hand were deposited in or invested in short-term investment products offered by state-owned or reputable listed financial institutions in the PRC or reputable international financial institutions outside the PRC with no recent history of default. As of December 31, 2013, our short-term investments consist of principal protected financial products with no longer than three month maturity purchased from a state-owned PRC financial institution, with no recent history of default.

Liquidity Risk

We are exposed to liquidity risk. Our policy is to monitor and maintain a level of cash and cash equivalents deemed adequate by management to finance our operations and mitigate the effects of fluctuations in cash flows.

DIVIDEND POLICY AND DISTRIBUTABLE RESERVES

Subject to the Cayman Companies Law and our Articles of Association, we may declare dividends in any currency through a general meeting, but no dividend may be declared in excess of the amount recommended by our Board. Our Articles of Association provide that dividends may be declared and paid out of our profit, realized or unrealized, or from any reserve set aside from profits which our Directors determine is no longer needed. With the sanction of an ordinary resolution, dividends may also be declared and paid out of a share premium account or any other fund or account which can be authorized for this purpose in accordance with the Cayman Companies Law.

Except as provided under the terms of a particular issue, or with respect to the rights attached to any Shares, (i) all dividends will be declared and paid according to the amounts paid up on the Shares in respect of which the dividend is paid, but no amount paid up on a Share in advance of calls may for this purpose be treated as paid up on the Share; and (ii) all dividends will be apportioned and paid pro rata according to the amount paid up on the Shares during any portion or portions of the period in respect of which the dividend is paid. Our Directors may deduct from any dividend or other monies payable to any of our Shareholders or in respect of any Shares all sums of money (if any) presently payable by such Shareholder to us on account of calls or otherwise.

In addition, the declaration of dividends is subject to the discretion of our Board, and the amounts of dividends actually declared and paid will also depend on:

- our general business conditions;
- our financial results;
- our capital requirements;
- interests of our shareholders; and
- any other factors which our Board may deem relevant.

Our future dividend payments to our Shareholders will also depend upon the availability of dividends received from our PRC subsidiaries. PRC laws require that dividends be paid out of the net profit calculated according to PRC accounting principles. PRC laws also require PRC enterprises to set aside part of their net profit as statutory reserves before they distribute the net proceeds. These statutory reserves are not available for distribution as cash dividends.

Our Board has absolute discretion in whether to declare any dividend for any year and, if it decides to declare a dividend, how much dividend to declare. Except as described below, neither the Company nor any of its subsidiaries has paid or declared any dividend since its inception. We will continue to re-evaluate our dividend policy in light of our financial condition and the prevailing economic climate. However, the determination to pay dividends will be made at the discretion of our Board and will be based upon our earnings, cash flow, financial condition, capital requirements, statutory fund reserve requirements and any other conditions that our Directors deem relevant. The payment of dividends may also be limited by legal restrictions and by financing agreements that we may enter into in the future. There can be no assurance that dividends of any amount will be declared or distributed in any year.

We have declared a special dividend of US$25.0 million to our pre-IPO shareholders. This dividend will be payable after the completion of the Global Offering and contingent on our Company having available share premium, which will be the case after the completion of the Global Offering. We do not believe that this special dividend will adversely impact our ability to declare or pay dividends in the future or materially impact our financial and cash flow position after the completion of the Global Offering.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

Our unaudited pro forma adjusted net tangible assets has been prepared for illustrative purposes only, and because of its hypothetical nature, it may not give a true picture of our consolidated net tangible assets as of December 31, 2013 or at any future dates following the Global Offering. It is prepared based on our consolidated net assets as of December 31, 2013 as set forth in the Accountant's Report in Appendix I to this prospectus, and adjusted as described below. Our unaudited pro forma adjusted net tangible assets does not form part of the Accountant's Report in Appendix I to this prospectus.

	Audited Consolidated Net Tangible Liabilities of the Group Attributable to Owners of the Company as of December 31, 2013(1)	Estimated Net Proceeds from the Global Offering(2)(5)	Estimated Impact to the Net Assets upon the Conversion of the Series A Preferred Shares(3)	Estimated Impact to the Net Asset upon Payment of the Special Dividend	Unaudited Pro Forma Adjusted Net Tangible Assets Attributable to Owners of the Company	Unaudited Pro Forma Adjusted Net Tangible Assets per Ordinary Share(4)	
	(RMB'000)	**(RMB'000)**	**(RMB'000)**	**(RMB'000)**	**(RMB'000)**	**(RMB)**	**(HK$)(5)**
Based on an Offer Price of HK$2.00 per Offer Share . .	(19,647)	1,021,165	349,962	(152,423)	1,199,057	0.42	0.54
Based on an Offer Price of HK$2.60 per Offer Share . .	(19,647)	1,334,276	349,962	(152,423)	1,512,168	0.54	0.68

Notes:

(1) Our audited consolidated net tangible liabilities attributable to owners of the Company as of December 31, 2013 is extracted from the Accountant's Report in Appendix I to this prospectus, which is based on our audited consolidated net liabilities attributable to the owners of the Company as of December 31, 2013 of RMB19,430,000 with an adjustment for the intangible assets as of December 31, 2013 of RMB217,000.

(2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK$2.00 and HK$2.60 per Ordinary Share after deduction of the underwriting fees and other related expenses payable by the Company (excluding listing expenses of approximately RMB10,417,000 which have been accounted for prior to December 31, 2013). For illustrative purposes, the estimated net proceeds are converted into Renminbi at the exchange rate of RMB1.00 to HK$1.2719.

(3) Upon the Global Offering, 400,000,000 Series A Preferred Shares will be automatically converted to Ordinary Shares on a one-to-one basis under which the carrying amounts of the Series A Preferred Shares recorded as a liability of the Company will be transferred to the Company's equity.

(4) Our unaudited pro forma net tangible assets per Ordinary Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that (i) 2,824,422,000 Ordinary Shares were in issue assuming that the Global Offering has been completed on December 31, 2013, taking into account 142,316,000 shares to be issued pursuant to the Pre-IPO RSU Scheme, and not taking into account any Share which may be allotted and issued or repurchased by the Company pursuant to the General Mandate to Issue Shares or the General Mandate to Repurchase Shares as described in the section headed "Share Capital," and any Shares to be issued upon the exercise of share options granted under the Pre-IPO Share Options and any Shares which may be issued pursuant to the Post-IPO RSU Scheme and (ii) the special dividend of US$25.0 million has been paid to our pre-IPO shareholders. See the section headed "Dividend Policy and Distributable Reserves."

(5) For the purpose of this unaudited pro forma adjusted net tangible assets statement, the balances stated in Renminbi are converted into Hong Kong dollars at the PBOC Rate of HK$1.00 to RMB0.78623.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that as of the Latest Practicable Date, there were no circumstances which, had we been required to comply with Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, other than the effects of seasonality, there has been no material adverse change in our financial or trading position, indebtedness, mortgage, contingent liabilities, guarantees or prospects since December 31, 2013, the date of the latest audited consolidated financial statements of our Group.