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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Note — Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued
by the International Accounting Standards Board

Other

If “Other” has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

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INTRODUCTION

Unless otherwise indicated and except where the context otherwise requires, references in this annual report on Form 20-F to:

- “ADSs” refers to our American depository shares, each of which represents 18 Class A ordinary shares;
- “we,” “us,” “our company,” “our,” and “Youku” refer to Youku Tudou Inc., its subsidiaries and consolidated affiliated entities;
- “China” or “PRC” refers to the People’s Republic of China, excluding, for the purpose of this annual report only, Taiwan, Hong Kong and Macau;
- “commissions earned by third-party advertising agencies” means the estimated amount of commissions earned by advertising agencies that purchase our services;
- “monthly unique visitors” means the number of unique visitors to a specific website within a given month. Once an individual has visited a site in a given month, all subsequent visits from the same IP address during such month are not additive to the monthly unique visitor tally;
- “online video market” means the distribution and consumption of video content via any Internet-enabled device. Providers of online video services in China include, among others, stand-alone online video websites, video channels of Internet portals, and video websites of traditional television stations. For the purpose of this annual report, “Internet television” is generally synonymous with “online video”;
- “ordinary shares” or “shares” refer to our ordinary shares, which include both Class A ordinary shares and Class B ordinary shares, collectively, par value US\$0.00001 per share;
- “Renminbi” or “RMB” refers to the legal currency of China and all references to “\$”, “US\$”, “dollars” or “U.S. dollars” refers to the legal currency of the United States;
- “Youku platform” refers to our Youku.com website, our Youku apps that are downloadable and accessible on mobile devices and all other software clients that we carry under the Youku brand name, together with the content, products and services we deliver and provide to our customers and advertisers through these channels; and
- “Tudou platform” refers to our Tudou.com website, our Tudou apps that are downloadable and accessible on mobile devices and all other software clients that we carry under the Tudou brand name, together with the content, products and services we deliver and provide to our customers and advertisers through these channels.

FORWARD-LOOKING STATEMENTS

This annual report on Form 20-F contains forward-looking statements that involve risks and uncertainties. All statements other than statements of historical facts are forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements.

You can identify some of these forward-looking statements by words or phrases such as “may,” “will,” “expect,” “anticipate,” “aim,” “estimate,” “intend,” “plan,” “believe,” “is/are likely to,” “potential,” “continue” or other similar expressions. We have based these forward-looking statements largely on our current expectations and projections about future events that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include statements include:

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- our goals and strategies;
- our future business development, results of operations and financial condition;
- the expected growth of the online video market in China;
- our expectations regarding demand for and market acceptance of our services;
- our expectations regarding the retention and strengthening of our relationships with key advertisers and customers;
- our plans to enhance user experience, infrastructure and service offerings;
- competition in our industry in China; and
- relevant government policies and regulations relating to our industry.

You should read thoroughly this annual report and the documents that we refer to in this annual report with the understanding that our actual future results may be materially different from and worse than what we expect. We qualify all of our forward-looking statements by these cautionary statements. Other sections of this annual report include additional factors which could adversely impact our business and financial performance. Moreover, we operate in an evolving environment. New risk factors and uncertainties emerge from time to time and it is not possible for our management to predict all risk factors and uncertainties, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. The forward-looking statements made in this annual report relate only to events or information as of the date on which the statements are made in this annual report. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I.

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

ITEM 3. KEY INFORMATION

A Selected Financial Data

Selected Consolidated Financial Data

The following selected consolidated statements of comprehensive loss data for the three years ended December 31, 2011, 2012 and 2013 and the selected consolidated balance sheet data as of December 31, 2012 and 2013 have been derived from our audited consolidated financial statements included elsewhere in this annual report. The selected consolidated financial data should be read in conjunction with our audited consolidated financial statements and related notes and “Item 5. Operating and Financial Review and Prospects” in this annual report. Our consolidated financial statements are prepared and presented in accordance with accounting principles generally accepted in the United States, or U.S. GAAP.

Our selected consolidated statements of comprehensive loss data for the years ended December 31, 2009 and 2010 and our selected consolidated balance sheet data as of December 31, 2009, 2010 and 2011 have been derived from our audited consolidated financial statements not included in this annual report.

Our historical results do not necessarily indicate results expected for any future periods.

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	Years Ended December 31,					US\$
	2009 RMB	2010 RMB	2011 RMB	2012 RMB	2013 RMB	
(in thousands, except for number of shares, ADSs, per share and per ADS information)						
Consolidated Statements of Comprehensive Loss Data:						
Net revenues (1)	153,626	387,097	897,624	1,795,575	3,028,484	500,271
Cost of revenues (2)	(216,708)	(350,830)	(697,337)	(1,499,536)	(2,487,421)	(410,893)
Gross (loss) profit	(63,082)	36,267	200,287	296,039	541,063	89,378
Operating expenses (2)						
Sales and marketing	(72,746)	(130,238)	(230,475)	(363,707)	(681,008)	(112,494)
Product development	(20,908)	(31,287)	(72,573)	(172,885)	(278,015)	(45,925)
General and administrative	(18,523)	(28,957)	(80,529)	(238,112)	(261,770)	(43,241)
Total operating expenses	(112,177)	(190,482)	(383,577)	(774,704)	(1,220,793)	(201,660)
Loss from operations	(175,259)	(154,215)	(183,290)	(478,665)	(679,730)	(112,282)
Interest income	2,054	1,170	23,693	45,478	29,972	4,950
Interest expense	(6,835)	(7,440)	(6,825)	(3,989)	(545)	(90)
Change in fair value of derivative financial liabilities and warrant liability	(2,313)	(44,268)	—	—	—	—
Other income (loss), net	67	69	(5,682)	9,757	70,573	11,658
Loss before income taxes	(182,286)	(204,684)	(172,104)	(427,419)	(579,730)	(95,764)
Income tax benefit (expense)	—	—	—	3,416	(1,014)	(168)
Net loss	(182,286)	(204,684)	(172,104)	(424,003)	(580,744)	(95,932)
Net loss per share:						
Basic	(0.50)	(0.44)	(0.09)	(0.18)	(0.19)	(0.03)
Diluted	(0.50)	(0.44)	(0.09)	(0.18)	(0.19)	(0.03)
Net loss per ADS (3):						
Basic	(8.98)	(7.90)	(1.55)	(3.20)	(3.50)	(0.58)
Diluted	(8.98)	(7.90)	(1.55)	(3.20)	(3.50)	(0.58)
Shares used in computation, basic and diluted:	365,432,916	466,340,541	1,992,923,515	2,386,474,188	2,986,223,088	2,986,223,088
ADSs used in computation, basic and diluted:	20,301,829	25,907,808	110,717,973	132,581,899	165,901,282	165,901,282

(1) Net revenues are presented net of commissions earned by third-party advertising agencies as set forth below:

	Year Ended December 31,					US\$
	2009 RMB	2010 RMB	2011 RMB	2012 RMB	2013 RMB	
(in thousands)						
Commissions earned by third-party advertising agencies	37,866	86,602	180,644	442,663	584,978	96,631

(2) Including share-based compensation expenses as set forth below:

	Year Ended December 31,					US\$
	2009 RMB	2010 RMB	2011 RMB	2012 RMB	2013 RMB	
(in thousands)						
Allocation of Share-based Compensation Expenses						
Cost of revenues	283	918	3,894	12,751	32,110	5,304
Sales and marketing	1,690	5,954	14,196	28,741	50,712	8,377
Product development	1,657	3,049	12,233	26,157	38,400	6,343
General and administrative	935	2,069	17,171	50,569	67,136	11,090
Total	4,565	11,990	47,494	118,218	188,358	31,114

(3) Each ADS represents 18 Class A ordinary shares.

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The following table presents a summary of our selected consolidated balance sheet data as of December 31, 2009, 2010, 2011, 2012 and 2013:

	As of December 31,					
	2009	2010	2011	2012	2013	
	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands)					
Consolidated Balance Sheet Data:						
Cash and cash equivalents	301,608	1,811,423	2,292,538	1,655,857	1,764,221	291,429
Restricted cash	—	—	—	9,003	2,679	443
Short-term investments	—	—	1,400,858	2,110,073	1,409,439	232,823
Total current assets	384,322	2,063,085	4,147,780	4,802,715	4,688,455	774,479
Total assets	441,741	2,190,168	4,675,558	10,793,074	10,569,956	1,746,033
Total current liabilities	132,479	260,225	462,999	1,192,275	1,363,248	225,193
Total liabilities	146,754	278,680	470,381	1,436,201	1,586,837	262,127
Convertible redeemable preferred shares	780,599	—	—	—	—	—
Total shareholders' (deficit) equity	(485,612)	1,911,488	4,205,177	9,356,873	8,983,119	1,483,906

Exchange Rate Information

Substantially all of our operations are conducted in China and all of our revenues are denominated in Renminbi. This annual report contains translations of Renminbi amounts into U.S. dollars at specific rates solely for the convenience of the reader. The conversion of RMB into U.S. dollars in this annual report is based on the noon buying rate in The City of New York for cable transfers of RMB as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise noted, all translations from RMB to U.S. dollars and from U.S. dollars to RMB in this annual report were made at a rate of RMB6.0537 to US\$1.00, the noon buying rate in effect as of December 31, 2013. We make no representation that any RMB or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or RMB, as the case may be, at any particular rate, or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of RMB into foreign exchange and through restrictions on foreign trade. On April 11, 2014, the noon buying rate was RMB6.2111 to US\$1.00.

The following table sets forth information concerning exchange rates between the RMB and the U.S. dollar for the periods indicated.

Period	Noon Buying Rate			
	Period-End	Average (1)	Low	High
	(RMB per U.S. Dollar)			
2009	6.8259	6.8295	6.8470	6.8176
2010	6.6000	6.7696	6.8330	6.6000
2011	6.2939	6.4630	6.6364	6.2939
2012	6.2301	6.2990	6.3879	6.2221
2013	6.0537	6.1412	6.2438	6.0537
October	6.0943	6.1032	6.1209	6.0815
November	6.0922	6.0929	6.0993	6.0903
December	6.0537	6.0738	6.0927	6.0537
2014				
January	6.0590	6.0509	6.0600	6.0402
February	6.1448	6.0816	6.1448	6.0591
March	6.2164	6.1728	6.2273	6.1183
April (through April 11)	6.2111	6.2073	6.2123	6.1966

Source: Federal Reserve Statistical Release

(1) Annual averages are calculated using the average of month-end rates of the relevant year. Monthly averages are calculated using the average of the daily rates during the relevant period.

B Capitalization and Indebtedness

Not Applicable.

C Reasons for the Offer and Use of Proceeds

Not Applicable.

Risks Related to Our Business and Industry

We have incurred net losses since our inception and may continue to incur losses in the future.

We incurred net losses since our inception, including net losses in the amount of RMB172.1 million, RMB424.0 million and RMB580.7 million (US\$95.9 million) in 2011, 2012 and 2013, respectively, primarily due to significant bandwidth and content costs, and capital expenditures required to ramp up our business and operations. Our net losses increased from 2012 to 2013 primarily due to the increases in our sales and marketing efforts, content costs, bandwidth costs. Our ability to achieve profitability is affected by various factors, many of which are beyond our control. For example, our revenues and profitability depend on the continuous development of the online advertising industry in China and brand advertisers' allocation of more budgets to online video websites. We cannot assure you that online advertising, as a relatively new marketing channel, will become more widely accepted in China or that the advertisers will increase their spending on online video websites. The procurement of bandwidth and content has historically accounted for the majority of our cost of revenues. Although we expect our bandwidth and content costs as a percentage of net revenues to decrease over time, we expect our bandwidth and content costs to increase on an absolute basis as traffic to our websites grow, the resolution of our videos increases and as we acquire more content to enrich user experience. If we cannot successfully offset our increased bandwidth and content costs with an increase in net revenues, our financial condition and results of operations could be materially and adversely affected. Therefore, although we expect our net loss to decrease as a percentage of our total net revenues in the foreseeable future, we may continue to incur net losses in the future due to our continued investments in bandwidth, content and technology. We may also continue to incur net losses in the future due to changes in the macroeconomic and regulatory environment, competitive dynamics and our inability to respond to these changes in a timely and effective manner.

We generate substantially all of our revenues from online advertising. If we fail to retain existing advertisers or attract new advertisers to advertise on our websites or if we are unable to collect accounts receivable from the advertisers or advertising agencies in a timely manner, our financial condition, results of operations and prospects may be materially and adversely affected.

We generate substantially all of our revenues from online advertising. We retain existing advertisers and attract new advertisers by maximizing return on their investment. On our Youku platform, 57% of our brand advertisers in 2012 remained as our advertisers in 2013. However, we cannot assure you that we will continue to maintain similar retention rates in the future, attract new advertisers continuously or be able to retain our advertisers at all. If our advertisers determine that their expenditures on online video websites do not generate expected returns, they may allocate a portion or all of their advertising budgets to traditional advertising channels such as television, newspapers and magazines or new Internet channels such as e-commerce or social media websites, and reduce or discontinue business with us. Since most of our advertisers are not bound by long-term contracts, they may amend or terminate advertising arrangements with us easily without incurring liabilities. Failure to retain existing advertisers or attract new advertisers to advertise on our websites may materially and adversely affect our business, financial condition, results of operations and prospects.

Substantially all of our online advertising agreements are entered into with various third-party advertising agencies. In China's advertising industry, advertising agencies typically have good relationships and maintain longer periods of cooperation with the brand advertisers they represent as compared to media companies which provide advertising services on their properties. As a relatively young media company, we intend to strategically leverage advertising agencies' relationships and network resources to increase our sales and expand our customer base. Therefore, we generally enter into advertising contracts with third-party advertising agencies, which represent advertisers, even if we have direct contact with such advertisers. As a result, we rely on third-party advertising agencies for sales to, and collection of payment from, our advertisers. In consideration for the third-party advertising agencies' services, we pay them commissions based on the volume of business they bring to us. The financial soundness of our advertisers and advertising agencies may affect our collection of accounts receivable. We make a credit assessment of the advertiser and advertising agency to evaluate the collectibility of the advertising service fees before entering into an advertising contract. However, we cannot assure you that we are or will be able to accurately assess the creditworthiness of each advertiser or advertising agency, and any inability of advertisers or advertising agencies to pay us in a timely manner may adversely affect our liquidity and cash flows. In addition, there has been some consolidation in China's online advertising market. If this trend continues, a small number of large advertising agencies may be in a position to demand higher commission for advertising agency services, which could reduce our gross margin.

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In addition, we do not have long-term cooperation agreements or exclusive arrangements with third-party advertising agencies and they may elect to direct business opportunities to other advertising service providers, including our competitors. If we fail to retain and enhance the business relationships with third-party advertising agencies, we may suffer from a loss of advertisers and our business, financial condition, results of operations and prospects may be materially and adversely affected.

The online video industry in China and user acceptance of our online video content may not grow as quickly as expected, which may adversely affect our revenues and business prospects.

Our business and prospects depend on the continuing development of the online video industry in China. As an emerging industry, China's online video industry has experienced substantial growth in recent years both in terms of users and content. We cannot assure you, however, that the online video industry will continue to grow as rapidly as it has in the past. With the continued development of technology, new forms of media may emerge and render online video websites less attractive to users. Growth of the online video industry is affected by numerous factors, such as users' general online video experience, technological innovations, development of Internet and Internet-based services, regulatory changes, especially regulations affecting copyrights, and the macroeconomic environment. If the online video industry in China does not grow as quickly as expected or if we fail to benefit from such growth by successfully implementing our business strategies, our user traffic may decrease and our business and prospects may be adversely affected.

Youku Tudou is a relatively young company facing risks and uncertainties, and our limited operating history makes it difficult to evaluate our business and prospects.

We launched our Youku.com website and online video services in December 2006 and have experienced rapid growth since then. As part of our strategic expansion plan, we completed the business combination in August 2012 with Tudou Holdings Limited, or Tudou, a leading Internet video company in China providing premium licensed content, user generated content and original in-house produced content, in a 100% stock-for-stock transaction. See also "Item 4. Information on the Company—C. Organizational Structure." We expect our expansion trend to continue as we grow our user and customer bases and explore new market opportunities. However, due to our limited operating history, especially our limited history since the business combination with Tudou, our historical growth rate may not be indicative of our future performance. We cannot assure you that we will grow at the same rate as we have in the past. You should consider our prospects in light of the risks and uncertainties fast-growing companies with limited operating histories may encounter.

Our strategy to acquire or invest in complementary businesses and assets and establish strategic alliances involves significant risk and uncertainty that may prevent us from achieving our objectives and harm our financial condition and results of operations.

As part of our plan to expand our product and service offerings, we from time to time consider opportunities for strategic acquisitions or investments in complementary businesses and assets and strategic alliances. On August 23, 2012, we completed the business combination with Tudou in a 100% stock-for-stock transaction. Upon completion of the business combination, Tudou has become a wholly owned subsidiary of Youku Inc. and we then changed our name to Youku Tudou Inc. See also "Item 4. Information on the Company—C. Organizational Structure." As of the date of this annual report, we operate both the Youku platform and the Tudou platform. Our future strategic acquisitions and investments could subject us to uncertainties and risks, including:

- costs associated with, and difficulties in, integrating acquired businesses and managing a larger business;
- potentially significant goodwill impairment charges;
- high acquisition and financing costs;
- potential ongoing financial obligations and unforeseen or hidden liabilities;
- failure to achieve our intended objectives, benefits or revenue-enhancing opportunities;
- potential claims or litigation regarding our board's exercise of its duty of care and other duties required under applicable law in connection with any of our significant acquisitions or investments approved by the board; and
- diversion of our resources and management attention.

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Our failure to address these uncertainties and risks may have a material adverse effect on our liquidity, financial condition and results of operations. In addition, we establish strategic alliances with various third parties, such as sub-licensing arrangements for content and revenue sharing agreements with e-commerce companies, to further our business purposes from time to time. Strategic alliances with third parties could subject us to a number of risks, including risks associated with sharing proprietary information, non-performance by the counter-party, and an increase in expenses incurred in establishing new strategic alliances, any of which may materially and adversely affect our business and results of operations.

We may be unable to successfully integrate the operations of combined or acquired businesses and may not achieve the anticipated operating results in connection with these acquisitions or business combinations.

Achieving the anticipated benefits of acquisitions or business combinations will depend in part upon our ability to integrate these businesses in an efficient and effective manner. The integration of companies that have previously operated independently may result in significant challenges in various respects, and we may be unable to accomplish the integration successfully. In particular, the efficient coordination of similar organizations with differences in corporate cultures and management philosophies may increase the difficulties of integration. The integration of acquired businesses has involved, and may continue to require, the dedication of significant management resources, which may distract our management's attention from the day-to-day operations. In addition, the process of integrating operations may cause an interruption of, or loss of momentum in, the activities of one or more of our businesses and the loss of key personnel from us or the acquired or combined businesses. Further, employee uncertainty and lack of focus during the integration process may disrupt our businesses or the acquired businesses.

Increases in market prices for professionally produced content may have an adverse effect on our business, financial condition and results of operations.

A majority of our user traffic is attributable to professionally produced content. The market prices for professionally produced content, especially television serial dramas and movies, have increased significantly in China during the past few years. Due to the improving monetization perspective of online video advertising, online video websites are generating more revenues and are competing aggressively to license popular television serial dramas and movies, and the increasingly intense content bidding process has in turn led to increases in license fees of professionally produced content in general. In addition, as the market develops, the expectations of copyright owners, distributors and industry associations may continue to rise, and as such they may demand higher licensing fees for professionally produced content. Furthermore, with the expansion of our content library, we expect the costs for professionally produced content to continue to increase. If we are unable to generate sufficient revenues to outpace the increase in market prices for professionally produced content, we may incur more losses and our business, financial condition and results of operations may be adversely affected.

We operate in a capital intensive industry and require a significant amount of cash to fund our operations and content, technology and bandwidth acquisitions. If we cannot obtain sufficient capital, our business, financial condition and prospects may be materially and adversely affected.

The operation of an online video business requires significant capital expenditures as well as continuous, substantial investment in content, technology and infrastructure. We believe the cash we received from the initial public offering in 2010, the follow-on offering in 2011 and the anticipated cash flows from operations will provide us with sufficient capital to meet our anticipated cash needs for the foreseeable future. However, in order to implement our development strategies to expand our infrastructure and optimize our services across Internet-enabled devices, and further expand and diversify our revenue sources, we may incur additional capital needs in the future. We may obtain additional financing, including further equity offerings or debt financing in capital markets, to fund the operation and expansion of our online video business. Our ability to obtain additional financing in the future, however, is subject to a number of uncertainties, including:

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- our future business development, financial condition and results of operations;
- general market conditions for financing activities by companies in our industry; and
- macro-economic, political and other conditions in China and elsewhere.

If we cannot obtain sufficient capital to meet our capital expenditure needs, we may not be able to execute our growth strategies and our business, financial condition and prospects may be materially and adversely affected.

Videos and other content displayed on our websites may be found objectionable by PRC regulatory authorities and may subject us to penalties and other administrative actions.

The PRC government has adopted regulations governing Internet access and the distribution of videos and other information over the Internet. Under these regulations, Internet content providers and Internet publishers are prohibited from posting or displaying over the Internet any content that, among other things, violates PRC laws and regulations, impairs the national dignity of China or the public interest, or is obscene, superstitious, fraudulent or defamatory. Furthermore, Internet content providers are also prohibited from displaying content that may be deemed by relevant government authorities as “socially destabilizing” or leaking “state secrets” of the PRC. Failure to comply with these requirements may result in the revocation of licenses to provide Internet content or other licenses, the closure of the concerned websites and reputational harm. The website operator may also be held liable for the content displayed on or linked to its website that is subject to censorship.

In addition to professionally produced content, we allow our users to upload videos to our websites. Our users can upload all types of content, including user-created and professionally produced content, and can upload certain graphical files for limited purposes. Although we have adopted internal procedures to monitor the content displayed on our websites, due to the significant amount of content uploaded by our users, we may not be able to identify all the videos or other content that may violate relevant laws and regulations. See “Item 4. Information on the Company—B. Business Overview—Content Monitoring and Copyright Protection” for more details relating to our content monitoring procedures. Failure to identify and prevent illegal or inappropriate content from being displayed on our websites may subject us to liability. In addition, these laws and regulations are subject to interpretation by the relevant authorities, and it may not be possible to determine in all cases the types of content that could cause us to be held liable as a website operator. For a detailed discussion, see “Item 4. Information on the Company—B. Business Overview—Regulation—Regulations on Internet Content Services” and “Item 4. Information on the Company—B. Business Overview—Regulation—Regulations on Information Security.”

To the extent that PRC regulatory authorities find any content displayed on our websites objectionable, they may require us to limit or eliminate the dissemination of such content on our websites in the form of take-down orders or otherwise. In the past, we have from time to time received phone calls and written notices from the relevant PRC regulatory authorities requesting us to delete certain content that the government deemed inappropriate or sensitive. The General Administration of Press and Publication, Radio, Film and Television, or the GAPPRFT, formerly known as the State Administration of Radio, Film and Television, or SARFT, publishes from time to time lists of content that is objectionable, and our contract employees who work on content screening continuously monitor user-uploaded content and remove those mentioned on the list. In addition, regulatory authorities may impose penalties on us based on content displayed on or linked to our websites in cases of material violations, including a revocation of our operating licenses or a suspension or shutdown of our online operations. Although we have not been penalized for objectionable content in the past, in the event that the PRC regulatory authorities find the video content on our websites objectionable and impose penalties on us or take other administrative actions against us in the future, our business, results of operations and reputation may be materially and adversely affected. Moreover, the costs of compliance with these regulations may continue to increase as a result of more content uploaded by our increasing number of users.

In addition, we operate our websites through 1Verge Information Technology (Beijing) Co., Ltd., or 1Verge Information, Quan Toodou Network Science and Technology Co., Ltd., or Quan Toodou, and its wholly owned subsidiary, Quan Toodou Cultural Communication Co., Ltd., or Toodou Cultural, as well as our consolidated affiliated entities, and our ability to comply with laws and regulations described above depends in large part on the experience and skills of, and our control over, the management of 1Verge Information and Quan Toodou. We rely on contractual arrangements with 1Verge Information and Quan Toodou and their shareholders to exercise control over the management and operations of 1Verge Information and Quan Toodou. These contractual arrangements may not be as effective as direct ownership in providing us with control over 1Verge Information and Quan Toodou. 1Verge Information, Quan Toodou and their shareholders may fail to take certain actions required for our business or follow our instructions to comply with the relevant PRC regulations despite their contractual obligations to do so. If we had direct ownership of 1Verge Information and Quan Toodou, we would be able to directly exercise our rights as a shareholder to effect changes in the board of directors of 1Verge Information and Quan Toodou, which in turn could effect changes at the management level, subject to any applicable fiduciary obligations. See “—Risks Related to Our Corporate Structure—We rely on contractual arrangements with our consolidated affiliated entities in China and their shareholders for our operations, which may not be as effective as direct ownership in providing operational control.”

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We have been, and may continue to be, subject to liabilities for infringement of third-party intellectual property rights or other allegations based on the content available on our websites or services we provide.

We have been involved in litigation based on allegations of infringement of third-party copyright and other rights, such as privacy and image rights, due to the content available on our websites. We were subject to a total of 340, 334 and 258 lawsuits in China for alleged copyright infringement in 2011, 2012 and 2013, respectively, in connection with our Youku platform. Approximately 97% of the lawsuits filed from 2011 through December 31, 2013 in connection with the Youku platform were rejected by relevant PRC courts, withdrawn by the plaintiffs or settled by the parties. Since our combination with Tudou, we assumed and were subject to a total of 48 and 274 lawsuits in China in 2012 and 2013, respectively, for alleged copyright infringement in connection with the Tudou platform. As of December 31, 2013, we accrued RMB6.5 million (US\$1.1 million) in expenses and other liabilities based on judgments by court and out-of-court settlements. We have implemented internal procedures to review videos uploaded by our users and remove any infringing video promptly after we receive infringement notification from the legitimate rights owner claiming that their rights are infringed by a video on our website. See “Item 4. Information on the Company—B. Business Overview—Content Monitoring and Copyright Protection” for more details relating to our content monitoring procedures. Due to the significant number of videos uploaded by users, we may not be able to identify all content that may infringe on third-party rights. Moreover, some rights owners may not send us a notice before bringing a lawsuit against us. Thus, our failure to identify unauthorized videos posted on our website has subjected us to, and may continue to subject us to, claims of infringement on third-party intellectual property rights or other rights. In addition, we may be subject to administrative actions brought by the National Copyright Administration of the PRC or its local branches for alleged copyright infringement.

Although we have not been subject to claims or lawsuits outside China, we cannot assure you that we will not become subject to copyright laws in other jurisdictions, such as the United States, by virtue of our ADSs being listed on the NYSE, the ability of users to access our videos in the United States and other jurisdictions, the ownership of our ADSs by investors in the United States and other jurisdictions, the extraterritorial application of foreign law by foreign courts or otherwise. In addition, as a publicly listed company, we may be exposed to increased risk of litigation. If a claim of infringement brought against us in the United States or other jurisdictions is successful, we may be required to (i) pay substantial statutory or other damages and fines, (ii) remove relevant content from our websites or (iii) enter into royalty or license agreements which may not be available on commercially reasonable terms or at all.

We may also face litigation or administrative actions for defamation, negligence, or other purported injuries resulting from the content we provide or the nature of our services. Such litigation and administrative actions, with or without merits, may be expensive and time-consuming and may result in significant diversion of resources and management attention from our business operations. Furthermore, such litigation or administrative actions may adversely affect our brand image and reputation.

In addition, we operate our websites through our consolidated affiliated entities, 1Verge Information, Quan Toodou and its wholly owned subsidiary, Toodou Cultural, and our ability to monitor content as described above depends in large part on the experience and skills of, and our control over, the management of 1Verge Information and Quan Toodou. Our control over the management and operations of 1Verge Information and Quan Toodou through contractual arrangements may not be as effective as that through direct ownership. See “—Risks Related to Our Corporate Structure—We rely on contractual arrangements with our consolidated affiliated entities in China and their shareholders for our operations, which may not be as effective as direct ownership in providing operational control.”

We may not be able to adequately protect our intellectual property rights, and any failure to protect our intellectual property rights could adversely affect our revenues and competitive position.

We believe that trademarks, trade secrets, copyright, and other intellectual property we use are important to our business. We rely on a combination of trademark, copyright and trade secret protection laws in China and other jurisdictions, as well as confidentiality procedures and contractual provisions to protect our intellectual property and our brand. Protection of intellectual property rights in China may not be as effective as in the United States or other jurisdictions, and as a result, we may not be able to adequately protect our intellectual property rights, which could adversely affect our revenues and competitive position. In addition, any unauthorized use of our intellectual property by third parties may adversely affect our revenues and our reputation.

Furthermore, policing unauthorized use of proprietary technology is difficult and expensive, and we may need to resort to litigation to enforce or defend intellectual property or to determine the enforceability, scope and validity of our proprietary rights or those of others. Such litigation and an adverse determination in any such litigation could result in substantial costs and diversion of resources and management attention.

Advertisements shown on our websites may subject us to penalties and other administrative actions.

Under PRC advertising laws and regulations, we are obligated to monitor the advertising content shown on our websites to ensure that such content is true, accurate and in full compliance with applicable laws and regulations. In addition, where a special government review is required for specific types of advertisements prior to website posting, such as advertisements relating to pharmaceuticals, medical instruments, agrochemicals and veterinary pharmaceuticals, we are obligated to confirm that such review has been performed and approval has been obtained from competent governmental authority, which is generally the local branch of the State Administration of Industry and Commerce, or SAIC. To fulfill these monitoring functions, we include clauses in all of our advertising contracts requiring that all advertising content provided by advertisers must comply with relevant laws and regulations. Under PRC law, advertising agencies are liable for all damages to us caused by their breach of such representations. Violation of these laws and regulations may subject us to penalties, including fines, confiscation of our advertising income, orders to cease dissemination of the advertisements and orders to publish an announcement correcting the misleading information. In circumstances involving serious violations, such as posting a pharmaceutical product advertisement without approval, or posting an advertisement for fake pharmaceutical product, PRC governmental authorities may force us to terminate our advertising operation or revoke our licenses.

A majority of the advertisements shown on our websites are provided to us by third-party advertising agencies on behalf of advertisers. While significant efforts have been made to ensure that the advertisements shown on our websites are in full compliance with applicable laws and regulations, we cannot assure you that all the content contained in such advertisements is true and accurate as required by the advertising laws and regulations, especially given the uncertainty in the application of these laws and regulations. Although we have not been subject to penalties or administrative sanctions in the past for the advertisements shown on our websites, if we are found to be in violation of applicable PRC advertising laws and regulations in the future, we may be subject to penalties and our reputation may be harmed, which may have a material and adverse effect on our business, financial condition, results of operations and prospects.

In addition, we operate our websites through our consolidated affiliated entities, 1Verge Information, Quan Toodou and its wholly owned subsidiary, Toodou Cultural, and our ability to comply with laws and regulations described above depends in large part on the experience and skills of, and our control over, the management of 1Verge Information and Quan Toodou. Our control over the management and operations of 1Verge Information and Quan Toodou through contractual arrangements may not be as effective as that through direct ownership. See “—Risks Related to Our Corporate Structure—We rely on contractual arrangements with our consolidated affiliated entities in China and their shareholders for our operations, which may not be as effective as direct ownership in providing operational control.”

Ineffective implementation of separation of our advertising sales and regulatory compliance functions may result in insufficient supervision over the content of advertisements shown on our websites and may subject us to penalties or administrative actions.

We keep our advertising sales function separate from our team in charge of government compliance to address the potential conflicts between our compliance with relevant PRC advertising laws and regulations and advertising business, where we derive substantially all of our revenues. Before a sale is confirmed and the relevant advertisements are publicly posted on our websites, our account execution personnel, which is a separate back-office team that does not interface directly with advertisers, are required to review all advertising materials, including video commercials, flashes and pictures, to ensure there is no racial, violent, pornographic or any other improper content. They will request the advertiser to provide proof of governmental approval if the advertisement is subject to special governmental review and such process is designed to enhance our regulatory compliance efforts. However, in the event that the separation of advertising sales and regulatory compliance functions is not effectively implemented, the content of our advertisements may not be in full compliance with applicable laws and regulations. Although we have not been subject to any penalties for the three years ended December 31, 2011, 2012 and 2013, and have not been subject to any administrative actions in the past for the advertisements shown on our websites, if we are found to be in violation of applicable laws and regulations in the future, we may be subject to penalties and our reputation may be harmed. This may have a material and adverse effect on our business, financial condition and results of operations.

Changes in government policies or regulations may have a material and adverse effect on our business, financial condition and results of operations.

Our online video business is subject to strict government regulations in the PRC. Under the current PRC regulatory scheme, a number of regulatory agencies, including the GAPPRFT, Ministry of Culture, Ministry of Industry and Information Technology, or MIIT, and the State Council Information Office, or SCIO, jointly regulate all major aspects of the Internet industry, including the online video industry. Operators must obtain various government approvals and licenses, including an Internet content provider license, or ICP license, and an Internet audio/video program transmission license, prior to the commencement of online video operations. We have obtained the licenses and permits essential for our business operations. We have obtained the ICP license, the Internet audio/video program transmission license and a permit from the Beijing Drug Administration to post approved non-prescription drug advertisements on our websites. We are in the process of applying for the approval from the SCIO to publish news on our websites or disseminate news through the Internet. We currently operate a current events channel on our websites which includes audio/video content relating to current topics and social events. We have made oral inquiries with the SCIO, and were orally informed that such operations do not violate the regulations on Internet news publication. If the PRC government finds that we were operating without the proper licenses or approvals, promulgates new laws and regulations that require additional licenses or imposes additional restrictions on the operation of online video businesses and/or mobile and web-based subscription services that we plan to launch, the PRC government has the power to, among other things, levy fines, confiscate our income or the income of our affiliates, revoke our business licenses or the business licenses of our affiliates, and require us to discontinue or impose restrictions on the affected portion or our business. Any of these actions by the PRC government may have a material and adverse effect on our results of operations. In addition, the PRC government may promulgate regulations restricting the types and content of advertisements that may be transmitted online, which could have a direct adverse impact on our business.

Any lack of requisite permits for any of our online video content may expose us to regulatory sanctions.

In 2009, SARFT released a Notice on Strengthening the Administration of Online Audio/Video Content. This notice reiterated, among other things, that all movies and television shows released or published online must be in compliance with relevant regulations on the administration of radio, film and television. In other words, these movies and television shows, whether produced in the PRC or overseas, must be pre-approved by SARFT and distributors of these movies and television shows must obtain an applicable permit before releasing any movie or television show.

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We rely on written representations from the content providers regarding the SARFT approval status of the content licensed to us. Under our content licensing agreements, the content providers generally represent and warrant that (i) the content they provide has legitimate copyright or authorization, and they are entitled to grant us the rights of communication through information networks; (ii) the content itself as well as the authorization or rights granted to us neither breach any applicable laws, regulations or public morals, nor impair any third party rights; and (iii) that they will indemnify us for any loss resulting from both the non-compliance of such content with the law and claims from third parties. However, we cannot guarantee that the remedies provided by these content providers, if any, will be sufficient to compensate us for potential regulatory sanctions imposed by the State Administration for Press, Publication, Radio, Film and Television due to violations of the approval and permit requirements. Nor can we ensure that any such sanctions will not adversely affect either the general availability of video content on our websites or our reputation. In addition, such risks may persist due to ambiguities and uncertainties relating to the implementation and enforcement of this notice.

If the online advertising industry does not further grow in China, our profitability and prospects may be materially and adversely affected.

Both the Internet and broadband penetration rates in China are relatively low as compared to those in many developed countries. Many advertisers in China have limited experience with online advertising, have historically allocated an insignificant portion of their advertising budgets to online advertising and may consider online advertising a less attractive channel than traditional broadcast and print media in promoting their products and services. Our profitability and prospects depend on the continuing development of the online advertising industry in China and may be affected by a number of factors, many of which are beyond our control, including:

- development of a larger user base with demographic characteristics attractive to advertisers;
- our ability to keep up with technological innovation and improvements in the measurement of user traffic and online advertising;
- acceptance of online advertising as an effective marketing channel;
- changes in government regulations or policies affecting the online advertising industry; and
- increased Internet usage in China.

We operate in a highly competitive market and we may not be able to compete successfully against our competitors.

We face significant competition, primarily from other online video websites in China, such as iQiyi.com, as well as from major Chinese Internet portals which provide online video products, such as SINA, Tencent and Sohu. We compete for both users and advertisers. Some of our competitors have a longer operating history and significantly greater financial resources than we do, and, in turn, may be able to attract and retain more users and advertisers. Our competitors may compete with us in a variety of ways, including by obtaining exclusive online distribution rights for popular content, conducting brand promotions and other marketing activities, and making acquisitions. Although in August 2012, we completed the business combination with Tudou, who used to be our competitor, we expect the competition with the other competitors to continue. In addition, certain online video websites may continue to derive their revenues from providing content that infringes third-party copyright and may not monitor their websites for any such infringing content. As a result, we may be placed at a disadvantage to some of these websites that do not incur similar costs as we do with respect to content acquisition and content monitoring. If any of our competitors achieves greater market acceptance than we do or are able to offer more attractive online video content, our user traffic may decrease and our market share may decrease, which may result in a loss of advertisers and have a material and adverse effect on our business, financial condition and results of operations.

We also face competition from traditional advertising media such as television, newspapers, magazines, billboards, radio and other forms of out-of-home media. Most large companies in China allocate, and will likely continue to allocate, a significant portion of their advertising budgets to traditional advertising media, particularly television. If online advertising, as a new marketing channel, does not become more widely accepted in China, we may experience difficulties in competing with traditional advertising media.

The success of our business depends on our ability to maintain and enhance our brands.

We believe that maintaining and enhancing our Youku 优酷 brand and Tudou 土豆 brand is of significant importance to the success of our business. Our well-recognized brands are critical to increasing our user base and, in turn, enhancing our attractiveness to advertisers. Since the online video market is highly competitive, maintaining and enhancing our brands depends largely on our ability to remain the market leader in China, which may be difficult and expensive.

As a company with a limited operating history, we have conducted, and may continue to conduct, various marketing and brand promotion activities, mainly through cooperation with our business partners. We cannot assure you, however, that these activities will be successful and achieve the brand promotion effects we expect. In addition, any negative publicity in relation to our services or products, regardless of its veracity, could harm our brand image and, in turn, result in a reduced number of users. If we fail to maintain and enhance our brands, or if we incur excessive expenses in this effort, our business, financial condition and results of operations may be materially and adversely affected.

If we fail to continue to anticipate user preferences and provide products and services to attract and retain users, we may not be able to generate sufficient user traffic to remain competitive.

Our success depends on our ability to generate sufficient user traffic through provision of attractive products and services. To attract and retain users and compete against our competitors, we must continue to offer high-quality content that provides our users with a satisfactory online video experience. To this end, we must continue to source new professionally produced content, produce new in-house content or encourage more user-generated content, while balancing the value of each type of content to our advertising services.

Other than the fees we pay for licensed content, we do not provide any additional compensation or benefits to professional content providers and their affiliates. In order to maintain good relationships with current licensors of professionally produced content to renew our current licenses and license new content from them, we need to continue to grow our platforms and content demand to strategically keep our status as an important customer of the major content licensors. Given that we operate in a rapidly evolving industry, we also need to continue to anticipate user preferences and industry changes and respond to such changes in a timely and effective manner. If we fail to cater to the needs and preferences of our users and, as a result, fail to deliver satisfactory user experience, we may suffer from reduced user traffic and our business and results of operations may be materially and adversely affected.

We operate in a rapidly evolving industry. If we fail to keep up with the technological developments and users' changing requirements, our business, results of operations and prospects may be materially and adversely affected.

The online video industry is rapidly evolving and subject to continuous technological changes. Our success will depend on our ability to keep up with the changes in technology and user behavior resulting from the technological developments. For example, the development of broadband enabled the enjoyment of high definition videos online. In addition, the number of people accessing the Internet via devices other than personal computers, including mobile phones and other hand-held devices, has increased in recent years. If we fail to adapt our products and services to such changes in an effective and timely manner, we may suffer from decreased user traffic, which may result in a reduced number of advertisers using our online advertising services. Furthermore, changes in technologies may require substantial capital expenditures in product development as well as in modification of products, services or infrastructure. We may not execute our business strategies successfully due to a variety of reasons such as technical hurdles, misunderstanding or erroneous prediction of market demand or lack of necessary resources. Failure to keep up with technological development may result in our products and services being less attractive, which, in turn, may materially and adversely affect our business, results of operations and prospects.

Our quarterly revenues and operating results may fluctuate, which makes our results of operations difficult to predict and may cause our quarterly results of operations to fall short of expectations.

Our quarterly revenues and operating results have fluctuated in the past and may continue to fluctuate depending upon a number of factors, many of which are out of our control. For these reasons, comparing our operating results on a period-to-period basis may not be meaningful, and you should not rely on our past results as an indication of our future performance. Our quarterly and annual revenues and costs and expenses as a percentage of our revenues in a given period may be significantly different from our historical or projected rates and our operating results in future quarters may fall below expectations. Factors that may affect our financial results include, among others:

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- global economic conditions;
- our ability to maintain and increase user traffic;
- our ability to attract and retain advertisers;
- changes in government policies or regulations, or their enforcement; and
- geopolitical events or natural disasters such as war, threat of war, earthquake or epidemics.

Our operating results tend to be seasonal. For instance, we may have slightly lower revenues during the first quarter of each year primarily due to the Chinese New Year holidays in that quarter. In addition, advertising spending in China has historically been cyclical, reflecting overall economic conditions as well as the budgeting and buying patterns of customers.

We may not be able to manage our expansion effectively.

We have experienced rapid growth since we commenced our online video business in 2006. According to iResearch, the number of our monthly unique visitors from homes and offices was approximately 50 million in December 2007. In December 2013, our monthly unique visitors from home and office PC users amounted to approximately 245 million and 174 million for Youku platform and Tudou platform, respectively. The daily mobile views of both Youku and Tudou platforms combined reached 281 million in 2013. In addition, the number of our employees grew rapidly from 100 as of December 31, 2007 to 2,056 as of December 31, 2013 on both platforms (exclusive of our approximately 649 contract employees who work on content files screening, copyright checking, source file acquisition and editing). To manage the further expansion of our business and the growth of our operations and personnel, we need to continuously expand and enhance our infrastructure and technology, and improve our operational and financial systems, procedures and controls. We also need to expand, train and manage our growing employee base. In addition, our management will be required to maintain and expand our relationships with content providers, advertisers, advertising agencies and other third parties. We cannot assure you that our current infrastructure, systems, procedures and controls will be adequate to support our expanding operations. If we fail to manage our expansion effectively, our business, results of operations and prospects may be materially and adversely affected.

Disruption or failure of our systems could impair our users' online video experience and adversely affect our reputation.

Our ability to provide users with a high-quality online video experience depends on the continuous and reliable operation of our systems. We cannot assure you that we will be able to procure sufficient bandwidth in a timely manner or on acceptable terms or at all. Failure to do so may significantly impair user experience on our websites and decrease the overall effectiveness of our websites to both users and advertisers. Disruptions, failures, unscheduled service interruptions or a decrease in connection speeds could hurt our reputation and cause our users and advertisers to switch to our competitors' websites. Our systems and proprietary content delivery network, or CDN, are vulnerable to damage or interruption as a result of fires, floods, earthquakes, power losses, telecommunications failures, undetected errors in software, computer viruses, hacking and other attempts to harm our systems. We have experienced service interruptions for up to three hours in the past, which typically were caused by (i) overload of our servers; (ii) unexpected overflow of user traffic; and/or (iii) service malfunction of the telecommunications operators, such as power outage of Internet data centers or network transmission congestion. We may continue to experience similar interruptions in the future despite our continuous efforts to improve our systems. Since we host our servers at third-party Internet data centers, any natural disaster or unexpected closure of Internet data centers operated by third-party providers may result in lengthy service interruptions.

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If we experience frequent or persistent service disruptions, whether caused by failures of our own systems or those of third-party service providers, our users' experience with us may be negatively affected, which in turn, may have a material and adverse effect on our reputation. We cannot assure you that we will be successful in minimizing the frequency or duration of service interruptions.

We may be the subject of detrimental conduct by third parties, including complaints to regulatory agencies, negative blog postings, and the public dissemination of malicious assessments of our business, which could have a negative impact on our reputation and cause us to lose market share, advertisers, customers and revenues, and adversely affect the price of our ADSs.

We have been, and in the future may be, the target of anti-competitive, harassing or other detrimental conduct by third parties. Such conduct may include complaints, anonymous or otherwise, to regulatory agencies regarding our operations, accounting, revenues, business relationships, business prospects and business ethics. Additionally, allegations, directly or indirectly against us, may be posted in internet chat-rooms or on blogs or any websites by anyone, whether or not related to us, on an anonymous basis. We may be subject to government or regulatory investigation as a result of such third-party conduct and may be required to expend significant time and incur substantial costs to address such third-party conduct, and there is no assurance that we will be able to conclusively refute each of the allegations within a reasonable period of time, or at all. Our reputation may also be negatively affected as a result of the public dissemination of anonymous allegations or malicious statements about our business, which in turn may cause us to lose market share, advertisers, customers and revenues, and adversely affect the price of our ADSs.

Undetected programming errors could adversely affect our user experience and market acceptance of our video programs, which may materially and adversely affect our business and results of operations.

The video programs, including advertising video programs, on our websites may contain programming errors that may only become apparent after their release. We receive user feedbacks in connection with programming errors affecting the user experience from time to time, and such errors may also come to our attention during our monitoring process. We generally have been able to resolve such programming errors in a timely manner. However, we cannot assure you that we will be able to detect and resolve all these programming errors effectively. Undetected audio or video programming errors or defects may adversely affect user experience and cause our advertisers to reduce their use of our services, any of which could materially and adversely affect our business and results of operations.

Our business is sensitive to global economic conditions. A severe or prolonged downturn in the global or Chinese economy could materially and adversely affect our business and our financial condition.

The global financial markets experienced significant disruptions in 2008 and the United States, Europe and other economies went into recession. The recovery from the lows of 2008 and 2009 was uneven and is facing new challenges, including the escalation of the European sovereign debt crisis in 2011 and the slowdown of the Chinese economy starting in 2012. It is unclear how the European sovereign debt crisis or the Chinese economic slowdown will progress in 2014 and beyond. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies that have been adopted by the central banks and financial authorities of some of the world's leading economies, including China's. There have also been concerns over unrest in the Middle East and Africa, which have resulted in volatility in oil and other markets, and over the possibility of a war involving Iran. There have also been concerns about the economic effect of the earthquake, tsunami and nuclear crisis in Japan, typhoon in the Philippines, political unrest in Thailand and diplomatic tensions in the relationship between China and Japan. Economic conditions in China are sensitive to global economic conditions. Any prolonged slowdown in the global or Chinese economy may have a negative impact on our business, results of operations and financial condition, and continued turbulence in the international markets may adversely affect our ability to access the capital markets to meet liquidity needs.

The continuing and collaborative efforts of our senior management and key employees are crucial to our success, and our business may be harmed if we lose their services.

Our success depends on the continuous efforts and services of our senior management, especially the executive officers set out in "Item 6. Directors, Senior Management and Employees—A. Directors and Senior Management" of this annual report. We have not experienced attrition of our senior management team since we were established. If, however, one or more of our executives or other key personnel are unable or unwilling to continue to provide services to us, we may not be able to find suitable replacements easily or at all. Competition for management and key personnel is intense and the pool of qualified candidates is limited. We may not be able to retain the services of our executives or key personnel, or attract and retain experienced executives or key personnel in the future. If any of our executive officers or key employees joins a competitor or forms a competing company, we may lose advertisers, know-how and key professionals and staff members. Each of our executive officers and key employees has entered into an employment agreement with us, which contains non-compete provisions. However, if any dispute arises between us and our executives or key employees, these agreements may not be enforceable in China, where these executives and key employees reside, in light of uncertainties with China's legal system. See "—Risks Relating to Doing Business in China—Uncertainties with respect to the PRC legal system could adversely affect us."

Our operations depend on the performance of the Internet infrastructure and telecommunications networks in China.

The successful operation of our business depends on the performance of the Internet infrastructure and telecommunications networks in China. Almost all access to the Internet is maintained through state-owned telecommunications operators under the administrative control and regulatory supervision of the MIIT. Moreover, we have entered into contracts with various subsidiaries of a limited number of telecommunications service providers at provincial level and rely on them to provide us with data communications capacity through local telecommunications lines and Internet data centers to host our servers. We have limited access to alternative networks or services in the event of disruptions, failures or other problems with China's Internet infrastructure or the telecommunications networks provided by telecommunications service providers. Our websites regularly serve a large number of users and advertisers. With the expansion of our business, we may be required to upgrade our technology and infrastructure to keep up with the increasing traffic on our websites. However, we have no control over the costs of the services provided by telecommunications service providers. If the prices we pay for telecommunications and Internet services rise significantly, our results of operations may be materially and adversely affected. If Internet access fees or other charges to Internet users increase, our user traffic may decline and our business may be harmed. Moreover, the agreements we have entered into with domestic telecommunications carriers to host our servers typically have terms of approximately one year and are renewable subject to early termination. If we are not able to renew such hosting services agreements with the telecommunications carriers when they expire and are not able to enter into agreements with alternative carriers at commercially reasonable terms or at all, the quality and stability of our services may be adversely affected.

We have granted, and may continue to grant, share-based awards to our personnel, employees and advisors, which may result in increased share-based compensation expenses.

We adopted a stock option scheme, or the 2006 Plan, on December 1, 2005, which was amended on March 26, 2007, June 20, 2008, December 16, 2009 and September 9, 2010. In November 2010, we adopted our 2010 Share Incentive Plan, or the 2010 Plan, which was amended and restated on September 25, 2012, that permits the grant of options to purchase our Class A ordinary shares, restricted shares and restricted share units. As of March 31, 2014, options to purchase a total of 86,228,874 Class A ordinary shares and restricted share units to acquire a total of 97,440,084 Class A ordinary shares were outstanding under the 2006 Plan and the 2010 Plan. See "Item 6. Director, Senior Management and Employees—B. Compensation of Directors and Executive Officers—Share Incentive Plan" for detailed discussion. For the years ended December 31, 2011, 2012 and 2013, we recorded RMB47.5 million, RMB118.2 million and RMB188.4 million (US\$31.1 million), respectively, in share-based compensation expenses. We believe the granting of share-based awards is of significant importance to our ability to attract and retain key personnel and employees, and we will continue to grant share-based awards in the future. As a result, our expenses associated with share-based compensation may increase, which may have an adverse effect on our results of operations.

If we fail to maintain an effective system of internal control over financial reporting, we may be unable to accurately report our financial results or prevent fraud, which may cause our investors to lose confidence in our company, and the market price of our ADSs may be adversely affected.

We are subject to reporting obligations under the U.S. securities laws. Among other things, the Securities Exchange Commission, or the SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, or Section 404, adopted rules requiring every public company, including us, to include a report from management on the effectiveness of its internal control over financial reporting in its second annual report on Form 20-F. In addition, beginning at the same time, an independent registered public accounting firm must attest to and report on the effectiveness of our internal control over financial reporting. We began to be subject to these requirements since the annual report for the fiscal year ending December 31, 2011.

Our management has concluded that our internal control over financial reporting is effective as of December 31, 2013. See “Item 15. Controls and Procedures—Management’s Annual Report on Internal Control over Financial Reporting.” Our independent registered public accounting firm has issued an attestation report, which has concluded that our internal control over financial reporting is effective as of December 31, 2013. However, if we fail to maintain effective internal control over financial reporting in the future, our management and our independent registered public accounting firm may not be able to conclude that we have effective internal control over financial reporting at a reasonable assurance level. This could in turn result in the loss of investor confidence in the reliability of our financial statements and negatively impact the trading price of our ADSs. Furthermore, we have incurred and anticipate that we will continue to incur considerable costs, management time and other resources in an effort to maintain compliance with Section 404 and other requirements of the Sarbanes-Oxley Act.

We have limited business insurance coverage.

Insurance companies in China currently do not offer as extensive an array of insurance products as insurance companies do in more developed economies. We do not have any business liability or disruption insurance to cover our operations. We have determined that the costs of insuring for these risks and the difficulties associated with acquiring such insurance on commercially reasonable terms make it impractical for us to have such insurance. Any uninsured occurrence of business disruption may result in our incurring substantial costs and the diversion of resources, which could have an adverse effect on our results of operations and financial condition.

Risks Related to Our Corporate Structure

If the PRC government finds that the agreements that establish the structure for operating our businesses in China do not comply with PRC governmental restrictions on foreign investment in Internet business, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations.

Current PRC laws and regulations place certain restrictions on foreign ownership of companies that engage in Internet business, including the provision of online video and online advertising services. Specifically, foreign ownership in an Internet content provider or other value-added telecommunication service providers may not exceed 50%. We conduct our operations in China principally through contractual arrangements among our wholly owned PRC subsidiaries, 1Verge Internet Technology (Beijing) Co., Ltd., or 1Verge Internet, and Reshuffle Technology (Shanghai) Co., Ltd., or Reshuffle Technology, and our significant consolidated affiliated entities in the PRC, namely, 1Verge Information, Quan Toodou and its wholly owned subsidiary, Toodou Cultural, as well as Zhejiang Dongyang Tianshi Cultural Media Ltd., or Tianshi, and their respective shareholders. 1Verge Information, Quan Toodou and Toodou Cultural hold the licenses and permits necessary to conduct our online video, online advertising and related businesses in China. Our contractual arrangements with our consolidated affiliated entities and their respective shareholders enable us to exercise effective control over these entities and hence treat them as our consolidated affiliated entities and consolidate their results. For a detailed discussion of these contractual arrangements, see also “Item 4. Information on the Company—C. Organizational Structure.”

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We cannot assure you, however, that we will be able to enforce these contracts. Although in the opinion of our PRC counsel, TransAsia Lawyers, we are in compliance with current PRC regulations, we cannot assure you that the PRC government would agree that these contractual arrangements comply with PRC licensing, registration or other regulatory requirements, with existing policies or with requirements or policies that may be adopted in the future. PRC laws and regulations governing the validity of these contractual arrangements are uncertain and the relevant government authorities have broad discretion in interpreting these laws and regulations. In or around September 2011, various media sources reported that the China Securities Regulatory Commission, or the CSRC, had prepared a report proposing pre-approval by a competent central government authority of offshore listings by China-based companies with variable interest entity structures, such as ours, that operate in industry sectors subject to foreign investment restrictions. However, it is unclear whether the CSRC officially issued or submitted such a report to a higher level government authority or what any such report provides, or whether any new PRC laws or regulations relating to variable interest entity structures will be adopted or, if adopted, what they would provide. If the PRC government determines that we do not comply with applicable laws and regulations, it could revoke our business and operating licenses, require us to discontinue or restrict our operations, restrict our right to collect revenues, block our websites, require us to restructure our operations, impose additional conditions or requirements with which we may not be able to comply, or take other regulatory or enforcement actions against us that could be harmful to our business. The imposition of any of these penalties would result in a material and adverse effect on our ability to conduct our business.

We rely on contractual arrangements with our consolidated affiliated entities in China and their shareholders for our operations, which may not be as effective as direct ownership in providing operational control.

Since PRC laws restrict foreign equity ownership in companies engaged in online video and advertising businesses in China, we rely on contractual arrangements with our consolidated affiliated entities and their respective shareholders to operate our business in China. These contractual arrangements may not be as effective in providing us with control over the consolidated affiliated entities as direct ownership. From a legal perspective, if our consolidated affiliated entities, any of their subsidiaries or any of their respective shareholders fails to perform their respective obligations under the contractual arrangements, we may have to incur substantial costs and spend other resources to enforce such arrangements, and rely on legal remedies under PRC law, including seeking specific performance or injunctive relief and claiming damages, which could be time consuming and costly. If we had direct equity ownership of our consolidated affiliated entities, we would be able to exercise our rights as a shareholder to effect changes in the board of directors of these entities, which in turn could effect changes at the management level, subject to any applicable fiduciary obligations. However, under the current contractual arrangements, we rely on our consolidated affiliated entities and their respective shareholders' performance of their contractual obligations to exercise effective control. A lawsuit initiated prior to our business combination with Tudou by the ex-wife of Mr. Gary Wei Wang, the then founder, chairman and chief executive officer of Tudou, seeking the division of 76% of the equity interest in Quan Toodou held by Mr. Wang based on marital asset distribution dispute, has been viewed as evidence of the ineffectiveness of Tudou's control over Quan Toodou and its subsidiaries. The lawsuit was subsequently concluded through a settlement directed by the court in June 2011, and we believe that the equity interests of Quan Toodou will not be subject to any court enforcement measures.

Our contractual arrangements generally have a term of ten years with an automatic extension of successive ten years, which is subject to the unilateral termination rights of our company and our wholly owned subsidiaries, namely, 1Verge Internet and/or Reshuffle Technology, as applicable. In general, neither our consolidated affiliated entities nor their respective shareholders may terminate the contracts prior to the expiration date. However, the shareholders of our consolidated affiliated entities may not act in the best interests of our company or may not perform their obligations under these contracts, including the obligation to renew these contracts when their initial ten-year term expires. Such risks exist throughout the period in which we intend to operate our business through the contractual arrangements with our consolidated affiliated entities. We may replace the shareholders of our consolidated affiliated entities at any time pursuant to our contractual arrangements with them and their shareholders. However, if any dispute relating to these contracts remains unresolved, we will have to enforce our rights under these contracts through the operations of PRC law and courts and therefore will be subject to uncertainties in the PRC legal system. See “—Any failure by our consolidated affiliated entities or their respective shareholders to perform their obligations under our contractual arrangements with them may have a material adverse effect on our business.” In the event we are unable to enforce these contractual arrangements, we may not be able to have the power to direct the activities that most significantly affect the economic performance of our consolidated affiliated entities and their subsidiaries, and our ability to conduct our business may be negatively affected, and we may not be able to consolidate the financial results of our consolidated affiliated entities and their subsidiaries into our consolidated financial statements in accordance with U.S. GAAP. Therefore, these contractual arrangements may not be as effective as direct ownership in providing us with control over these consolidated affiliated entities.

Any failure by our consolidated affiliated entities or their respective shareholders to perform their obligations under our contractual arrangements with them may have a material adverse effect on our business.

Our consolidated affiliated entities and their respective shareholders may fail to take certain actions required for our business or follow our instructions despite their contractual obligations to do so. If they fail to perform their obligations under their respective agreements with us, we may have to rely on legal remedies under PRC law, including seeking specific performance or injunctive relief, which may not be effective.

Under the equity pledge agreements among 1Verge Internet and the respective shareholders of 1Verge Information and Tianshi, these shareholders pledged all of their equity interests in 1Verge Information and Tianshi to 1Verge Internet. Under the pledge agreement among Reshuffle Technology and the shareholders of Quan Toodou, the shareholders of Quan Toodou pledged all of their equity interests in Quan Toodou to Reshuffle Technology. Our PRC counsel, TransAsia Lawyers, has advised us that the pledges in respect to 1Verge Information, Tianshi and Quan Toodou were duly created and effective given that such pledges have already been duly registered with the relevant local branch of the SAIC in accordance with the PRC Property Rights Law. As a result, if any of 1Verge Information, Tianshi and Quan Toodou or any of their respective shareholders breaches its obligations under the contractual arrangements, we may be able to enforce the pledges.

All of these contractual arrangements are governed by PRC law and provide for the resolution of disputes through arbitration in the PRC. Accordingly, these contracts would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. The legal environment in the PRC is not as developed as in certain other jurisdictions, such as the United States. As a result, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements, which may make it difficult to exert effective control over our consolidated affiliated entities, and our ability to conduct our business may be adversely affected. See “—Risks Relating to Doing Business in China—Uncertainties with respect to the PRC legal system could adversely affect us.”

Contractual arrangements with our consolidated affiliated entities may result in adverse tax consequences to us.

Under applicable PRC tax laws and regulations, arrangements and transactions among related parties may be subject to audit by the PRC tax authorities within ten years after the taxable year when the arrangements or transactions are conducted. We could face material and adverse tax consequences if the PRC tax authorities were to determine that the contractual arrangements among 1Verge Internet and/or Reshuffle Technology, our wholly owned subsidiaries in China, our consolidated affiliated entities in China and their respective shareholders were not entered into on an arm’s-length basis and therefore constituted unfavorable transfer pricing arrangements. Unfavorable transfer pricing arrangements could, among other things, result in an upward adjustment on taxation. In addition, the PRC tax authorities may impose interest on late payments on our consolidated affiliated entities for the adjusted but unpaid taxes. Our results of operations may be materially and adversely affected if our consolidated affiliated entities’ tax liabilities increase significantly or if they are required to pay interest on late payments.

The shareholders of our consolidated affiliated entities may have potential conflicts of interest with us, which may materially and adversely affect our business.

Ms. Qiong Qin and Mr. Dele Liu are shareholders of our significant consolidated affiliated entities, namely, 1Verge Information and Quan Toodou. Mr. Zhou Yu formerly owned an 18% stake in Quan Toodou and transferred his entire stake to Ms. Qin in September 2013 upon his resignation from our company. Ms. Qin is the wife of our founder and chief executive officer, and she does not have any equity interest or management position at our company. Mr. Liu is our director and president. We provide no incentives to Ms. Qin or Mr. Liu for the purpose of encouraging them to act in our best interests in their capacity as the shareholders of our consolidated affiliated entities. We may replace Ms. Qin and Mr. Liu as the shareholders of our consolidated affiliated entities at any time pursuant to the equity option agreements. As a director and executive officer of our company, Mr. Liu has a duty of loyalty and care to us under Cayman Islands law. In addition, each of Ms. Qin and Mr. Liu, as a shareholder of 1Verge Information, has executed an irrevocable power of attorney to appoint a person to be designated by 1Verge Internet in writing who is approved by us as their attorney-in-fact to vote on her/his behalf and exercise the full voting rights as the shareholder of 1Verge Information. Each of Ms. Qin and Mr. Liu, as a shareholder of Quan Toodou, has executed a power of attorney to appoint a person to be designated by Reshuffle Technology in writing who is approved by us as their attorney-in-fact to vote on their behalf on all Quan Toodou matters requiring shareholder approval. In addition, 1Verge Internet and Reshuffle Technology each passed a shareholders’ resolution indicating that all activities related to the powers and rights assigned pursuant to the powers of attorney for 1Verge Information and Quan Toodou, respectively, shall be exercised at the direction and approval of the Company and the resolutions are effective for the same term as the powers of attorney. However, we cannot assure you that when conflicts arise, Ms. Qin and Mr. Liu will act in the best interests of our company or that conflicts will be resolved in our favor. If we cannot resolve any conflicts of interest or disputes between us and Ms. Qin and Mr. Liu, we would have to rely on legal proceedings, which may be expensive, time-consuming and disruptive to our operations. There is also substantial uncertainty as to the outcome of any such legal proceedings. Upon completion of an increase of registered capital of Tianshi in 2013, 1Verge Information became a shareholder of Tianshi that holds 70% of its equity interest, and Ms. Wen Lu and Ms. Qiong Hu jointly hold the remaining 30% the equity interest of Tianshi. Ms. Lu and Ms. Hu currently serve as our employees. Each of Ms. Lu, Ms. Hu and 1Verge Information has executed an irrevocable power of attorney to appoint a person to be designated by 1Verge Internet in writing who is approved by us as their attorney-in-fact to vote on their behalf and exercise the full voting rights as the shareholder of Tianshi. In addition, 1Verge Internet passed a shareholders’ resolution indicating that all activities related to the powers and rights assigned pursuant to the powers of attorney for Tianshi shall be exercised at the direction and approval of the Company and the resolutions are effective for the same term as the powers of attorney. We cannot assure you that if conflicts arise, Ms. Wen Lu and Ms. Qiong Hu will act in the best interests of our company or that conflicts will be resolved in our favor. If we cannot resolve any conflicts of interest or disputes between us and Ms. Lu and Ms. Hu, we would have to rely on legal proceedings, which may be expensive, time-consuming and disruptive to our operations. The outcome of any such legal proceedings is uncertain.

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We may need to rely principally on dividends and other distributions on equity paid by our PRC and Hong Kong subsidiaries to fund any cash and financing requirements we may have. Any limitation on the ability of our PRC and Hong Kong subsidiaries to pay dividends to us could have a material adverse effect on our ability to conduct our business.

We are a holding company, and we may need to rely principally on dividends and other distributions on equity paid by two of our wholly owned PRC subsidiaries, 1Verge Internet and Reshuffle Technology, and our wholly owned Hong Kong subsidiary, Jet Brilliant, which is the direct holding company of Jet Brilliant Beijing, for our cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to our shareholders and service any debt we may incur. If any of these wholly owned subsidiaries incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. In addition, the PRC tax authorities may require us to adjust our taxable income under the contractual arrangements that any of our wholly owned PRC subsidiaries currently has in place with our consolidated affiliated entities in a manner that would materially and adversely affect its ability to pay dividends and other distributions to us.

Under PRC laws and regulations, 1Verge Internet, Reshuffle Technology and Jet Brilliant Beijing, as wholly foreign-owned enterprises in the PRC, may pay dividends only out of their accumulated profits as determined in accordance with PRC accounting standards and regulations. In addition, wholly foreign-owned enterprises such as 1Verge Internet, Reshuffle Technology and Jet Brilliant Beijing are required to set aside at least 10% of their accumulated after-tax profits each year, if any, to fund certain statutory reserve funds, until the aggregate amount of such a fund reaches 50% of their respective registered capital. At their discretion, they may allocate a portion of their after-tax profits based on PRC accounting standards to staff welfare and bonus funds. These reserve funds and staff welfare and bonus funds are not distributable as cash dividends. As of December 31, 2013, the registered capital of 1Verge Internet, Reshuffle Technology and Jet Brilliant Beijing were US\$171.9 million, US\$63.0 million and RMB1.0 million (US\$0.2 million), respectively. 1Verge Internet has incurred losses of RMB441.4 million (US\$72.9 million) from incorporation to December 31, 2013, Reshuffle Technology has incurred losses of RMB437.3 million (US\$72.2 million) from incorporation to December 31, 2013, and Jet Brilliant Beijing has incurred losses of RMB0.7 million (US\$0.1 million) from incorporation to December 31, 2013. As they have not made any profits to date, they have not been subject to the statutory reserve fund requirements and have not set aside any money to fund the statutory reserve funds or staff welfare and bonus funds. Our PRC subsidiaries have not and will not be able to pay dividends to our offshore entities until they generate accumulated profits and meet the requirements for statutory reserve funds. As of December 31, 2013, our PRC subsidiaries had accumulated deficits of RMB1,342.5 million (US\$221.8 million) in accordance with PRC accounting standards and regulations. Substantially all of their revenues have been used to fund our business operations or expansion.

Any limitation on the ability of IVerge Internet, Reshuffle Technology or Jet Brilliant Beijing to pay dividends or make other distributions to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends, or otherwise fund and conduct our business. See also “—Risks Related to Doing Business in China—Our global income and the dividends that we may receive from our PRC subsidiaries may be subject to PRC taxes under the PRC Enterprise Income Tax Law, which would have a material adverse effect on our results of operations.”

PRC regulation of loans to, and direct investment in, PRC entities by offshore holding companies and governmental control of currency conversion may limit our use of the proceeds from public offerings, our ability to finance our PRC subsidiaries or to fund our expansion or operations.

In utilizing the proceeds we received from the follow-on public offering we completed in May 2011 and our initial public offering in December 2010 or in other financing activities in the future, as an offshore holding company with PRC subsidiaries, we may (i) make additional capital contributions to our PRC subsidiaries, (ii) establish new PRC subsidiaries and make capital contributions to these new PRC subsidiaries, (iii) make loans to our PRC subsidiaries or consolidated affiliated entities, or (iv) acquire offshore entities with business operations in China in an offshore transaction. However, most of these uses are subject to PRC regulations and approvals. For example:

- capital contributions to our PRC subsidiaries, whether existing ones or newly established ones, must be approved by the PRC Ministry of Commerce or its local counterparts;
- loans by us to our PRC subsidiaries, each of which is a foreign-invested enterprise, to finance their activities cannot exceed statutory limits and must be registered with the PRC State Administration of Foreign Exchange, or SAFE, or its local branches; and
- loans by us to our consolidated affiliated entities, which are domestic PRC entities, must be approved by the National Development and Reform Commission and must also be registered with SAFE or its local branches.

In August, 2008, SAFE promulgated the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign Invested Enterprises, or SAFE Circular 142, regulating the conversion by a foreign-invested enterprise of foreign currency registered capital into Renminbi by restricting how the converted Renminbi may be used. On November 16, 2011, SAFE promulgated the Circular on Issues Relating to Further Clarification and Regulation of Certain Capital Account Items under Foreign Exchange Control, or Circular 45, in order to clarify the application of Circular 142. Under Circular 142 and Circular 45, the Renminbi capital converted from foreign currency registered capital of a foreign-invested enterprise may only be used for purposes within the business scope approved by the applicable governmental authority and may not be used for equity investments within the PRC, unless it is provided for otherwise. In addition, SAFE strengthened its oversight of the flow and use of the Renminbi capital converted from foreign currency registered capital of a foreign-invested company. The use of such Renminbi capital may not be altered without SAFE approval, and such Renminbi capital may not in any case be used to repay Renminbi loans if the proceeds of such loans have not been used. Violations of SAFE Circular 142 or Circular 45 could result in severe monetary or other penalties. We expect that if we convert the foreign-denominated currency into Renminbi pursuant to SAFE Circular 142 and Circular 45, our use of Renminbi funds will be for purposes within the approved business scope of our PRC subsidiaries. Such business scope includes “technical services,” which we believe permits our PRC subsidiaries to purchase or lease servers and other equipment for their own technical data and research and to provide operational support to our consolidated affiliated entities. However, we may not be able to use such Renminbi funds to make equity investments in the PRC through our PRC subsidiaries.

We expect that the PRC regulations of loans and direct investment by offshore holding companies to PRC entities may continue to limit our use of the proceeds we received from the public offerings or from other financing sources. There are no costs associated with registering loans or capital contributions with relevant PRC governmental authorities, other than nominal processing charges. Under the relevant PRC laws and regulations, the PRC governmental authorities are required to process such approvals or registrations or deny our application within a prescribed time period, which is usually less than 90 days. The actual time taken, however, may be longer due to administrative delays. We cannot assure you that we will be able to obtain these government registrations or approvals on a timely basis, if at all, with respect to our future plans to use the U.S. dollar proceeds we receive from public offerings for our expansion and operations in China. If we fail to receive such registrations or approvals, our ability to use the proceeds of our public offerings and to capitalize our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and ability to fund and expand our business.

We may be unable to collect long-term loans extended to the shareholders of our consolidated affiliated entities.

As of December 31, 2013, we have made long-term interest-free loans in an aggregate principal amount of RMB94.1 million (US\$15.5 million) to the shareholders of certain of our consolidated affiliated entities to enable them to fund the initial capitalization and the subsequent financial requirements of our consolidated affiliated entities. The initial term for such loans is ten or five years and will be automatically extended for successive ten- or five-year periods (as applicable) unless we give a three-month written notice prior to the expiration of the then current term. We may in the future make additional loans to the shareholders of our consolidated affiliated entities in China in connection with any increase in the capitalization or financial requirements of these entities to the extent necessary and permissible under applicable PRC laws and regulations. Our ability to collect these long-term loans will depend on the profitability and results of operations of these consolidated affiliated entities, which is uncertain.

Risks Related to Doing Business in China

Changes in China's economic, political or social conditions or government policies could have a material adverse effect on our business and operations.

Substantially all of our assets and operations are located in China. Accordingly, our business, financial condition, results of operations and prospects may be influenced to a significant degree by political, economic and social conditions in China generally and by continued economic growth in China as a whole.

The Chinese economy differs from the economies of most developed countries in many respects, including the level of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. Although the Chinese government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets, and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the government. In addition, the Chinese government continues to play a significant role in regulating industry development by imposing industrial policies. The Chinese government also exercises significant control over China's economic growth through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy, and providing preferential treatment to particular industries or companies.

While the Chinese economy has experienced significant growth over the past decades, growth has been uneven, both geographically and among various sectors of the economy. The Chinese government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures may benefit the overall Chinese economy, but may have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations. In addition, in the past the Chinese government has implemented certain measures, including interest rate increases, to control the pace of economic growth. These measures may cause decreased economic activity in China, which may adversely affect our business and operating results.

Uncertainties with respect to the PRC legal system could adversely affect us.

We conduct our business primarily through our PRC subsidiaries and consolidated affiliated entities in China. Our operations in China are governed by PRC laws and regulations. Our PRC subsidiaries are foreign-invested enterprises and are subject to laws and regulations applicable to foreign investment in China and, in particular, laws applicable to foreign-invested enterprises. The PRC legal system is a civil law system based on written statutes. Unlike the common law system, prior court decisions may be cited for reference but have limited precedential value.

In 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation over the past three decades has significantly enhanced the protections afforded to various forms of foreign investments in China. However, China has not developed a fully integrated legal system, and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. In particular, the interpretation and enforcement of these laws and regulations involve uncertainties. Since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy. These uncertainties may affect our judgment on the relevance of legal requirements and our ability to enforce our contractual or tort rights. In addition, the regulatory uncertainties may be exploited through unmerited or frivolous legal actions or threats in attempts to extract payments or benefits from us.

Furthermore, the PRC legal system is based in part on government policies and internal rules, some of which are not published on a timely basis or at all and may have a retroactive effect. As a result, we may not be aware of any violation of any of these policies and rules until some time after the violation. In addition, any administrative and court proceedings in China may be protracted, resulting in substantial costs and diversion of resources and management attention.

We may be adversely affected by the complexity, uncertainties and changes in PRC regulation of Internet business and companies.

The PRC government extensively regulates the Internet industry, including foreign ownership of, and the licensing and permit requirements pertaining to, companies in the Internet industry. These Internet-related laws and regulations are relatively new and evolving, and their interpretation and enforcement involve significant uncertainty. As a result, in certain circumstances it may be difficult to determine what actions or omissions may be deemed to be in violations of applicable laws and regulations. Issues, risks and uncertainties relating to PRC regulation of the Internet business include, but are not limited to, the following:

- We only have contractual control over our websites. We do not own the website due to the restriction of foreign investment in businesses providing value-added telecommunication services in China, including Internet content provision services. This may significantly disrupt our business, subject us to sanctions, compromise enforceability of related contractual arrangements, or have other harmful effects on us.
- There are uncertainties relating to the regulation of Internet businesses in China, including evolving licensing practices. This means that permits, licenses or operations at some of our companies may be subject to challenge, or we may fail to obtain permits or licenses that may be deemed necessary for our operations or we may not be able to obtain or renew certain permits or licenses. The major permits and licenses that could be involved include, without limitation, the Internet Audio/Video Program Transmission License (including ancillary licenses covering services of live broadcasting on general social and cultural activities, sports games or other similar activities, search functionality for services of online audio/video programs and services of distribution of audio/video programs to mobile phones) issued by the SARFT, the Internet Culture Operation Permit issued by the Ministry of Culture, the Value-Added Telecommunications Services Operation Permit issued by the MIIT, the Telecommunications and Information Services Operation Permit issued by the Beijing Communications Administration, the Internet News Information Services License issued by the SCIO, the Internet Medical Information Services License issued by the State Food and Drug Administration and the Internet Publication License issued by the GAPP. If we fail to maintain any of these required licenses or approvals, we may be subject to various penalties, including fines and discontinuation of, or restriction on, our operations. Any such disruption in our business operations may have a material and adverse effect on our results of operations.
- The evolving PRC regulatory system for the Internet industry may lead to the establishment of new regulatory agencies. For example, in May 2011, the State Council announced the establishment of a new department, the State Internet Information Office (with the involvement of the SCIO, the MIIT and the Ministry of Public Security). The primary role of this new agency is to facilitate the policy-making and legislative development in this field to direct and coordinate with the relevant departments in connection with online content administration and to deal with cross-ministry regulatory matters in relation to the Internet industry. Further, new laws, regulations or policies may be promulgated or announced that will regulate Internet activities, including online video and online advertising businesses. If these new laws, regulations or policies are promulgated, additional licenses may be required for our operations. If our operations do not comply with these new regulations after they become effective, or if we fail to obtain any licenses required under these new laws and regulations, we could be subject to penalties.
- In 2013, the GAPPRFT released a Supplemental Notice on Improving the Administration of Online Audio/Video Content Including Internet Dramas and Micro Films, which requires that (i) a permit for radio and television program production and operation must be obtained for all online content, such as Internet dramas and micro films, (ii) online audio/video service providers transmitting Internet dramas or micro films produced and uploaded by individual users will be deemed responsible as producers for such content, (iii) online audio/video service providers may only transmit content uploaded by individuals whose identity has been verified and such content shall comply with relevant content management rules and (iv) online audio/video content, including Internet dramas and micro films, must be filed with the relevant authorities before release. This supplementary notice is very new, and thus far no relevant implementation rules or interpretations have been issued. Therefore, it remains unclear what, if any, potential liabilities 1Verge Information and Toodou Cultural could face in respect of the online audio/video content available on our websites.

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In July 2006, the MIIT, the predecessor of which is the Ministry of Information Industry, issued the Notice of the Ministry of Information Industry on Strengthening Administration of Foreign Investment in Value-added Telecommunications Services. This notice prohibits domestic telecommunications services providers from leasing, transferring or selling telecommunications business operating licenses to any foreign investor in any form, or providing any resources, sites or facilities to any foreign investor for their illegal operation of a telecommunications business in China. According to this notice, either the holder of a value-added telecommunications business operating license or its shareholders must directly own the domain names and trademarks used by such license holders in their provision of value-added telecommunications services. The notice also requires each license holder to have the necessary facilities, including servers, for its approved business operations and to maintain such facilities in the regions covered by its license. Currently, all contracts with telecommunications carriers and other service providers to host the servers used in our business were entered into by 1Verge Information, our PRC consolidated affiliated entity, and such arrangements are in compliance with the notice. 1Verge Information also owns the related domain names and holds the value-added telecommunications business operating license and the ICP license necessary to conduct our operations in China, while the related trademarks are owned by 1Verge Internet, our wholly owned subsidiary. There remain significant uncertainties with respect to the procedural requirements involved in effecting the transfer of trademarks from 1Verge Internet to 1Verge Information. It is also unclear as to which, if not all, of the trademarks that 1Verge Internet owns will be subject to the transfer requirement under this notice. To our knowledge, in practice, the notice has not been enforced in respect of trademarks. We have not been required by the MIIT or its local branch to transfer the relevant trademarks held by 1Verge Internet to 1Verge Information. If the relevant government authority strictly enforces the notice, we will be required to transfer the related trademarks to 1Verge Information, which may be time consuming. If we fail to do so, the relevant governmental authority has the discretion to revoke the value-added telecommunications license held by 1Verge Information or impose other penalties, including fines.

The interpretation and application of existing PRC laws, regulations and policies and possible new laws, regulations or policies relating to the Internet industry have created substantial uncertainties regarding the legality of existing and future foreign investments in, and the businesses and activities of, Internet businesses in China, including our business. We cannot assure you that we have obtained all the permits or licenses required for conducting our business in China or will be able to maintain our existing licenses or obtain any new licenses required under any new laws or regulations. There are also risks that we may be found to violate the existing or future laws and regulations given the uncertainty and complexity of China's regulation of Internet business.

A PRC tax pilot program may have an adverse impact on our results of operations and financial condition.

The PRC government adopted a PRC tax pilot program, which is initially being implemented in Shanghai and has been extended to other cities. On November 16, 2011, the Ministry of Finance and the State Administration of Taxation jointly issued the Circular on the Pilot Program for the Collection of Value Added Tax in Lieu of Business Tax, or Circular 110, and the Circular on the Pilot Program for the Collection of Value Added Tax in Lieu of Business Tax in the Transportation and Certain Modern Service Sectors in Shanghai, or Circular 111. These circulars became effective on January 1, 2012. Pursuant to Circular 110 and Circular 111, starting from January 1, 2012, companies classified by Shanghai's local tax authorities as being engaged in certain services, including transportation services, research and development services, information technology services and advertising services, are required to pay value added tax, or VAT, at a rate ranging from 6% to 17% in lieu of business tax. The pilot VAT reform program initially applied only to the pilot industries in Shanghai and has been expanded to eight additional regions, including, among others, Beijing, in 2012. The pilot program will also be expanded nationwide when conditions permit. Advertising services provided by our Shanghai and Beijing entities have been subject to a 6% VAT in lieu of business tax since January 1, 2012 and September 1, 2012, respectively. This program may negatively impact our results of operations. On May 24, 2013, the Ministry of Finance, or MOF, and the State Administration of Taxation, or SAT, jointly issued Caishui [2013] No. 37, or Circular 37. From August 1, 2013, the VAT Pilot has been expanded to the transportation industry (except for railway transport) and some modern service industries nationwide. On December 12, 2013, MOF and SAT jointly issued Caishui [2013] No. 106, or Circular 106, which sets out that railway transportation and postal services would be within the scope of the VAT pilot from January 1, 2014. Circular 106 also includes some updates and changes to VAT pilot rules. Circular 106 replaced Circular 37 from January 1, 2014.

Fluctuations in exchange rates could have a material adverse effect on our results of operations and the value of your investment.

The conversion of RMB into foreign currencies, including U.S. dollars, is based on rates set by the People's Bank of China. The PRC government allowed the RMB to appreciate by more than 20% against the U.S. dollar between July 2005 and July 2008. Between July 2008 and June 2010, this appreciation halted and the exchange rate between the RMB and the U.S. dollar remained within a narrow band. Since June 2010, the PRC government has allowed the RMB to appreciate slowly against the U.S. dollar again, though there have been periods when the U.S. dollar has appreciated against the Renminbi as well. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the RMB and the U.S. dollar in the future.

There remains significant international pressure on the Chinese government to adopt a substantial liberalization of its currency policy, which could result in further appreciation in the value of the Renminbi against the U.S. dollar. To the extent that we need to convert U.S. dollars into Renminbi for capital expenditures and working capital and other business purposes, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we would receive from the conversion. Conversely, if we decide to convert Renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs, strategic acquisitions or investments or other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amount available to us.

Governmental control of currency conversion may limit our ability to utilize our revenues effectively and affect the value of your investment.

The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our revenues in Renminbi. Under our current corporate structure, our Cayman Islands holding company primarily relies on dividend payments from our wholly owned PRC subsidiaries, IVerge Internet and Reshuffle Technology, and our wholly owned Hong Kong subsidiary, Jet Brilliant, which is the direct holding company of Jet Brilliant Beijing, to fund any cash and financing requirements we may have. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior SAFE approval by complying with certain procedural requirements. However, approval from or registration with appropriate government authorities is required where the Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. Specifically, under the existing exchange restrictions, without prior approval of SAFE, cash generated from the operations of our subsidiaries in China may be used to pay dividends by our PRC subsidiaries to our company either directly or through Jet Brilliant and pay employees of our PRC subsidiaries who are located outside China in a currency other than the Renminbi. With prior approval from SAFE, cash generated from the operations of our PRC subsidiaries and affiliated entities may be used to pay off debt in a currency other than the Renminbi owed by our subsidiaries and consolidated affiliated entities to entities outside China, and make other capital expenditures outside China in a currency other than the Renminbi. If either or both of our consolidated affiliated entities liquidate, the proceeds from the liquidation of their assets may be used outside of the PRC or be given to investors who are not PRC nationals. The PRC government may at its discretion restrict access to foreign currencies for current account transactions in the future. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our shareholders, including holders of our ADSs.

Certain PRC regulations may make it more difficult for us to pursue growth through acquisitions.

The Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors, which became effective in September 2006 and was amended in June 2009, established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex. Such regulation requires, among other things, that the Ministry of Commerce be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise or a foreign company with substantial PRC operations, if certain thresholds under the Provisions on Thresholds for Prior Notification of Concentrations of Undertakings, issued by the State Council in August 2008, were triggered. We believe that neither the acquisition of Trade Lead Investments Ltd., or Trade Lead, nor the business combination with Tudou met the explicit thresholds under the Provisions on Thresholds for Prior Notification of Concentrations of Undertakings. However, even for transactions that do not meet the explicit thresholds, MOFCOM has discretion to initiate an investigation, if it believes it has collected evidence showing that the business concentration caused by such combination results in, or is likely to result in, an elimination or restriction of competition. As a result, we cannot preclude the possibility that MOFCOM may conduct investigation on the two transactions, impose restrictive conditions or even unwind the transactions. According to the Implementing Rules Concerning Security Review on the Mergers and Acquisitions by Foreign Investors of Domestic Enterprises issued by the Ministry of Commerce in August 2011, mergers and acquisitions by foreign investors involved in an industry related to national security are subject to strict review by the Ministry of Commerce. These rules also prohibit any transactions attempting to bypass such security review, including by controlling entities through contractual arrangements. We believe that our business and the business we acquired or combined are not in an industry related to national security. However, we cannot preclude the possibility that the Ministry of Commerce or other government agencies may publish interpretations contrary to our understanding or broaden the scope of such security review in the future.

We may grow our business in part by directly acquiring complementary businesses in China. Complying with the requirements of these regulations to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from the Ministry of Commerce, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

PRC regulations relating to the establishment of offshore special purpose vehicles, or SPVs, by PRC residents may subject our PRC resident beneficial owners or our PRC subsidiaries to liability or penalties, limit our ability to inject capital into our PRC subsidiaries, limit our PRC subsidiaries' ability to increase their registered capital or distribute profits to us, or may otherwise adversely affect us.

SAFE has promulgated several regulations, including the Notice on Issues Relating to the Administration of Foreign Exchange in Fund-Raising and Round-trip Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies, or SAFE Circular No. 75, effective on November 1, 2005. To further clarify and simplify the implementation of the SAFE Circular No. 75, the SAFE issued the Implementing Rules Relating to the Administration of Foreign Exchange in Fund-Raising and Round-trip Investment Activities of the Domestic Residents Conducted via Offshore Special Purpose Companies, or SAFE Circular No. 19 on May 20, 2011, which has come into effect on July 1, 2011. These regulations require PRC residents and PRC corporate entities to register with local branches of SAFE in connection with their direct or indirect offshore investment activities. These regulations apply to our shareholders who are PRC residents and may apply to any offshore acquisitions that we make in the future.

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Under these foreign exchange regulations, PRC residents who make, or have previously made prior to the implementation of these foreign exchange regulations, direct or indirect investments in SPVs will be required to register those investments. In addition, any PRC resident who is a direct or indirect shareholder of an SPV is required to update the previously filed registration with the local branch of SAFE, with respect to that SPV, to reflect any material change. Moreover, the PRC subsidiaries of that SPV are required to urge the PRC resident shareholders to update their registration with the local branch of SAFE. If any PRC shareholder fails to make the required registration or update the previously filed registration, the PRC subsidiaries of that SPV may be prohibited from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation to their SPV, and the SPV may also be prohibited from injecting additional capital into its PRC subsidiaries. Moreover, failure to comply with the various foreign exchange registration requirements described above could result in liabilities for such PRC subsidiaries under PRC laws for evasion of applicable foreign exchange restrictions, including (i) the requirement by SAFE to return the foreign exchange remitted overseas within a period specified by SAFE, with a fine of up to 30% of the total amount of foreign exchange remitted overseas and deemed to have been evasive and (ii) in circumstances involving serious violations, a fine of no less than 30% of and up to the total amount of remitted foreign exchange deemed evasive. Furthermore, the persons-in-charge and other persons at such PRC subsidiaries who are held directly liable for the violations may be subject to administrative sanctions. The shareholders of our consolidated affiliated entities, Ms. Qiong Qin, Mr. Dele Liu, Ms. Wen Lu and Ms. Qiong Hu, all of whom are PRC citizens, have not conducted any direct or indirect offshore investment activities or held any shares, directly or indirectly in any of our offshore entities other than those due to exercise of their share options. Therefore, these PRC resident shareholders are not required to file the registrations and amendments pursuant to SAFE Circular No. 75 and related rules. Mr. Victor Koo, our founder and chief executive officer, who is a permanent resident of Hong Kong, stays in mainland China for over 183 days per annum. However, as a result of our inquiries with the competent local branch of SAFE responsible for our PRC subsidiaries' foreign exchange registrations, we were informed that, given the lack of any publicly-available implementing rules or official interpretations issued by the SAFE regarding the issue of whether the registration and amendment filing requirements under SAFE Circular No. 75 and related rules should apply to non-PRC citizens, Mr. Koo should not be deemed a PRC resident for these purposes, and any attempt to submit an application to such local SAFE branch with respect to Mr. Koo's investment and shareholdings in our offshore SPV will not be officially accepted or examined. In addition, Ms. Qiong Qin should not be required to make an application with respect to Mr. Koo's offshore SPV activities merely by virtue of being Mr. Koo's wife.

However, we cannot conclude that the SAFE or the local branch responsible for our PRC subsidiaries' foreign exchange registrations will not later change its position on, and interpretation of, the applicability of these foreign exchange regulations to Mr. Koo or the PRC resident shareholders of our consolidated affiliated entities. In the event the registration procedures set forth in these foreign exchange regulations become applicable to Mr. Koo or the PRC resident shareholders of our consolidated affiliated entities, we will urge these individuals to file necessary registrations and amendments as required under SAFE Circular No. 75 and related rules. However, as SAFE regulations and policies have been evolving rapidly in the past few years, we cannot assure that all of these individuals can successfully make or update any applicable registration or obtain the necessary approval required by these foreign exchange regulations as these individuals may not be able to fully satisfy the new requirements or interpretations that SAFE or its local branch may impose or adopt from time to time. The failure or inability of such individuals to comply with the registration procedures set forth in these regulations may subject us to fines or legal sanctions, restrictions on our cross-border investment activities or our PRC subsidiaries' ability to distribute dividends to, or obtain foreign-exchange-dominated loans from, our company, or prevent us from making distributions or paying dividends. As a result, our business operations and our ability to make distributions to you could be materially and adversely affected.

Furthermore, as these foreign exchange regulations are still relatively new and there is uncertainty concerning the reconciliation of the new regulations with the approval requirements under other existing PRC laws and regulations, such as tax laws, it is unclear how these regulations, and any future regulation concerning offshore or cross-border transactions, will be interpreted, amended and implemented by the relevant government authorities. We cannot predict how these regulations will affect our business operations or future strategy. For example, we may be subject to a more stringent review and approval process with respect to our foreign exchange activities, such as remittance of dividends and foreign-currency-denominated borrowings, which may adversely affect our financial condition and results of operations. In addition, if we decide to acquire a PRC domestic company, we cannot assure you that we or the owners of such company, as the case may be, will be able to obtain the necessary approvals or complete the necessary filings and registrations required by the foreign exchange regulations. This may restrict our ability to implement our acquisition strategy and could adversely affect our business and prospects.

Failure to comply with PRC regulations regarding the registration requirements for employee stock ownership plans or share option plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.

In December 2006, the People’s Bank of China promulgated the Administrative Measures of Foreign Exchange Matters for Individuals, which set forth the respective requirements for foreign exchange transactions by individuals (both PRC or non-PRC citizens) under either the current account or the capital account. In January 2007, SAFE issued implementing rules for the Administrative Measures of Foreign Exchange Matters for Individuals, which, among other things, specified approval requirements for certain capital account transactions such as a PRC citizen’s participation in the employee stock ownership plans or stock option plans of an overseas publicly-listed company. In March 2007, SAFE promulgated the Application Procedures of Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Ownership Plan or Stock Option Plan of Overseas-Listed Company, or the Stock Option Rules. In February 2012, SAFE promulgated the Notice on the Administration of Foreign Exchange Matters for Domestic Individuals Participating in the Stock Incentive Plans of Overseas Listed Companies, or the Stock Option Notice, and replaced the Stock Option Rules. The Stock Option Notice simplifies the requirements and procedures for the registration of stock incentive plan participants, especially in respect of the required application documents and the elimination of strict requirements on offshore and onshore custodian banks, as were stipulated in the Stock Option Rules. According to the Stock Option Notice, for PRC resident individuals who participate in stock incentive plans of overseas public companies, which includes employee stock ownership plans, stock option plans and other incentive plans permitted by relevant laws and regulations, a PRC domestic qualified agent or the PRC subsidiary of such overseas public company must, among other things, file, on behalf of such individuals, an application with the SAFE or its local counterpart to obtain an annual allowance with respect to the purchase of foreign exchange in connection with stock holding or share option exercises, as PRC domestic individuals may not directly use overseas funds to purchase shares or exercise share options. In addition, within three months after there is any substantial change to such stock incentive plans, including for example any changes due to merger or acquisition or changes of domestic or overseas custodian agent, the domestic agent must update the registration with SAFE. We and our PRC citizen employees who participate in an employee stock ownership plan or a stock option plan are subject to these regulations, since we are a publicly-listed company in the United States. We and our employees have made such applications and intend to continue making such application on an on-going basis and complete all the requisite procedures in accordance with the Stock Option Notice. If we or our PRC optionees fail to comply with these regulations, we or our PRC optionees may be subject to fines and other legal or administrative sanctions. See “Item 4. Information on the Company—B. Business Overview—Regulation—Regulations on Employee Stock Options Plan.”

We face uncertainty with respect to indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies.

Pursuant to the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises, or SAT Circular 698, issued by the State Administration of Taxation, or the SAT, in December 2009, with retroactive effect from January 1, 2008, where a non-resident enterprise transfers the equity interests of a PRC resident enterprise indirectly by disposition of the equity interests of an overseas holding company, or an Indirect Transfer, and such overseas holding company is located in a tax jurisdiction that: (i) has an effective tax rate of less than 12.5% or (ii) does not impose income tax on foreign income of its residents, the non-resident enterprise, being the transferor, shall report to the competent tax authority of the PRC resident enterprise this Indirect Transfer. Using a “substance over form” principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such Indirect Transfer may be subject to PRC withholding tax at a rate of up to 10%. SAT Circular 698 also provides that, where a non-PRC resident enterprise transfers its equity interests in a PRC resident enterprise to its related parties at a price lower than the fair market value, the relevant tax authority has the power to make a reasonable adjustment to the taxable income of the transaction.

On March 28, 2011, the SAT released the SAT Public Notice (2011) No. 24, or SAT Public Notice 24, to clarify several issues related to SAT Circular 698. SAT Public Notice 24 became effective on April 1, 2011. According to SAT Public Notice 24, the term “effective tax” refers to the effective tax on the gain derived from disposition of the equity interests of an overseas holding company; and the term “does not impose income tax” refers to the cases where the gain derived from disposition of the equity interests of an overseas holding company is not subject to income tax in the country/region where the overseas holding company is a resident.

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There is uncertainty as to the application of SAT Circular 698. For example, while the term “Indirect Transfer” is not clearly defined, it is understood that the relevant PRC tax authorities have jurisdiction regarding requests for information over a wide range of foreign entities having no direct contact with China. Moreover, the relevant authority has not yet promulgated any formal provisions or made any formal declaration as to the process and format for reporting an Indirect Transfer to the competent tax authority of the relevant PRC resident enterprise. In addition, there are not any formal declarations with regard to how to determine whether a foreign investor has adopted an abusive arrangement in order to reduce, avoid or defer PRC tax. SAT Circular 698 may be determined by the tax authorities to be applicable to our private equity financing transactions where non-resident investors were involved, if any of such transactions were determined by the tax authorities to lack reasonable commercial purpose. As a result, we and our non-resident investors may become at risk of being taxed under SAT Circular 698 and may be required to expend valuable resources to comply with SAT Circular 698 or to establish that we should not be taxed under SAT Circular 698, which may have a material adverse effect on our financial condition and results of operations or such non-resident investors’ investments in us.

Discontinuation of any of the preferential tax treatments or imposition of any additional taxes could adversely affect our financial condition and results of operations.

China passed a new PRC Enterprise Income Tax Law, or the New EIT Law, and its implementation rules, both of which became effective on January 1, 2008. The New EIT Law significantly curtails tax incentives granted to foreign-invested enterprises under the PRC Enterprise Income Tax Law concerning Foreign-Invested Enterprises and Foreign Enterprises, or the Old EIT Law, which was effective prior to January 1, 2008. The New EIT Law, however, (i) reduces the statutory rate of the enterprise income tax from 33% to 25%, (ii) permits companies established before March 16, 2007 to continue to enjoy their existing tax incentives, adjusted by certain transitional phase-out rules promulgated by the State Council on December 26, 2007, and (iii) introduces new tax incentives, subject to various qualification criteria.

The New EIT Law and its implementation rules permit certain “high and new technology enterprises strongly supported by the state” which hold independent ownership of core intellectual property to enjoy a preferential enterprise income tax rate of 15%, subject to certain new qualification criteria. 1Verge Internet, our wholly owned subsidiary, and 1Verge Information, our consolidated affiliated entity, were recognized by the Beijing Municipal Science and Technology Commission as “high and new technology enterprises” on December 24, 2010 and April 27, 2006, respectively, and therefore were eligible for the reduced 15% enterprise income tax rate upon its filing with the relevant tax authority. The qualification as a “high and new technology enterprise” is subject to annual evaluation and a three-year review by the relevant authorities in China. 1Verge Information was reaffirmed as such on December 14, 2009 and was entitled to the preferential tax rate of 15% for 2009, 2010 and 2011. However, 1Verge Information was not recognized as a “high and new technology enterprise” in the three-year review in 2012, and its applicable enterprise income tax rate increased to 25% starting in 2012. 1Verge Internet was recognized as a “high and new technology enterprise” in the three-year review in 2013, and its applicable enterprise income tax rate remained at 15% from 2013 to 2015.

Preferential tax treatment granted to our subsidiaries and consolidated affiliated entities by the local governmental authorities is subject to review and may be adjusted or revoked at any time. The discontinuation of any preferential tax treatments currently available to us and our wholly owned PRC subsidiary, 1Verge Internet, will cause our effective tax rate to increase, which could have a material adverse effect on our financial condition and results of operations. We cannot assure you that we will be able to maintain our current effective tax rate in the future.

Our global income and the dividends that we may receive from our PRC subsidiaries may be subject to PRC taxes under the New EIT Law, which would have a material adverse effect on our results of operations and on the investments of our non-PRC shareholders and ADS holders.

Under the New EIT Law and its implementation rules, both of which became effective on January 1, 2008, an enterprise established outside of the PRC with a “de facto management body” within the PRC is considered a resident enterprise and will be subject to the enterprise income tax at the rate of 25% on its global income. The implementation rules define the term “de facto management body” as “establishments that carry out substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc. of an enterprise.” The SAT issued the Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies, or SAT Circular 82, on April 22, 2009. SAT Circular 82 provides certain specific criteria for determining whether the “de facto management body” of a Chinese-controlled offshore-incorporated enterprise is located in China. See “Item 4. Information on the Company—B. Business Overview—Regulation—Regulations on Tax—PRC Enterprise Income Tax.” Although SAT Circular 82 only applies to offshore enterprises controlled by PRC enterprises, not those controlled by PRC individuals, the determining criteria set forth in the SAT Circular 82 may reflect the SAT’s general position on how the “de facto management body” test may be applied in determining the tax resident status of offshore enterprises.

According to the SAT Circular 82, a Chinese-controlled offshore incorporated enterprise will be regarded as a PRC tax resident by virtue of having a “de facto management body” in China and will be subject to PRC enterprise income tax on its worldwide income only if all of the following conditions set forth in the SAT Circular 82 are met: (i) the primary location of the day-to-day operational management is in the PRC; (ii) decisions relating to the enterprise’s financial and human resource matters are made or are subject to approval by organizations or personnel in the PRC; (iii) the enterprise’s primary assets, accounting books and records, company seals, and board and shareholder resolutions are located or maintained in the PRC; and (iv) at least 50% of voting board members or senior executives habitually reside in the PRC.

We do not believe that either Youku Tudou Inc. or its Hong Kong, Cayman or BVI subsidiaries, including Jet Brilliant, Tudou Holdings Limited and StarCloud Media Co., Limited, meet all of the conditions above. Each of Youku Tudou Inc. and these offshore subsidiaries is a company incorporated outside the PRC. These entities’ key assets and records, including the resolutions of their respective board of directors and the resolutions of their respective shareholders, are located and maintained outside the PRC. In addition, we are not aware of any offshore holding companies with similar corporate structures ever having been deemed to be a PRC “resident enterprise” by the PRC tax authorities. Therefore, we believe that neither Youku Tudou Inc. nor any of these offshore subsidiaries should be treated as a “resident enterprise” for PRC tax purposes if the criteria for a “de facto management body” as set forth in the SAT Circular 82 were deemed applicable to us. However, as the tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term “de facto management body” as applicable to our offshore entities, we may be considered a resident enterprise and may therefore be subject to the enterprise income tax at 25% on our global income. If we are considered a resident enterprise and earn income other than dividends from our PRC subsidiary, a 25% enterprise income tax on our global income could significantly increase our tax burden and materially and adversely affect our cash flow and profitability. In addition to the uncertainty regarding how the new “resident enterprise” classification may apply, it is also possible that the rules may change in the future, possibly with retroactive effect.

Pursuant to the New EIT Law and its implementation rules, however, dividends generated after January 1, 2008 and payable by a foreign-invested enterprise in China to its foreign investors, which are non-PRC tax resident enterprises without an establishment in China, or which has an establishment in China but the dividend income is not connected with the establishment, are subject to withholding tax at a rate of 10%, unless any such foreign investor’s jurisdiction of incorporation has a tax treaty with China that provides for a preferential withholding arrangement and the foreign investor is the beneficial owner. We are a Cayman Islands holding company and we plan to conduct our advertising business and derive substantially all of our income from dividends through Jet Brilliant Beijing, which is 100% owned by Jet Brilliant, our wholly owned subsidiary located in Hong Kong. As long as Jet Brilliant, our Hong Kong subsidiary, is considered a non-PRC resident enterprise and holds at least 25% of the equity interest of Jet Brilliant Beijing, dividends that it receives from Jet Brilliant Beijing may be subject to withholding tax at a preferential rate of 5% under the Arrangement between the PRC and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion, effective on January 1, 2007, if it is the beneficial owner of the dividends, upon receiving approval from the local tax authority. However, if Jet Brilliant, our Hong Kong subsidiary, is not considered to be the beneficial owner of such dividends under applicable tax regulations, such dividends would be subject to withholding tax at a rate of 10%. See “Item 4. Information on the Company—B. Business Overview—Regulation—Regulations on Tax—Dividends Withholding Tax.” Our PRC subsidiaries have not paid any dividends, and do not currently plan to pay dividends in the future, as they continue to incur losses, to our company or Jet Brilliant, our Hong Kong subsidiary, as the case may be. We have not obtained the approval mentioned above from the local tax authority and do not currently plan to do so in the near future.

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We have been advised by our PRC counsel, TransAsia Lawyers, that according to the interpretation and implementation of the New EIT Law and its implementation rules, if we are regarded as a PRC resident enterprise, any dividends to be distributed by us to our non-PRC shareholders and ADS holders would be subject to PRC withholding tax. If we are regarded as a PRC resident enterprise and if we were required under the New EIT Law to withhold PRC income tax on our dividends payable to our non-PRC enterprise shareholders and ADS holders, your investment in our ordinary shares or ADSs may be materially and adversely affected.

The enforcement of the Labor Contract Law and other labor-related regulations in the PRC may adversely affect our business and our results of operations.

In June 2007, the Standing Committee of the National People's Congress of China enacted the Labor Contract Law, which became effective on January 1, 2008. The Labor Contract Law introduces specific provisions related to fixed-term employment contracts, part-time employment, probation, consultation with labor union and employee assemblies, employment without a written contract, dismissal of employees, severance, and collective bargaining, which together represent enhanced enforcement of labor laws and regulations. According to the Labor Contract Law, an employer is obliged to sign an unlimited-term labor contract with any employee who has worked for the employer for ten consecutive years. Further, if an employee requests or agrees to renew a fixed-term labor contract that has already been entered into twice consecutively, the resulting contract must have an unlimited term, with certain exceptions. The employer must also pay severance to an employee in nearly all instances where a labor contract, including a contract with an unlimited term, is terminated or expires. In addition, the government has continued to introduce various new labor-related regulations after the Labor Contract Law. Among other things, new annual leave requirements mandate that annual leave ranging from five to 15 days is available to nearly all employees and further require that the employer compensate an employee for any annual leave days the employee is unable to take in the amount of three times his daily salary, subject to certain exceptions. As a result of these new regulations designed to enhance labor protection, our labor costs are expected to increase. In addition, as the interpretation and implementation of these new regulations are still evolving, we cannot assure you that our employment practice will at all times be deemed in full compliance with the new regulations. If we are subject to severe penalties or incur significant liabilities in connection with labor disputes or investigations, our business and results of operations may be adversely affected.

Proceedings instituted recently by the SEC against five PRC-based accounting firms, including our independent registered public accounting firm, could result in our financial statements being determined to not be in compliance with the requirements of the Exchange Act.

In December 2012, the SEC brought administrative proceedings against five accounting firms, including our independent registered public accounting firm, in China, alleging that they had refused to produce audit work papers and other documents related to certain other China-based companies under investigation by the SEC for potential accounting fraud. On January 22, 2014, an initial administrative law decision was issued, censuring these accounting firms and suspending four of the five firms from practicing before the SEC for a period of six months. The decision is neither final nor legally effective unless and until reviewed and approved by the SEC. The accounting firms appealed the initial administrative law decision to the SEC in February 2014. The sanction will not become effective until after a full appeal process is concluded and a final decision is issued by the SEC. The accounting firms can also further appeal the final decision of the SEC through the federal appellate courts. We are not involved in the proceedings brought by the SEC against the accounting firms. However, our independent registered public accounting firm is one of the four accounting firms subject to the six month suspension from practicing before the SEC in the initial administrative law decision. We may therefore be adversely affected by the outcome of the proceedings, along with other U.S.-listed companies audited by these accounting firms.

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On May 24, 2013, the PCAOB announced that it had entered into a Memorandum of Understanding on Enforcement Cooperation with the China Securities Regulatory Commission, or the CSRC, and the Ministry of Finance which establishes a cooperative framework between the parties for the production and exchange of audit documents relevant to investigations in the United States and China. However, it is not clear how these recent developments could affect the SEC's final decision in the case against the five accounting firms or any subsequent appeal to courts that the accounting firms may initiate. Therefore, it is difficult to determine the final outcome of the administrative proceedings and the potential consequences thereof.

If our independent registered public accounting firm were denied, temporarily, the ability to practice before the SEC and we were unable to timely find another registered public accounting firm to audit and issue an opinion on our financial statements, our financial statements could be determined to not be in compliance with the requirements of the Exchange Act. Such a determination could ultimately lead to delisting of our ADSs from the NYSE or deregistration from the SEC, or both, which would substantially reduce or effectively terminate the trading of our ADSs in the United States.

Our auditor, like other independent registered public accounting firms operating in China, is not permitted to be subject to inspection by Public Company Accounting Oversight Board, and consequently, investors may be deprived of the benefits of such inspection.

The independent registered public accounting firm that issues the audit reports included in this annual report, as an auditor of companies that are traded publicly in the United States and a firm registered with the Public Company Accounting Oversight Board (United States), or PCAOB, is required by the laws of the United States to undergo regular inspections by the PCAOB to assess its compliance with the laws of the United States and with applicable professional standards. Because our auditor is located in China, a jurisdiction where the PCAOB is currently unable to conduct inspections without the approval of the PRC authorities, our auditor, like other independent registered public accounting firms operating in China, is currently not inspected by the PCAOB.

Inspections of other firms that the PCAOB has conducted outside of China have identified deficiencies in those firms' audit procedures and quality control procedures, and such deficiencies may be addressed as part of the inspection process to improve future audit quality. The inability of the PCAOB to conduct inspections of independent registered public accounting firms operating in China makes it more difficult to evaluate the effectiveness of our auditor's audit procedures or quality control procedures, and to the extent that such inspections might have facilitated improvements in our auditor's audit procedures and quality control procedures, investors may be deprived of such benefits.

Risks Related to Our ADSs

The market price for our ADSs has fluctuated and may be volatile.

The market price for our ADSs has fluctuated since we first listed our ADSs. Since our ADSs became listed on the NYSE on December 8, 2010, the trading price of our ADSs have ranged from US\$13.76 to US\$69.95 per ADS, and the last reported trading price on April 15, 2014 was US\$24.57 per ADS.

The market price for our ADSs may be highly volatile and subject to wide fluctuations in response to factors within and outside our control including, but not limited to, the following:

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- regulatory developments affecting us, our advertisers or our industry;
- announcements of studies and reports relating to the quality and popularity of our services or those of our competitors;
- changes in the economic performance or market valuations of other companies that provide online video or online advertising;
- actual or anticipated fluctuations in our quarterly results of operations and changes of our expected results;
- changes in financial estimates by securities research analysts;
- conditions in the online video or online advertising industry;
- announcements by us or our competitors of new services, acquisitions, strategic relationships, joint ventures or capital commitments;
- additions to or departures of our senior management;
- fluctuations of exchange rates between the Renminbi and the U.S. dollar; and
- sales or perceived potential sales of additional ordinary shares or ADSs.

In addition, the securities market has from time to time experienced significant price and volume fluctuations that are not related to the operating performance of any particular companies. These market fluctuations may also have a material adverse effect on the market price of our ADSs. The securities of some China-based companies that have listed their securities in the United States have experienced significant volatility since their initial public offerings in recent years, including, in some cases, substantial declines in the trading prices of their securities. The trading performances of these companies' securities after their offerings may affect the attitudes of investors towards Chinese companies listed in the United States in general, which consequently may impact the trading performance of our ADSs, regardless of our actual operating performance. In addition, any negative news or perceptions about inadequate corporate governance practices or fraudulent accounting, corporate structure or other matters of other Chinese companies may also negatively affect the attitudes of investors towards Chinese companies in general, including us, regardless of whether we have engaged in any inappropriate activities. In particular, the global financial crisis and the ensuing economic recessions in many countries have contributed and may continue to contribute to extreme volatility in the global stock markets. These broad market and industry fluctuations may adversely affect the market price of our ADSs. Volatility in our ADS price may also adversely affect our ability to retain key employees, most of whom have been granted options or other equity incentives.

Our dual-class voting structure will limit your ability to influence corporate matters and could discourage others from pursuing any change of control transactions that holders of our Class A ordinary shares and ADSs may view as beneficial.

We have a dual-class voting structure such that our ordinary shares consist of Class A ordinary shares and Class B ordinary shares. Subject to certain exceptions, in respect of matters requiring the votes of shareholders, holders of Class A ordinary shares are entitled to one vote per share, while holders of Class B ordinary shares are entitled to four votes per share. We issued Class A ordinary shares represented by ADSs in our initial public offering in December 2010 and the follow-on public offering in May 2011. Since our initial public offering in December 2010, (i) all ordinary shares previously held by ILook Holdings Ltd., which is wholly owned by our founder, chairman and chief executive officer, Victor Koo, and its affiliates have been automatically re-designated as Class B ordinary shares on a 1-for-1 basis, (ii) all preferred shares previously held by Chengwei Partners, L.P., Chengwei Evergreen Capital, L.P. (formerly known as Chengwei Ventures Evergreen Fund, L.P.) and Chengwei Ventures Evergreen Advisors Fund, LLC, collectively referred to as Chengwei Funds, and their affiliates have been automatically converted into Class B ordinary shares each on a 1-for-1 basis, and (iii) all preferred shares previously held by our shareholders other than Chengwei Funds or their affiliates have been automatically converted into Class A ordinary shares on a 1-for-1 basis. Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof, while Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. Upon any transfer of Class B ordinary shares by a holder thereof to any person or entity which is not an affiliate of such holder, such Class B ordinary shares shall be automatically and immediately converted into the equal number of Class A ordinary shares. Due to the disparate voting powers attached to these two classes, Victor Koo and Chengwei Funds beneficially own approximately 53% of the aggregate voting power of our company as of the date of this report and have considerable influence over matters requiring shareholder approval, subject to certain exceptions. This concentrated control will limit your ability to influence corporate matters and could discourage others from pursuing any potential merger, takeover or other change of control transactions that holders of Class A ordinary shares and ADSs may view as beneficial.

Because we do not expect to pay dividends in the foreseeable future, you must rely on price appreciation of our ADSs for return on your investment.

We intend to retain most, if not all, of our available funds and any future earnings to fund the development and growth of our business. As a result, we do not expect to pay any cash dividends in the foreseeable future. Therefore, you should not rely on an investment in our ADSs as a source for any future dividend income.

Our board of directors has complete discretion as to whether to distribute dividends. Even if our board of directors decides to declare and pay dividends, the timing, amount and form of future dividends, if any, will depend on, among other things, our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions, if any, received by us from our subsidiaries, our financial condition, contractual restrictions and other factors deemed relevant by our board of directors. Accordingly, the return on your investment in our ADSs will likely depend entirely upon any future price appreciation of our ADSs. There is no guarantee that our ADSs will appreciate in value or even maintain the price at which you purchased the ADSs. You may not realize a return on your investment in our ADSs and you may even lose your entire investment in our ADSs.

Substantial future sales or perceived potential sales of our ADSs in the public market could cause the price of our ADSs to decline.

Additional sales of our ADSs or Class A ordinary shares in the public market, or the perception that these sales could occur, could cause the market price of our ADSs to decline. As of December 31, 2013, we had 3,016,091,294 ordinary shares outstanding including 2,356,529,401 Class A ordinary shares represented by ADSs. All ADSs are freely transferable without restriction or additional registration under the U.S. Securities Act of 1933, as amended, or the Securities Act.

Certain holders of our ordinary shares have the right to cause us to register under the Securities Act the sale of their shares. Registration of these shares under the Securities Act would result in ADSs representing these shares becoming freely tradable without restriction under the Securities Act immediately upon the effectiveness of the registration. Sales of these registered shares in the form of ADSs, in the public market could cause the price of our ADSs to decline.

We have incurred increased costs as a result of being a public company, and we cannot predict or estimate the amount of additional future costs we may incur or the timing of such costs.

As a public company, we have incurred significant legal, accounting and other expenses that we did not incur as a private company. In addition, the Sarbanes-Oxley Act and rules subsequently implemented by the SEC have required changes in corporate governance practices of public companies. These rules and regulations have increased our legal, accounting and financial compliance costs and made some of our corporate activities more time-consuming and costly. Also, we have incurred additional costs associated with satisfying our public company reporting requirements. We are evaluating and monitoring developments with respect to these rules and regulations, and we cannot predict or estimate the amount of additional future costs we may incur or the timing of such costs.

You may not have the same voting rights as the holders of our ordinary shares and may not receive voting materials in time to be able to exercise your right to vote.

Except as described in this annual report and in the deposit agreement, holders of our ADSs are not able to exercise voting rights attaching to the Class A ordinary shares represented by our ADSs on an individual basis. Pursuant to the deposit agreement, holders of our ADSs will appoint the depositary or its nominee as their representative to exercise the voting rights attaching to the Class A ordinary shares represented by the ADSs. You may not receive voting materials in time to instruct the depositary to vote, and it is possible that you, or persons who hold their ADSs through brokers, dealers or other third parties, will not have the opportunity to exercise a right to vote.

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The depositary for our ADSs will give us a discretionary proxy to vote our ordinary shares underlying your ADSs if you do not vote at shareholders' meetings, except in limited circumstances, which could adversely affect your interests.

Under the deposit agreement for the ADSs, if you do not vote, the depositary will give us a discretionary proxy to vote the Class A ordinary shares underlying your ADSs at shareholders' meetings unless:

- we have failed to timely provide the depositary with notice of meeting and related voting materials;
- we have instructed the depositary that we do not wish a discretionary proxy to be given;
- we have informed the depositary that there is substantial opposition as to a matter to be voted on at the meeting;
- we have informed the depositary that a matter to be voted on at the meeting would have a material adverse impact on shareholders; or
- the voting at the meeting is to be made on a show of hands.

Your right to participate in any future rights offerings may be limited, which may cause dilution to your holdings, and you may not receive cash dividends if it is impractical to make them available to you.

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. However, we cannot make rights available to you in the United States unless we register both the rights and the securities to which the rights relate under the Securities Act or an exemption from the registration requirements is available. Under the deposit agreement, the depositary will not make rights available to you unless both the rights and the underlying securities to be distributed to ADS holders are either registered under the Securities Act or exempt from registration under the Securities Act. We are under no obligation to file a registration statement with respect to any such rights or securities or to endeavor to cause such a registration statement to be declared effective and we may not be able to establish a necessary exemption from registration under the Securities Act. Accordingly, you may be unable to participate in our rights offerings and may experience dilution in your holdings.

The depositary of our ADSs has agreed to pay to you the cash dividends or other distributions it or the custodian receives on our ordinary shares or other deposited securities after deducting its fees and expenses. You will receive these distributions in proportion to the number of ordinary shares your ADSs represent. However, the depositary may, at its discretion, decide that it is inequitable or impractical to make a distribution available to any holders of ADSs. For example, the depositary may determine that it is not practicable to distribute certain property through the mail, or that the value of certain distributions may be less than the cost of mailing them. In these cases, the depositary may decide not to distribute such property to you.

You may be subject to limitations on transfer of your ADSs.

Your ADSs are transferable on the books of the depositary. However, the depositary may close its transfer books at any time or from time to time when it deems expedient in connection with the performance of its duties. In addition, the depositary may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depositary are closed, or at any time if we or the depositary deems it advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

You may face difficulties in protecting your interests, and your ability to protect your rights through the U.S. federal courts may be limited because we are incorporated under Cayman Islands law, we conduct substantially all of our operations in China and substantially all of our directors and officers reside outside the United States.

We are incorporated in the Cayman Islands and conduct substantially all of our operations in China through our PRC subsidiaries and consolidated affiliated entities. Substantially all of our directors and officers reside outside the United States and a substantial portion of their assets are located outside of the United States. As a result, it may be difficult or impossible for you to bring an action in the United States against us or against these individuals in the event that you believe that your rights have been infringed under the securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of China may render you unable to enforce a judgment against our assets or the assets of our directors and officers. There is no statutory recognition in the Cayman Islands of judgments obtained in the United States, although a judgment obtained in the United States will be recognized and enforced in the courts of the Cayman Islands at common law, without any re-examination of the merits of the underlying dispute, by an action commenced on the foreign judgment debt in the Grand Court of the Cayman Islands, provided such judgment (a) is given by a foreign court of competent jurisdiction; (b) imposes on the judgment debtor a liability to pay a liquidated sum for which the judgment has been given; (c) is final; (d) is not in respect of taxes, a fine or a penalty; and (e) was not obtained in a manner and is not of a kind the enforcement of which is contrary to natural justice or the public policy of the Cayman Islands.

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Our corporate affairs are governed by our memorandum and articles of association, as amended and restated from time to time, and by the Companies Law (2013 Revision) and common law of the Cayman Islands. The rights of shareholders to take legal action against us and our directors, actions by minority shareholders and the fiduciary responsibilities of our directors are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which provides persuasive, but not binding, authority. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedents in the United States. In particular, the Cayman Islands has a less developed body of securities laws than the United States and provides significantly less protection to investors. In addition, shareholders in Cayman Islands companies may not have standing to initiate a shareholder derivative action in U.S. federal courts.

As a result, our public shareholders may have more difficulty in protecting their interests through actions against us, our management, our directors or our major shareholders than would shareholders of a corporation incorporated in a jurisdiction in the United States.

Our memorandum and articles of association contain anti-takeover provisions that could adversely affect the rights of holders of our ordinary shares and ADSs.

Our memorandum and articles of association contain certain provisions that could limit the ability of others to acquire control of our company, including a provision that grants authority to our board of directors to establish from time to time one or more series of preferred shares without action by our shareholders and to determine, with respect to any series of preferred shares, the terms and rights of that series. The provisions could have the effect of depriving our shareholders of the opportunity to sell their shares, including shares represented by ADSs, at a premium over the prevailing market price by discouraging third parties from seeking to obtain control of our company in a tender offer or similar transactions.

Our corporate actions are substantially controlled by our directors, executive officers and other principal shareholders, who can exert significant influence over important corporate matters, which may reduce the price of our ADSs and deprive you of an opportunity to receive a premium for your shares.

As of March 31, 2014, our directors, executive officers and principal shareholders beneficially own approximately 37% of our outstanding ordinary shares, representing 62% of our total voting power. These shareholders, if acting together, could exert substantial influence over matters such as electing directors and approving material mergers, acquisitions or other business combination transactions. This concentration of ownership may also discourage, delay or prevent a change in control of our company, which could have the dual effect of depriving our shareholders of an opportunity to receive a premium for their shares as part of a sale of our company and reducing the price of our ADSs. These actions may be taken even if they are opposed by our other shareholders, including those who purchase ADSs. In addition, these persons could divert business opportunities away from us to themselves or others.

We may be classified as a passive foreign investment company for United States federal income tax purposes, which could result in adverse United States federal income tax consequences to United States investors in the ADSs or ordinary shares.

Depending upon the value of our ordinary shares and ADSs and the nature of our assets and income over time, we could be classified as a “passive foreign investment company,” or PFIC, for U.S. federal income tax purposes. A non-United States corporation will be treated as a PFIC for any taxable year if either (i) 75% or more of its gross income for such year consists of certain types of “passive” income, or (ii) 50% or more of the value of its assets (determined on the basis of a quarterly average) during such year is attributable to assets that produce passive income or are held for the production of passive income. Although the application of these rules is unclear and therefore determinations are not free from doubt, based on the market price of our ADSs and ordinary shares and the composition of our income and assets for the taxable year ended December 31, 2013, we do not believe that we were a PFIC for that year. However, the United States Internal Revenue Service, or the IRS, does not issue rulings with respect to PFIC status, and there can be no assurance that the IRS, or a court, will agree with our determination.

Although the law in this regard is unclear, we treat our consolidated affiliated entities as being owned by us for United States federal income tax purposes, not only because we exercise effective control over the operation of such entities but also because we are entitled to substantially all of their economic benefits, and, as a result, we consolidate their results of operations in our consolidated financial statements. If it were determined, however, that we are not the owner of our consolidated affiliated entities for United States federal income tax purposes, we would likely be treated as a PFIC. While we do not expect to be a PFIC for the current taxable year, fluctuations in the market price of our ADSs or ordinary shares or changes in the composition of our income and assets may cause us to be a PFIC for 2014 or subsequent taxable years. Because there are uncertainties in the application of the relevant rules and PFIC status is a factual determination made annually after the close of each taxable year on the basis of the composition of our income and the value of our active versus passive assets, there can be no assurance that we will not be a PFIC for the taxable year 2014 or any future taxable year.

If we were to be or become treated as a PFIC, a U.S. Holder (as defined in “Item 10. Additional Information—Taxation—Certain United States Federal Income Tax Considerations—General”) may incur significantly increased United States income tax on gain recognized on the sale or other disposition of the ADSs or ordinary shares and on the receipt of distributions on the ADSs or ordinary shares to the extent such distribution is treated as an “excess distribution” under the United States federal income tax rules. Such U.S. Holder also generally would not be able to benefit from any preferential tax rate with respect to any dividend distribution that such U.S. Holder receives from us in that year, the next year, and potentially following years. Further, if we are treated as a PFIC for any year during which a U.S. Holder holds our ADSs or ordinary shares, our ADSs or ordinary shares generally will continue to be treated as shares in a PFIC as to such U.S. Holder for all succeeding years during which such U.S. Holder holds our ADSs or ordinary shares, unless we cease to be a PFIC and the U.S. Holder makes a “deemed sale” election with respect to the ADSs or ordinary shares. You are urged to consult your tax advisor concerning the United States federal income tax consequences of acquiring, holding, and disposing of ADSs or ordinary shares if we are or become treated as a PFIC. For more information see “Item 10. Additional Information—E. Taxation—Certain United States Federal Income Tax Considerations—Passive Foreign Investment Company Considerations” and “—Passive Foreign Investment Company Rules.”

ITEM 4. INFORMATION ON THE COMPANY

A History and Development of the Company

Our Company

On September 20, 2005, our founder, Victor Wing Cheung Koo, incorporated 1Verge Inc. in the Cayman Islands. On November 14, 2005, we established our wholly owned subsidiary, 1Verge Internet Technology (Beijing) Co., Ltd., or 1Verge Internet, in Beijing, China. On June 20, 2008, we changed the company’s name from 1Verge Inc. to Youku.com Inc. Since our inception, we have conducted the majority of our operations in China.

On December 8, 2010, our ADSs began trading on the New York Stock Exchange under the ticker symbol “YOKU.” We issued and sold a total of 18,224,855 ADSs, representing 328,047,390 Class A ordinary shares, at an initial offering price of \$12.80 per ADS. On May 25, 2011, we completed a follow-on offering of 12,310,000 ADSs by our Company and certain of our pre-IPO investors, representing 221,580,000 Class A ordinary shares, at a price of US\$48.18 per ADS.

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In October 2011, we changed our company's name from Youku.com Inc. to Youku Inc.

On March 11, 2012, we, Tudou, and Two Merger Sub Inc., or Merger Sub, a direct wholly owned subsidiary of ours, entered into an Agreement and Plan of Merger, or the Merger Agreement, for Tudou to combine with us in a 100% stock-for-stock transaction. Tudou was a leading Internet video company in China providing premium licensed content, user generated content and original in-house produced content. On August 23, 2012, we announced the completion of the merger between Tudou and Merger Sub pursuant to the Merger Agreement and the plan of merger. Each of Tudou's Class A ordinary shares and Class B ordinary shares (not including Tudou Class B ordinary shares represented by Tudou ADSs) issued and outstanding immediately prior to the effective time of the merger has been cancelled in exchange for the right to receive 7.177 Class A ordinary shares of Youku, and each of Tudou's ADSs representing four Tudou Class B ordinary shares has been surrendered in exchange for the right to receive 1.595 of our ADSs, each of which represents 18 of our Class A ordinary shares. Trading of Tudou ADSs on the NASDAQ has been suspended beginning on August 24, 2012. On September 25, 2012, Tudou filed a Form 15 with the SEC and its reporting obligations under the Securities Exchange Act of 1934, as amended, has been terminated.

As a result of the merger, Tudou has become our wholly owned subsidiary and our corporate name has been changed from "Youku Inc." to "Youku Tudou Inc."

As of the date of this report, we mainly operated our business through the following principal subsidiaries:

- Jet Brilliant Limited, or Jet Brilliant, a company incorporated in Hong Kong;
- 1Verge Internet Technology (Beijing) Co., Ltd., or 1Verge Internet, a company incorporated in the PRC;
- Beijing Jet Brilliant Advertising Co., Ltd., or Jet Brilliant Beijing, a company incorporated in the PRC;
- Youku Video (Xi'an) Media Technology Co., Ltd., or Youku Xi'an, a company incorporated in the PRC;
- StarCloud Media Co. Limited, or StarCloud, a company incorporated in the British Virgin Islands;
- Trade Lead Investments Ltd., or Trade Lead, a company incorporated in the British Virgin Islands;
- Tudou Holdings Limited, or Tudou, a company incorporated in the Cayman Islands;
- Reshuffle Technology (Shanghai) Co., Ltd., or Reshuffle Technology, a company incorporated in the PRC; and
- Chuanxian Technology (Shanghai) Co., Ltd., or Chuanxian, a company incorporated in the PRC.

PRC laws and regulations currently limit foreign ownership of companies that provide value-added telecommunications services or that conduct online advertising business. To comply with these restrictions, we conduct our value-added telecommunications services and online video operations in China primarily through the following principal consolidated affiliated entities:

- 1Verge Information Technology (Beijing) Co., Ltd., or 1Verge Information, which holds ICP license, internet audio/video program transmission license and value-added telecommunications business license that permit us to conduct online video services, online advertising businesses and value-added telecommunication services in China on Youku platform;
- Quan Toodou Network Science and Technology Co., Ltd., or Quan Toodou, which holds value-added telecommunications business license that permits us to conduct value-added telecommunication services in China on Tudou platform;
- Quan Toodou Cultural Communication Co., Ltd., or Toodou Cultural, a wholly owned subsidiary of Quan Toodou, which holds ICP license and internet audio/video program transmission license that permit us to conduct online video services and online advertising businesses in China on Tudou platform; and
- Zhejiang DongyangTianshi Media Ltd., or Tianshi, which holds radio, film and television production business licenses and primarily engages in the business of advertising, television production and cultural information consultation.

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See Item 4.C, “Organizational Structure” for tables setting forth our principal subsidiaries and consolidated affiliated entities as of the date of this annual report.

Our principal executive offices are located at 11/F, SinoSteel Plaza, 8 Haidian Street, Beijing, 100080, the People’s Republic of China. Our telephone number at this address is +86 (10) 5885-1881. Our registered office in the Cayman Islands is located at PO Box 309, Uglan House, Grand Cayman, KY1-1104 Cayman Islands. Our telephone number at this address is +1 (345) 949-8066. Our agent for service of process in the United States is Law Debenture Corporate Services Inc. located at 400 Madison Avenue, 4th Floor, New York, New York 10017.

B Business Overview

Overview

We are China’s leading Internet television company. Our Youku and Tudou platforms enable users to search, view and share high-quality video content quickly and easily across multiple devices. We believe our continuous focus on offering a superior user experience has enabled us to become the largest Internet television company in China and elevated the awareness of our Youku优酷 brand, which stands for “what’s best and what’s cool” in Chinese, and Tudou土豆 brand. According to iResearch, our monthly unique visitors from home and office PC users numbered approximately 245 million and 174 million for Youku platform and Tudou platform, respectively, in December 2013. The daily mobile views of both Youku and Tudou platforms combined reached 345 million in 2013.

Our mission is to become the primary source of video content for the Chinese population across any Internet-enabled device. Through our Youku and Tudou platforms, we have built an extensive and comprehensive online video content library. The majority of the videos accessible on our two platforms are professionally produced content, such as television serial dramas, movies, variety shows, current events reports and music videos. The remaining content is comprised of user-generated content and in-house productions. We license professionally produced video content typically at fixed rates for a specified term. The terms of our licenses vary depending on the type of content and producer, though the terms for television serial dramas and movies typically range from six months to ten years. We generally renew our licenses when they expire. As of December 31, 2013, our video content library contained more than 5,900 movie titles, 2,200 television serial drama titles and over 800 variety shows.

Leveraging our proprietary CDN comprised of over 20,000 servers as of December 31, 2013, we provide fast streaming and upload speed. As a result, our Internet television platforms attract a nationwide audience, the majority of which resides in China’s more affluent urban areas.

We currently derive substantially all of our revenues from online advertising services. Our advertising solutions present brand advertisers with attractive opportunities to combine the visual impact and engagement of traditional television-like multimedia advertisements with the interactivity and precise targeting capabilities of the Internet. We strive to promote a healthy advertising environment on our websites to attract mainstream brand advertisers. We believe our differentiated sales proposition has contributed to the rapid increase in the number of international and domestic brand advertisers, which increased from 505 in 2011 to 741 in 2012 and to 931 in 2013.

The desirable demographic characteristics of our large user base as well as our differentiated advertising solutions and environment are key factors driving the fast growth in our online advertising revenues. Mobile and web-based subscription services, which we formally launched in December 2010, also increasingly contribute to our net revenues over time. As is customary in the advertising industry in China, we offer commissions to third-party advertising agencies that purchase our advertising services and recognize revenues net of these commissions. Our net revenues increased from RMB897.6 million in 2011 to RMB1.8 billion in 2012 and to RMB3.0 billion (US\$500.3 million) in 2013.

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Due to PRC legal restrictions on foreign ownership and investment in value-added telecommunications services and advertising businesses in China, we operate our business primarily through our consolidated affiliated entities in China. We do not hold equity interests in our consolidated affiliated entities. However, through a series of contractual arrangements with these consolidated affiliated entities and their respective shareholders, we effectively control, and are able to derive substantially all of the economic benefits from, these consolidated affiliated entities.

Our Users

Our extensive and comprehensive video content library and user-friendly online interface have enabled us to attract more monthly unique visitors than any other online video company in China. According to iResearch, our monthly unique visitors from home and office PC users numbered approximately 245 million and 174 million for Youku platform and Tudou platform, respectively, in December 2013. A majority of these visitors reside in China's more affluent urban areas. We do not purchase user traffic from third parties. A majority of user visits to our websites originate from direct navigation, with the remainder from organic search results or third-party website links connecting to us.

Products and Services for Users

Our Internet television platform is designed to enable our users to search, view and share online video content quickly and easily. We offer the following products and services through our Youku platform and Tudou platform to users.

Online Video Content

Through our Youku and Tudou platforms, we have built an extensive and comprehensive online video content library, consisting primarily of professionally produced content including television programs and movies, and, to a lesser extent, user-generated content and in-house productions. We are currently focused on further expanding our collection of professionally produced content, particularly popular and in-season television serial dramas, movies and variety shows.

Professionally produced content. A majority of our user traffic on both Youku and Tudou platforms is attributable to professionally produced content, primarily across the following five categories: television serial dramas, movies, current event reports, variety shows and music videos. As of December 31, 2013, we licensed more than 5,900 movie titles, 2,200 television serial drama titles and over 800 variety shows. The providers of professionally produced content in China are highly fragmented and primarily include media production companies, professional studios, copyright distributors, television stations and music companies. We have established long-term relationships with about 1,800 professional media content providers, either directly or through third-party copyright distributors. We seek to offer users a diverse collection of television serial dramas and other programs and movies. For example, we offered approximately 1,447, 347 and 220 episodes of television serial dramas produced in (i) mainland China, (ii) Hong Kong and Taiwan, and (iii) Korea, respectively, as of December 31, 2013. We set our content syndication milestones each year to expand our content library primarily based on our content budget and the development of bandwidth infrastructure in China, for example:

- In 2010, we started to license professionally produced content relating to sports, animations and international movies and television programs. For example, we licensed from China Network Television all of the soccer games of the 2010 FIFA World Cup and provide them on our website youku.com on demand;
- In 2011, we continued to license professionally produced premium content in each category; and
- In 2012, we further developed our international content, including TV serial dramas, variety shows and movies, and we substantially expanded our content library after our business combination with Tudou.
- In 2013, we entered into exclusive content agreements with commercial television stations like Hong Kong's TVB to bring more classic and original content to our library.

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We license professionally produced video content typically at fixed rates for a specified term. Under our license agreements with our content providers, we usually pay for the license in advance or in installments for one of three types of licenses: (i) non-exclusive webcasting rights, (ii) non-exclusive webcasting rights with a guarantee that certain competitors will not receive the same license or (iii) exclusive webcasting rights. Content licensed on a non-exclusive basis may not be sub-licensed to third parties. For exclusive content, we sub-license the licensed content within its authorized scope to other video websites and receive sub-licensing fees from such websites. The terms of our licenses for professionally produced content vary depending on the type of content and products, but the terms for movies and television serial dramas typically range from six months to ten years. We generally renew our licenses when they expire. Payments of licensing fees are generally made in installments before the commencement of license terms. In certain cases, we have the right of first refusal to purchase new content produced by the licensor.

Guided user-generated content. Our Youku and Tudou platforms allow Internet users to easily upload, watch and share user-generated video clips. As the slogan of our Tudou platform goes, “everyone is a director of life.” Video production processes have become easier and less expensive through using simple and affordable hardware such as digital camcorders and mobile devices with video cameras, and such content can come from a wide range of participants, from amateurs to professionals. We offer creative talents, particularly the younger Chinese generation, outlets for artistic expression outside traditional mainstream content formats such as television. We believe our guided user-generated content effectively promotes our brands and improves the quality of our content library.

Our Youku platform has supported the grassroots culture of user-generated content by launching two prominent and easy-to-use programs: Youku Paike (优酷拍客) and Youku Niuren (优酷牛人). Youku Paike was founded on the basis of “looking around and sharing what you see with the world.” Participants in Youku Paike use easily-accessible video recording devices, such as video cameras and mobile phones, to record exciting or current events and share them on our website youku.com. Youku Niuren, on the other hand, serves as a platform for our users to share videos recording ordinary people with unusual talents. We guide users to generate specific types of content by, among other things, sponsoring competitions based on certain themes, such as current events or timely topics. We grant daily awards to winners of the competitions. Some of these videos attract large audiences and are subsequently broadcast by major television stations. Since 2009, we have also hosted Youku Niuren galas in Beijing and Shanghai and granted awards to the most talented competitors.

One of the key content focuses of our Tudou platform has been user-generated content, and our annual Tudou Video Festival is one of the most significant initiatives promoted on our Tudou platform. In cooperation with China Film Group Corporation, one of the largest comprehensive film producers in China, the Tudou Video Festival was launched in 2008, and it soon became highly regarded by film industry participants including filmmakers, directors, actresses and actors. Most of the attendants were animators and amateur videographers from all around China, mostly in their mid-to-late-20s, who showcased their work. In cooperation with China Film Group Corporation, or CFGC, the largest movie studio in China, we hosted annual Tudou Video Festivals in both 2012 and 2013. Approximately 1,700 participants were invited to attend the final award ceremony in Chengde in the 2013 Tudou Video Festival. We believe that the annual Tudou Video Festival has now become a signature event in the online video industry in China.

To emphasize the social media aspects of online video and highlight the video blogging experience of our platform, we encourage people to participate in sharing user-generated videos by offering easy-to-use video upload tools, featuring high uploading speed and capacity. Both of our platforms allow users to upload videos larger than one gigabit on our websites with just a few clicks. As smartphones and other mobile Internet-enabled devices become more popular and the use of mobile Internet becomes more prevalent, we release mobile apps such as Youku Paike that support both iOS and Android systems. These mobile apps are designed to complement the feature set of our existing mobile clients with dedicated video shooting and uploading functions, and are integrated with the popular micro-blogging platforms in China.

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In-house productions. As one of the few Internet television companies in China with a permit for radio and television program production and operation, we produce a wide spectrum of content, including sponsored web serial dramas, reality shows, interviews and variety shows. We focus on producing web serial dramas and variety shows for our young, educated and urban user base. Many of these programs are partially funded by proceeds from embedded product placements. We strive to make such product placements more effective by cooperating with reputable producers, directors and media organizations and creating storylines consistent with the brands' or products' marketing initiatives. Below is a summary of the key initiatives and achievements that have been made on our two platforms:

- *In-house Productions on Youku Platform.* On the Youku platform, we promote our in-house productions under the prominent brand Youku Originals (优酷出品). As of December 2013, Youku Originals had released more than 95 productions, many of which won popularity and earned high rankings in our monthly "Top 20 Most-Viewed" list. 24 of these productions were on Youku's monthly "Top 10 Most-Viewed" rankings during the period in which they were released. For example, in 2013, we launched "On the Road" (侣行), an outdoor variety show, which attracted massive attention across the internet in China and was extensively reported by newspapers and prominent TV stations such as CCTV. Another newly produced web drama series, "Surprise!"(万万没想到), has attracted over 500 million online views. Due to the series' popularity, Hunan Satellite TV co-produced several episodes with us to be aired during spring festival of 2014.
- *In-house Productions on Tudou Platform.* Tudou platform began developing original programming in 2009 and will continue to produce, distribute and monetize online video content developed in-house. In 2013, "Tudou Groovin," an inhouse produced program that presents updates on global pop music, gained popularity. In addition, "Tudou Young Choice Awards" hosted by Tudou and Shenzhen Satellite Television was held in November at the Beijing Olympic Sports Center and was attended by artists and stars from mainland China, Hong Kong, Taiwan and Korea. This award ceremony selects nominees in music, film and television categories based on online search trends of young internet users, consistent with the brand positioning of our Tudou platform.

Online Video Search and Discovery

Utilizing our search technology and data processing infrastructure, users can find relevant video content and associated information on our websites quickly and easily. After entering a video search query in the fast-loading search box, users receive a list of search results comprised of thumbnail snapshots along with relevant information, such as a video's title, release date, number of user comments, resolution and video play statistics. Depending on user preferences, search results can be ordered based on criteria such as "most recent," "most played," "most commented" and "most bookmarked by members," and sorted by content category. We officially launched our video search engine Soku.com in May 2011, which grew its daily unique users to over 4 million in December 2013, according to iResearch. In addition to providing general access to our large video content library, our video search technology also enables other features such as advanced search. Advanced search allows users to tailor search queries and narrow results by specifying keyword phrases to be included or excluded, video categories in which to search, the location of keywords, or video play statistics.

We also provide products and services, such as video channels and popularity ranking indices, on both of our platforms, to facilitate navigation and content discovery on our websites. Our back-office content editors routinely organize our video content into channels, including Movies, Television Serial Dramas, Variety Shows, Automobiles, Music, Fashion and Style, Travel, Sports and Technology. Each of these channels is easily accessible from our homepage. On the respective homepages of Youku.com and Tudou.com, we also promote popularity ranking indices, which rank videos based on their popularity or other specified statistics.

Youku Tudou Community

We provide online community services to facilitate user communication and interaction. Our online community features help enhance user loyalty and promote beneficial network effects. Specifically, we enable the following functionalities:

- *Video Space.* Users can create a personalized video-sharing space, and other users may choose to follow that personalized video-sharing space, effectively creating a personalized channel based on the Video Space curator's preferences, and track their videos viewing history. Users of our Video Space functionality can manage video uploads, their online friends list, visitor comments and online chats within their Video Space.
- *Real Time Commenting.* Users can comment on or rate videos by either clicking on "vote for" or "vote against" buttons or by posting comments below the video for other users to see. Comments made about a video, such as how many people voted for or against it, help other users make an informed decision on whether to watch the video.
- *Tudou "Doupao."* Tudou viewers can make real-time feeds of video comments through pop-up bubbles on top of videos display rather than leaving comments at the bottom of the video page or being diverted to microblogging services for discussion. "Doupao" integrates the conversation into the video viewing experience in a natural and transparent fashion.
- *Strategic Cooperation with Social Network Platforms.* In order to expand our user base, we cooperate with well-known Chinese online community websites. Users of these websites may recommend to each other the video clips on our websites, which we believe helps enhance our user traffic. In April 2011, Tudou entered into a two-year exclusive cooperation with Renren.com, a major real name social network platform in China, to provide an audio-visual program uploading feature to all Renren.com users. Tudou's backend platform will enable Renren.com users to upload videos onto Renren.com, and save and further edit these audio-visual programs on our backend platform and servers as an integrated feature. In February 2012, Tudou announced an enhanced video sharing platform for users of SinaWeibo of SINA Corporation, a NASDAQ listed company, to upload and share videos to and from the Tudou platform. The enhanced video sharing platform provides a highly integrated user experience for both SinaWeibo and our users.

Our Other Products and Services

We continuously develop and introduce new products and services to make our platforms more attractive to current and prospective users. Notable platform extensions include:

- *Youku Premium.* In early 2010, we trial-launched subscription-based online video services on our Youku platform featuring advertisement-free premium content, such as high-definition movies. In June 2011, we officially launched our Youku Premium paid content platform after signing a digital distribution agreement with CAV Warner Home Entertainment Co., Ltd. Under the term of this three-year distribution agreement, we will add a total of 400 to 450 Warner Brothers new releases and catalog titles to our Youku Premium content library. In December 2011, we entered into new agreements with Twentieth Century Fox Home Entertainment under which we will license 250 titles of new releases and library films to be released on Youku Premium. Subsequently, we have entered into content licensing arrangements with major copyright owners and distributors such as m1905.com, a leading online movie site wholly owned by China Central Television, Hong Kong Television Broadcasts Limited, NBCUniversal International Television Distribution and Sony Pictures Television to significantly expand the volume of high-quality content available on Youku Premium.
- *Mobile Video Services.* We provide free software clients on our websites, and on the websites of Apple's App Store and Google's Android Market, for our users to download and install on their mobile phones. We have also entered into agreements with China's major mobile Internet providers on a non-exclusive basis to enable users to watch pay-per-view premium content on their mobile devices. We estimate that as of December 31, 2013, Youku software clients or widgets had been pre-installed on approximately 281 million Internet-enabled mobile phones. We released mobile apps such as Youku and Tudou mobile app that support both iOS and Android systems. These mobile apps enable the users to search, browse and view content with dedicated video shooting and uploading functions, and are integrated with the popular microblogging platforms in China. Youku client for iOS operating system had been installed by an estimated 74 million users as of December 31, 2013, making it the most popular online video app in the Chinese iTunes app store. Since September 2012, Apple's OS X desktop operating system and iOS mobile operating system have been integrated with services from Youku and Tudou to enable users to quickly and easily share videos to the web. *P2P Downloadable Software Client "iKu."* Users can download these self-developed, proprietary softwares and install a Youku interface on their computer desktops, download or upload videos from or to our websites faster, and transcode videos into different formats, such as mp4 and 3gp, so that users can transfer the videos to portable devices and watch them anytime. The average number of daily online viewers from home and office who used our iKu software reached 9 million in December 2013, according to iResearch.

Our Advertisers and Customers

We serve a broad base of advertisers consisting of leading international and domestic companies. The number of our brand advertisers increased significantly from 505 in 2011 to 741 in 2012 and to 931 in 2013. They operate in a variety of industries, including fast moving consumer goods, automobile manufacturing, financial services, telecommunications, information technology services, electronics and Internet services. A great majority of our advertisers purchase our online advertising services through third-party advertising agencies. We strive to create and maintain a healthy advertising environment on our website to attract mainstream brand advertisers, in part by selectively screening advertisers. We have in the past turned down advertising business from advertisers perceived to lack positive brand recognition in order to avoid negative branding association for our mainstream brand advertisers.

Products and Services for Advertisers and Customers

We generate revenues primarily from online advertising services and, to a limited extent, subscription- or pay-per-view-based online video services. We focus on providing advertisers with cost-effective and targeted advertising solutions.

Online Advertising Services

Our online advertising services include in-video, display, sponsorship and other forms of advertisements. In-video advertisements appear at certain times during the playback of a video. These video advertisements can be pre-roll, post-roll, mid-roll or pause advertisements. Display advertisements can be delivered alongside a video and may take the form of graphical banners or text hyperlinks. Other forms of advertisements include product placements in our inhouse-produced web video series, sponsored live events or inhouse-produced viral videos.

Advertisers are increasingly seeking measurable results to maximize their return on investment. Our advertising solutions present brand advertisers with attractive opportunities to combine the visual impact and engagement of traditional television-like multimedia formats with the interactivity and precise targeting capabilities of the Internet.

- *Innovative Targeting.* Some targeting solutions are unique to the online video platform and cannot be transplanted to other media platforms. We are able to track and monitor an advertiser's campaign on a real-time basis and can make adjustments to enhance its efficacy within parameters specified by the advertiser. We utilize targeting strategies to more efficiently reach users of a desired demographic. Our targeting strategies enable advertisers to reach targeted users based on any or a combination of standards, including the demographic information about the user, the nature of the video's content, the geographic location of the user, the time of day at which a video is being watched or the keywords associated with the video. In this way, we supplement and enhance the advertiser's campaign. Our video channels also help segregate videos based on users' interested content, which allows us to deliver advertisements tailored to the viewers of different channels;
- *Viral Video Advertisements.* Advertisements that use existing social networks to promote brand awareness through self-replicating viral processes can take various forms, such as videos, online polls or interactive flash games. Due to their creative plots and potentially amusing effects, viral video advertisements sometimes attract more user traffic than non-commercial videos and therefore are desirable advertising solutions; and
- *Product Placements.* As an online video provider with a permit for radio and television program production and operation, we are able to produce web-based content, such as web serial dramas, interviews and variety shows, with embedded product placements. If a program's storyline is consistent with a brand's or product's marketing initiatives, a product placement can have strong branding effects on viewers.

Subscription-based Services on the Youku Platform and Other Services

In early 2010, we trial-launched subscription-based online video services on Youku platform, which enables users to watch advertisement-free premium content, such as high-definition movies. In June 2011, we officially launched our Youku Premium paid content platform after signing a digital distribution agreement with CAV Warner Home Entertainment Co., Ltd. Under the term of this three-year distribution agreement, we will add a total of 400 to 450 Warner Brothers new releases and catalog titles to our Youku Premium content library. In December 2011, we entered into new agreements with Twentieth Century Fox Home Entertainment under which we will license 250 titles of new releases and library films to be released on Youku Premium. Subsequently, we have entered into content licensing arrangements with major copyright owners and distributors such as m1905.com, a leading online movie site wholly owned by China Central Television, Hong Kong Television Broadcasts Limited, NBCUniversal International Television Distribution and Sony Pictures Television to significantly expand the volume of high-quality content available on Youku Premium. By paying to watch live events or high-definition movies, some of our users have become our customers. Though traditional television-like video advertisements are specifically omitted from content that is part of our subscription-based services, advertisers may use other forms of advertising, such as product placements in a web drama produced by us, to reach potential customers. In addition, we are working with e-commerce companies to provide video demonstrations of merchandise for their premium retail members. These members can upload and manage videos from a client interface built into our e-commerce partners' websites without logging into our websites. We share revenues with these partners for the service fees they charge their members. New advertising formats such as these will supplement our existing online advertising solutions.

In addition, we derive a decreasing portion of our net revenues from sub-licensing certain content in which we license from content providers the exclusive rights for both self-use and sub-licensing. After our legal department confirms that the sub-licensing arrangement is authorized under the original licensing agreement, we sub-license the licensed content within its authorized scope to other video websites and receive sub-licensing fees from such websites.

Advertising Sales

We sell our advertising services primarily through third-party advertising agencies, including members of American Association of Advertising Agencies, or 4As, and leading Chinese advertising agencies. As a relatively young media company, we intend to strategically leverage advertising agencies' existing long-term relationships and network resources to increase our sales and expand our customer base. Therefore, in order to establish long-term strategic cooperation with third-party advertising agencies, we typically enter into individual advertising agreements with such third-party advertising agencies for each advertiser. Depending on the type of advertiser and content, the duration of an advertising agreement typically ranges from one to three months. While all executed sales need to be confirmed by the end-advertiser, a great majority of our advertising sales agreements are executed with third-party advertising agencies that represent the end-advertisers. By adopting this dual-track sales model, we are able to maintain good relationships with both the end-advertisers and their advertising agencies that help identify and refer new advertisers to us. No customer accounted for more than 10% of our net revenues in 2013, and our top five customers accounted for approximately 30% of our net revenues in 2013.

Whereas many Internet companies in China have historically priced their advertising solutions using a time-based rate card, we employ a CPM-based model for our in-video advertisements. This approach is similar to that of traditional television in that the advertisements are priced based in part on the user reach and viewing frequency. It allows advertisers to better compare the online and offline advertising solutions at their disposal. It also enables us to better monetize our growing user base and provide measurable results to our advertisers.

Leveraging our large user base and attractive user demographics, we have been able to demonstrate pricing power relative to other online video companies. The list prices of our advertising services depend on various factors, including the form of advertising, specific targeting requirements, duration of the time slot purchased and popularity of the content in which the advertisements will be placed. Prices for the aggregate time slots purchased by each advertiser or advertising agency are fixed under sales contracts, typically at a discount to our list prices. We review and adjust the list prices annually.

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We have built an experienced sales team consisting of salespeople with prior experience at Chinese Internet companies, television stations, members of 4As and domestic advertising agencies. As of December 31, 2013, we had approximately 527 sales representatives and supporting personnel in our Beijing, Shanghai and Guangzhou offices. Our sales force is organized by both region and industry and renders a spectrum of services. Our sales representatives are responsible for direct and channel sales, and our back-office sales support personnel focus on sales planning, creative productions, account administration and execution. Our sales force assists advertisers in structuring advertising campaigns by analyzing the advertisers' target audiences and marketing objectives. We conduct market research, consumer surveys, demographic analysis and other advertising industry research to help our customers design effective advertising strategies. On our own initiative or at our customers' request, we also purchase or commission studies or surveys containing relevant market data from third-party market research firms.

The compensation for our salespeople is based in part on the sales revenues they achieve. We provide regular in-house education and training to our sales team to help them provide current and prospective advertisers with comprehensive information about our services and the advantages of using our advertising solutions. Our performance-linked compensation structure and career-oriented training help motivate our salespeople.

Marketing and Brand Promotion

We have built our brands with only modest marketing expenditures to date. Our user base has grown primarily through word-of-mouth. We focus on continuously improving the quality of our products and services as we believe satisfied users and customers are more likely to recommend our products and services to others. Our market position benefits significantly from our large user base and our strong brand recognition throughout China.

We have initiated various marketing activities to further promote our brand awareness among existing and potential users and customers. For example, we market our services through direct marketing, trade shows and other media events, which include:

- Hosting or attending various public relations events, such as advertisement industry-related seminars and conferences, to promote our brand image and the value of online video advertising. For example, we host annual Youku Niuren gala featuring grassroots talents who showcase their extraordinary talents on the Youku platform; In September 2012, we initiated the 100-day "True Dou" differentiation campaign for Tudou platform with the unveiling of a revamped site design and the introduction of new social features and original programming; and
- Hosting regular workshops and annual sales roadshows for major advertising agencies and existing and potential customers, highlighting the advantages, flexibility and quality of our online video platform and services. For example, we host annual Youku Tudou Resources events in major cities such as Beijing and Shanghai to introduce the product and service offerings on our dual platforms to existing and prospective advertisers and related representatives.

In addition, we benefit from cross-promotional arrangements with third-party websites and television stations, under which we cooperate to help improve each other's brand recognition. We also market our products and services by displaying our name and logo in Youku or Tudou media player screens when users embed our content in third-party websites.

Content Monitoring and Copyright Protection

We are committed to the protection of third-party copyrights. The online video industry in China suffers from copyright infringement issues, and online content providers are frequently involved in litigation based on allegations of infringement or other violations of copyrights. We have invested significantly in copyright protection technologies. For instance, we currently hire approximately 103 full-time and 521 contract employees to work on content files screening, copyright checking, source file acquisition and editing. Content files uploaded by users on our websites are continuously reviewed by the contract employees who work on content screening and monitoring to ensure that no content that may be deemed to be prohibited by government rules and regulations is posted. These contract employees are required to promptly remove any allegedly infringing content once we receive proper notification from the legitimate copyright owner. We provide training to these contract employees and supervise and monitor their work. After a user registers and before each upload, we require the user to click a check box to confirm that the content to be uploaded is in compliance with the terms and conditions set forth in the user agreement, to guarantee that he or she is the copyright owner or has obtained all necessary consents and authorizations for such content and he or she is responsible for such content. Pursuant to the user agreement, each user agrees to indemnify us for all damages arising from third-party claims against us caused by violating or infringing content uploaded or linked by the user. If we find a user has violated the user agreement, applicable laws or regulations or other parties' legal rights, we may terminate the user account and block the user's future uploads without prior notice.

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We implemented monitoring procedures to remove infringing content, and such procedures include: (i) technology screening, where a video fingerprint system we jointly developed with a U.S. software company compares newly uploaded videos with fingerprint trails of copyrighted videos in our system and screens out those that have piracy issues; a text filtering system screens content based on pre-set key words, and another filtering system automatically screens out pornographic and obscene content based on colors and images; (ii) manual review, where the content that passes the technology screening is reviewed by the content screening employees on a 24/7 basis, and the flagged content identified by our technology is reviewed and confirmed that it can be released; and (iii) back-office professional supervision, where certain professional content providers who we granted access to our back-office database can directly flag the infringing content for removal. Other content on our websites are also monitored. For example, user-posted comments are typically screened by the text filtering system and are monitored by our screening team. Substantially all of the videos uploaded on our websites are manually screened by our contract employees. All of the other content, primarily consisting of comments posted by users, are first screened by our filtering systems and the content containing prohibitive words or images is manually screened by our contract employees.

Our engineers have made modifications to the video fingerprint system to make it more compatible with China's online video environment. We own all the intellectual property rights associated with the video fingerprint system. We also use this system and hash algorithms to reduce the number of duplicate videos and maximize the use of our video storage space.

We have implemented several initiatives to further commit to copyright protection. We entered into an agreement with six major U.S. entertainment content providers regarding content protection and officially announced that we have agreed to support and adhere to the principles for user-generated content services (www.ugcprinciples.com). These principles call for cross-industry collaboration among rights holders and internet companies to achieve the mutually beneficial goals of encouraging innovation and empowering content creators, while at the same time respecting intellectual property rights. We are supporting and adhering to these principles by implementing additional copyright protection measures on our websites; in particular, we have upgraded our existing video fingerprint filtering system in March 2011 by introducing the VideoDNA Database developed by Vobile, a well-known international provider of fingerprinting technology, which allows real-time filtering and updating of our content library.

Competition

The online video industry in China is rapidly evolving and highly competitive. Our primary competitors include companies that operate online video websites in China and traditional advertising media. We compete with these entities for both users and advertisers primarily on the basis of user base and demographics, quality and quantity of video content, brand name and user experience. We compete with other online video providers in China, such as iQiyi.com, and large Chinese Internet portals that provide online video product, such as SINA, Tencent and Sohu. We also compete with traditional advertising media, such as television, radio, newspapers and magazines, and major out-of-home media, such as billboards, for advertisers' advertising budgets. Large enterprises currently spend a relatively small percentage of their advertising budgets on online advertising as compared to the percentage they spend on traditional advertising media, but we expect the percentage spent on online advertising to increase in the future. Although, in August 2012, we completed the business combination with Tudou, who used to be our competitor, we expect the competition with the other competitors to continue.

Regulation

This section summarizes the principal current PRC laws and regulations relevant to our business and operations.

Regulations on Value-Added Telecommunications Services

On September 25, 2000, the State Council promulgated the Telecommunications Regulations, or the Telecom Regulations. The Telecom Regulations draw a distinction between “basic telecommunication services” and “value-added telecommunication services.” Internet content provision services, or ICP services, is a subcategory of value-added telecommunications businesses. Under the Telecom Regulations, commercial operators of value-added telecommunications services must first obtain an operating license from the MIIT or its provincial level counterparts.

On September 25, 2000, the State Council issued the Administrative Measures on Internet Information Services, or the Internet Measures. According to the Internet Measures, commercial ICP service operators must obtain an ICP license from the relevant government authorities before engaging in any commercial ICP operations within the PRC. In November 2000, the MIIT promulgated the Administrative Measures on Internet Electronic Messaging Services, or the BBS Measures. BBS services include electronic bulletin boards, electronic forums, message boards and chat rooms.

On December 26, 2001, the MIIT promulgated the Administrative Measures on Telecommunications Business Operating License, or the Telecom License Measures. On March 1, 2009, the MIIT issued revised Telecom License Measures, which took effect on April 10, 2009. The Telecom License Measures set forth the types of licenses required to operate value-added telecommunications services and the qualifications and procedures for obtaining such licenses. For example, an ICP operator providing value-added services in multiple provinces is required to obtain an inter-regional license, whereas an ICP operator providing the same services in one province is required to obtain a local license.

To comply with these PRC laws and regulations, 1Verge Information, as the ICP operator of our website youku.com, holds a value-added telecommunications business operating license and an ICP license; Quan Toodou holds a value-added telecommunications business operating license and Toodou Cultural, as the ICP operator of our website tudou.com, holds an ICP license.

Regulations on Internet Content Services

National security considerations are an important factor in the regulation of Internet content in China. The National People’s Congress, the PRC’s national legislature, has enacted laws with respect to maintaining the security of Internet operation and Internet content. According to these laws, as well as the Internet Measures, violators may be subject to penalties, including criminal sanctions, for Internet content that:

- opposes the fundamental principles stated in the PRC constitution;
- compromises national security, divulges state secrets, subverts state power or damages national unity;
- harms the dignity or interests of the state;
- incites ethnic hatred or racial discrimination or damages inter-ethnic unity;
- undermines the PRC’s religious policy or propagates heretical teachings or feudal superstitions;
- disseminates rumors, disturbs social order or disrupts social stability;
- disseminates obscenity or pornography, encourages gambling, violence, murder or fear or incites the commission of a crime;
- insults or slanders a third party or infringes upon the lawful rights and interests of a third party; or
- is otherwise prohibited by law or administrative regulations.

ICP operators are required to monitor their websites. They may not post or disseminate any content that falls within these prohibited categories and must remove any such content from their websites. The PRC government may shut down the websites of ICP license holders that violate any of the above-mentioned content restrictions, order them to suspend their operations, or revoke their ICP licenses.

To comply with these PRC laws and regulations, we have adopted internal procedures to monitor content displayed on our websites, including hiring a team of contract employees dedicated to screening and monitoring the content uploaded on our websites and removing inappropriate or infringing content. However, due to the large amount of user uploaded content in addition to professionally produced content, we may not be able to identify all the videos or other content that may violate relevant laws and regulations. See “Risk Factors—Risks Related to Our Business and Industry—Videos and other content displayed on our websites may be found objectionable by PRC regulatory authorities and may subject us to penalties and other administrative actions.”

Restrictions on Foreign Ownership in Value-Added Telecommunications Services

According to the Provisions on Administration of Foreign Invested Telecommunications Enterprises, or the FITE Provisions, promulgated by the State Council on December 11, 2001 and amended on September 10, 2008, the ultimate foreign equity ownership in a value-added telecommunications services provider must not exceed 50%. Moreover, for a foreign investor to acquire any equity interest in a value-added telecommunication business in China, it must demonstrate a good track record and experience in operating value-added telecommunications services. Foreign investors that meet these requirements must obtain approvals from the MIIT and the MOFCOM, or its authorized local branches, and the relevant approval application process usually takes six to nine months. We are a Cayman Islands company which does not have required track record or experience in operating value-added telecommunications services, and therefore we have to reorganize our current organization and ownership structure if we intend to acquire any equity interest in 1Verge Information or Quan Toodou; and 1Verge Information’s, Quan Toodou’s and ToodouCultural’s current effective permits and licenses including Internet audio/video program transmission license and Internet culture operation permit will also need to be revisited since they are not open to a foreign-invested telecommunications enterprise. We believe that it would be impracticable for us to acquire any equity interest in 1Verge Information or Quan Toodou without diverting management attention and resources. In addition, we believe that our contractual arrangements with 1Verge Information and Quan Toodou and their respective individual shareholders provide us with sufficient and effective control over 1Verge Information and Quan Toodou. Accordingly, we currently do not plan to acquire any equity interest in 1Verge Information and Quan Toodou.

On July 13, 2006, the MIIT issued the Notice of the MIIT on Intensifying the Administration of Foreign Investment in Value-added Telecommunications Services. This notice prohibits domestic telecommunication services providers from leasing, transferring or selling telecommunications business operating licenses to any foreign investor in any form, or providing any resources, sites or facilities to any foreign investor for their illegal operation of a telecommunications business in China. According to this notice, either the holder of a value-added telecommunication business operating license or its shareholders must legally own the domain names and trademarks used by such license holders in their provision of value-added telecommunication services. The notice further requires each license holder to have the necessary facilities, including servers, for its approved business operations and to maintain such facilities in the regions covered by its license. In addition, all value-added telecommunication service providers are required to maintain network and Internet security in accordance with the standards set forth in relevant PRC regulations. If a license holder fails to comply with the requirements in the notice and cure such non-compliance, the MIIT or its local counterparts have the discretion to take measures against such license holders, including revoking their valued-added telecommunication business operating licenses.

To comply with these PRC regulations, we operate our website youku.com through 1Verge Information, our PRC consolidated affiliated entity. 1Verge Information is currently 20% owned by Qiong Qin and 80% owned by Dele Liu, both of whom are PRC citizens. 1Verge Information holds a value-added telecommunications business operating license and an ICP license. We operate our website tudou.com through Quan Toodou and Toodou Cultural, our PRC consolidated affiliated entities. Quan Toodou is currently 84.7% owned by Qiong Qin and 15.3% owned by Dele Liu, all of whom are PRC citizens. Quan Toodou holds a value-added telecommunications business operating license and Toodou Cultural holds an ICP license. Due to the current uncertainties with respect to the procedural requirements of the notice, unless the relevant governmental authority expresses its intent to strictly enforce the notice with respect to trademarks, we currently do not plan to transfer any trademarks held by 1Verge Internet to 1Verge Information. See “Risk Factors—Risks Related to Doing Business in China—We may be adversely affected by the complexity, uncertainties and changes in PRC regulation of Internet business and companies.”

Regulations on Broadcasting Audio/Video Programs through the Internet

On July 6, 2004, the SARFT promulgated the Rules for the Administration of Broadcasting of Audio/Video Programs through the Internet and Other Information Networks, or the Audio/Video Broadcasting Rules. The Audio/Video Broadcasting Rules apply to the launch, broadcasting, aggregation, transmission or download of audio/video programs via the Internet and other information networks. Anyone who wishes to engage in Internet broadcasting activities must first obtain an audio/video program transmission license, with a term of two years, issued by the SARFT and operate pursuant to the scope as provided in such license. Foreign invested enterprises are not allowed to engage in the above referenced business.

On April 13, 2005, the State Council announced Several Decisions on Investment by Non-state-owned Companies in Culture-related Business in China. These decisions encourage and support non-state-owned companies to enter certain culture-related business in China, subject to restrictions and prohibitions for investment in audio/video broadcasting, website news and certain other businesses by non-state-owned companies. These decisions authorize the SARFT, the Ministry of Culture and the GAPP to adopt detailed implementing rules according to these decisions.

On December 20, 2007, the SARFT and the MIIT jointly issued the Rules for the Administration of Internet Audio and Video Program Services, commonly known as Circular 56, which came into effect as of January 31, 2008. Circular 56 reiterates the requirement set forth in the Audio/Video Broadcasting Rules that online audio/video service providers must obtain a license from the SARFT. Furthermore, Circular 56 requires all online audio/video service providers to be either wholly state-owned or state-controlled. According to relevant official answers to press questions published on the SARFT's website dated February 3, 2008, officials from the SARFT and the MIIT clarified that online audio/video service providers that already had been operating lawfully prior to the issuance of Circular 56 may re-register and continue to operate without becoming state-owned or controlled, provided that such providers have not engaged in any unlawful activities. This exemption will not be granted to online audio/video service providers established after Circular 56 was issued. Such policies have been reflected in the Application Procedure for Audio/Video Program Transmission License.

On April 1, 2010, the SARFT issued the Internet Audio/Video Program Services Categories (Provisional), or the Provisional Categories, which classified Internet audio/video programs into four categories. Category I is only open to state-owned broadcast media companies operating in the television section, and the other three categories are open to privately held entities.

In 2009, the SARFT released a Notice on Strengthening the Administration of Online Audio/Video Content. This notice reiterated, among other things, that all movies and television shows released or published online must comply with relevant regulations on the administration of radio, film and television. In other words, these movies and television shows, whether produced in the PRC or overseas, must be pre-approved by SARFT, and the distributors of these movies and television shows must obtain an applicable permit before releasing any such movie or television show. In 2012, SARFT and the State Internet Information Office of the PRC issued a Notice on Improving the Administration of Online Audio/Video Content Including Internet Drama and Micro Films. In 2013, the GAPP released a Supplemental Notice on Improving the Administration of Online Audio/Video Content Including Internet Drama and Micro Films. This notice stresses that entities producing online audio/video content, such as Internet dramas and micro films, must obtain a permit for radio and television program production and operation, and that online audio/video content service providers should not release any Internet dramas or micro films that were produced by any entity lacking such permit. For Internet dramas or micro films produced and uploaded by individual users, the online audio/video service providers transmitting such content will be deemed responsible as the producer. Further, under this notice, online audio/video service providers can only transmit content uploaded by individuals whose identity has been verified and such content shall comply with the relevant content management rules. This notice also requires that online audio/video content, include Internet drama and micro films, be filed with the relevant authorities before release.

To comply with these laws and regulations, 1Verge Information obtained an Internet audio/video program transmission license for our website youku.com on July 8, 2008, which was subsequently upgraded on September 30, 2009 and on December 15, 2010 and February 13, 2012. The upgraded license is valid until February 13, 2015. Toodou Cultural holds an Internet audio/video program transmission license for our website tudou.com. This license is valid until December 15, 2014.

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Under the Provisional Categories, the audio/video program transmission license for our website youku.com covers content that can be transmitted via the Internet and received by a computer in part of category II (compiling and broadcasting services for audiovisual programs of films, television serial dramas and animations and compiling and broadcasting services for audio/video programs of culture and art, entertainment and other specialized programs), and category III (re-broadcasting of Internet user uploaded audio/video programs services and aggregation of online audio/video content) and part of category IV (re-broadcasting of radio and television channel programs). The audio/video program transmission license for our website tudou.com covers content that can be transmitted via the Internet and received by a computer in part of category II (production of audio/video programs of culture and art, entertainment and other specialized programs, excluding interviews, compiling and broadcasting services for audio/video programs of films, television serial dramas and animations and compiling and broadcasting services for audio/video programs of culture and art, entertainment and other specialized programs), category III (re-broadcasting of Internet user uploaded audio/video programs services and aggregation of online audio/video content) and part of category IV (re-broadcasting of radio and television channel programs).

Regulations on Internet News Publication

Publishing and disseminating news through the Internet are highly regulated in the PRC. On November 7, 2000, the SCIO and the MIIT jointly promulgated the Provisional Measures for Administrating Internet Websites Carrying on the News Publication Business, or Internet News Measures. These measures require an ICP operator (other than a government authorized news unit) to obtain the approval from SCIO to publish news on its website or disseminate news through the Internet. Furthermore, any disseminated news is required to be obtained from government-approved sources based on contracts between the ICP operator and these sources. The copies of such contracts must be filed with relevant government authorities.

On September 25, 2005, the SCIO and the MIIT jointly issued the Provisions on the Administration of Internet News Information Services, requiring Internet news information service organizations to provide services as approved by the SCIO, subject to annual inspection under the new provisions. These Provisions also provide that no Internet news information service organizations may take the form of a foreign invested enterprise, whether jointly or wholly owned by the foreign investment, and no cooperation between Internet news information service organizations and foreign invested enterprise is allowed before the SCIO completes the security evaluation.

Currently we operate a current events channel on our website youku.com, which includes audio/video contents relating to current topics and social events. We have made oral inquiries with the SCIO and were orally informed that such operations do not violate the regulations on Internet news publication. 1Verge Information is in the process of applying for the Internet news publication permits. While the regulations on Internet news publication provide a 60-day period for application review, in practice the timing and issuance of final approval are at the sole discretion of the relevant government authority, which we are not in a position to comment or predict. The cost associated with this application is procedural fee and not material.

Regulations for Internet Publication

The GAPP is responsible for nationwide supervision and administration of publishing activities in China. On June 27, 2002, the GAPP and the MIIT jointly promulgated the Internet Publication Tentative Administrative Measures, or the Internet Publication Measures, which took effect on August 1, 2002. Pursuant to the Internet Publication Measures, any entity engaged in Internet publishing activities must obtain the Internet Publication License from the GAPP before conducting any Internet publication activities. The term "Internet publication" is defined as Internet transmission activity by which Internet information service providers publish on the Internet or transmit to end-users via the Internet works that they or others have created, after selection and editing, for browsing, reading, use or downloading by the general public. The works in question primarily include (i) content that has already been published formally, such as books, newspapers, periodicals, audio/video products and electronic publications, or that has been made public via other media; and (ii) edited works of literature and art or works concerning natural science, social science, engineering or other topics. 1Verge Information obtained the Internet Publication License in March 2012, which is subject to renewal at the end of 2014.

Regulations on Internet Medical and Health Information Services

On January 3, 2001, the Ministry of Health promulgated the Measures on the Administration of Internet Medical Care Information Services, or the Internet Medical Information Measures. The Internet Medical Information Measures require an ICP operator to obtain the approval from the Ministry of Health or its provincial counterpart for the provision of Internet medical care information services.

On May 1, 2009, the Ministry of Health promulgated the revised Internet Medical Information Measures, which became effective on July 1, 2009. The revised Internet Medical Information Measures require an ICP operator engaging in providing medical and health information to Internet users (which, among others, includes the provision of such information through the health channel on the operator's website) to obtain a permit from the relevant provincial counterpart of the Ministry of Health. 1Verge Information obtained an approval from Beijing Municipal Health Bureau on February 25, 2009 for the provision of Internet medical care information services which was renewed in 2013 and remains valid under the revised measures. Toodou Culture obtained an approval from the Shanghai Municipal Health Bureau on April 1, 2012 for the provision of Internet medical care information services, which is valid until November 8, 2015.

Regulations on Advertisements

The PRC government regulates advertising, including online advertising, principally through the SAIC, although there is no PRC law or regulation at the national level that specifically regulates online advertising business. Prior to November 30, 2004, in order to conduct any advertisement business, an enterprise was required to hold an operating license for advertisement in addition to a relevant business license. On November 30, 2004, the SAIC issued the Administrative Rules for Advertising Operation Licenses, effective as of January 1, 2005, granting a general exemption to this requirement for most enterprises (other than radio stations, television stations, newspapers and magazines, non-corporate entities and entities specified in other regulations). Each of 1Verge Information, Quan Toodou and Toodou Culture has business scope that covers advertising related services, and qualifies for the exemption noted above.

Under the Rules for Administration of Foreign Invested Advertising Enterprises, which were jointly promulgated by the SAIC and the MOFCOM on March 2, 2004 and amended on August 22, 2008, certain foreign investors are permitted to hold direct equity interests in PRC advertising companies. A foreign investor in a Chinese advertising company is required to have previously had direct advertising operations as its main business outside of China for two years if the Chinese advertising company is a joint venture, or three years if the Chinese advertising company is a wholly owned foreign enterprise. In practice, the foreign investor is deemed compliant of the "main business" requirement if it derives more than 50% of its revenues from advertising business within the past two or three years, as applicable. Since we have not been involved in the advertising industry outside of China for the required number of years, we are not permitted to hold direct equity interests in PRC companies engaging in the advertising business. Therefore, we conduct our advertising business through our consolidated affiliated entities in China, 1Verge Information and Toodou Cultural. In April 2010, we acquired Jet Brilliant, a Hong Kong company which derived more than 50% of its revenues during the past three years of operation from its advertising business, and therefore satisfied the three years' direct advertising operation requirement, and received the approval from the SAIC to establish Jet Brilliant Beijing on May 19, 2009 as its wholly owned advertisement enterprise. We conduct part of our advertising agency business through Jet Brilliant Beijing.

Advertisers, advertising operators and advertising distributors are required by PRC advertising laws and regulations to ensure that the contents of the advertisements they produce or distribute are true and in full compliance with applicable laws and regulations. In addition, where a special government review is required for certain categories of advertisements before publishing, the advertisers, advertising operators and advertising distributors are obligated to confirm that such review has been duly performed and that the relevant approval has been obtained. Violation of these regulations may result in penalties, including fines, confiscation of advertising income, orders to cease dissemination of the advertisements and orders to publish an advertisement correcting the misleading information. In circumstances involving serious violations, the SAIC or its local branches may order the violator to terminate its advertising operation or even revoke its business license. Furthermore, advertisers, advertising operators or advertising distributors may be subject to civil liabilities if they infringe on the legal rights and interests of third parties. To comply with these laws and regulations, we include clauses in all of our advertising contracts requiring that all advertising content provided by advertisers must comply with relevant laws and regulations. Under PRC law, the advertising agencies are liable for all damages to us caused by their breach of such representations. Prior to website posting, our account execution personnel are required to review all advertising materials, including video commercials, flashes and pictures to ensure there is no racial, violent, pornographic or any other improper content, and will request the advertiser to provide government approval if the advertisement is subject to special government review.

On July 8, 2004, the State Food and Drug Administration promulgated the Administration Measures on Internet Drug Information Services, which require that Internet operators providing drug information services shall be approved by the competent food and drug administration, and drug advertisements shall be examined and approved by the competent food and drug administration as well. 1Verge Information obtained a permit from the Beijing Drug Administration on October 25, 2010, with validity term of five years from October 25, 2010 to October 24, 2015. Toodou Cultural holds an Internet drug information service permit, which was recently renewed in October 14, 2013 with a five-year validity until October 13, 2018.

Regulations on Internet Culture Activities

On February 17, 2011, the Ministry of Culture promulgated the Internet Culture Administration Tentative Measures, or the Internet Culture Measures. The Internet Culture Measures require ICP operators engaging in “Internet culture activities” to obtain a permit from the Ministry of Culture. The term “Internet culture activities” includes, among other things, online dissemination of Internet cultural products (such as audio-video products, gaming products, performances of plays or programs, works of art and cartoons) and the production, reproduction, importation, publication and broadcasting of Internet cultural products. We have hosted certain audio/video programs on the website www.youku.com operated by 1Verge Information. 1Verge Information holds an Internet culture business permit, which is valid until December 2014. Toodou Cultural holds an Internet culture business permit, which is valid until March 2015.

On November 20, 2006, the Ministry of Culture issued Several Suggestions of the Ministry of Culture on the Development and Administration of the Internet Music, or the Suggestions, which became effective on November 20, 2006. The Suggestions, among other things, reiterate the requirement for the Internet service provider to obtain an Internet culture business permit to carry on any business relating to Internet music products. In addition, foreign investors are prohibited from operating Internet culture businesses. However, the laws and regulations on Internet music products are still evolving, and there have not been any provisions stipulating whether or how music video will be regulated by the Suggestions.

On August 18, 2009, the Ministry of Culture promulgated the Notice on Strengthening and Improving the Content Review of Online Music. According to this notice, only “Internet culture operating entities” approved by the Ministry of Culture may engage in the production, release, dissemination (including providing direct links to music products) and importation of online music products. The content of online music shall be reviewed by or filed with the Ministry of Culture. Internet culture operating entities should establish a strict self-monitoring system of online music content and set up a special department in charge of such monitoring.

To comply with these laws and regulations, our content examination team reviews the music videos on our websites as well as certain other content.

Regulations on Producing Audio/Video Programs

On July 19, 2004, the SARFT promulgated the Administrative Measures on the Production and Operation of Radio and Television Programs, effective as of August 20, 2004. These Measures provide that anyone who wishes to produce or operate radio or television programs must first obtain an operating permit. Applicants for this permit must meet several criteria, including having a minimum registered capital of RMB3 million. 1Verge Information holds a permit for radio and television program production and operation, with a permitted scope encompassing the production of animated programs, television entertainment and special features, which is valid until February 2015. Toodou Cultural holds a permit for radio and television program production and operation, with a permitted scope encompassing the production and distribution of radio and television programs, which is valid until April 2015. Tianshi holds a permit for radio and television program production and operation, with a permitted scope encompassing the production of animated programs, TV dramas, radio plays, television entertainment and special features, which is valid till September 2015.

Regulations on Software Products

On October 27, 2000, the MIIT issued the Administrative Measures on Software Products, or the Software Measures, to strengthen the regulation of software products and to encourage the development of the PRC software industry. On March 1, 2009, the MIIT issued amended Software Measures, which became effective on April 10, 2009. The Software Measures provide a registration and filing system with respect to software products made in or imported into China. These software products may be registered with the competent local authorities in charge of software industry administration. Registered software products may enjoy preferential treatment status granted by relevant software industry regulations. Software products can be registered for five years, and the registration is renewable upon expiration.

In order to further implement the Computer Software Protection Regulations promulgated by the State Council on December 20, 2001, the National Copyright Administration of the PRC issued the Computer Software Copyright Registration Procedures on February 20, 2002, which apply to software copyright registration, license contract registration and transfer contract registration. 1Verge Information and 1Verge Internet have obtained and maintain 32 software copyright registrations, while Reshuffle Technology and Quan Toodou have obtained and maintain 23 software copyright registrations.

Regulations on Intellectual Property Rights

China has adopted legislation governing intellectual property rights, including trademarks, patents and copyrights. China is a signatory to the main international conventions on intellectual property rights and became a member of the Agreement on Trade Related Aspects of Intellectual Property Rights upon its accession to the World Trade Organization in December 2001.

Patent. The National People's Congress adopted the Patent Law in 1984, and amended it in 1992, 2000 and 2008. The purpose of the Patent Law is to protect lawful interests of patent holders, encourage invention, foster applications of invention, enhance innovative capabilities and promote the development of science and technology. To be patentable, invention or utility models must meet three conditions: novelty, inventiveness and practical applicability. Patents cannot be granted for scientific discoveries, rules and methods for intellectual activities, methods used to diagnose or treat diseases, animal and plant breeds, substances obtained by means of nuclear transformation or a design which has major marking effect on the patterns or colors of graphic print products or a combination of both patterns and colors. The Patent Office under the State Intellectual Property Office is responsible for receiving, examining and approving patent applications. A patent is valid for a term of twenty years in the case of an invention and a term of ten years in the case of utility models and designs. A third-party user must obtain consent or a proper license from the patent owner to use the patent. Otherwise, the use constitutes an infringement of patent rights.

Copyright. The National People's Congress adopted the Copyright Law in 1990 and amended it in 2001 and 2010, respectively. The amended Copyright Law extends copyright protection to Internet activities, products disseminated over the Internet and software products. In addition, there is a voluntary registration system administered by the China Copyright Protection Center. The amended Copyright Law also requires registration of a copyright pledge.

To address the problem of copyright infringement related to the content posted or transmitted over the Internet, the National Copyright Administration and the MIIT jointly promulgated the Measures for Administrative Protection of Copyright Related to Internet on April 29, 2005. This measure became effective on May 30, 2005.

This measure applies to situations where an ICP operator (i) allows another person to post or store any works, recordings, audio or video programs on the websites operated by such ICP operator, or (ii) provides links to, or search results for, the works, recordings, audio or video programs posted or transmitted by such person, without editing, revising or selecting the content of such material. Upon receipt of an infringement notice from a legitimate copyright holder, an ICP operator must take remedial actions immediately by removing or disabling access to the infringing content. If an ICP operator knowingly transmits infringing content or fails to take remedial actions after receipt of a notice of infringement harming public interest, the ICP operator could be subject to administrative penalties, including: cessation of infringement activities; confiscation by the authorities of all income derived from the infringement activities; and payment of a fine of up to three times the unlawful income or, in cases where the amount of unlawful income cannot be determined, a fine of up to RMB100,000. An ICP operator is also required to retain all infringement notices for a minimum of six months and to record the content, display time and IP addresses or the domain names related to the infringement for a minimum of 60 days. Failure to comply with this requirement could result in an administrative warning and a fine of up to RMB30,000.

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On May 18, 2006, the State Council promulgated the Protection of the Right of Communication through Information Networks, which became effective on July 1, 2006. Under this regulation, with respect to any information storage space, search or link services provided by an Internet service provider, if the legitimate right owner believes that the works, performance or sound or video recordings pertaining to that service infringe his or her rights of communication, the right owner may give the Internet service provider a written notice containing the relevant information along with preliminary materials proving that an infringement has occurred, and requesting that the Internet service provider delete, or disconnect the links to, such works or recordings. The right owner will be responsible for the truthfulness of the content of the notice.

Upon receipt of the notice, the Internet service provider must delete or disconnect the links to the infringing content immediately and forward the notice to the user that provided the infringing works or recordings. If the written notice cannot be sent to the user due to the unknown IP address, the contents of the notice shall be publicized via information networks. If the user believes that the subject works or recordings have not infringed others' rights, the user may submit to the Internet service provider a written explanation with preliminary materials proving non-infringement, and a request for the restoration of the deleted works or recordings. The Internet service provider should then immediately restore the deleted or disconnected content and forward the user's written statement to the right owner.

An Internet service provider that provides information storage space to users through which users may provide works, performance or sound or video recordings to the public will be exempted from liability for compensation to right owners where the following conditions apply (i) the Internet service provider has clearly indicated that the information storage space is provided to users, and published the name, contact person and IP address of the network service provider; (ii) it has not altered the works or recordings provided by users; (iii) it did not know, or could not reasonably have been expected to know, that the content provided by users infringed other's rights; (iv) it has not received any direct financial gain from the users' provision of the content; and (v) it deletes the allegedly infringing content upon receiving written notice from the rights owners. An Internet service provider that provides users with search or link services will be exempted from liability for compensation to right owner if the Internet service provider promptly disconnects the link to the infringing content after receiving the right owner's notice. This exemption is not valid however if the Internet service provider knew or should know that the linked content infringed another's rights; in that scenario, it will be jointly liable with the user who provided the content.

Since 2005, the National Copyright Administration, or the NCA, together with certain other PRC governmental authorities, have jointly launched annual campaigns specifically aimed to crack down on Internet copyright infringement and piracy in China, which normally last for three to four months every year. According to the Notice of 2010 Campaign to Crack Down on Internet Infringement and Piracy promulgated by the NCA, the Ministry of Public Security and MIIT on July 19, 2010, one of the main targets, among others, of the 2010 campaign is Internet audio and video programs. Since the 2010 campaign commenced in late July, the local branches of NCA have been focusing on popular movies and television series, newly published books, online games and animation, music and software and illegal uploading or transmission of a third party's works without proper license or permission, sales of pirated audio/video and software through e-commerce platforms, providing search links, information storage, web hosting or Internet access services for third parties engaging in copyright infringement or piracy and the infringement by use of mobile media. In serious cases, the operating permits of the websites engaging in illegal activities may be revoked, and such websites may be ordered to shut down.

We have adopted measures to mitigate copyright infringement risks. For example, our policy is to remove links to web pages if we know these web pages contain materials that infringe third-party rights or if we are notified by the legitimate copyright holder of the infringement with proper evidence.

On December 26, 2009, the Standing Committee of the National People's Congress adopted the Torts Liability Law, which became effective on July 1, 2010. Under this new law, both Internet users and Internet service providers may be liable for the wrongful acts of users who infringe the lawful rights of other parties. If an Internet user utilizes Internet services to commit a tortious act, the party whose rights are infringed may request the Internet service provider to take measures, such as removing or blocking the content, or disabling the links thereto, to prevent or stop the infringement. If the Internet service provider does not take necessary measures after receiving such notice, it shall be jointly liable for any further damages suffered by the rights holder. Furthermore, if an Internet service provider fails to take necessary measures when it knows that an Internet user utilizes its Internet services to infringe the lawful rights and interests of other parties, it shall be jointly liable with the Internet user for damages resulting from the infringement.

To address issues related to the hearing of civil disputes concerning the infringement of the right of communication through information networks, the PRC Supreme People's Court promulgated the Provisions on Several Issues Concerning Applicable Laws on Trial of Civil Disputes over Infringement of Information Network Transmission Right, or the Supreme Court Provisions, which took effect as of January 1, 2013. The Supreme Court Provisions provide more detailed guidance as to the circumstances in which the provision by network users or network service providers of others' works, performances, and audio or video products without permission from the rights holders will constitute an infringement of information network transmission rights. The Supreme Court Provisions provide that internet service providers will be jointly liable if they assist in infringing activities, or fail to remove infringing content from their websites once they know of the infringement or receive notice from the rights holders. The Supreme Court Provisions also hold that where a network service provider obtains economic advantage directly from the works, performances, and audio or video recordings provided by the network service provider, it must "pay close attention" to any network user infringement on the network information transmission rights.

Trademark. The PRC Trademark Law, adopted in 1982 and revised respectively in 1993, 2001 and 2013, protects registered trademarks. The Trademark Office under the SAIC handles trademark registrations and grants a term of ten years to registered trademarks. Trademark license agreements must be filed with the Trademark Office for record. As of March 31, 2014, we had 233 registered trademarks in China, including “优酷,” “iKu,” “youku.com 优酷,” “tudou,” “YOUKU 优币,” “优士” and “优豆.” Furthermore, we have also applied to register additional trademarks, Youku Tudou group trademarks and logos, including but not limited to “iKu,” “Soku,” “搜酷,” “Youku Tudou” and “优酷土豆” with the Trademark Office.

Domain Name. In September 2002, China's Internet Network Information Center, or CNNIC, issued the Implementing Rules for Domain Name Registration setting forth detailed rules for registration of domain names. On November 5, 2004, the MIIT promulgated the Measures for Administration of Domain Names for the Chinese Internet, or Domain Name Measures. The Domain Name Measures regulate the registration of domain names, such as the first tier domain name “.cn.” In February 2006, CNNIC issued the Measures on Domain Name Disputes Resolution and its implementing rules, pursuant to which CNNIC can authorize a domain name dispute resolution institution to decide disputes. We have registered youku.com, tudou.com and certain other domain names.

Regulations on Information Security

The National People's Congress has enacted legislation that prohibits use of the Internet that breaches the public security, disseminates socially destabilizing content or leaks state secrets. Breach of public security includes breach of national security and infringement on legal rights and interests of the state, society or citizens. Socially destabilizing content includes any content that incites defiance or violations of PRC laws or regulations or subversion of the PRC government or its political system, spreads socially disruptive rumors or involves cult activities, superstition, obscenities, pornography, gambling or violence. State secrets are defined broadly to include information concerning PRC national defense, state affairs and other matters as determined by the PRC authorities.

According to other relevant regulations, ICP operators must complete mandatory security filing procedures and regularly update information security and censorship systems for their websites with local public security authorities, and must also report any public dissemination of prohibited content.

In addition, the State Secrecy Bureau has issued provisions authorizing the blocking of access to any website it deems to be leaking state secrets or failing to comply with the relevant legislation regarding the protection of state secrets during online information distribution.

On December 13, 2005, the Ministry of Public Security promulgated Provisions on Technological Measures for Internet Security Protection, or Internet Protection Measures. The Internet Protection Measures require all ICP operators to keep records of certain information about its users (including user registration information, log-in and log-out time, IP address, content and time of posts by users) for at least 60 days and submit the above information as required by laws and regulations.

As each of IVerge Information and Toodou Cultural is an ICP operator, it is subject to the laws and regulations relating to information security. To comply with these laws and regulations, each of them has completed the mandatory security filing procedures with the local public security authorities, regularly updates its information security and content-filtering systems with newly issued content restrictions, and maintains records of users' information as required by the relevant laws and regulations. Each of them has also taken measures to delete or remove links to content that, to its knowledge, contains information violating PRC laws and regulations. Substantially all of the videos uploaded on our websites are manually screened by contract employees dedicated to screening and monitoring the content uploaded on our websites and removing prohibited contents. All of the other contents, primarily consisting of comments posted by users, are first screened by our filtering systems and content containing prohibitive words or images is manually screened by our contract employees. We believe these measures make our websites duly monitored and, therefore, no prohibited content under PRC information security laws and regulations should have been publicly disseminated through our websites in the past. However, due to the significant amount of content uploaded on our websites by our users on a daily basis, if any prohibited content is publicly disseminated in the future, we will report to the relevant governmental authority. We believe these measures are generally in compliance with the relevant laws and regulations.

Regulations on Internet Privacy

The PRC Constitution states that PRC law protects the freedom and privacy of communications of citizens and prohibits infringement of such rights. In recent years, PRC government authorities have enacted legislation on Internet use to protect personal information from any unauthorized disclosure. The Internet Measures prohibit an ICP operator from insulting or slandering a third party or infringing the lawful rights and interests of a third party. Pursuant to the BBS Measures, ICP operators that provide electronic messaging services must keep users' personal information confidential and must not disclose such personal information to any third party without the users' consent or unless required by law. The regulations further authorize the relevant telecommunications authorities to order ICP operators to rectify unauthorized disclosure. ICP operators are subject to legal liability if the unauthorized disclosure results in damages or losses to users. The PRC government, however, has the power and authority to order ICP operators to turn over personal information if an Internet user posts any prohibited content or engages in illegal activities on the Internet.

On December 28, 2012, the Standing Committee of the National People's Congress of the PRC issued the Decision on Strengthening the Protection of Online Information, or the Decision. Most requirements under the Decision that are relevant to ICP operators are consistent with the existing requirements under the MIIT Provisions as discussed above, although they are stricter and broader. Under the Decision, if an ICP operator wishes to collect or use personal electronic information, it must do so in a legal and appropriate manner, and may do so only if it is necessary for the services it provides. It must disclose the purpose, method and scope of any such collection or use, and must seek consent from the relevant individuals. ICP operators are also required to publish their policies relating to information collection and use, must keep such information strictly confidential, and must take technological and other measures to ensure the safety of such information. ICP operators are further prohibited from divulging, distorting or destroying any such personal electronic information, or selling or providing such information to other parties. The Decision also requires that ICP operators providing information publishing services must collect from users their personal identification information for registration. In very broad terms, the Decision provides that violators may face warnings, fines, confiscation of illegal gains, license revocations, filling cancellations and website closures.

To comply with these laws and regulations, we have established information security systems to protect users' privacy and have filed them with the MIIT or its local branch as required. However, due to the significant amount of content uploaded by users on a daily basis, we cannot ensure that no content uploaded by our users will infringe the privacy rights of any third party without receiving notice from such third party. See "Risk Factors—Risks Related to Our Business and Industry—We have been, and may continue to be, subject to liabilities for infringement of third-party intellectual property rights or other allegations based on the content available on our websites or services we provide."

Regulations on Registration of Branch Companies

On October 27, 2005, the Standing Committee of the National People's Congress promulgated the amended PRC Company Law. It provides that a company may establish branch companies, which are entities without the status of a legal person. A branch company must register its establishment at the applicable government agency and obtain a business license. On April 24, 2006, the SAIC, the MOFCOM, the General Administration of Customs and the SAFE jointly issued the Notice on the Issuance of the Implementing Opinions Concerning Several Issues on the Application of Laws Governing the Administration of the Approval and Registration of Foreign Invested Companies, which provides that while representative offices of a foreign invested company that conduct operational business activities shall be registered as the company's branch companies, those without such activities are no longer required to be registered. There has not been any specific stipulation in PRC laws or regulations regarding the definition of "operational business activities."

We have established seven branches, and have completed registering the branches at the competent local branches of the SAIC.

Regulations on Tax

PRC Enterprise Income Tax

The PRC enterprise income tax, or EIT, is calculated based on the taxable income determined under the applicable EIT Law and its implementation rules. On March 16, 2007, the National People's Congress of China enacted the New EIT Law, which became effective on January 1, 2008. On December 6, 2007, the State Council promulgated the implementation rules to the New EIT Law, which also became effective on January 1, 2008. On December 26, 2007, the State Council issued the Notice on Implementation of Enterprise Income Tax Transition Preferential Policy under the PRC Enterprise Income Tax Law, or the Transition Preferential Policy Circular, which became effective simultaneously with the New EIT Law. The New EIT Law imposes a uniform enterprise income tax rate of 25% on all resident enterprises in China, including foreign-invested enterprises and domestic enterprises, unless they qualify for certain exceptions, and terminates most of the tax exemptions, reductions and preferential treatments available under the Old EIT Law and regulations. Under the New EIT Law and the Transition Preferential Policy Circular, qualified enterprises established before March 16, 2007 that already enjoyed preferential tax treatments will continue to enjoy them (i) in the case of preferential tax rates, for a maximum of five years starting from January 1, 2008, and during the five-year period, the tax rate will gradually increase from their current preferential tax rate to 25%, or (ii) in the case of preferential tax exemption or reduction for a specified term, until the expiration of such term. For enterprises that are not profitable enough to enjoy the preferential tax exemption or reduction referred to in (ii) above, the preferential duration shall commence from 2008.

Prior to the New EIT Law on January 1, 2008, domestic companies were generally subject to an enterprise income tax at a statutory rate of 33%.

The New EIT Law and its implementation rules permit certain "high and new technology enterprises strongly supported by the state" that hold independent ownership of core intellectual property and simultaneously meet a list of other criteria, financial or non-financial, as stipulated in the implementation rules and other regulations, to enjoy a reduced 15% enterprise income tax rate subject to certain new qualification criteria. The State Administration of Taxation, the Ministry of Science and Technology and the Ministry of Finance jointly issued the Administrative Rules for the Certification of High and New Technology Enterprises delineating the specific criteria and procedures for the "high and new technology enterprises" certification on April 14, 2008.

1Verge Internet, our wholly owned subsidiary, and 1Verge Information, our consolidated affiliated entity, were recognized by the Beijing Municipal Science and Technology Commission as "high and new technology enterprises" on December 24, 2010 and April 27, 2006, respectively, and therefore were eligible for the reduced 15% enterprise income tax rate upon filing the relevant tax authority. The qualification as a "high and new technology enterprise" is subject to annual evaluation and a three-year review by the relevant authorities in China. 1Verge Information was reaffirmed as such on December 14, 2009 and was entitled to the preferential tax rate of 15% for 2009, 2010 and 2011. However, 1Verge Information was not recognized as a "high and new technology enterprise" in the three-year review in 2012, and its applicable enterprise income tax rate increased to 25% starting in 2012. 1Verge Internet was recognized as a "high and new technology enterprise" in the three-year review on November 11, 2013, and therefore, 1Verge Internet is still entitled to the preferential enterprise income tax rate of 15% from 2013 to 2015. We cannot assure you that 1Verge Internet can continue to be recognized as "high and new technology enterprise" or renew this qualification when the current term expires and thus continue to be entitled to the preferential enterprise income tax rate of 15% or any other preferential enterprise income tax treatment.

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Uncertainties exist with respect to how the New EIT Law applies to our tax residency status. Under the New EIT Law, an enterprise established outside of China with a “de facto management body” within China is considered a “resident enterprise,” which means that it can be treated in a manner similar to a Chinese enterprise for enterprise income tax purposes, although the dividends paid to one resident enterprise from another may qualify as “tax-exempt income.” Though the implementation rules of the New EIT Law define “de facto management body” as “establishments that carry out substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc. of an enterprise,” the only constructive guidance for this definition currently available is set forth in the SAT Circular 82 issued by the PRC State Administration of Taxation, which provides guidance on the determination of the tax residency status of Chinese-controlled offshore incorporated enterprises, defined as an enterprise that is incorporated under the laws of a foreign country or territory and that has a PRC enterprise or enterprise group as its primary controlling shareholder. Although we do not have a PRC enterprise or enterprise group as our primary controlling shareholder and are therefore not a Chinese-controlled offshore incorporated enterprise within the meaning of the SAT Circular 82, in the absence of guidance specifically applicable to us, we have applied the guidance set forth in the SAT Circular 82 to evaluate the tax residency status of our legal entities organized outside the PRC.

According to the SAT Circular 82, a Chinese-controlled offshore incorporated enterprise will be regarded as a PRC tax resident by virtue of having a “de facto management body” in China and will be subject to PRC enterprise income tax on its worldwide income only if all of the following conditions set forth in the SAT Circular 82 are met:

- the primary location of the day-to-day operational management is in the PRC;
- decisions relating to the enterprise’s financial and human resource matters are made or are subject to approval by organizations or personnel in the PRC;
- the enterprise’s primary assets, accounting books and records, company seals, and board and shareholder resolutions are located or maintained in the PRC; and
- 50% or more of voting board members or senior executives habitually reside in the PRC.

We do not believe that either Youku Tudou Inc. or its Hong Kong, Cayman or BVI subsidiaries, including Jet Brilliant, Tudou and StarCloud, meet all of the conditions above. Each of Youku Tudou Inc. and these offshore subsidiaries is a company incorporated outside the PRC. These entities’ key assets and records, including the resolutions of their respective board of directors and the resolutions of their respective shareholders, are located and maintained outside the PRC. In addition, we are not aware of any offshore holding companies with similar corporate structures ever having been deemed to be a PRC “resident enterprise” by the PRC tax authorities. Therefore, we believe that neither Youku Tudou Inc. nor any of these offshore subsidiaries should be treated as a “resident enterprise” for PRC tax purposes if the criteria for a “de facto management body” as set forth in the SAT Circular 82 were deemed applicable to us. However, as the tax residency status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term “de facto management body” as applicable to our offshore entities, we will continue to monitor our tax status. See “Item 3. Key Information—Risk Factors—Risks Related to Doing Business in China—Our global income and the dividends that we may receive from our PRC subsidiaries may be subject to PRC taxes under the PRC Enterprise Income Tax Law, which would have a material and adverse effect on our results of operations.”

Although we believe we are not a PRC resident enterprise for enterprise income tax purposes, substantial uncertainty exists. In the event that our company or our Hong Kong subsidiary is considered to be a PRC resident enterprise: (1) our company or our Hong Kong subsidiary, as the case may be, would be subject to the PRC enterprise income tax at the rate of 25% on worldwide income; (2) dividend income that our company or our Hong Kong subsidiary, as the case may be, receives from our PRC subsidiaries would be exempt from the PRC withholding tax since such income is exempted under the New EIT Law for PRC resident enterprise recipients and (3) dividends we pay to our overseas shareholders or ADS holders as well as gains realized by such shareholders or ADS holders from the transfer of our shares or ADSs may be regarded as China-sourced income and as a result become subject to PRC withholding tax at a rate of up to 10%. See “Item 3. Key Information—Risk Factors—Risks Related to Doing Business in China—Our global income and the dividends that we may receive from our PRC subsidiaries may be subject to PRC taxes under the PRC Enterprise Income Tax Law, which would have a material and adverse effect on our results of operations.”

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Under SAT Circular 698, if a non-resident enterprise transfers the equity interests of a PRC resident enterprise indirectly by disposition of the equity interests of an overseas holding company, or Indirect Transfer, and such overseas holding company is located in a tax jurisdiction that: (i) has an effective tax rate less than 12.5%, or (ii) does not tax foreign income of its residents, the non-resident enterprise, being the transferor, shall report to the PRC competent tax authority of the PRC resident enterprise this Indirect Transfer, except that such Indirect Transfer concerns the transfer of listed shares of a PRC resident enterprise and takes place on a public stock exchange, whether in or outside PRC. Using a “substance over form” principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such Indirect Transfer may be subject to PRC withholding tax at a rate of up to 10%. SAT Circular 698 also provides that, where a non-PRC resident enterprise transfers its equity interests in a PRC resident enterprise to its related parties at a price lower than the fair market value, the relevant tax authority has the power to make a reasonable adjustment to the taxable income of the transaction. SAT Circular 698 is retroactively effective on January 1, 2008. On March 28, 2011, the SAT released SAT Public Notice 24 to clarify several issues related to Circular 698. SAT Public Notice 24 became effective on April 1, 2011. According to SAT Public Notice 24, the term “effective tax” refers to the effective tax on the gain derived from disposition of the equity interests of an overseas holding company; and the term “does not impose income tax” refers to the cases where the gain derived from disposition of the equity interests of an overseas holding company is not subject to income tax in the country/region where the overseas holding company is a resident. There is uncertainty as to the application of SAT Circular 698. If SAT Circular 698 was determined by the tax authorities to be applicable to us and our non-resident investors, we and our non-resident investors may be required to expend valuable resources to comply with this circular or to establish that we or our non-resident investors should not be taxed under SAT Circular 698, which may adversely affect us or our non-resident investors. See “Risk Factors—Risks Related to Doing Business in China—We face uncertainty with respect to indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies.”

PRC Value-added Tax and Business Tax

Pursuant to applicable PRC tax regulations, any entity or individual conducting business in the service industry is generally required to pay a business tax at the rate of 5% on the revenues generated from providing such services. However, if the services provided are related to technology development and transfer, such business tax may be exempted subject to the approval of relevant tax authorities.

In November 2011, the PRC Ministry of Finance and the State Administration of Taxation jointly issued two circulars setting out the details of the pilot VAT reform program, which change the charge of sales tax from business tax to VAT for certain pilot industries. The pilot VAT reform program initially applied only to the pilot industries in Shanghai but has been expanded to eight additional regions, including, among others, Beijing, in 2012. Entities located in Shanghai and Beijing fall within the scope of the pilot program and have been recognized as the VAT general taxpayers since January 1, 2012 and September 1, 2012, respectively, the effective time of the pilot program in each of the regions. On May 24, 2013, the Ministry of Finance, or MOF, and the State Administration of Taxation, or SAT, jointly issued Caishui [2013] No. 37, or Circular 37. From 1 August, 2013, the VAT pilot has been expanded to the transportation industry (except for the Railway transport) and some modern service industries nationwide.

On December 12, 2013, MOF and SAT jointly issued Caishui [2013] No. 106, or Circular 106, which sets out that railway transportation and postal services would be within the scope of the VAT pilot from January 1, 2014. Circular 106 also included some updates and changes to VAT pilot rules. Circular 106 replaced Circular 37 from January 1, 2014.

Cultural Business Construction Fee

According to applicable PRC tax regulations or rules, advertising service providers are generally required to pay a cultural business construction fee at the rate of 3% on the revenues (i) which are generated from providing advertising services and (ii) which are also subject to the business tax.

Local Surcharges

City construction tax and education surcharge are local surcharges imposed at a certain percentage of PRC turnover taxes (i.e., business tax, value-added tax and consumption tax). City construction tax is charged at rates of 1%, 5% or 7% (depending on the location of the PRC enterprise) of the turnover tax, while the education surcharge rate is currently at 2% of the turnover tax. Though in the past foreign-invested enterprises, foreign enterprises and foreign individuals were exempted from such surcharges, these entities were required to make such payments from December 1, 2010 according to a notice issued by PRC State Council in October 2010.

In addition to city construction tax and education surcharge, the China Ministry of Finance issued Circular Caizong (2010) No. 98, or Circular 98, that requires all units and individuals (including foreign invested enterprises, foreign enterprises and foreign individuals) to pay a local education surcharge, or LES, at 2% on turnover tax. Local governments are required to report their implementation measures on LES to the Ministry of Finance. According to Circular Jingzhengfa 2011 No.72, Beijing has begun to levy LES at 2% on turnover tax starting from January 2012.

Dividends Withholding Tax

Under the Old EIT Law effective prior to January 1, 2008, dividends paid to foreign investors by foreign-invested enterprises, such as dividends paid to us by 1Verge Internet, Reshuffle Technology and Jet Brilliant Beijing, would be exempt from PRC withholding tax. We are a Cayman Islands holding company and substantially all of our income may come from dividends we receive from our subsidiaries located in the PRC and Hong Kong. Pursuant to the New EIT Law and its implementation rules, dividends generated after January 1, 2008 and distributed to us by 1Verge Internet, which is our PRC subsidiary directly held by our company, are subject to a withholding tax rate of 10%. Dividends generated after January 1, 2008 and distributed to our Hong Kong subsidiary Jet Brilliant by Jet Brilliant Beijing, which is our PRC subsidiary directly held by our Hong Kong subsidiary, are subject to withholding tax at a rate of 5%, provided that: (a) our Hong Kong subsidiary is determined by the relevant PRC tax authorities to be a “non-resident enterprise” under the New EIT Law, “non-resident enterprise” being referred to as a company that has no establishment in China, or has establishment in China, but the dividend is not connected to the establishment; (b) our Hong Kong subsidiary is the beneficial owner of the PRC sourced income; and (c) our Hong Kong subsidiary holds at least 25% of the equity interest of Jet Brilliant Beijing. Jet Brilliant has not obtained the approval for a withholding tax rate of 5% from the local tax authority and does not plan to obtain such approval in the near future, because Jet Brilliant Beijing paid no dividends from April 27, 2010 to December 31, 2013 and does not plan to pay dividends in the future as it may continue to incur losses. However, the SAT promulgated the Notice on How to Understand and Determine the Beneficial Owners in Tax Agreement on October 27, 2009, or SAT Circular 601, which provides guidance for determining whether a resident of a contracting state is the “beneficial owner” of an item of income under China’s tax treaties and tax arrangements. According to SAT Circular 601, a beneficial owner generally must be engaged in substantive business activities. An agent or conduit company will not be regarded as a beneficial owner and, therefore, will not qualify for treaty benefits. The conduit company normally refers to a company that is set up for the purpose of avoiding or reducing taxes or transferring or accumulating profits. In addition, as described above, our company or our Hong Kong subsidiary may be considered a PRC resident enterprise for PRC enterprise income tax purposes, in which case dividends received by it, as the case may be, from the relevant PRC subsidiary would be exempt from the PRC withholding tax because such income is exempt under the New EIT Law for a PRC resident enterprise recipient.

According to the interpretation and implementation of the New EIT Law and its implementation rules, if we are deemed a PRC resident enterprise, any dividends to be distributed by us to our non-PRC shareholders and ADS holders would be subject to PRC withholding tax. See “Item 3. Key Information—Risk Factors—Risks Related to Doing Business in China—Our global income and the dividends that we may receive from our PRC subsidiaries may be subject to PRC taxes under the PRC Enterprise Income Tax Law, which would have a material and adverse effect on our results of operations.”

Regulations on Foreign Exchange

Foreign exchange activities in China are primarily governed by the following regulations:

- Foreign Currency Administration Rules (2008), or the Exchange Rules; and
- Administration Rules of the Settlement, Sale and Payment of Foreign Exchange (1996), or the Administration Rules.

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Under the Exchange Rules, if documents certifying the purposes of the conversion of RMB into foreign currency are submitted to the relevant foreign exchange conversion bank, the RMB will be convertible for current account items, including the distribution of dividends, interest and royalties payments, and trade and service-related foreign exchange transactions. Conversion of RMB for capital account items, such as direct investment, loan, securities investment and repatriation of investment, however, is subject to the approval of the SAFE or its local counterpart.

Under the Administration Rules, foreign-invested enterprises may only buy, sell and/or remit foreign currencies at banks authorized to conduct foreign exchange business after providing valid commercial documents and, in the case of capital account item transactions, obtaining approval from the SAFE or its local counterpart. Capital investments by PRC entities outside of China, after obtaining the required approvals of the relevant approval authorities, such as the MOFCOM and the National Development and Reform Commission or their local counterparts, are also required to register with the SAFE or its local counterpart.

As an offshore holding company with PRC subsidiaries, we may (i) make additional capital contributions to our PRC subsidiaries, (ii) establish new PRC subsidiaries and make capital contributions to these new PRC subsidiaries, (iii) make loans to our PRC subsidiaries or consolidated affiliated entities, or (iv) acquire offshore entities with business operations in China in offshore transactions. However, most of these uses are subject to PRC regulations and approvals. For example:

- capital contributions to our PRC subsidiaries, whether existing or newly established ones, must be approved by the PRC Ministry of Commerce or its local counterparts;
- loans by us to our PRC subsidiaries, each of which is a foreign-invested enterprise, to finance their activities cannot exceed statutory limits and must be registered with SAFE or its local branches; and
- loans by us to our consolidated affiliated entities, which are domestic PRC entities, must be approved by the National Development and Reform Commission and must also be registered with SAFE or its local branches.

On August 29, 2008, the SAFE issued the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign Invested Enterprises, or Circular 142. On November 16, 2011, SAFE promulgated the Circular on Issues Relating to Further Clarification and Regulation of Certain Capital Account Items under Foreign Exchange Control, or Circular 45, in order to clarify the application of Circular 142. Pursuant to Circular 142 and Circular 45, the Renminbi capital from the settlement of foreign currency capital of a foreign-invested enterprise must be used within the business scope as approved by the applicable government authority and cannot be used for domestic equity investment, unless it is otherwise provided for. Documents certifying the purposes of the settlement of foreign currency capital into Renminbi, including a business contract, must also be submitted for the settlement of the foreign currency. In addition, the SAFE strengthened its oversight of the flow and use of the Renminbi capital converted from foreign currency registered capital of a foreign-invested company. The use of such Renminbi capital may not be altered without the SAFE's approval, and such Renminbi capital may not be used to repay Renminbi loans if such loans have not been used. Violations of the Circular 142 or Circular 45 could result in severe monetary fines or penalties. We expect that if we convert the net proceeds we received from our follow-on public offering in May 2011 or our initial public offering in December 2010 into Renminbi pursuant to SAFE Circular 142 and Circular 45, our use of Renminbi funds will be within the approved business scope of our PRC subsidiaries. Such business scope includes "technical services" which we believe permits our PRC subsidiaries to purchase or lease servers and other equipment and provide operational support to our consolidated affiliated entities. However, we may not be able to use such Renminbi funds to make equity investments in the PRC through our PRC subsidiaries.

There are no costs associated with applying for registration or approval of loans or capital contributions with or from relevant PRC governmental authorities, other than nominal processing charges. Under PRC laws and regulations, the PRC governmental authorities are required to process such approvals or registrations or deny our application within a prescribed time period which is usually less than 90 days. The actual time taken, however, may be longer due to administrative delays. We cannot assure you that we will be able to obtain these government registrations or approvals on a timely basis, if at all, with respect to our future plans to use the U.S. dollar proceeds we receive from public offerings for our expansion and operations in China. If we fail to receive such registrations or approvals, our ability to use the proceeds from public offerings and to capitalize our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and ability to fund and expand our business.

Regulations on Dividend Distribution

The principal regulations governing dividend distributions of wholly foreign-owned companies include:

- the Companies Law (2005);
- the Wholly Foreign-Owned Enterprise Law (2000); and
- the Wholly Foreign-Owned Enterprise Law Implementing Rules (2001).

Under these regulations, wholly foreign-owned companies in the PRC may pay dividends only out of their accumulated profits as determined in accordance with PRC accounting standards and regulations. In addition, these wholly foreign-owned companies are required to set aside at least 10% of their respective accumulated profits each year, if any, to fund certain reserve funds, until the aggregate amount of such fund reaches 50% of its registered capital. At the discretion of these wholly foreign-owned companies, they may allocate a portion of their after-tax profits based on PRC accounting standards to staff welfare and bonus funds. These reserve funds and staff welfare and bonus funds are not distributable as cash dividends.

As of December 31, 2013, the registered capital of our wholly foreign-owned subsidiaries 1Verge Internet, Reshuffle Technology and Jet Brilliant Beijing were US\$171.9 million, US\$63.0 million and RMB1.0 million (US\$0.2 million), respectively. 1Verge Internet, Reshuffle Technology and Jet Brilliant Beijing have not made any profits to date, and thus are not subject to the statutory reserve fund requirement. 1Verge Internet, Reshuffle Technology and Jet Brilliant Beijing have not and will not be able to pay dividends to our offshore entities until they generate accumulated profits and meet the requirements for statutory reserve funds. As of December 31, 2013, our PRC subsidiaries had accumulated deficits of RMB1,342.5 million (US\$221.8 million) in accordance with PRC accounting standards and regulations.

Regulations on Offshore Investment by PRC Residents

Pursuant to the SAFE's Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Inbound Investment via Overseas Special Purpose Vehicles, generally known in China as SAFE Circular No. 75, issued on October 21, 2005: (i) a PRC citizen residing in the PRC or non-PRC citizen primarily residing in the PRC due to his or her economic tie to the PRC, who is referred to as a PRC resident in SAFE Circular No. 75, shall register with the local branch of the SAFE before it establishes or controls an overseas special purpose company, for the purpose of overseas equity financing; (ii) when a PRC resident contributes the assets of, or its equity interests in, a domestic enterprise into an overseas special purpose company, or engages in overseas financing after contributing assets or equity interests into a special purpose company, such PRC resident shall register his or her interest in the special purpose company and the change thereof with the local branch of the SAFE; and (iii) when the special purpose company undergoes a material event outside of China not involving inbound investments, such as change in share capital, creation of any security interests on its assets or merger and division, the PRC resident shall, within 30 days from the occurrence of such event, register such change with the local branch of the SAFE. PRC residents who are shareholders of special purpose companies established before November 1, 2005 were required to register with the local branch of the SAFE before March 31, 2006. To further clarify and simplify the implementation of the SAFE Circular No. 75, the SAFE issued the Implementing Rules Relating to the Administration of Foreign Exchange in Fund-Raising and Round-trip Investment Activities of the Domestic Residents Conducted via Offshore Special Purpose Companies, or SAFE Circular No. 19, on May 20, 2011, which came into effect on July 1, 2011.

Under these foreign exchange regulations, failure to comply with the registration procedures above may result in the penalties, including imposition of restrictions on a PRC subsidiary's foreign exchange activities and its ability to distribute dividends to the overseas special purpose company. See "Risk Factors—Risks Related to Doing Business in China—PRC regulations relating to the establishment of offshore SPVs by PRC residents may subject our PRC resident beneficial owners or our PRC subsidiaries to liability or penalties, limit our ability to inject capital into our PRC subsidiaries, limit our PRC subsidiaries' ability to increase their registered capital or distribute profits to us, or may otherwise adversely affect us."

Regulations on Employee Stock Options Plan

In December 2006, the People's Bank of China promulgated the Administrative Measures of Foreign Exchange Matters for Individuals, setting forth the respective requirements for foreign exchange transactions by individuals (both PRC or non-PRC citizens) under either the current account or the capital account. In January 2007, the SAFE issued implementing rules for the Administrative Measures of Foreign Exchange Matters for Individuals, which, among other things, specified approval requirements for certain capital account transactions, such as a PRC citizen's participation in employee stock ownership plans or share option plans of an overseas publicly-listed company. On March 28, 2007, the State Administration of Foreign Exchange promulgated the Application Procedures of Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Ownership Plan or Stock Option Plan of Overseas Listed Company, or the Stock Option Rules. In February 2012, SAFE promulgated the Stock Option Notice and replaced the Stock Option Rules. The Stock Option Notice simplifies the requirements and procedures for the registration of stock incentive plan participants, especially in respect of the required application documents and the elimination of strict requirements on offshore and onshore custodian banks, as were stipulated in the Stock Option Rules. The purpose of the Stock Option Notice is to regulate the foreign exchange administration of PRC domestic individuals who participate in employee stock holding plans and share option plans of overseas listed companies.

According to the Stock Option Notice, for PRC resident individuals who participate in any employee stock ownership plan or share option plan of an overseas listed company, a PRC domestic qualified agent or the PRC subsidiary of such overseas listed company must, among other things, file, on behalf of such individuals, an application with the SAFE or its local counterpart to obtain approval for an annual allowance with respect to the purchase of foreign exchange in connection with stock holding or share option exercises as PRC domestic individuals may not directly use overseas funds to purchase shares or exercise share options. With the approval from SAFE or its local counterpart, the PRC domestic qualified agent or the PRC subsidiary shall open a special foreign exchange account at a PRC domestic bank to hold the funds required in connection with the stock purchase or option exercise, any returned principal or profits upon sales of shares, any dividends issued on the stock and any other income or expenditures approved by the SAFE or its local counterpart. In addition, within three months after there is substantial change to such stock incentive plans, including for example any changes due to merger or acquisition or changes to the domestic or overseas custodian agent, the domestic agent must update the registration with SAFE.

Under the Foreign Currency Administration Rules, as amended in 2008, the foreign exchange proceeds of domestic entities and individuals can be remitted into China or deposited abroad, subject to the terms and conditions to be issued by the SAFE. However, the implementing rules in respect of depositing the foreign exchange proceeds abroad have not been issued by the SAFE. The foreign exchange proceeds from the sales of shares can be converted into RMB or transferred to such individuals' foreign exchange savings account after the proceeds have been remitted back to the special foreign exchange account opened at the PRC domestic bank. If share options are exercised in a cashless exercise, the PRC domestic individuals are required to remit the proceeds to special foreign exchange accounts.

Many issues with respect to the Stock Option Notice require further interpretation. We and our PRC employees who have participated in an employee stock ownership plan or share option plan are subject to the Stock Option Notice as we are an overseas-listed company. We and our employees have made such applications and intend to continue making such application on an on-going basis and complete all the requisite procedures in accordance with the Stock Option Notice. If we or our PRC employees fail to comply with the Stock Option Notice, we and our PRC employees may face sanctions imposed by the PRC foreign exchange authority or any other PRC government authorities, including restriction on foreign currency conversions and additional capital contribution to our PRC subsidiaries.

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In addition, the State Administration of Taxation has issued a few circulars concerning employee share options. Under these circulars, our employees working in China who exercise share options will be subject to PRC individual income tax. Our PRC subsidiaries have obligations to file documents related to employee share options with relevant tax authorities and withhold the individual income taxes of employees who exercise their share options. If our employees fail to pay and we fail to withhold their income taxes, we may face sanctions imposed by tax authorities or any other PRC government authorities.

Labor Laws and Social Insurance

Pursuant to the PRC Labor Law and the PRC Labor Contract Law, employers must execute written labor contracts with full-time employees. All employers must compensate their employees with wages equal to at least the local minimum wage standards. All employers are required to establish a system for labor safety and sanitation, strictly abide by state rules and standards and provide employees with workplace safety training. Violations of the PRC Labor Contract Law and the PRC Labor Law may result in the imposition of fines and other administrative liabilities. Criminal liability may arise for serious violations.

In addition, employers in China are obliged to provide employees with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, work-related injury insurance, medical insurance and housing funds.

On December 28, 2012, the PRC Labor Contract Law was amended to impose more stringent requirements on labor dispatch, which became effective on July 1, 2013. Pursuant to amended PRC Labor Contract Law, (i) the dispatched contract workers are entitled to equal pay for equal work as compared to a full time employee of an employer, (ii) dispatched contract workers may only be engaged to perform temporary, ancillary or substitute work and (iii) an employer is required to strictly control the number of dispatched contract workers, so that dispatched contract workers do not exceed certain percentage of a total number of employees. “Temporary work” means a position with a term of less than six months; “auxiliary work” means a non-core business position that provides services for the core business of the employer; and “substitute worker” means a position that can be temporarily replaced with a dispatched contract worker for the period that a regular employee is away from work for vacation, study or for other reasons. According to the Interim Provisions on Labor Dispatch, or the Labor Dispatch Provisions, promulgated by the Ministry of Human Resources and Social Security on January 24, 2014, which became effective on March 1, 2014, (i) the number of dispatched contract workers hired by an employer may not exceed 10% of its total employees (including both directly hired employees and dispatched contract workers); (ii) in the case that the number of dispatched contract workers exceeds 10% of its total employees at the time when the Labor Dispatch Provisions became effective (i.e., March 1, 2014), the employer must formulate a plan to reduce the number of its dispatched contract workers to a number below the statutory cap prior to March 1, 2016; and (iii) the employer’s plan is required to be filed with the local bureau of human resources and social security. Nevertheless, the Labor Dispatch Provisions do not invalidate the labor contracts and dispatch agreements entered into prior to December 28, 2012. In addition, the employer may not hire any new dispatched contract worker before the number of its dispatched contract workers is reduced to below 10% of its total employees.

As of April 11, 2014, we have one PRC entity, Youku Video (Xi’an) Media Technology Co., Ltd., which hires dispatched contract workers exceeding 10% of its total employees. We have already formulated plans to convert the dispatched contract workers to directly hired full-time employees, which we expect to complete within the time frame required under the Labor Dispatch Provisions.

To comply with these laws and regulations, we have caused all of our full-time employees to enter into labor contracts and provide our employees with the proper welfare and employment benefits.

Regulations on Concentration in Merger and Acquisition Transactions

In 2006, six PRC regulatory agencies jointly adopted the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rule. The M&A Rule, among other things, established procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex. These rules require, among other things, that the MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor will take control of a PRC domestic enterprise or a foreign company with substantial PRC operations, if certain thresholds under the Provisions on Thresholds for Prior Notification of Concentrations of Undertakings issued by the State Council on August 3, 2008 are triggered. According to the Implementing Rules Concerning Security Review on the Mergers and Acquisitions by Foreign Investors of Domestic Enterprises issued by the Ministry of Commerce in August 2011, mergers and acquisitions by foreign investors involved in an industry related to national security are subject to strict review by the Ministry of Commerce. These rules also prohibit any transactions attempting to bypass such security review, including by controlling entities through contractual arrangements. We believe that our business is not in an industry related to national security. However, we cannot preclude the possibility that the Ministry of Commerce or other government agencies may publish interpretations contrary to our understanding or broaden the scope of such security review in the future.

Complying with these requirements could affect our ability to expand our business or maintain our market share. See “Item 3. Key Information—Risk Factors—Risks Related to Doing Business in China—Recently enacted regulations in the PRC may make it more difficult for us to pursue growth through acquisitions.”

C [Organizational Structure](#)

Corporate Structure

The following table sets out the details of our principal operating subsidiaries, consolidated affiliated entities and our ownership structure, as of the date of this annual report:

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Name	Place of Formation	Relationship	Ownership Structure
1Verge Internet Technology (Beijing) Co., Ltd.	PRC	Wholly owned subsidiary	100% owned by Youku Tudou Inc.
Jet Brilliant Limited	Hong Kong	Wholly owned subsidiary	100% owned by Youku Tudou Inc.
Beijing Jet Brilliant Advertising Co., Ltd.	PRC	Wholly owned subsidiary	100% owned by Jet Brilliant Limited
Youku Video (Xi'an) Media Technology Co., Ltd.	PRC	Wholly owned subsidiary	100% owned by Jet Brilliant Limited
Trade Lead Investments Ltd.	British Virgin Islands	Wholly owned subsidiary	100% owned by Youku Tudou Inc.
Tudou Holdings Limited	Cayman	Wholly owned subsidiary	100% owned by Youku Tudou Inc.
StarCloud Media Co., Limited	British Virgin Islands	Wholly owned subsidiary	100% owned by Tudou Holdings Limited
Reshuffle Technology (Shanghai) Co., Ltd.	PRC	Wholly owned subsidiary	100% indirectly owned by StarCloud Media Co., Limited
Chuanxian Technology (Shanghai) Co., Ltd.	PRC	Wholly owned subsidiary	100% indirectly owned by StarCloud Media Co., Limited
1Verge Information Technology (Beijing) Co., Ltd.	PRC	Consolidated affiliated entity	80% owned by Mr. Dele Liu, our director and president, and 20% owned by Ms. Qiong Qin, the wife of our founder, Mr. Victor Koo
Zhejiang Dongyang Tianshi Media Ltd.	PRC	Consolidated affiliated entity	70% owned by 1Verge Information Technology (Beijing) Co., Ltd., 24% owned by Wen Lu and 6% owned by Qiong Hu, both of whom are our employees
Quan Toodou Network Science and Technology Co., Ltd.	PRC	Consolidated affiliated entity	84.7% owned by Ms. Qiong Qin and 15.3% owned by Mr. Dele Liu
Shanghai Quan Toodou Cultural Communication Co., Ltd.	PRC	Consolidated affiliated entity	100% owned subsidiary of Quan Toodou Network Science and Technology Co., Ltd.

Note:

On September 17, 2013, 1Verge Information injected RMB7 million into Tianshi's registered capital. Upon completion of this increase of Tianshi's registered capital, 1Verge Information became the holder of 70% of Tianshi's equity interest, with Ms. Wen Lu and Ms. Qiong Hu jointly holding the remaining 30%.

In January 2013, Mr. Wei Wang and Ms. Zhiqi Wang transferred 33.3% of the equity interest of Quan Toodou to Mr. Dele Liu and Mr. Zhou Yu, an employee of Tudou. As a result, Ms. Qiong Qin, Mr. Dele Liu and Mr. Zhou Yu held 66.7%, 15.3% and 18% of Quan Toodou, respectively.

In September 2013, Mr. Zhou Yu transferred 18% of the equity interest in Quan Toodou to Ms. Qiong Qin. As a result, Ms. Qiong Qin held 84.7% of Quan Toodou.

We have completed the registration of the above registered capital increase and equity interest transfers with the local branch of the SAIC, and have amended and restated the relevant contractual arrangements.

Contractual Arrangements

PRC law currently limits foreign equity ownership of companies that provide Internet content and conduct online advertising businesses. To comply with these foreign ownership restrictions, we operate our websites and provide online video and online advertising services in China through a series of contractual arrangements, through our subsidiaries 1Verge Internet and Reshuffle Technology with our consolidated affiliated entities and their respective shareholders. Our significant consolidated affiliated entities include 1Verge Information, Tianshi and Quan Toodou as well as its fully owned subsidiary, Toodou Cultural. We have amended and restated the contractual arrangements that we previously entered into with certain of our consolidated affiliated entities in order to further strengthen our ability to control these entities and receive substantially all of the economic benefits from them. The following is a summary of the contractual arrangements that are currently in effect.

Amended and Restated Business Operations Agreements. Pursuant to the amended and restated business operations agreement among 1Verge Internet, 1Verge Information and its shareholders, 1Verge Information must appoint the persons designated by 1Verge Internet to be its executive director or directors, general manager, chief financial officer and any other senior officers. 1Verge Information agrees to accept the proposal provided by 1Verge Internet from time to time relating to employment, daily business and financial management. Without 1Verge Internet's prior written consent, 1Verge Information shall not conduct any transaction which may materially affect its assets, obligations, rights or operations, including but not limited to incurrence or assumption of any indebtedness, sale or purchase of any assets or rights, incurrence of any encumbrance on any of its assets or intellectual property rights in favor of a third party, or transfer of any rights or obligations under this agreements to a third party. The term of this agreement is ten years and will be extended automatically for successive 10-year terms unless 1Verge Internet provides written notice at least three months prior to the expiration date. 1Verge Internet has the exclusive right to terminate the agreement at any time by providing 30 days' advance written notice to 1Verge Information and to each of its shareholders. Neither 1Verge Information nor any of its shareholders may terminate this agreement prior to the expiration.

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The business operations agreement among 1Verge Internet, Tianshi and its shareholders contains terms substantially similar to the business operations agreement described above.

Pursuant to the business operations agreement among Reshuffle Technology, Quan Toodou and its shareholders, without Reshuffle Technology's prior written consent, Quan Toodou may not conduct any transaction that could materially affect its assets, obligations, rights or operations, including but not limited to incurrence or assumption of any indebtedness, sale or purchase of any assets or rights, incurrence of any encumbrance on any of its assets or intellectual property rights in favor of a third party, transfer of any rights or obligations under this agreement to a third party, or have any of its subsidiaries do any of the foregoing. Quan Toodou also agrees to accept any proposals provided by Reshuffle Technology from time to time relating to employment, daily business and financial management. The term of this agreement is ten years and will be extended automatically for successive ten-year periods unless Reshuffle Technology provides written notice at least three months prior to the expiration date. Reshuffle Technology has the exclusive right to terminate the agreement at any time by providing 30 days' advance written notice to Quan Toodou and to each of its shareholders. Neither Quan Toodou nor any of its shareholders may terminate this agreement prior to the expiration date.

Amended and Restated Equity Interest Pledge Agreements. Pursuant to the amended and restated equity interest pledge agreements among 1Verge Internet and the shareholders of 1Verge Information, the shareholders of 1Verge Information pledge all of their equity interest in 1Verge Information to 1Verge Internet, to guarantee 1Verge Information and its shareholders' performance of their obligations under, where applicable, the amended and restated loan agreements, the amended and restated exclusive technical and consulting services agreement, the amended and restated trademark license agreement, the amended and restated domain name license agreement, the amended and restated business operations agreement and the amended and restated equity option agreements. If 1Verge Information and/or any of its shareholders breach their contractual obligations under these agreements, 1Verge Internet, as pledgee, will be entitled to certain rights, such as enforcing the equity pledge right to sell or otherwise dispose of the pledged equity interests, and to retain the proceeds from such sale. Without 1Verge Internet's prior written consent, shareholders of 1Verge Information shall not transfer or assign the pledged equity interests, or create or allow any encumbrance that would prejudice 1Verge Internet's interests. During the term of this agreement, 1Verge Internet is entitled to receive all of the dividends and other distributions paid on the pledged equity interests. The equity interest pledge will be effective upon the completion of the registration of the pledge with the competent local branch of the SAIC, and expire on the earlier of (i) the date on which 1Verge Information and its shareholders have fully performed their obligations under the above-referred agreements; or (ii) 1Verge Internet enforces the pledge pursuant to the terms and conditions under this agreement, to fully satisfy its rights under such agreements.

The equity interest pledge agreements among 1Verge Internet and the shareholders of Tianshi is substantially similar to the equity interest pledge agreements described above, except that the guarantee scope of the equity interests pledge is limited to Tianshi and its shareholders' performance of their obligations under, where applicable, the exclusive technical and consulting services agreement and the equity option agreements.

The equity interest pledge agreements among Reshuffle Technology and the shareholders of Quan Toodou is substantially similar to the equity interest pledge agreements described above, except that the guarantee scope of the equity interests pledge is limited to Quan Toodou and its shareholders' performance of their obligations under, where applicable, the loan agreements, the exclusive technical and consulting services agreement, the equity option agreements and the business operations agreement.

We have registered the pledge of the equity interests in 1Verge Information, Tianshi and Quan Toodou with the competent local branch of the SAIC. To date, 1Verge Information, Tianshi and Quan Toodou have fully performed their obligations under the relevant agreements and, subject to the terms of the agreements, the obligations will continue until the expiration or early termination of such agreements. We are in the process of registering with the applicable local branch of the SAIC to increase the registered capital of Tianshi and to add 1Verge Information as another nominee shareholder of Tianshi, and will register the pledge of equity interests with the applicable local branch of the SAIC after the aforementioned steps are completed.

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Powers of Attorney. Pursuant to the powers of attorney, the shareholders of 1Verge Information each irrevocably appointed any individual designated by 1Verge Internet in writing who is approved by us as their attorney-in-fact, in a manner approved by us, to vote on her/his behalf and exercise the full voting rights as the shareholder of 1Verge Information under PRC laws and regulations and 1Verge Information's articles of association. The powers of attorney shall remain effective as long as 1Verge Information exists. At the same time, 1Verge Internet passed a shareholders' resolution indicating that all activities related to the powers and rights assigned pursuant to the power of attorney agreements shall be exercised at the direction and approval of the Company and the resolution will be effective for the same term as the power of attorney agreements.

The shareholders of Tianshi also each executed an irrevocable power of attorney authorizing any individual designated by 1Verge Internet in writing who is approved by us as their attorney-in-fact, in a manner approved by us, to vote on their behalf on all Tianshi matters requiring shareholder approval. The powers of attorney shall remain effective as long as Tianshi exists. At the same time, 1Verge Internet passed a shareholders' resolution with respect to the powers of attorney for Tianshi with terms substantially similar to the terms described above.

The shareholders of Quan Toodou also each executed an irrevocable power of attorney authorizing any individual designated by Reshuffle Technology in writing who is approved by us as their attorney-in-fact, in a manner approved by us, to vote on their behalf on all Quan Toodou matters requiring shareholder approval. The powers of attorney shall remain effective as long as Quan Toodou exists. At the same time, Reshuffle Technology passed a shareholders' resolution with respect to the powers of attorney for Quan Toodou with terms substantially similar to the terms described above.

Amended and Restated Exclusive Technical and Consulting Services Agreements. Pursuant to the amended and restated exclusive technical and consulting services agreement between 1Verge Internet and 1Verge Information, 1Verge Internet has the exclusive right to provide technical and consulting services relating to, among other things, maintenance of the machine room and website and provision and maintenance of the office network. Without 1Verge Internet's prior written consent, 1Verge Information shall not engage any third party for any of the technical and consulting services provided under this agreement. In addition, 1Verge Internet exclusively owns all intellectual property rights resulting from the performance of this agreement. 1Verge Information agrees to pay a service fee to 1Verge Internet based on a set formula defined in this agreement, and during the term of this agreement, 1Verge Internet has the right to adjust the service fee at its sole discretion without the consent of 1Verge Information. The term of this agreement is ten years and will be extended automatically for successive 10-year periods unless terminated by 1Verge Internet's written notice three months prior to the expiration date. 1Verge Internet can terminate the agreement at any time by providing 30 days' prior written notice. 1Verge Information is not permitted to terminate the agreement prior to the expiration date, unless 1Verge Internet fails to comply with any of its obligations under this agreement and such failure renders the continued performance of this agreement impossible.

The exclusive technical and consulting services agreement between 1Verge Internet and Tianshi is substantially similar to the amended and restated exclusive technical and consulting services agreement described above, except that the services provided by 1Verge Internet are relevant to the television drama, library management and other operations of Tianshi.

The exclusive technical and consulting services agreement between Reshuffle Technology and Quan Toodou is substantially similar to the amended and restated exclusive technical and consulting services agreement between 1Verge Internet and 1Verge Information that is described above.

Amended and Restated Trademark License Agreement and Amended and Restated Domain Name License Agreement. Pursuant to the amended and restated trademark license agreement and the amended and restated domain name license agreement between 1Verge Internet and 1Verge Information, 1Verge Internet grants a non-exclusive and non-transferable license, without sublicense rights, to 1Verge Information to use its trademarks and domain names. 1Verge Information may only use the trademarks and the domain names in its own business operations. The license fee under each agreement is 5% of the total revenue of the licensee and is to be paid every quarter within 15 days after the end of the quarter. Additionally, if the licensor believes that it would be helpful to the licensee's business, the licensor may reduce or exempt the licensee from all or part of the license fee. The term of each agreement is ten years and will be extended for another ten years with both parties' consent. 1Verge Internet may terminate each agreement at any time by providing a 30-day prior written notice. Any party may terminate each agreement immediately with written notice to the other party if the other party materially breaches the relevant agreement and fails to cure its breach within 30 days from the date it receives written notice of its breach from the non-breaching party. The parties will review each agreement at three-month intervals and determine if any amendment is needed.

Amended and Restated Equity Option Agreements. Pursuant to the amended and restated equity option agreements among 1Verge Internet, 1Verge Information, the shareholders of 1Verge Information and Youku Tudou Inc., 1Verge Information's shareholders grant 1Verge Internet and Youku Tudou Inc. or their designated representative(s) an exclusive option to purchase, to the extent permitted under PRC law, all or part of their equity interest in 1Verge Information in consideration for the loans extended to 1Verge Information's shareholders under the amended and restated loan agreements mentioned below. We may decide, in our sole discretion, whether and when the rights granted under the agreement will be exercised by us through either Youku Tudou Inc. or 1Verge Internet, either in part or in full. In addition, we have the option to acquire the equity interests at the lowest price then permitted by PRC law in consideration of the cancellation of all or part of the loans extended to 1Verge Information's shareholders under the amended and restated loan agreements. If we or our designated representative(s) are required by applicable laws or competent authorities to pay any additional consideration for the exercise of the options, the shareholders of 1Verge Information agree to return any and all of such additional consideration to us or our designated representative(s) as soon as possible after the completion of such equity interest transfer. We or our respective designated representative(s) are entitled to exercise the options for an unlimited number of times until all of the equity interests have been acquired, and can freely transfer the options to any third party. To ensure that the cash flow requirements of 1Verge Information's ordinary operations are met and/or to set off any losses that may be incurred, we agree to provide financing support to 1Verge Information from time to time to the extent permissible under PRC laws. We will not request repayment of such financial support if 1Verge Information or its shareholders are unable to do so. Without Youku Tudou Inc.'s or 1Verge Internet's consent, as the case may be, 1Verge Information's shareholders may not transfer, donate, pledge, or otherwise dispose of their equity shareholdings in any way. The amended and restated equity option agreements will remain in full force and effect until the earlier of: (i) the date on which all of the equity interest in 1Verge Information has been acquired by 1Verge Internet or Youku Tudou Inc. or their designated representative(s); or (ii) Youku Tudou Inc. or 1Verge Internet, as the case may be, giving 30 days' advance written notice of termination to the shareholders of 1Verge Information.

The equity option agreements among Youku Tudou Inc., 1Verge Internet, Tianshi and the shareholders of Tianshi is substantially similar to the amended and restated equity option agreements entered into in respect of 1Verge Information described above, except that the purchase consideration to be paid to the shareholders to acquire the equity interests in Tianshi shall be the lowest price then permitted by PRC law in consideration of cancellation of all or part of the service fees due under the amended and restated exclusive technical and consulting services agreement.

The equity option agreements among Youku Tudou Inc., Reshuffle Technology, Quan Toodou and the shareholders of Quan Toodou is substantially similar to the amended and restated equity option agreements entered into in respect of 1Verge Information described above.

Amended and Restated Loan Agreements. Under the amended and restated loan agreements between 1Verge Internet and the shareholders of 1Verge Information, 1Verge Internet had made interest-free loans in several tranches with an aggregate amount of RMB20 million to the shareholders of 1Verge Information solely for the initial capitalization and the subsequent financial requirements in 1Verge Information. The loans can be repaid only with the proceeds from the sale of all of the equity interest in 1Verge Information to 1Verge Internet or its designated representatives, pursuant to the amended and restated equity option agreements. The term of each loan is ten years from the execution date of the amended and restated loan agreements and will be automatically extended for successive ten-year periods unless terminated by written notice from 1Verge Internet to the shareholders of 1Verge Information three months prior to the due date.

The loan agreements among Reshuffle Technology and the shareholders of Quan Toodou contain terms substantially similar to the amended and restated loan agreements between 1Verge Internet and the shareholders of 1Verge Information described above, except that the total amount of loan to be extended to the shareholders of Quan Toodou is RMB150 million, of which RMB70 million has been extended as of December 31, 2013.

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D Property, Plants and Equipment

Our principal executive offices are located on premises comprising approximately 39,654 square meters in Beijing and Shanghai as of December 31, 2013. We also have seven branches in Guangzhou (two branches), Xi'an, Beijing, Xiamen, Chengdu and Shenyang. We lease our premises from unrelated third parties. Each of the lessors for the leased premises either has valid title to the property or has proper authorization from the title owner to sublease the property. Below is a summary of the term of each of our material leases and we plan to renew these leases when they expire:

<u>Property</u>	<u>Term</u>
Xi'an premises 1	November 6, 2010—November 5, 2015
Xi'an premises 2	May 20, 2011—May 19, 2014
Beijing premises 1	May 25, 2008—May 24, 2014
Beijing premises 2	May 10, 2010—May 24, 2014
Beijing premises 3	February 22, 2011—May 24, 2014
Beijing premises 4	May 1, 2012—May 31, 2016
Beijing premises 5	September 16, 2011—May 24, 2014
Beijing premises 6	December 1, 2012—November 30, 2014
Shanghai premises 1	December 15, 2012—October 31, 2015
Shanghai premises 2	July 1, 2009—June 30, 2014
Shanghai premises 3	May 10, 2010—May 9, 2014
Chengde premises	May 15, 2012—May 14, 2015
Guangzhou premises	December 1, 2012—November 30, 2015

Our servers are hosted at Internet data centers owned by, and located along the major transmission backbones of, the leading domestic telecommunications carriers. The hosting services agreements typically have terms of approximately one year that are renewable subject to early termination. We believe that we will be able to obtain adequate facilities, principally through the leasing, to accommodate our future expansion plans.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial statements and the related notes included elsewhere in this annual report on Form 20-F. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Item 3. Key Information—Risk Factors" or in other parts of this annual report on Form 20-F.

A Operating Results

Overview

We operate our business as a single segment. We derive substantially all of our revenues from online advertising services. Our advertising solutions present brand advertisers with attractive opportunities to combine the visual impact and engagement of traditional television-like multimedia advertisements with the interactivity and precise targeting capabilities of the Internet. We believe our differentiated sales proposition has contributed to the rapid increase in the number of international and domestic brands that advertise on our Internet television platform. We also participate in affiliate advertising programs run by third-party Internet search companies, which place links to their customers' advertisements on our websites.

As is customary in the advertising industry in China, we offer commissions to third-party advertising agencies who purchase our advertising services and recognize revenues net of these commissions. Our net revenues increased from RMB897.6 million in 2011 to RMB1.8 billion in 2012 and to RMB3.0 billion (US\$500.3 million) in 2013. The number of our brand advertisers increased from 505 in 2011 to 741 in 2012 and to 931 in 2013. Net revenues derived from brand advertising sales accounted for 94.8%, 90.1% and 89.2% of our total net revenues in 2011, 2012 and 2013, respectively. We incurred net losses of RMB172.1 million, RMB424.0 million and RMB580.7 million (US\$95.9 million) in 2011, 2012 and 2013, respectively. The increase in net losses from 2012 to 2013 was primarily due to significant bandwidth and content costs, and capital expenditures required to ramp up our business and operations at the early stage of development of our business.

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Our results of operations are affected by the PRC laws, regulations and policies relating to online video and advertising businesses. Due to current legal restrictions on foreign ownership and investment in value-added telecommunications services and advertising businesses in China, we rely on a series of contractual arrangements with our consolidated affiliated entities to conduct most of our business, though in the future we intend to conduct our advertising agency business through Jet Brilliant Beijing, a subsidiary acquired in 2010. We do not hold equity interests in our consolidated affiliated entities. As a result of these contractual arrangements, we are the primary beneficiary of our consolidated affiliated entities and consolidate the financial results of these entities under U.S. GAAP. In the opinion of TransAsia Lawyers, our PRC legal counsel, the ownership structures of our consolidated affiliated entities do not violate, breach, contravene or conflict with any applicable PRC laws or regulations. However, there are substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations related to such ownership structures.

The major factors affecting our results of operations and financial condition are discussed below.

Net Revenues

We currently derive substantially all of our net revenues from online advertising services. Our online advertising sales consist of mainly brand advertising services, which accounted for approximately 94.8%, 90.1% and 89.2% of our net revenues in 2011, 2012 and 2013, respectively. As is customary in the advertising industry in China, we offer commissions to third-party advertising agencies and recognize revenues net of these commissions. We also derive an increasing portion of our net revenues from other sources, such as our web-based and mobile subscription video services, and sub-licensing fees from authorized sub-licensing of content, of which we license from content providers the exclusive rights for self-use and sub-licensing for online distribution to other online video websites. Such other revenues accounted for 5.2%, 9.9% and 10.8% of our net revenues in 2011, 2012 and 2013, respectively. The following table sets forth the principal components of our net revenues by amount and as a percentage of our total net revenues for the periods presented.

	Year Ended December 31,					
	2011		2012		2013	
	RMB	%	RMB	%	RMB	US\$
	(in thousands, except for percentages)					
Brand advertising revenues (1)	851,345	94.8	1,617,173	90.1	2,701,644	446,281
Other revenues	46,279	5.2	178,402	9.9	326,840	53,990
Net revenues (1)	<u>897,624</u>	<u>100.0</u>	<u>1,795,575</u>	<u>100.0</u>	<u>3,028,484</u>	<u>500,271</u>

(1) Net revenues are presented net of commissions earned by third-party advertising agencies, as the term is defined on page 1, as set forth below:

	Year Ended December 31,			
	2011	2012	2013	
	RMB	RMB	RMB	US\$
	(in thousands)			
Commissions earned by third-party advertising agencies	180,644	442,663	584,978	96,631

Brand Advertising. We derive our revenues primarily from brand advertising sales. We provide in-video, display, sponsorships and other forms of advertising solutions on our website to a broad base of brand advertisers, including leading international and domestic companies in various industries. We derived a majority of our brand advertising revenues from in-video advertisements. Advertisers purchase our online advertising services primarily through third-party advertising agencies, and the number of our advertisers increased significantly from 505 in 2011 to 741 in 2012 and to 931 in 2013. We price our advertising services based on various factors, including the form of third-party advertising, the specific targeting requirements, the duration of the time slot purchased and popularity of the content in which the advertisements will be placed. Prices for the aggregate time slots purchased by each advertiser or advertising agency are fixed under sales contracts, typically at a discount to our list prices. We review and adjust our list prices annually.

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Net revenues derived from brand advertising sales have grown significantly in the past, which was attributable to an increase in the number of advertisers and rising average spend per advertiser. Brand advertising sales accounted for 94.8%, 90.1% and 89.2% of our net revenues in 2011, 2012 and 2013, respectively. We expect our brand advertising revenues to continue to grow as we focus on expanding our advertiser base and increasing the advertising spend of key advertisers.

The most significant factors that directly or indirectly affect our brand advertising sales revenues include the following:

- the number of users visiting our websites and the amount of time they spend on our websites;
- the amount of total online video advertising budgets of advertisers;
- the number of brand advertisers;
- the list prices of our advertising services and the discount we offer to customers;
- the commissions earned by third-party advertising agencies; and
- the evolving perception of the increasing effectiveness of online video advertising as compared to advertising in more traditional media, particularly television.

Seasonal fluctuations and industry cyclicity have affected, and are likely to continue to affect, our business. We generally generate less revenue from brand advertising sales during national holidays in China, in particular during the Chinese New Year holidays in the first quarter of each year. In addition, advertising spending in China has historically been cyclical, reflecting overall economic conditions as well as the budgeting and buying patterns of our advertisers. Our rapid growth has lessened the impact of the seasonal fluctuations and cyclicity. However, we expect that the seasonal fluctuations and cyclicity to cause our quarterly and annual operating results to fluctuate.

Other Revenues. We seek to diversify our revenue sources over time by expanding our mobile and web-based subscription services and other product offerings. We trial-launched our subscription-based online video services in early 2010, enabling users to watch advertisement-free premium content, such as high-definition movies. In June 2011, we officially launched our Youku Premium paid content platform. Since its beta launch, Youku Premium has processed more than 4.5 million paid orders, which include both pay-per-view and subscription orders. We seek to grow subscription-based and pay-per-view services over time and the revenues we derived from this business is growing. We license from content providers the exclusive rights for both self-use and sub-licensing of certain content. We sub-license such content within its authorized sub-licensing scope to other video websites and receive sub-licensing fees from such websites. Moreover, we are working with e-commerce companies, such as Taobao, to provide video-enabling merchandise demonstration services to their premium retail members. We share revenues with the e-commerce companies for the service fees they charge their members. Our other revenues accounted for 5.2%, 9.9% and 10.8% of our net revenues in 2011, 2012 and 2013, respectively.

Cost of Revenues

Cost of revenues consists primarily of (i) content costs (ii) bandwidth costs (iii) depreciation of our servers and other equipment, and (iv) VAT and business tax. The following table sets forth the components of our cost of revenues for the periods indicated.

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	Year Ended December 31,			
	2011 RMB	2012 RMB	2013 RMB	US\$
	(in thousands)			
Net revenues	897,624	1,795,575	3,028,484	500,271
Cost of revenues:				
Content costs	(243,388)	(737,061)	(1,422,907)	(235,048)
Bandwidth costs	(324,682)	(524,623)	(685,650)	(113,261)
Depreciation of servers and other equipment	(39,052)	(68,569)	(102,367)	(16,910)
VAT and business tax	(90,215)	(169,283)	(276,497)	(45,674)
Total cost of revenues	(697,337)	(1,499,536)	(2,487,421)	(410,893)

Content Costs. Content costs consist of amortization expense for licensed content, salaries and benefits for our content team as well as costs of our self-produced content. Our content costs increased significantly from 2011 to 2012, and again to 2013, as we built a large and comprehensive online video content library during this period. The increase in content cost was due to impairment charges on licensed copyrights and also amortization expense for licensed content due to a substantial increase in unit acquisition cost of professionally produced content, such as licensing fees for television serial dramas and movies. According to our internal records, the average license fee for both television serial dramas and movies increased in 2013 by more than 174% as compared to 2011. The term of licenses for our professionally produced content generally ranges from six months to ten years. We expect our content costs to grow on an absolute basis as we expand our content library and market prices for professionally produced content increase.

Bandwidth Costs. Bandwidth costs are the fees we pay to telecommunications carriers and other service providers for telecommunications services and for hosting our servers at their Internet data centers. Bandwidth is a significant component of our cost of revenues and therefore an important factor affecting our profitability. We expect our bandwidth costs to increase on an absolute basis as traffic to our websites grows and the resolution of our content increases. However, we expect our bandwidth costs as a percentage of our net revenues to decrease over time, consistent with historical trends of decreasing unit cost of data hosting and transmission services, and we do not expect such costs to increase as quickly as our net revenues.

Depreciation of Servers and Other Equipment. We include depreciation expense for servers and other equipment that are directly related to our business operations and technical support in our cost of revenues. Our depreciation expense increased steadily from 2011 to 2012 and to 2013 as we made substantial investments in building out our CDN infrastructure during this period. We expect our depreciation expense to increase on an absolute basis as we continue to invest in additional servers and other equipment. However, we expect our depreciation expense as a percentage of our net revenues to decrease over time since we made substantial upfront capital expenditures at an early stage of our development that are not expected to increase as quickly as our net revenues.

Value-added Tax and Business Tax. In November 2011, the PRC Ministry of Finance and the State Administration of Taxation jointly issued two circulars setting out the details of the pilot value-added business taxes, or VAT, reform program, which change the levy of sales tax from business tax to VAT for certain pilot industries. The pilot VAT reform program initially applied only to the pilot industries in Shanghai, and was subsequently expanded to additional regions such as Beijing. Our entities located in Shanghai and Beijing fall within the scope of the pilot program and have been recognized as the VAT general taxpayers since January 1, 2012 and September 1, 2012, respectively, which are the effective times of the pilot program in the respective cities. Prior to the implementation of the pilot VAT reform program, revenues from our online advertising services and other services were subject to business tax, surcharges and cultural business construction fee totaling 8.6% of revenues before deduction for commissions to agencies. From the applicable effective time onwards, the online advertising services provided by these entities are required to pay VAT at a rate of 6% plus 12% surcharge on VAT and 3% cultural business construction fee on revenues derived from our online advertising services.

Our cost of revenues includes share-based compensation charges. See “—Critical Accounting Policies—Share-Based Compensation Expenses.”

Operating Expenses

Our operating expenses consist of (i) sales and marketing expenses, (ii) product development expenses, and (iii) general and administrative expenses. The following table sets forth the components of our operating expenses for the periods indicated.

	Year Ended December 31,			
	2011	2012	2013	
	RMB	RMB	RMB	US\$
	(in thousands)			
Sales and marketing	(230,475)	(363,707)	(681,008)	(112,494)
Product development	(72,573)	(172,885)	(278,015)	(45,925)
General and administrative	(80,529)	(238,112)	(261,770)	(43,241)
Total operating expenses	(383,577)	(774,704)	(1,220,793)	(201,660)

Sales and Marketing Expenses. Sales and marketing expenses consist primarily of salaries and benefits and commissions for our sales and marketing personnel and marketing and promotional expenses. Our sales and marketing expenses increased significantly from 2011 to 2013, which primarily reflects rapid expansion of our sales team and our increased spending on marketing and brand promotional activities. We expect that our sales and marketing expenses will increase in absolute amount in the near term as we expect to hire additional sales personnel and invest in brand enhancement effort and sales support activities.

Product Development Expenses. Product development expenses consist primarily of salaries and benefits for product development personnel. Our product and development expenses increased significantly from 2011 to 2013, which primarily reflects an increase in salaries and benefits for our product development personnel mainly resulting from the headcount and compensation level increase. We expect our product development expenses on an absolute basis to increase as we intend to hire additional product development personnel to further expand our technology platform, enhance user experience and support the expected growth of our business.

General and Administrative Expenses. General and administrative expenses consist primarily of salaries and benefits for our general and administrative personnel. Our general and administrative expenses increased significantly from 2011 to 2012 and slightly from 2012 to 2013, which primarily reflects increase in salaries and benefits for our general and administrative personnel mainly due to headcount increase, including hiring of new management members after our initial public offering, which also reflects increase in our professional service fees. We expect our general and administrative expenses to increase in the future as our business grows and we continue to incur increased costs related to complying with our compliance and reporting obligations under the U.S. securities laws as a public company.

Our operating expenses include share-based compensation charges. See “—Critical Accounting Policies—Share-Based Compensation Expenses.”

Taxation

Cayman Islands. Our company and Tudou are incorporated in the Cayman Islands. Under the current laws of the Cayman Islands, we are not subject to income or capital gains tax. In addition, dividend payments are not subject to withholding tax in the Cayman Islands.

Hong Kong. Our wholly owned subsidiary in Hong Kong, Jet Brilliant, is subject to Hong Kong profits tax on its activities conducted in Hong Kong. No provision for Hong Kong Profits tax has been made in the consolidated financial statements as Jet Brilliant has no assessable income for 2013. Dividends from our Hong Kong subsidiary to us are exempt from withholding tax.

British Virgin Islands. Under the current tax laws of British Virgin Islands, StarCloud is not subject to tax on income or capital gain. In addition, no British Virgin Islands withholding tax will be imposed on payments of dividends by StarCloud to its shareholders.

PRC. Prior to the effective date of the New EIT Law on January 1, 2008, enterprises in China were generally subject to an enterprise income tax at a statutory rate of 33% unless they qualified for certain preferential treatment. Effective as of January 1, 2008, the New EIT Law applies a uniform enterprise income tax rate of 25% to all domestic enterprises and foreign-invested enterprises and defines new tax incentives for qualifying entities. Enterprises established before March 16, 2007 that were entitled to the then available preferential tax treatment may continue to enjoy such treatment (i) in the case of preferential tax rates, for a maximum of a five-year period starting from January 1, 2008; during such period, the tax rate will gradually increase to 25%, or (ii) in the case of preferential tax exemption or reduction for a specified term, until the expiration of such term.

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1Verge Information, a company incorporated in PRC and a consolidated affiliated entity of which our company is the primary beneficiary, is located in the Beijing Zhongguancun Science Park and was granted “high and new technology enterprise” status and was entitled to a preferential income tax rate of 15% in 2009, 2010 and 2011. However, 1Verge Information failed to maintain its “high and new technology enterprise” status during the three-year review in 2012, and the applicable enterprise income tax rate increased to 25%. 1Verge Internet was recognized as “high and new technology enterprise” under the New EIT Law on December 24, 2010 and was entitled to preferential tax rate of 15% for the years of 2010, 2011 and 2012. 1Verge Internet was recognized as a “high and new technology enterprise” on November 11, 2013, and its applicable enterprise income tax rate will remain at 15% for years 2013, 2014 and 2015. The high and new technology enterprise status is subject to approval and renewal every three years.

In addition, the New EIT Law treats enterprises established outside of China that have “effective management and control” located in China as a PRC resident enterprise for tax purposes. The term “effective management and control” is generally defined as exercising overall management and control over the business, personnel, accounting, and properties of an enterprise. We believe that neither Youku Tudou Inc. nor Jet Brilliant should be treated as a “resident enterprise” for PRC tax purposes. However, no detailed interpretation or guidance has been issued to define place of “effective management and control,” and the administrative practice associated with the interpretation of such concept is unclear. However, if considered a “PRC resident enterprise” for tax purposes in the future, our company would be subject to the PRC enterprise income tax at a rate of 25% on its worldwide income. We will continue to monitor our tax status. See “Item 3. Key Information—Risk Factors—Risks Related to Doing Business in China—Our global income and the dividends that we may receive from our PRC subsidiaries may be subject to PRC taxes under the PRC Enterprise Income Tax Law, which would have a material and adverse effect on our results of operations.”

Under the New EIT Law and its implementation rules, dividends from our PRC subsidiaries out of earnings generated after January 1, 2008 are subject to withholding tax. Distributions of earnings generated before January 1, 2008 are exempt from PRC withholding tax. Dividends of 1Verge Internet, which is our PRC subsidiary directly held by our company, to our company is subject to withholding tax at a rate of 10%. Dividends of Jet Brilliant Beijing, which is our PRC subsidiary directly held by our Hong Kong subsidiary Jet Brilliant, will, upon approval from the local tax authority, benefit from a reduced withholding tax rate of 5% under the Arrangement between the PRC and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income and Capital. However, if our Hong Kong subsidiary is not considered to be the beneficial owner of any such dividends, such dividends would be subject to withholding tax at a rate of 10% rather than a preferential rate of 5%. Tudou Holdings Limited, our wholly owned subsidiary, has contractual arrangements with Quan Toodou and its subsidiaries, who in turn applied the funds from those loans as the paid-in capital or working capital of Quan Toodou. Reshuffle Technology, a subsidiary of Tudou Holdings Limited, provides technology consulting services to Quan Toodou and its subsidiaries. Dividends of Reshuffle Technology, our PRC subsidiary, is subject to withholding tax at a rate of 10%. Jet Brilliant has not obtained the approval for a withholding tax rate of 5% from the local tax authority and does not plan to obtain such approval in the near future because Jet Brilliant Beijing has paid no dividends from April 27, 2010 to December 31, 2013 and does not plan to pay dividends in the future as it expects to continue to incur losses. See “Item 3. Key Information—Risk Factors—Risks Related to Doing Business in China—Our global income and the dividends that we may receive from our PRC subsidiaries may be subject to PRC taxes under the PRC Enterprise Income Tax Law, which would have a material and adverse effect on our results of operations.”

Critical Accounting Policies

We prepare our financial statements in conformity with U.S. GAAP, which requires us to make estimates and assumptions that affect our reporting of, among other things, assets and liabilities, contingent assets and liabilities and net revenues and expenses. We regularly evaluate these estimates and assumptions based on the most recently available information, our own historical experiences and other factors that we believe to be relevant under the circumstances. Since our financial reporting process inherently relies on the use of estimates and assumptions, our actual results could differ from what we expect. This is especially true with some accounting policies that require higher degrees of judgment than others in their application. We consider the policies discussed below to be critical to an understanding of our audited consolidated financial statements because they involve the greatest reliance on our management’s judgment.

Revenue Recognition

We derive revenues primarily from online advertising services. We recognize revenues only when the price is fixed or determinable, persuasive evidence of an arrangement exists, the service is performed and collectability of the related fee is reasonably assured. Specifically, we recognize revenues based on the following revenue recognition principles:

Online Advertising Services. Advertising contracts are signed to establish the fixed price and advertising services to be provided. Pursuant to the advertising contracts, we provide advertisement placements on our web pages in different formats, including but not limited to video, banners, links, logos and buttons. We make a credit assessment of the customer to assess the collectability of the contract price prior to entering into contracts. For those contracts for which the collectability was assessed as not reasonably assured, we recognize revenue only when the cash was received and all revenue recognition criteria were met. For contracts where we provide customers with marketing services that contain multiple deliverables (e.g., advertisements in different formats to be delivered over different periods of time), we recognize revenue pursuant to Accounting Standards Codification, or ASC, subtopic 605-25, *Revenue Recognition: Multiple-Element Arrangements*, as amended by Accounting Standards Update No. 2009-13, or ASU 2009-13, *Multiple-Deliverable Revenue Arrangements*, which was adopted by us on January 1, 2011. ASU 2009-13 requires us to allocate revenue to arrangement deliverables using the relative selling price method. We limit the amount of revenue recognition for delivered elements to the amount that is not contingent on the future undelivered items. Due to the nature of our advertisement arrangements, wherein revenue is contingent upon the delivery of undelivered items, revenue is recognized ratably over the performance period of the last deliverable in the arrangement. Revenue is deferred when non-refundable payments are received from customers prior to satisfaction of revenue recognition criteria discussed above.

Sub-licensing. We also generate revenues from sub-licensing content licensed from third party vendors. The exclusive licensing agreement we enter into with the vendors has a definitive license period and gives us rights to sublicense these contents to other third parties. We enter into a non-exclusive sub-license agreement with a sub-licensee for a period that falls within the original exclusive license period. We receive a fixed amount of the sub-license fee upfront under the sub-licensing arrangements and do not have any future obligation once we have provided the underlying disk to the sub-licensee (which is provided at or before the beginning of the sub-license period). In accordance with ASC subtopic 926-605, *Entertainment-Films, Revenue Recognition*, we recognize the amount of the sub-license fee as revenue at the beginning of the sub-license period only when we meet all the following criteria: persuasive evidence of a sub-licensing arrangement with a customer exists, the content has been delivered or is available for immediate and unconditional delivery, the sub-license period of the arrangement has begun and the customer can begin its exploitation, exhibition or sale, the arrangement fee is fixed or determinable and collection of the arrangement fee is reasonably assured.

Mobile value-added services, or MVAS. We generate revenue from MVAS through partnership agreements with third party mobile network operators. We provide video clips to mobile network operators for their mobile phone users. Users pay a monthly subscription fee to the mobile network operator for access to the video channel or pay on a per-clip download basis, and we share the fees collected by the mobile network operator for such services. MVAS revenue is generally recognized when we receive monthly statements from the mobile network operators indicating the transaction volume generated by their mobile phone users that are subject to revenue share with us. For smaller mobile network operators, we defer revenue recognition until cash is received.

Revenues from MVAS represent only our share of the revenues to be received from the mobile network operators, i.e. recorded on a net basis. We are not the primary obligor in the arrangement, nor do we enter into contracts with end customers or have the price setting capabilities. Rather, we provide the content to the mobile network operators in accordance with the operator's overall strategy and requirements.

Barter Transactions. We enter into cross-promotional agreements, which represent advertising-for-advertising, advertising-for-content and content-for-advertising barter transactions, and follows ASC subtopic 605-20, *Revenue Recognition: Services*. Such barter transactions should be recorded at fair value only if such value of the advertising surrendered in the transaction is determinable within reasonable limits. The volume of such transactions is not significant.

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We also enter into nonmonetary transactions to exchange online broadcasting rights of video content with other online video broadcasting companies from time to time. The exchanged content provides rights for each respective party to broadcast the content received only on its own website, although, each party retains the right to continue broadcasting and/or sublicense the rights to the content that it surrendered in the exchange. We account for these nonmonetary exchanges in accordance with ASC 845, *Nonmonetary Transactions*. The exchange of online broadcasting rights of video content is similar to the exchange of inventory, since both parties use the exchanged content in the same line of business to facilitate advertising sales to customers who are not parties to the exchange. As a result, we record these nonmonetary exchanges at the carrying values of the broadcasting rights given up, which is RMB nil, with no resulting gain or loss being recognized.

Commissions to third-party advertising agencies

We provide cash incentives in the form of commissions to certain third-party advertising agencies based on volume and performance and account for such incentives in accordance with ASC subtopic 605-50-25, *Revenue Recognition: Customer Payments and Incentives*. We account for cash consideration given to agencies for which we do not receive a separately identifiable benefit or cannot reasonably estimate fair value as a reduction of revenue.

Share-Based Compensation Expenses

Our share-based compensation plan is described in more detail under “Item 6B. Directors, Senior Management and Employees—Compensation of Directors and Executive Officers.” We grant options to employees and non-employees. As of March 31, 2014, options and restricted share units to purchase 183,668,958 ordinary shares were outstanding. The following table sets forth the options granted since the adoption of the Plan that were outstanding as of March 31, 2014:

<u>Date of Option Grant</u>	<u>Options Outstanding</u>	<u>Exercise Price</u> (US\$)	<u>Weighted-average Fair Value of Option</u> (US\$)	<u>Fair Value of Ordinary Shares</u> (US\$)
Prior to 2010	28,723,590			
February 1, 2010	8,250,840	0.190850707	0.1062	0.1849
February 11, 2010	1,199,898	0.3901	0.6047	0.9878
May 12, 2010	172,404	0.3901	0.6078	0.9878
July 29, 2010	870,696	0.3774	0.6226	0.9878
August 1, 2010	8,226,504	0.40	0.2005	0.3855
November 10, 2010	3,443,832	0.48	0.4287	0.7111
November 10, 2010	1,620,000	0.48	0.4416	0.7111
January 26, 2011	3,275,082	0.6905	0.4212	0.9878
September 1, 2011	1,999,998	1.3928	0.7350	1.3928
October 13, 2011	1,488,312	0.5695	0.5796	0.9878
December 20, 2011	717,750	0.3623	0.6560	0.9878
January 3, 2012	—	0.3860	0.6629	0.9878
February 23, 2012	7,497,576	0.5298	0.6157	0.9878
October 2, 2012	3,089,790	1.0389	0.5508	1.0389
April 2, 2013	11,997,432	0.9083	0.4828	0.9083
October 2, 2013	2,160,126	1.5922	0.8190	1.5922
December 2, 2013	1,000,026	1.5656	0.7580	1.5656
March 2, 2014	495,018	1.8439	0.9600	1.8439
Total	86,228,874			

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<u>Date of Restricted Share Unit Grants</u>	<u>Restricted Share Units Outstanding</u>	<u>Exercise Price (US\$)</u>	<u>Weighted-average Fair Value of Restricted Share Units (US\$)</u>	<u>Fair Value of Ordinary Shares (US\$)</u>
June 17, 2011	5,662,620	—	1.5578	1.5578
September 1, 2011	1,440,036	—	1.3928	1.3928
November 19, 2011	4,500,000	—	0.9239	0.9239
January 6, 2012	2,405,502	—	0.9161	0.9161
March 1, 2012	3,885,732	—	1.3967	1.3967
October 1, 2012	3,823,668	—	1.0217	1.0217
April 1, 2013	19,869,102	—	0.9317	0.9317
October 1, 2013	15,974,874	—	1.5222	1.5222
December 1, 2013	1,034,082	—	1.5656	1.5656
March 1, 2014	38,844,468	—	1.1328	1.1328
Total:	<u>97,440,084</u>			

Share-based compensation expense for all share-based awards granted to employees is determined according to ASC 718-10, *Compensation-Stock Compensation: Overall*. Under the fair value recognition provisions of ASC 718-10, share-based compensation costs are measured at the grant date. The binomial option pricing model is used to determine the fair value of the stock options granted to employees. The binomial model requires the input of highly subjective assumptions, including the expected stock price volatility and the sub-optimal early exercise factor. The assumptions used in calculating the fair value of share-based awards represent our best estimates, but these estimates involve inherent uncertainties and the application of our judgment. As a result, if factors change and we use different assumptions, our share-based compensation expenses could be materially different in the future. In addition, we are required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. We estimate the forfeiture rate based on historical experience. Further, to the extent our actual forfeiture rate is different from our estimate, stock-based compensation expense is adjusted accordingly. We have elected to recognize compensation costs on the straight-line method, net of estimated forfeiture over the requisite service period with a graded vesting schedule.

Consolidation of Affiliated Entities

PRC law currently restricts foreign ownership of Internet content and advertising businesses. To comply with these foreign ownership restrictions, we operate our Youku and Tudou platforms and provide online advertising services in China through our principal consolidated affiliated entities, each a PRC company wholly owned by shareholders who are PRC citizens and senior executive officers, employees or affiliates of us. Among other things, 1Verge Information and Quan Toodou are the operator and Internet content provider of our websites and hold the primary qualifications required to conduct our online video and advertising operations. Either of our wholly owned subsidiaries 1Verge Internet and Reshuffle Technology, as the case may be, enters into contractual arrangements with our consolidated affiliated entities and their respective shareholders, pursuant to which our wholly owned subsidiaries extended loans to the shareholders of these consolidated affiliated entities, who in turn applied the funds from those loans as their respective paid-in capital. Our wholly owned subsidiaries provide technology consulting services to the consolidated affiliated entities and have licensed certain trademarks and domain names to them. Despite the lack of technical majority ownership, a parent-subsidiary relationship exists between us and our consolidated affiliated entities, whereby the shareholders of the consolidated affiliated entities effectively assigned all of their voting rights underlying their equity interest in the consolidated affiliated entities to us. In addition, through the contractual arrangements, we demonstrate our ability and intention to exercise the ability to absorb substantially all the profits and the expected losses of the consolidated affiliated entities. Based on all the aforementioned contractual arrangements, we consolidate the affiliated entities as required by ASC subtopic 810-10, *Consolidation: Overall*.

Accounts Receivable

We consider many factors in assessing the collectability of our receivables due from our customers, such as the age of the amounts due and customers' payment history and credit-worthiness. We record an allowance for doubtful accounts in the period in which a loss is determined to be probable. Accounts receivable balances are written off after all collection efforts have been exhausted.

Capitalized content production costs

We contract for the production of, and self-produce, short films to exhibit on our websites. Capitalized content production costs (which include direct production costs, production overhead and acquisition costs) are stated at the lower of unamortized cost or estimated fair value.

Cash outflows for capitalized content production costs are presented as cash flows from operating activities in accordance with ASC 926-230-45, *Entertainment—Films: Statement of Cash Flows, Other Presentation Matters*.

Non-episodic film costs

We amortize production costs using the individual-film-forecast-computation method, which amortizes such costs in the same ratio that current period actual revenue (numerator) bears to estimated remaining unrecognized ultimate revenue as of the beginning of the fiscal year (denominator).

We estimate total revenues to be earned, or ultimate revenues, throughout the life of a film. Ultimate revenue estimates for the produced films are periodically reviewed and adjustments, if any, will result in changes to amortization rates. Estimates used in calculating the fair value of the self-produced content are based upon assumptions about future demand and market conditions.

Non-episodic film costs are only capitalized when the revenue stream related to the produced videos is determinable either through specific advertising contracts or other circumstances whereby revenue can be determined to be associated with the specific video and the ultimate revenue can be reasonably estimated.

Episodic film costs

Due to the uncertainty of making reliable estimates, for episodic films, estimates of ultimate revenues are limited to the amount of revenue contracted for each episode. Accordingly, production costs incurred in excess of the amount of revenue contracted for each episode are expensed as incurred on an episode-by-episode basis.

We amortize such costs for each episode in the same ratio that current period actual revenue (numerator) bears to estimated remaining unrecognized ultimate revenue as of the beginning of the current period (denominator) that is related to each episode.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the identifiable net assets acquired in a business combination.

We assess goodwill for impairment in accordance with ASC subtopic 350-20, or ASC 350-20, *Intangibles — Goodwill and Other — Goodwill*, which requires that goodwill be tested for impairment at the reporting unit level at least annually and more frequently upon the occurrence of certain events, as defined by ASC 350-20. A reporting unit is defined as an operating segment or one level below an operating segment referred to as a component. We determine the reporting units by first identifying the operating segments, and then assesses whether any components of these segments constituted a business for which discrete financial information is available and where segment management regularly reviews the operating results of that component. Prior to the acquisitions of Trade Lead (including Tianshi) and Tudou, we had one reporting unit because no discrete financial information was available below the consolidated level. Subsequent to these acquisitions, we continue to have one reporting unit as the operating results of Trade Lead (including Tianshi) and Tudou are not regularly reviewed by segment management.

Goodwill is tested for impairment on October 1 in each year. We adopted Accounting Standards Update No. 2012-02, *Intangibles — Goodwill and Other (Topic 350), Goodwill for Impairment*, pursuant to which we can elect to perform a qualitative assessment to determine whether the two-step impairment testing of goodwill is necessary. In 2012 and 2013, we elected to use the two-step process required by ASC 350-20 to perform the annual impairment test. First, we review the carrying amount of the reporting unit compared to the fair value of the reporting unit. If the fair value of the reporting unit exceeds the carrying value of the reporting unit, goodwill is not impaired and we are not required to perform further testing. If the carrying value of the reporting unit exceeds the fair value of the reporting unit, we must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit's goodwill. We determine the implied fair value of goodwill by deducting the fair values of identifiable assets and liabilities from the fair value of the reporting unit. The fair value of identifiable assets and liabilities are determined using a discounted cash flow approach. Such approach is based on cash flow assumptions that are consistent with the plans and estimates being used to manage the business. If the implied fair value of the reporting unit goodwill is lower than its carrying amount, goodwill of the reporting unit is impaired and is written down to its implied fair value. There has been no impairment of goodwill in any of the years presented.

Intangible assets

Licensed copyrights relate to titles of movies, television series and other video content acquired from external parties. Licensed copyrights are amortized using an accelerated method based on consumption patterns. Estimates of the consumption patterns for licensed copyrights are reviewed periodically and revised, if necessary. When the amortization pattern is revised, it is accounted for as a change in accounting estimate prospectively. The amortization of licensed video content other than movies and television series is on a straight-line basis, as the consumption pattern based on historical viewing data supports this method.

The advertising license is amortized using the straight-line method over the remaining term of the license.

The intangible assets acquired in the merger with Tudou, namely technology, customer relationships, non-compete agreement, user generated content, licensed copyrights and domain name, trademark and online video license, are recognized and measured at the fair value as of the acquisition date.

The technology and customer relationship are amortized using the straight-line method over the estimated useful life. The non-compete agreement is amortized using the straight-line method over the contractual period. The user generated content is amortized using an accelerated method over the estimated useful life, which is expected to be two years.

Domain names, trademarks and online video licenses acquired from the merger with Tudou may be renewed indefinitely at little cost, and we intend to renew the domain names, trademarks and online video licenses indefinitely. Intangible assets with an indefinite useful life are not amortized. Instead, they are tested for impairment annually or more frequently if events or changes in circumstances indicate that it is more likely than not that the assets are impaired. We assess indefinitely-lived intangible assets for impairment in accordance with ASC subtopic 350-30, *Intangibles — Goodwill and Other: General Intangibles Other than Goodwill* on October 1 of each year. There has been no impairment charges realized on our indefinitely-lived intangible assets in any of the years presented.

Impairment of long-lived assets other than goodwill

We evaluate long-lived assets, such as fixed assets and purchased or acquired intangible assets with finite lives, for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable in accordance with ASC subtopic 360-10, *Property, Plant and Equipment: Overall*. When such events occur, we assess the recoverability of an asset group based on the undiscounted future cash flows the asset group is expected to generate and recognizes an impairment loss when estimated undiscounted future cash flows expected to result from the use of the asset group plus net proceeds expected from the eventual disposition of the asset group, if any, is less than the carrying value of the asset group. If we identify an impairment, we reduce the carrying value of the asset group to its estimated fair value based on a discounted cash flow approach or, when available and appropriate, to comparable market values. We use estimates and judgments in our impairment tests, and if different estimates or judgments had been utilized, the timing or the amount of any impairment charges could be different. Asset groups to be disposed of would be reported at the lower of its carrying value or fair value less costs to sell, and no longer depreciated. The assets and liabilities of a disposal group classified as held for sale would be presented separately in the appropriate asset and liability sections of the consolidated balance sheets.

During 2013, we revisited the consumption patterns of licensed television series and movies that showed an impairment indicator, namely that the carrying value of the licensed copyrights may not be recoverable. We determined that the asset group subject to the recoverability test should include prepayments for licensed copyrights, licensed copyrights, advertising license, technology, non-compete agreement, customer relationship, user generated content, capitalized content production costs and property, plant and equipment. We then performed a recoverability test as of July 1, 2013 and recorded an impairment charge of RMB96.0 million (US\$15.9 million) for the year ended December 31, 2013. We did not record impairment charges in 2011 or 2012.

In accordance with ASC 360-10 and ASC 250, *Accounting Changes and Error Corrections*, or ASC 250, the change in consumption patterns for licensed copyrights is considered a change in accounting estimate, and such change in accounting estimate was applied after the impairment loss was recorded against the carrying amounts of the assets within the asset group.

Income Taxes

We account for income taxes using the liability method in accordance with ASC subtopic 740-10, *Income Taxes: Overall*. We determine deferred taxes based upon differences between the financial reporting and tax bases of assets and liabilities at currently enacted tax rates for the years in which the differences are expected to reverse. ASC 740-10 also provides guidance on accounting for uncertainty in income taxes. The guidance prescribes a more likely than not threshold for financial statement recognition and measurement of a tax position taken, or expected to be taken, on an income tax return. Also provided is guidance on subsequent re-measurement and de-recognition of income tax position, classification of current and deferred income tax assets and liabilities, accounting for interest, penalties associated with uncertain tax positions, accounting for income taxes in interim periods and income tax disclosures. Significant judgment is required in evaluating our uncertain tax positions and determining its provision for income taxes. We record a valuation allowance to offset deferred tax assets if, based on the weight of available evidence, it is more-likely-than-not that a portion, or all, of such deferred tax assets will not be realized. The effect on deferred taxes of a change in tax rates is recognized in the consolidated statements of comprehensive loss in the period that includes the enactment date of such change.

Results of Operations

The following table sets forth a summary of our consolidated results of operations by amount and as a percentage of our total net revenues for the periods indicated. This information should be read together with our consolidated financial statements and related notes included elsewhere in this annual report on Form 20-F. The operating results in any period are not necessarily indicative of the results that may be expected for any future period.

	Year Ended December 31,			
	2011 RMB	2012 RMB	2013 RMB	US\$
	(in thousands)			
Net revenues (1)	897,624	1,795,575	3,028,484	500,271
Cost of revenues	(697,337)	(1,499,536)	(2,487,421)	(410,893)
Gross profit	200,287	296,039	541,063	89,378
Operating expenses:				
Sales and marketing	(230,475)	(363,707)	(681,008)	(112,494)
Product development	(72,573)	(172,885)	(278,015)	(45,925)
General and administrative	(80,529)	(238,112)	(261,770)	(43,241)
Total operating expenses	(383,577)	(774,704)	(1,220,793)	(201,660)
Loss from operations	(183,290)	(478,665)	(679,730)	(112,282)
Interest income	23,693	45,478	29,972	4,950
Interest expense	(6,825)	(3,989)	(545)	(90)
Others, net	(5,682)	9,757	70,573	11,658
Loss before income taxes	(172,104)	(427,419)	(579,730)	(95,764)
Income tax benefit (expense)	—	3,416	(1,014)	(168)
Net loss	(172,104)	(424,003)	(580,744)	(95,932)

(1) Net revenues are presented net of commissions earned by third-party advertising agencies, as the term is defined on page 1, as set forth below:

	Year Ended December 31,			
	2011 RMB	2012 RMB	2013 RMB	US\$
	(in thousands)			
Commissions earned by third-party advertising agencies	180,644	442,663	584,978	96,631

Comparison of the Years Ended December 31, 2012 and 2013

Net Revenues. Our total net revenues increased significantly from RMB1.8 billion in 2012 to RMB3.0 billion (US\$500.3 million) in 2013. This increase was primarily due to a substantial increase in our revenues from brand advertising sales and other sources, such as mobile subscription services and sub-licensing of licensed content to other video websites.

Our brand advertising revenues increased significantly from RMB1.6 billion in 2012 to RMB2.7 billion (US\$446.3 million) in 2013. This increase was mainly attributable to increased use by brand advertisers of our advertising services to promote their brands and market their products and services, as evidenced by the increased average spend per advertiser from RMB2.8 million in 2012 to RMB3.5 million in 2013 and by an increase in the number of advertisers from 741 in 2012 to 931 in 2013, representing a 25% and 26% increase, respectively.

Cost of Revenues. Our cost of revenues increased significantly by 66% from RMB1.5 billion in 2012 to RMB2.5 billion (US\$410.9 million) in 2013. The increase in our cost of revenues was due to increases in content costs, bandwidth costs, impairment charges for intangible assets and fixed assets, depreciation and impairment of servers and other equipment and VAT and business tax.

- **Content Costs.** Our content costs increased significantly from RMB737.1 million in 2012 to RMB1,422.9 million (US\$235.0 million) in 2013. This was primarily due to amortization expense for licensed content in line with the rapid expansion of our content library, especially for premium and popular content and the impairment charges on licensed copyrights.
- **Bandwidth Costs.** Our bandwidth costs increased by 31% from RMB524.6 million in 2012 to RMB685.7 million (US\$113.3 million) in 2013, resulting from increased bandwidth needs to support the growth of our user traffic and a better user experience. As a percentage of net revenues, our bandwidth costs decreased from 29% in 2012 to 23% in 2013 due to strong operating leverage.
- **Depreciation and Impairment of Servers and Other Equipment.** Depreciation of our servers and other equipment increased by 49% from RMB68.6 million in 2012 to RMB102.4 million (US\$16.9 million) in 2013, as we acquired more servers and other equipment to accommodate increased user traffic. In 2013, there were also impairment charges of RMB16.3 million on servers and other equipment.
- **VAT and Business Tax.** VAT and business tax we incurred increased significantly from RMB169.3 million in 2012 to RMB276.5 million (US\$45.7 million) in 2013, in line with the growth in our revenues before deduction of commissions earned by third-party advertising agencies.

Operating Expenses. Our operating expenses increased by 58% from RMB774.7 million in 2012 to RMB1,220.8 million (US\$201.7 million) in 2013, primarily due to increases in impairment charges, sales and marketing expenses, product development expenses and general and administrative expenses, which reflected the general growth of our business.

- **Sales and Marketing Expenses.** Our sales and marketing expenses increased by 87% from RMB363.7 million in 2012 to RMB681.0 million (US\$112.5 million) in 2013. This increase was primarily due to rapid expansion of our sales team, our increased spending on marketing activities, and impairment charges on intangible assets and property and equipment, such as furniture, computer equipment.
- **Product Development Expenses.** Our product development expenses increased significantly by 61% from RMB172.9 million in 2012 to RMB278.0 million (US\$45.9 million) in 2013, primarily due to an increase in salaries and benefits for our product development personnel as a result of the headcount and compensation level increase and impairment charges on intangible assets and property and equipment, such as furniture and computer equipment.
- **General and Administrative Expenses.** Our general and administrative expenses increased by 10% from RMB238.1 million in 2012 to RMB261.8 million (US\$43.2 million) in 2013, primarily due to an increase in personnel related expenses, professional service fees and impairment charges on intangible assets and property and equipment, such as furniture and computer equipment.

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Interest Income. Our interest income decreased from RMB45.5 million in 2012 to RMB30.0 million (US\$5.0 million) in 2013, primarily due to decreased investments in 6-month bank deposit products.

Interest Expense. Our interest expense decreased from RMB4.0 million in 2012 to RMB0.5 million (US\$0.1 million) in 2013, primarily due to decreased venture debt principal in year 2013 compared to that in year 2012.

Taxation. In 2012, income tax benefit was RMB3.4 million, which included RMB6.5 million current year income tax and RMB9.9 million income tax benefit. In 2013, income tax expense was RMB1.0 million (US\$0.2 million), which included RMB3.4 million current year income tax and RMB2.4 million income tax benefit.

Net Loss. As a result of the foregoing, our net loss increased from RMB424.0 million in 2012 to RMB580.7 million (US\$95.9 million) in 2013, primarily due to the increases in our sales and marketing efforts, content costs and bandwidth costs.

Comparison of the Years Ended December 31, 2011 and 2012

Net Revenues. Our total net revenues increased significantly from RMB897.6 million in 2011 to RMB1.8 billion in 2012. This increase was primarily due to a substantial increase in our revenues from brand advertising sales and other sources, such as mobile subscription services and sub-licensing of licensed content to other video websites.

Our brand advertising revenues increased significantly from RMB851.3 million in 2011 to RMB1.6 billion in 2012. This increase was mainly attributable to increased use by brand advertisers of our advertising services to promote their brands and market their products and services, as evidenced by the increased average spend per advertiser from RMB2.0 million to RMB2.8 million and by an increase in the number of advertisers from 505 in 2011 to 741 in 2012 during these periods, representing a 36% and 47% increase from 2011, respectively.

Cost of Revenues. Our cost of revenues increased significantly by 115% from RMB697.3 million in 2011 to RMB1.5 billion in 2012. The increase in our cost of revenues was due to increases in content costs, bandwidth costs, depreciation of servers and other equipment and VAT and business tax.

- **Content Costs.** Our content costs increased significantly from RMB243.4 million in 2011 to RMB737.1 million in 2012. This was primarily due to the rapid expansion of our content library, especially for premium and popular content, and the continued increase in unit acquisition cost of professionally produced content, such as licensing fees for television serial dramas and movies.
- **Bandwidth Costs.** Our bandwidth costs increased by 62% from RMB324.7 million in 2011 to RMB524.6 million in 2012, resulting from increased bandwidth needs to support the growth of our user traffic and a better user experience. As a percentage of net revenues, our bandwidth costs decreased from 36% in 2011 to 29% in 2012 due to strong operating leverage.
- **Depreciation of Servers and Other Equipment.** Depreciation of our servers and other equipment increased by 76% from RMB39.1 million in 2011 to RMB68.6 million in 2012, as we acquired more servers and other equipment to accommodate increased user traffic.
- **VAT and Business Tax.** VAT and business tax we incurred increased significantly from RMB90.2 million in 2011 to RMB169.3 million in 2012, in line with the growth in our revenues before deduction of commissions earned by third-party advertising agencies.

Operating Expenses. Our operating expenses increased by 102% from RMB383.6 million in 2011 to RMB774.7 million in 2012, primarily due to increases in sales and marketing expenses, product development expenses and general and administrative expenses, which reflected the general growth of our business.

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- **Sales and Marketing Expenses.** Our sales and marketing expenses increased by 58% from RMB230.5 million in 2011 to RMB363.7 million in 2012. This increase was primarily due to rapid expansion of our sales team and our increased spending on marketing activities.
- **Product Development Expenses.** Our product development expenses increased significantly by 138% from RMB72.6 million in 2011 to RMB172.9 million in 2012, primarily due to an increase in salaries and benefits for our product development personnel as a result of the headcount and compensation level increase.
- **General and Administrative Expenses.** Our general and administrative expenses increased by 196% from RMB80.5 million in 2011 to RMB238.1 million in 2012, primarily due to an increase in personnel related expenses and professional service fees incurred in connection with the business combination with Tudou.

Interest Income. Our interest income increased from RMB23.7 million in 2011 to RMB45.5 million in 2012 primarily due to increased investments in 6-month bank deposit products.

Interest Expense. Our interest expense decreased from RMB6.8 million in 2011 to RMB4.0 million in 2012, primarily due to decreased venture debt principal in year 2012 compared to that in year 2011.

Change in Fair Value of Warrant Liability. We did not incur any loss in change of fair value of warrant liability in both 2011 and 2012.

Taxation. Since we had an operating loss before income taxes in 2011, we had RMB nil income taxes in that year. In 2012, RMB3.4 million income tax benefit were recognized, which can be carried forward to offset future taxable income.

Net Loss. As a result of the foregoing, our net loss increased from RMB172.1 million in 2011 to RMB424.0 million in 2012, primarily due to the increases in our sales and marketing efforts, content costs, bandwidth costs and consolidation of the incurred loss of Tudou after the completion of merger.

B Liquidity and Capital Resources

As of December 31, 2013, we had RMB3.2 billion (US\$524.7 million) in cash, cash equivalents and short-term investments. We have also entered into certain loan agreements in the normal course of our business to finance our operations in the past years. As of December 31, 2013, we had no outstanding long-term debt under these agreements. We believe the cash we received from our public offerings and the anticipated cash flow from operations will provide us with sufficient capital to meet our anticipated cash needs for the foreseeable future. If we have additional liquidity needs in the future, we may obtain additional financing, including equity offering and debt financing in capital markets, to meet such needs.

Furthermore, cash transfers from our PRC subsidiaries to our subsidiaries outside of China are subject to PRC government control of currency conversion. Restrictions on the availability of foreign currency may affect the ability of our PRC subsidiaries and consolidated affiliated entities to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency denominated obligations. See “Item 3. Key Information D. Risk Factors—Risks Related to Doing Business in China—Governmental control of currency conversion may limit our ability to utilize our revenues effectively and affect the value of your investment.”

The following table sets forth a summary of our cash flows for the years indicated.

Although we consolidate the results of our consolidated affiliated entities, our access to cash balances or future earnings of these entities is only through our contractual arrangements with them. See “Item 4.C—Organizational Structure.”

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	Year Ended December 31,			
	2011 RMB	2012 RMB	2013 RMB	US\$
	(in thousands)			
Net cash provided by operating activities	63,870	137,420	269,483	44,515
Net cash used in investing activities	(1,973,415)	(784,193)	(185,024)	(30,563)
Net cash provided by financing activities	2,490,509	17,865	93,758	15,488
Effect of foreign exchange rate changes on cash and cash equivalents	(99,849)	(7,773)	(69,853)	(11,539)
Net increase in cash and cash equivalents	481,115	(636,681)	108,364	17,901
Cash and cash equivalents at the beginning of the year	1,811,423	2,292,538	1,655,857	273,528
Cash and cash equivalents at the end of the year	2,292,538	1,655,857	1,764,221	291,429

Operating Activities

Net cash provided by, or used in, operating activities consisted primarily of our net loss mitigated by non-cash adjustments, such as amortization of intangible assets, depreciation of servers and other equipment, and adjusted by changes in assets and liabilities, such as accounts receivable and accrued expenses and other liabilities. The fluctuations of net cash provided by operating activities largely correspond to the changes in net loss. The increases in our accounts receivable were primarily due to the growth of our business.

Net cash from operating activities amounted to RMB269.5 million (US\$44.5 million) in 2013, primarily attributable to net loss of RMB580.7 million (US\$95.9 million), adjusted for an increase of RMB142.1 million (US\$23.5 million) in accrued expenses and other liabilities, an add-back of certain non-cash expenses such as amortization of intangible assets and capitalized content production costs of RMB788.3 million (US\$130.2 million), impairment of long-lived assets of RMB96.1 million (US\$15.9 million), share-based compensation of RMB188.4 million (US\$31.1 million), and depreciation of RMB111.1 million (US\$18.4 million), partially offset by an increase of RMB499.8 million (US\$82.6 million) in accounts receivable.

Net cash from operating activities amounted to RMB137.4 million in 2012, primarily attributable to net loss of RMB424.0 million, adjusted for an increase of RMB214.9 million in accrued expenses and other liabilities, an add-back of certain non-cash expenses such as amortization of intangible assets and self-produced content of RMB416.4 million, share-based compensation of RMB118.2 million, and depreciation of RMB81.6 million, partially offset by an increase of RMB223.8 million in accounts receivable.

Net cash from operating activities amounted to RMB63.9 million in 2011, primarily attributable to net loss of RMB172.1 million, adjusted for an increase of RMB198.1 million in accrued expenses and other liabilities, an add-back of certain non-cash expenses such as amortization of intangible assets and capitalized content of RMB166.6 million, share-based compensation of RMB47.5 million, and depreciation of RMB45.7 million, partially offset by an increase of RMB206.7 million in accounts receivable and amounts due from a related party.

Investing Activities

Net cash used in or provided by investing activities largely reflects our capital expenditures and short-term investments, which consist of purchases of copyrights, property and equipment in connection with the expansion and upgrade of our technology infrastructure, as well as short-term investments we made.

Net cash used in investing activities amounted to RMB185.0 million (US\$30.6 million) in 2013, primarily due to proceeds from and purchases of short-term investments in the amount of RMB3.0 billion (US\$493.9 million) and RMB2.3 billion (US\$377.2 million), respectively, the purchase of servers and equipment in the amount of RMB144.1 million (US\$23.8 million), acquisition of intangible assets in the amount of RMB740.6 million (US\$122.3 million), and acquisitions of subsidiaries in the amount of RMB7.0 million (US\$1.2 million).

Net cash used in investing activities amounted to RMB784.2 million in 2012, primarily due to proceeds from and purchases of short-term investments in the amount of RMB2.8 billion and RMB3.5 billion, respectively, the purchase of servers and equipment in the amount of RMB90.2 million, acquisition of intangible assets in the amount of RMB362.0 million, and acquisitions of subsidiaries in the amount of RMB378.7 million.

Net cash used in investing activities amounted to RMB2.0 billion in 2011, primarily attributable to proceeds from and purchases of short-term investments in the amount of RMB1.2 billion and RMB2.6 billion, respectively, the purchase of servers and equipment in the amount of RMB84.9 million, and acquisition of intangible assets in the amount of RMB490.8 million.

Financing Activities

Net cash provided by financing activities amounted to RMB93.8 million (US\$15.5 million) in 2013, primarily due to proceeds from exercise of employee stock options in the amount of RMB101.4 million (US\$16.8 million), partially offset by principal repayments of long-term debt in the amount of RMB7.7 million (US\$1.3 million).

Net cash provided by financing activities amounted to RMB17.9 million in 2012, primarily due to proceeds from exercise of employee stock options in the amount of RMB22.5 million, proceeds from restricted cash in the amount of RMB38.1 million, partially offset by principal repayments of short-term debt and long-term debt in the amount of RMB31.5 million and RMB11.2 million, respectively.

Net cash provided by financing activities amounted to RMB2.5 billion in 2011, primarily attributable to proceeds from our follow-on offering in May 2011 in the aggregate amount of RMB2.5 billion net of issuance costs, partially offset by principal repayments of long-term debt in the amount of RMB27.1 million.

Capital Expenditures

We made capital expenditures of RMB84.9 million, RMB90.2 million and RMB144.1 million (US\$23.8 million) in 2011, 2012 and 2013, respectively. In the past, our capital expenditures were primarily used to purchase servers and other networking equipment for our business. We expect to incur capital expenditures of up to approximately RMB230.0 million in 2014, which will be primarily used to purchase of servers and other networking equipment for our CDN infrastructure improvement. Our capital expenditures may increase in the near term as our business continues to grow and as we expand and improve our CDN infrastructure.

Holding Company Structure

We are a holding company with no material operations of our own. We conduct our operations primarily through our wholly-owned subsidiaries and consolidated affiliated entities in China. As a result, our ability to pay dividends depends upon dividends paid by our PRC subsidiaries. If our PRC subsidiaries or any newly formed subsidiaries incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends to us. In addition, our PRC subsidiaries are permitted to pay dividends to us only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Under PRC law, each of our subsidiaries and consolidated affiliated entities in China is required to set aside at least 10% of its after-tax profits each year, if any, to fund certain statutory reserve funds until such reserve funds reach 50% of its registered capital. In addition, at its discretion, each of our subsidiaries and consolidated affiliated entities in China may allocate a portion of its after-tax profits based on PRC accounting standards to staff welfare and bonus funds. These reserve funds and staff welfare and bonus funds are not distributable as cash dividends. Except Tianshi, our PRC subsidiaries have not paid our offshore entities any dividends, nor have they set aside any money to fund certain statutory reserve funds or staff welfare and bonus funds as they have not been profitable. Our PRC subsidiaries will not be able to pay dividends to our offshore entities until they generate accumulated profits and meet the requirements for statutory reserve funds. As of December 31, 2013, our PRC subsidiaries had accumulated deficits of RMB1.3 billion (US\$221.8 million) in accordance with PRC accounting standards and regulations.

C [Research and Development, Patents and Licenses, etc.](#)

Research and Development

We have a team of experienced engineers. The supervisors in charge of our product development department graduated from prestigious universities in China and worked at well-established Internet and software companies in China before joining us. As of December 31, 2013, our product development staff consisted of 653 engineers and technicians. Substantially all of our engineers are based at our headquarters in Beijing. We recruit most of our engineers locally and provide various training programs to them. We compete aggressively for engineering talent to help us address challenges such as CDN maintenance and Internet bandwidth efficiency.

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Our current product development efforts are focused on developing and improving, among other things, our video delivery capabilities, our websites and user interfaces, our video search and discovery technology, client software to promote adoption of our platform, infrastructure technologies, advertising management systems and user data analysis technologies. In the years ended December 31, 2011, 2012 and 2013, our product development expenses were RMB72.6 million, RMB172.9 million and RMB278.0 million (US\$45.9 million), respectively. We have expensed all of the product development costs for the research and development of products and new functionality as incurred.

Intellectual Property

We rely on a combination of trademark, copyright and trade secret protection laws in the PRC and other jurisdictions, as well as confidentiality procedures and contractual provisions, to protect our intellectual property and our brands. As of March 31, 2014, we had 233 registered trademarks in China, including “优酷,” “iKu,” “youku.com 优酷,” “tudou,” “YOUKU 优币,” “优土” and “优豆.” Furthermore, we have also applied to register additional trademarks, Youku Tudou group trademarks and logos, including but not limited to “iKu,” “Soku,” “搜酷,” “Youku Tudou” and “优酷土豆” with the Trademark Office of the SAIC of the PRC. We have registered our domain names, including youku.com, tudou.com and soku.com. We have 51 software registrations, including those in connection with our advertisement management, CDN and video search engine, such as Youku advertisement management system (ATM 1.0). We have obtained a computer software copyright registration certificate for “iKu”, our self-developed, proprietary software client. We own the copyright to our jointly developed video fingerprint system and its related resolution analysis.

D Trend Information

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the year 2013 that are reasonably likely to have a material adverse effect on our net revenues, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

E Off-Balance Sheet Arrangements

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholders' equity, or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

F Tabular Disclosure of Contractual Obligations

The following table sets forth our contractual obligations as of December 31, 2013:

	Payments Due by Period					
	Total		1 year	1-3 years	3-5 years	More than 5 years
	RMB	US\$	RMB	RMB	RMB	RMB
			(in thousands)			
Operating lease obligations	107,809	17,809	62,507	45,302	—	—
Bandwidth rental	634,499	104,812	567,465	66,834	200	—
Licensed copyrights	413,528	68,310	287,705	122,577	3,246	—

Our operating lease obligations relate to non-cancelable leases of our office properties in the PRC that are expiring on different dates. Our bandwidth rental and licensed copyrights relate to future minimum payments under non-cancelable operating leases of our bandwidth and copyrights purchase agreements.

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G Safe Harbor

This annual report on Form 20-F contains forward-looking statements that relate to future events, including our future operating results and conditions, our prospects and our future financial performance and condition, all of which are largely based on our current expectations and projections. The forward-looking statements are contained principally in the sections entitled “Item 3. Key Information—D. Risk Factors,” “Item 4. Information on the Company” and “Item 5. Operating and Financial Review and Prospects.” These statements are made under the “safe harbor” provisions of the U.S. Private Securities Litigation Reform Act of 1995. You can identify these forward-looking statements by words or phrases such as “may,” “will,” “expect,” “anticipate,” “aim,” “estimate,” “intend,” “plan,” “believe,” “likely to” or other similar expressions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include:

- our goals and strategies;
- our future business development, financial condition and results of operations;
- the expected growth of the online video market in China;
- our expectations regarding demand for and market acceptance of our services;
- our expectations regarding the retention and strengthening of our relationships with key advertisers and customers;
- our plans to enhance user experience, infrastructure and service offerings;
- competition in our industry in China; and
- relevant government policies and regulations relating to our industry.

We would like to caution you not to place undue reliance on these statements and you should read these statements in conjunction with the risk factors disclosed in the section entitled “Item 3. Key Information—D. Risk Factors.” Except as required by law, we undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A Directors and Senior Management

The following table sets forth information regarding our directors and executive officers as of the date of this annual report.

<u>Name</u>	<u>Age</u>	<u>Position/Title</u>
Victor Wing Cheung Koo	47	Chairman of the Board of Directors, Chief Executive Officer
Dele Liu	45	Director, President
George Leonard Baker Jr.	71	Independent Director
Jonathan Jia Zhu	51	Independent Director
Ye Sha	41	Independent Director
Bryan Zongwei Li	41	Independent Director
Jixun Foo	46	Independent Director
Michael Ge Xu	43	Chief Financial Officer, Senior Vice President
Leo Jian Yao	38	Chief Technology Officer
Frank Ming Wei	39	Senior Vice President and President of Youku.com
Weidong Yang	40	Senior Vice President and President of Tudou.com
Sunny Xiangyang Zhu	42	Chief Content Officer
Yawei Dong	43	Chief Marketing Officer
Huilong Zhu	38	Senior Vice President

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Victor Wing Cheung Koo is the founder of our company. Mr. Koo has served as the chairman of our board of directors and chief executive officer since our inception in September 2005. He has over 12 years of experience in Internet and media-related industries in China. From 1999 to 2005, Mr. Koo worked at Sohu, China's leading Internet portal that is listed on the NASDAQ. Mr. Koo served in various positions at Sohu, including as president, chief operating officer and chief financial officer, helping to grow Sohu from an early-stage company to a listed Internet media property in China. Prior to joining Sohu, Mr. Koo held various senior positions in Richina Capital Partners Limited, a China-based private equity firm from 1994 to 1999, including vice president and director of business development. Prior to that, Mr. Koo worked at Procter & Gamble Co. in Hong Kong in 1993 and Bain & Company in San Francisco from 1989 to 1992. Mr. Koo received an MBA degree from Stanford University and was a Regents' Scholar at the University of California at Berkeley, where he received a bachelor's degree.

Dele Liu has served as our director since November 2010, and served as our president since July 2012. Mr. Liu had served as our chief financial officer and senior vice president from 2006 to July 2012. He has ten years of experience in the private equity industry in China. Prior to joining our company, Mr. Liu was a vice president of Power Pacific Corporation Limited, a subsidiary of Power Corporation of Canada from 1996 to 2005, during which time he also served on the board of directors of a number of private companies. Mr. Liu worked at Richina Capital Partners Limited as an investment manager from 1995 to 1996. Mr. Liu attended an executive program for management development at Harvard Business School in 2001 and received a bachelor's degree in economics from Shanghai Maritime University.

George Leonard Baker, Jr. has served as our director since 2007. Since 1973, Mr. Baker has been a managing director of the general partner of Sutter Hill Ventures, a venture capital firm located in Palo Alto, California. Mr. Baker currently serves on the board of Corcept Therapeutics Incorporated, which is a publicly traded pharmaceutical company, as well as a number of private companies. He also serves as an advisor for Government of Singapore Investment Corporation as well as its subsidiary Government of Singapore Investment Corporation Special Investments Pte Ltd., a global investment management company managing Singapore's foreign reserves. Mr. Baker received an MBA degree from Stanford University and a bachelor's degree in mathematics from Yale University.

Jonathan Jia Zhu has served as our director since 2007. Mr. Zhu has served as the managing director of Bain Capital Asia LLC, or Bain Capital, since 2006, where he is responsible for private equity investment activities in Asia and serves on the boards of Bain Capital's various portfolio companies, including Clear Media Limited, Gome Electrical Appliances Holdings Limited, Greatview Aseptic Packaging Company Limited and Sunac China Holdings Limited, the shares of which are listed on the Hong Kong Stock Exchange. Prior to joining Bain Capital, Mr. Zhu worked at Morgan Stanley Asia Limited from 1995 to 2006, where he became managing director in 2000 and chief executive officer of China business in 2004. Before joining Morgan Stanley, Mr. Zhu worked with Shearman & Sterling from 1992 to 1994 as an attorney. Mr. Zhu is also a board member of Nanjing University and the Hong Kong Ballet. Mr. Zhu received a J.D. degree from Cornell Law School, a master's degree from Nanjing University and a bachelor's degree from Zhengzhou University.

Ye Sha has served as our director since November 2010. Mr. Sha has been a managing director of Chengwei Ventures since 2009. He also serves as a director of Sunny Optical Technology (Group) Company Limited, an optical manufacturing company listed on the Hong Kong Stock Exchange, MOS Holdings Management Limited, Chengwei CEIBS Limited, One Smart Inc., Chengwei Ventures Evergreen Management, LLC and Renaissance Carbon Investment Ltd. From 2008 to 2009, Mr. Sha was the general manager of the China business at Convergys Corporation. From 2000 to 2008, he was the founder and chief executive officer of BMI Asia Inc., which was subsequently acquired by Convergys Corporation. Mr. Sha received a master's degree in computer science from Wesleyan University and a bachelor's degree in computer science from Shanghai Jiao Tong University.

Bryan Zongwei Li has served as our independent director since November 2010. Mr. Li currently serves as an executive director and the chief financial officer of Yingli Green Energy Holding Company Limited, or Yingli, a vertically integrated photovoltaic product manufacturer in China listed on the NYSE. Prior to joining Yingli in November 2006, Mr. Li served as a senior audit manager and an audit manager at PricewaterhouseCoopers for 11 years. Mr. Li received a master's degree in business administration from Olin School of Business of Washington University, and he graduated from the mechanical engineering department of Shanghai Institute of Technology and from the international finance and insurance department of Shanghai Institute of Business and Administration. Mr. Li is a certified member of Chinese Institute of Certified Public Accountants.

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Jixun Foo has served as our independent director since August 2012. Currently Mr. Foo also serves as a partner at GGV Capital, which was a pre-IPO investor in Tudou. Mr. Foo joined GGV Capital in 2006 and has more than 12 years' experience in venture capital investing and working with Asian entrepreneurs. Mr. Foo serves on the board of directors of a number of GGV Capital portfolio companies. Mr. Foo's work experience prior to joining GGV Capital includes serving as a director of Draper Fisher Jurvetson Planet Ventures, heading up the Investment Group with the Finance & Investment Division, National Science & Technology Board of Singapore (NSTB), and being an R&D project group leader at Hewlett Packard. Mr. Foo has a bachelor of science degree with First-Class Honors in engineering and a master of science degree in management of technology (business) from the National University of Singapore.

Leo Jian Yao has served as our chief technology officer since 2007, and as our chief architect from 2006 to 2007. Before joining our company, Mr. Yao served as the chief technology officer of Sino Credit Technologies (China) Inc., a leading credit card marketing portal in China, from 2005 to 2006, responsible for technology product development. From 2004 to 2005, Mr. Yao was the technology director at an affiliate of New Oriental Education & Technology Group Inc., a NYSE-listed company. From September 2000 to June 2002 and from April 2003 to May 2004, Mr. Yao was head of network operations at Sohu, responsible for 24-7 operational maintenance of Sohu. Mr. Yao received a bachelor's degree in engineering from Southwest Jiaotong University.

Frank Ming Wei has served at various positions in our company since 2007, including senior vice president, vice president and assistant to the chief executive officer, and he became the president of Youku.com in April 2013. Prior to joining our company, he worked as a sales director of Focus.cn, a leading real estate website in China operated by Sohu, from 2005 to 2007. From 2000 to 2005, he worked as sales manager and then assistant to the president of Sohu, where he was responsible for operations of various commercial projects. Mr. Wei received a bachelor's degree in computer science from Southwest University.

Weidong Yang has served as our senior vice president and president of Tudou.com since March 2013. Prior to joining us, Mr. Yang had served as the chief executive officer of Max Times, a youth entertainment content and marketing company, since November 2011. From January 2009 to November 2011, Mr. Yang served as marketing activation director of Nokia Greater China. During the period between 2002 and 2008, Mr. Yang held various positions in advertising and marketing at Nokia. Mr. Yang holds a bachelor's degree in Chinese literature from Hohai University in Nanjing.

Sunny Xiangyang Zhu has served as our chief content officer since April 2013 and from 2006 to March 2013, he was our chief editor. Mr. Zhu established and leads our content team. Before joining our company, he worked at Beijing Flying Network Music Software Development Co., Ltd. as a content director from 2004 to 2005. From 2001 to 2004, he served as the content director at China Guangya Radio Information Internet Ltd., where he was responsible for professional content syndication services. From 1999 to 2001, he worked at Sohu, building up its music and movie channels. Mr. Zhu attended the undergraduate program in Nanjing Political Institute and received a junior college diploma from Anhui University.

Michael Ge Xu has served as our chief financial officer and senior vice president since July 2012. From 2011 to July 2012, Mr. Xu had served as our senior vice president of finance. Prior to joining our company, Mr. Xu was vice president of finance of Focus Media from 2008 to 2011. From 2007 to 2008, he was chief financial officer of ChinaEdu Corporation. From 2004 to 2007, he was vice president of finance at Alibaba Group. Mr. Xu holds an MBA degree and a Master of Accounting degree from the University of Texas and a bachelor's degree in economics from Beijing Institute of International Relations.

Yawei Dong has served as our chief marketing officer since April 2013. From 2006 to March 2013, Mr. Dong had served as our director of business development, general manager of east China, vice president of sales and senior vice president of sales. Prior to joining our company, Mr. Dong was operating director of Shanghai Aowei Digital Media Advertising Co., Ltd. from 2005 through 2006. From 2001 to 2005, he was sales manager of Sohu Shanghai. From 2000 to 2001, he was operating director of Shanghai Shenguang Technology Development Co. From 1996 to 2000, he was account director of Hangzhou Xincheng Advertising Co., Ltd. Mr. Dong holds an MBA degree from Zhe Jiang University and a bachelor's degree in electronic engineering from Zhejiang Radio and Television University.

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Huilong Zhu joined Youku in 2006 as the director of strategic development and became our vice president in 2007. In April 2013, Mr. Zhu was further promoted as our senior vice president. With extensive experience in telecommunications, Internet enterprises, and government relations, Mr. Zhu previously served as general manager of Beijing Great Wall Broadband Network Service Co., Ltd., a pioneer among China broadband Internet companies, during 2002 and 2005. Earlier in his career, Mr. Zhu served in other managerial roles at Beijing Great Wall Network Services Co., Ltd. and held a variety of positions at Xoceco Sambo Computer Co., Ltd, focusing on Tianjin regional sales. Mr. Zhu graduated from the Tianjin University of Technology and Education with a bachelor's degree in information engineering.

Employment Agreements

We have entered into employment agreements with each of our executive officers. We may terminate an executive officer's employment for cause, at any time, without notice or remuneration, for certain acts of the officer, including, but not limited to, a conviction or plea of guilty to a felony, willful misconduct to our detriment or a failure to perform agreed duties. We may also terminate an executive officer's employment without cause by a one-month prior written notice. An executive officer may terminate his or her employment with us by a one-month prior written notice for certain reasons, in which case the executive officer is entitled to the same severance benefits as in the situation of termination by us without cause.

Our executive officers have also agreed not to engage in any activities that compete with us, or to directly or indirectly solicit the services of our employees, for a period of one year after termination of employment. Each executive officer has agreed to hold in strict confidence any confidential information or trade secrets of our company. Each executive officer also agrees to comply with all material applicable laws and regulations related to his or her responsibilities at our company as well as all material corporate and business policies and procedures of our company.

B Compensation of Directors and Executive Officers

For the year ended December 31, 2013, we paid an aggregate of approximately RMB12.2 million (US\$2.0 million) in cash to our senior executive officers, and we did not pay any cash compensation to our non-executive directors.

We have not set aside or accrued any amount of cash to provide pension, retirement or other similar benefits to our officers and directors. Our PRC subsidiaries and consolidated affiliated entities as well as their subsidiaries are required by law to make contributions equal to certain percentages of each employee's salary for his or her retirement benefit, medical insurance benefits, housing funds, unemployment and other statutory benefits.

Share Incentive Plan

2006 Stock Option Scheme

On December 1, 2005, we adopted our 2006 Stock Option Scheme, or the 2006 Plan, to attract and retain the best personnel and promote the success of our business. We amended the 2006 Plan on March 26, 2007, June 20, 2008, December 16, 2009 and September 9, 2010. Our board of directors authorized the issuance and reservation of up to 140,441,231 ordinary shares subject to exercise of option awards granted under the 2006 Plan by the optionees. As of March 31, 2014, options to purchase 52,054,650 Class A ordinary shares were outstanding under the 2006 Plan.

Types of Awards. The 2006 Plan permits the awards of options to purchase our ordinary shares.

Plan Administration. Subject to any specific designation in the 2006 Plan, our board of directors will administer the 2006 Plan. Our board of directors will determine the provisions and terms and conditions of each award grant. These include, among other things, the number of ordinary shares to be granted under the 2006 Plan, the grant price, exercise price, or purchase price, restrictions or limitations on the ordinary shares, restrictions on the exercisability of the grants, accelerations or waivers of the allotment of ordinary shares, and forms of payment upon settlement of an award.

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Letter of Offer and Acceptance Form. Each award granted under the 2006 Plan will be evidenced by a Letter of Offer that sets forth terms, conditions and limitations for each award. To validly accept the grant of options under the 2006 Plan, an optionee needs to complete, sign and return an Acceptance Form acknowledging his or her understanding and acceptance of the terms, conditions and restrictions of the grant within seven days of the receipt of Letter of Offer.

Eligibility. At the discretion of the board of directors, we may grant awards to employees, officers, directors, advisors or consultants of our company.

Transfer Restriction. An option, whether vested or not, shall be personal to the optionee. Subject to certain exceptions, without a prior written consent by the company, neither the option nor any interest therein may be assignable and no optionee shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favor of any third party over or in relation to any option under the 2006 Plan.

Exercise Price and Term of Awards. The board of directors shall determine the exercise price, grant price or purchase price for each award, which shall be stated in the Letter of Offer. Each option shall expire after ten years from the grant date or such shorter period as the board of directors may determine at the time of its grant.

Vesting Schedule. In general, the vesting of the option follows the schedule below: (i) one-sixth of the option shall be vested upon the first anniversary of the grant date; (ii) one-twelfth of the option shall be vested upon the last day of each three-month period of the second and third year after the grant date; and (iii) one-twenty fourth of the option shall be vested upon the last day of each three-month period of the fourth year after the grant date. In addition, the board of directors may provide additional vesting schedule and vesting conditions in the Letter of Offer to each optionee, including without limitation performance goals to be achieved and milestone targets to be reached by the optionee.

Amendment and Termination. Our board of directors may at any time by resolutions amend the 2006 Plan, subject to certain exceptions. In the event of an IPO, the amendment to the 2006 Plan may be effected by an ordinary shareholders resolution as necessary to comply with the law, stock exchange rules, underwriter or transacting parties' request. The 2006 Plan may be terminated at any time before its expiration by ordinary resolutions of the board of directors or the shareholders.

Youku Tudou Inc. Share Incentive Plan (formerly named as Youku Inc. 2010 Share Incentive Plan)

In November 2010, we adopted our 2010 Share Incentive Plan in order to attract and retain the best available personnel, provide additional incentives to employees, directors and consultants and promote the success of our business. The plan permits the grant of options to purchase our Class A ordinary shares, restricted shares and restricted share units as deemed appropriate by the administrator under the plan. The Youku Tudou Inc. Share Incentive Plan, or the Youku Tudou Plan, amended and restated the 2010 Share Incentive Plan on September 25, 2012 to give effect to the merger with Tudou which resulted in Tudou becoming a wholly-owned subsidiary of us. The maximum aggregate number of Class A ordinary shares that may be issued pursuant to all awards under our Youku Tudou Plan is 200,799,784 shares. As of March 31, 2014, options to purchase a total of 34,174,224 Class A ordinary shares, and restricted share units to acquire 97,440,084 Class A ordinary shares were outstanding under the Youku Tudou Plan.

The following paragraphs describe the principal terms of our Youku Tudou Plan:

Plan Administration. The plan will be administered by a committee of one or more directors to whom the board shall delegate the authority to grant or amend awards to participants other than any of the committee members. The committee will determine the provisions and terms and conditions of each award grant.

Awards and Award Agreement. Pursuant to our Youku Tudou Plan, we may grant options, restricted shares or restricted share units to our directors, employees or consultants. Awards granted under our plan are evidenced by award agreements that set forth the terms, conditions and limitations for each award, which may include the term of an award, the provisions applicable in the event the participant's employment or service terminates, and our authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind an award.

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Option Exercise Price. The exercise price of an option shall be determined by the plan administrator and set forth in the award agreement and may be a fixed or variable price related to the fair market value of the shares, to the extent not prohibited by applicable laws. Subject to certain limits set forth in the plan, the exercise price may be amended or adjusted in the absolute discretion of the plan administrator, the determination of which shall be final, binding and conclusive. To the extent not prohibited by applicable laws or any exchange rule, a downward adjustment of the exercise prices of options shall be effective without the approval of the shareholders or the approval of the affected participants.

Eligibility. We may grant awards to our employees, directors and consultants or those of any of our related entities, which include our subsidiaries or any entities in which we hold a substantial ownership interest, as determined by our plan administrator. Awards other than incentive share options may be granted to our employees, directors and consultants. Incentive share options may be granted only to employees of our company or a parent or a subsidiary of our company.

Term of the Awards. The term of each award grant shall be determined by our plan administrator, provided that the term shall not exceed ten years from the date of the grant.

Vesting Schedule. In general, the plan administrator determines, or the award agreement specifies, the vesting schedule. Options granted under our Youku Tudou Plan typically have four-year vesting schedules. Restricted shares granted under our Youku Tudou Plan have a four-year, a three-year, a two-year or a one-year vesting schedule. We have the right to repurchase the restricted shares until vested.

Transfer Restrictions. Except as otherwise provided by our plan administrator, an award may not be transferred or otherwise disposed of by a participant other than by will or the laws of descent and distribution. Our plan administrator by express provision in the award or an amendment may permit an award (other than an incentive share option) to be transferred to or exercised by certain persons related to the participant.

Corporate Transactions. Except as may be provided otherwise in an individual award agreement or any other written agreement entered into by a participant and us, in the event of a change-of-control or other corporate transactions, our plan administrator may determine to provide for one or more of the following: (i) each award outstanding under the plan to terminate at a specific time in the future and give each participant the right to exercise the vested portion of the awards during a period of time as determined by our plan administrator; (ii) termination of any award in exchange for an amount of cash equal to the amount that could have been attained upon the exercise of the award; (iii) the replacement of such award with other rights or property selected by our plan administrator; (iv) the assumption of or substitution of such award by our successor, parent or subsidiary, with appropriate adjustments; or (v) payment of an award in cash based on the value of shares on the date of the corporate transaction plus reasonable interest on the award.

Amendment and Termination of the Plan. With the approval of our board, our plan administrator may, at any time and from time to time, amend, modify or terminate the plan, provided, however, that no such amendment shall be made without the approval of our shareholders to the extent such approval is required by applicable laws, or in the event that such amendment increases the number of shares available under our plan, permits our plan administrator to extend the term of our plan or the exercise period for an option beyond ten years from the date of grant, or results in a material increase in benefits or a change in eligibility requirements, unless we decide to follow home country practice.

Equity Incentive Awards

The following table summarizes, as of March 31, 2014, the options and restricted share units granted under the 2006 Plan and the Youku Tudou Plan to our senior executive officers, directors and to other individuals as a group, without giving effect to the options that were exercised, if any.

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Name	Ordinary Shares Underlying Outstanding Options	Exercise Price (US\$/Share)	Grant Date	Expiration Date
Bryan Zongwei Li	*	0.48	November 10, 2010	November 9, 2020
Dele Liu	*	0.02	Prior to January 1, 2007	(1)
	*	0.036	February 1, 2007	January 31, 2017
	*	0.036	July 1, 2007	June 30, 2017
	*	0.081128308	March 1, 2008	February 28, 2018
	*	0.190850707	February 1, 2010	January 31, 2020
Leo Jian Yao	*	0.036	Prior to January 1, 2007	(1)
	*	0.036	February 1, 2007	January 31, 2017
	*	0.036	July 1, 2007	June 30, 2017
	*	0.081128308	March 1, 2008	February 28, 2018
	*	0.190850707	February 1, 2010	January 31, 2020
Frank Ming Wei	*	0.036	February 1, 2007	January 31, 2017
	*	0.036	July 1, 2007	June 30, 2017
	*	0.081128308	March 1, 2008	February 28, 2018
	*	0.190850707	February 1, 2010	January 31, 2020
Sunny Xiangyang Zhu	*	0.02	Prior to January 1, 2007	(1)
	*	0.036	February 1, 2007	January 31, 2017
	*	0.036	July 1, 2007	June 30, 2017
	*	0.081128308	March 1, 2008	February 28, 2018
	*	0.190850707	February 1, 2010	January 31, 2020
Michael Ge Xu	*	1.3928	September 1, 2011	August 31, 2021
Yawei Dong	*	0.02	Prior to January 1, 2007	(1)
	*	0.036	February 1, 2007	January 31, 2017
	*	0.036	July 1, 2007	June 30, 2017
	*	0.081128308	March 1, 2008	February 28, 2018
	*	0.190850707	February 1, 2010	January 31, 2020
	*	0.48	November 10, 2010	November 9, 2020
Huilong Zhu	*	0.036	June 1, 2006	June 1, 2016
	*	0.036	February 1, 2007	February 1, 2017
	*	0.036	July 1, 2007	July 1, 2017
	*	0.081128308	March 1, 2008	March 1, 2018
	*	0.190850707	February 1, 2010	February 1, 2020
Weidong Yang	*	0.9083	April 2, 2013	April 2, 2023
Other individuals as a group	64,304,359	0.02 — 1.8439	December 1, 2005 — March 2, 2014	Various dates(1)
Total	86,228,874			

* Aggregate number of shares represented by all grants of options and/or restricted share units to the person account for less than 1% of our total outstanding ordinary shares.

(1) Each grant of options will expire after five or ten years from the grant date or such shorter period as the board of directors may determine at the time of its grant.

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Name	Ordinary Shares Underlying Outstanding Restricted Share Units	Grant Date
Victor Wing Cheung Koo	*	November 19, 2011
Dele Liu	*	June 17, 2011
	*	March 1, 2014
Leo Jian Yao	*	June 17, 2011
	*	April 1, 2013
	*	March 1, 2014
Frank Ming Wei	*	June 17, 2011
	*	March 1, 2012
	*	April 1, 2013
	*	March 1, 2014
Sunny Xiangyang Zhu	*	June 17, 2011
	*	March 1, 2012
	*	April 1, 2013
	*	March 1, 2014
Michael Ge Xu	*	September 1, 2011
	*	April 1, 2013
	*	March 1, 2014
Yawei Dong	*	June 17, 2011
	*	March 1, 2012
	*	April 1, 2013
	*	March 1, 2014
Huילong Zhu	*	June 17, 2011
	*	April 1, 2013
	*	March 1, 2014
Weidong Yang	*	April 1, 2013
Other individuals as a group	74,210,104	June 17, 2011 to March 1, 2014
Total	97,440,084	

* Aggregate number of shares represented by all grants of options and/or restricted share units to the person account for less than 1% of our total outstanding ordinary shares.

C Board Practices

Board of Directors

Our board of directors currently consists of seven directors. A director is not required to hold any shares in the company by way of qualification. A director may vote with respect to any contract, proposed contract or arrangement in which he is materially interested, provided the nature of the interest is disclosed prior to voting. A director may exercise all the powers of the company to borrow money, mortgage or charge its undertaking, property and uncalled capital, and issue debentures or other securities whenever money is borrowed or as security for any obligation of the company or of any third party. None of our non-executive directors has a service contract with us that provides for benefits upon termination of employment.

Committees of the Board of Directors

We have established three committees under the board of directors: the audit committee, the compensation committee and the corporate governance and nominating committee. We have adopted a charter for each of these committees. Each committee's members and functions are described below.

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Audit Committee. Our audit committee consists of Messrs. Bryan Zongwei Li, George Leonard Baker Jr. and Jixun Foo. Mr. Li is the chairman of our audit committee. Each of Messrs. Li, Baker and Foo satisfies the “independence” requirements of Section 303A of the Corporate Governance Rules of the NYSE and Rule 10A-3 under the Securities Exchange Act of 1934. The audit committee oversees our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee is responsible for, among other things:

- selecting the independent registered public accounting firm and pre-approving all auditing and non-auditing services permitted to be performed by the independent registered public accounting firm;
- reviewing with the independent registered public accounting firm any audit problems or difficulties and management’s response;
- reviewing and approving all proposed related party transactions, as defined in Item 404 of Regulation S-K under the Securities Act;
- discussing the annual audited financial statements with management and the independent registered public accounting firm;
- reviewing major issues as to the adequacy of our internal control and any special audit steps adopted in light of material control deficiencies; and
- meeting separately and periodically with management and the independent registered public accounting firm.

Compensation Committee. Our compensation committee consists of Messrs. Ye Sha, George Leonard Baker Jr. and Jonathan Jia Zhu. Mr. Sha is the chairman of our compensation committee. Each of Messrs. Sha, Baker and Zhu satisfies the “independence” requirements of Section 303A of the Corporate Governance Rules of the NYSE. The compensation committee assists the board in reviewing and approving the compensation structure, including all forms of compensation, relating to our directors and executive officers. Our chief executive officer may not be present at any committee meeting during which his compensation is deliberated. The compensation committee is responsible for, among other things:

- reviewing and approving the total compensation package for our chief executive officer;
- reviewing and recommending to the board the compensation of our directors; and
- reviewing periodically and approving any long-term incentive compensation or equity plans, programs or similar arrangements, annual bonuses, employee pension and welfare benefit plans.

Corporate Governance and Nominating Committee. Our corporate governance and nominating committee consists of Messrs. Jonathan Jia Zhu, Jixun Foo and Bryan Zongwei Li. Each of Messrs. Zhu, Foo and Li satisfies the “independence” requirements of Section 303A of the Corporate Governance Rules of the NYSE. The corporate governance and nominating committee will assist the board of directors in identifying individuals qualified to become our directors and in determining the composition of the board and its committees. The corporate governance and nominating committee will be responsible for, among other things:

- identifying and recommending to the board nominees for election or re-election to the board, or for appointment to fill any vacancy;
- reviewing annually with the board the composition of the board in light of the characteristics of independence, age, skills, experience and availability of service to us;
- identifying and recommending to the board the directors to serve as members of the board’s committees;
- advising the board periodically with respect to significant developments in the law and practice of corporate governance as well as our compliance with applicable laws and regulations, and making recommendations to the board on all matters of corporate governance and on any corrective action to be taken; and
- monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance.

Duties of Directors

Under Cayman Islands law, our directors have a fiduciary duty to act honestly, in good faith and with a view to our best interests. Our directors also have a duty to exercise the skills they actually possess and such care and diligence that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association, as amended and restated from time to time. Our company has the right to seek damages if a duty owed by our directors is breached.

Terms of Directors and Officers

Our officers are elected by and serve at the discretion of our shareholders and the board of directors in accordance with our Memorandum and Articles of Association. Our directors are not subject to a term of office and hold office until their resignation, death or incapacity or until their respective successors have been elected and qualified in accordance with our shareholders agreement and our articles of association. A director will be removed from office automatically if, among other things, the director (i) dies, becomes bankrupt or makes any arrangement or composition with his creditors or (ii) is found to be or becomes of unsound mind.

D Employees

We had approximately 792, 2,104 and 2,056 employees as of December 31, 2011, 2012 and 2013, respectively. As of December 31, 2013, we had 2,056 employees, including 163 in management and administration, 653 in product development, 499 in content development and 741 in sales and marketing. In addition to these employees, we also have a team of approximately 649 contract employees dedicated to work on content files screening, copyright checking, source file acquisition and editing. With our corporate slogan “一人一口” (everybody gets a share), we have developed a strong company culture that encourages teamwork, accountability, effectiveness and a strong commitment to providing the best experience to our users and customers. In addition, we provide stock options to our employees to align their interests more closely with those of our shareholders. We consider our relationship with our employees to be good.

E Share Ownership

The following table sets forth information with respect to the beneficial ownership of our ordinary shares, as of March 31, 2014, by:

- each of our directors and executive officers; and
- each person known to us to own beneficially more than 5% of our ordinary shares.

The calculations in the shareholder table below are based on 3,030,938,612 ordinary shares issued and outstanding as of March 31, 2014, including 2,371,376,719 Class A ordinary shares and 659,561,893 Class B ordinary shares. Beneficial ownership is determined in accordance with the rules and regulations of the SEC.

	Ordinary Shares Beneficially Owned	
	Number⁽¹⁾	%⁽²⁾
Directors and Executive Officers:**		
Victor Wing Cheung Koo ⁽³⁾	645,023,149	21.3%
George Leonard Baker Jr. ⁽⁴⁾	*	*%
Jonathan Jia Zhu ⁽⁵⁾	—	—
Ye Sha ⁽⁶⁾	647,514,072	21.4%

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	Ordinary Shares Beneficially Owned	
	Number ⁽¹⁾	% ⁽²⁾
Bryan Zongwei Li ⁽⁸⁾	*	*
Dele Liu ⁽⁷⁾	*	*
Jixun Foo ⁽⁹⁾	79,142,386	2.6%
Leo Jian Yao ⁽⁷⁾	*	*
Frank Ming Wei ⁽⁷⁾	*	*
Weidong Yang ⁽⁷⁾	*	*
Sunny Xiangyang Zhu ⁽⁷⁾	*	*
Michael Ge Xu ⁽⁷⁾	*	*
Yawei Dong ⁽⁷⁾	*	*
Huilong Zhu ⁽⁷⁾	*	*
All Directors and Executive Officers as a Group ⁽⁷⁾	784,398,671	25.7%
Principal Shareholders:		
1Verge Holdings Ltd. ⁽¹⁰⁾	626,773,149	20.7%
T. Rowe Price Associates, Inc. ⁽¹¹⁾	184,706,334	6.1%
Platinum Investment Management Limited ⁽¹²⁾	163,088,244	5.4%

* Beneficially owns less than 1% of our ordinary shares.

** Except for Messrs. George Leonard Baker Jr., Jonathan Jia Zhu, Ye Sha, Bryan Zongwei Li and Jixun Foo, the business address of our directors and executive officers is 11/F, SinoSteel Plaza, 8 Haidian Street, Beijing, 100080, People's Republic of China.

- (1) Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to the securities.
- (2) For each person and group included in this column, percentage ownership is calculated by dividing the number of shares beneficially owned by such person or group by the sum of the number of shares outstanding as of March 31, 2014 and the number of shares such person or group has the right to acquire upon exercise of the stock options or vesting of restricted share units within 60 days after March 31, 2014.
- (3) Represents (i) 13,870,000 Class B ordinary shares owned by 1Look Holdings Ltd., a British Virgin Islands company ultimately owned by Mr. Koo; (ii) 626,773,149 Class B ordinary shares owned by 1Verge Holdings Ltd., a British Virgin Islands company owned by 1Look Holdings Ltd. and Chengwei Partners, L.P., Chengwei Evergreen Fund, L.P. (formerly known as Chengwei Ventures Evergreen Fund, L.P.) and Chengwei Ventures Evergreen Advisors Fund, LLC, collectively referred to as Chengwei Funds (Victor Koo and Eric Xun Li are the directors of 1Verge Holdings Ltd.); and (iii) 4,380,000 Class B ordinary shares owned by the Koo 2012 Irrevocable Children's Trust, an irrevocable trust established by Mr. Victor Wing Cheung Koo under the laws of the State of California, USA, for the benefit of his designated family members, of which Mr. Koo is the grantor and trustee. Mr. Koo disclaims beneficial ownership of shares mentioned in (ii) except to the extent of his pecuniary interest therein.
- (4) Represents Class A ordinary shares beneficially owned by Mr. George Leonard Baker Jr. The business address of Mr. Baker is 755 Page Mill Road, Suite A-200, Palo Alto, CA 94304.
- (5) The business address of Mr. Jonathan Jia Zhu is 47/F Cheung Kong Center, 2 Queen's Road, Central, Hong Kong.
- (6) Represents (i) 6,202,179 Class A ordinary shares owned by Chengwei Funds; (ii) 14,538,744 Class B ordinary shares owned by Chengwei Funds (Chengwei Funds are managed by their general partner and managing member, Chengwei Evergreen Management, LLC, formerly known as Chengwei Ventures Evergreen Management, LLC, a Cayman Islands exempted limited liability company of which Ye Sha is a managing director and holds voting and dispositive power over the Chengwei Funds); and (iii) 626,773,149 Class B ordinary shares owned by 1Verge Holdings Ltd., a British Virgin Islands owned by 1Look Holdings Ltd. and Chengwei Funds. As a managing director of Chengwei Funds, Mr. Sha may be deemed to have voting and dispositive power over the shares held by 1Verge Holdings Ltd. The business address of Mr. Sha is Suite C, No. 33, Lane 672 Changle Road, Shanghai 200040.
- (7) Certain of our directors and executive officers have been granted options pursuant to our 2006 Stock Option Scheme and the Youku Tudou Plan. See "Item 6B. Directors, Senior Management and Employees—Compensation of Directors and Executive Officers." In calculating the beneficial ownership of all directors and executive officers as a group, the overlapping beneficial ownership of Mr. Victor Wing Cheung Koo and Mr. Ye Sha over the 626,773,149 Class B ordinary shares owned by 1Verge Holdings Ltd. was counted only once.
- (8) The business address of Mr. Bryan Zongwei Li is 3399 North Chaoyang Avenue, Baoding 071051, PRC.

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- (9) Represents Class A ordinary shares held on record by GGV II Delaware L.L.C. and such shares are beneficially owned by Granite Global Ventures II L.P. and GGV II Entrepreneurs Fund L.P. as follows: (i) 77,519,997 Class A ordinary shares (including Class A ordinary shares represented by ADSs) are beneficially owned by Granite Global Ventures II L.P., and (ii) 1,622,389 Class A ordinary shares (including Class A ordinary shares represented by ADSs) are beneficially owned by GGV II Entrepreneurs Fund L.P. Granite Global Ventures II L.P. and GGV II Entrepreneurs Fund L.P. are members of GGV II Delaware L.L.C. Granite Global Ventures II L.L.C. is the sole general partner of Granite Global Ventures II L.P. and GGV II Entrepreneurs Fund L.P. As such, Granite Global Ventures II L.L.C. possesses power to direct the voting and disposition of the shares beneficially owned by Granite Global Ventures II L.P. and GGV II Entrepreneurs Fund L.P. and may be deemed to have indirect beneficial ownership of shares beneficially held by Granite Global Ventures II L.P. and GGV II Entrepreneurs Fund L.P. Granite Global Ventures II L.L.C. owns no securities directly. Ray Rothrock, Anthony Sun, Scott Bonham, Joel Kellman, Jixun Foo, Glenn Solomon, Hany Nada, Thomas Ng, and Jenny Lee are members of the investment committee of Granite Global Ventures II L.L.C. As such, Ray Rothrock, Anthony Sun, Scott Bonham, Joel Kellman, Jixun Foo, Glenn Solomon, Hany Nada, Thomas Ng, and Jenny Lee possess power to direct the voting and disposition of the shares owned by Granite Global Ventures II L.P. and GGV II Entrepreneurs Fund L.P. and may be deemed to have indirect beneficial ownership of the shares held by Granite Global Ventures II L.P. and GGV II Entrepreneurs Fund L.P. Ray Rothrock, Anthony Sun, Scott Bonham, Joel Kellman, Jixun Foo, Glenn Solomon, Hany Nada, Thomas Ng, and Jenny Lee own no securities directly. Mr. Foo disclaims beneficial ownership of shares mentioned above except to the extent of his pecuniary interest therein. The business address of Mr. Foo is Unit 3501, IFC II, 8 Century Avenue, Pudong district, Shanghai 200120, People's Republic of China.
- (10) Represents Class B ordinary shares held by 1Verge Holdings Ltd., a British Virgin Islands company owned by 1Look Holdings Ltd. and Chengwei Funds. Victor Koo and Eric Xun Li are the directors of 1Verge Holdings Ltd. The registered address of 1Verge Holdings Ltd. is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, the British Virgin Islands.
- (11) Represents Class A ordinary shares, in the form of ADSs, beneficially held by T. Rowe Price Associates, Inc. and T. Rowe Price New Horizons Fund, Inc. Information regarding beneficial ownership is reported as of December 31, 2013, based on the information contained in the Schedule 13G/A filed by T. Rowe Price Associates, Inc. and T. Rowe Price New Horizons Fund, Inc. on February 11, 2014. Please see this Schedule 13G/A for information relating to T. Rowe Price Associates, Inc. and T. Rowe Price New Horizons Fund, Inc. The address of T. Rowe Price Associates, Inc. and T. Rowe Price New Horizons Fund, Inc. is 100 E. Pratt Street, Baltimore, Maryland 21202, the United States of America.
- (12) Represents Class A ordinary shares, in the form of ADSs, beneficially held by Platinum Investment Management Limited. Information regarding beneficial ownership is reported as of December 31, 2013, based on the information contained in the Schedule 13G filed by Platinum Investment Management Limited on February 13, 2014. Please see this Schedule 13G for information relating to Platinum Investment Management Limited. The address of Platinum Investment Management Limited is Level 8, 7 Macquarie Place, Sydney NSW 2000, Australia.

Our ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares are entitled to one vote per share, while holders of Class B ordinary shares are entitled to four votes per share. We issued Class A ordinary shares represented by our ADSs in our initial public offering in December 2010 and our follow-on public offering in May 2011. Holders of our Class B ordinary shares may choose to convert their Class B ordinary shares into the same number of Class A ordinary shares at any time. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company. See “Item 3.D. Key Information—Risk Factors—Risks Related to Our ADSs—Our dual-class voting structure will limit your ability to influence corporate matters and could discourage others from pursuing any change of control transactions that holders of our Class A ordinary shares and ADSs may view as beneficial.”

As of March 31, 2014, 3,030,938,612 of our ordinary shares, including 2,371,376,719 Class A ordinary shares and 659,561,893 Class B ordinary shares, were issued and outstanding. To our knowledge, approximately 99% of our total outstanding Class A ordinary shares were held by 53 record holders in the United States, with 51 record holders holding in aggregate less than 3% and the rest held by Citibank, N.A., the depository of our ADS program. The number of beneficial owners of our ADSs in the United States is likely to be much larger than the number of record holders of our ordinary shares in the United States.

For the options granted to our directors, officers and employees, please refer to “—B. Compensation of Directors and Executive Officers.”

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A Major Shareholders

Please refer to “Item 6. Directors, Senior Management and Employees—E. Share Ownership.”

B Related Party Transactions

Acquisition of Trade Lead and Tianshi

Starting from 2010, we entered into copyright license agreements with Trade Lead and Tianshi, PRC companies related to us via the shareholdings of certain of our principal shareholders, Chengwei Partners, L.P., Chengwei Ventures Evergreen Fund, L.P. and Chengwei Ventures Evergreen Advisors Fund, LLC, collectively referred to as Chengwei Funds. In January 2012, we completed the acquisition of the remaining 95% equity interest in Trade Lead and Tianshi. The total purchase price was RMB112.9 million, including cash consideration of RMB78.9 million and 6,202,179 Class A ordinary shares. In addition, the consideration transferred includes the effective settlement of amounts payable by us to Trade Lead and Tianshi of RMB47.1 million and the acquisition-date fair value of the 5% equity interest in Trade Lead and Tianshi previously held by us in the amount of RMB5.1 million.

Employment Agreements

See “Item 6. Directors, Senior Management and Employees—Directors and Senior Management—Employment Agreements.”

Share Options

See “Item 6. Directors, Senior Management and Employees—B. Compensation of Directors and Executive Officers—Share Incentive Plan.”

C Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A Consolidated Statements and Other Financial Information

We have appended consolidated financial statements filed as part of this annual report.

Legal Proceedings

From time to time, we have been involved in litigation relating to copyright infringement, and other matters in the ordinary course of our business. Our video content library may contain content in which others may claim to own copyrights or image rights or which others may claim to be defamatory or objectionable. As of December 31, 2013, the aggregate claimed damages against us from ongoing litigation totaled approximately RMB91.5 million (US\$15.1 million). We believe that these legal proceedings will not result in material liability to us nor will they have a material adverse effect on our business, financial condition or results of operations. Regardless of the outcome, however, any litigation can result in substantial costs and diversion of management resources and attention.

Although we have implemented standard procedures to delete video content, especially our user-generated content, that allegedly infringes on intellectual property rights of third parties, we have limited control over the nature or types of the content posted by our users. The infringement of intellectual property rights by our users may result in litigation against us and harm our business and reputation. See “Item. 3.D—Risk Factors—Risks Related to Our Business and Industry—We have been, and may continue to be, subject to liabilities for infringement of third-party intellectual property rights or other allegations based on the content available on our websites or services we provide.”

Dividend Policy

We have not paid in the past and do not have any present plan to pay any cash dividends on our ordinary shares in the foreseeable future. We currently intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business.

As we are a holding company, we rely, in part, on dividends paid to us by our PRC subsidiaries for our cash requirements, including funds to pay dividends and other cash distributions to our shareholders, service any debt we may incur and pay our operating expenses. In China, the payment of dividends is subject to limitations. PRC laws and regulations currently permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations. Under current PRC laws and regulations, our PRC subsidiaries are required to set aside at least 10% of their respective accumulated profits each year, if any, to fund certain reserve funds until such reserve funds reach 50% of their registered capital. At the discretion of our PRC subsidiaries, they may allocate a portion of their after-tax profits based on PRC accounting standards to staff welfare and bonus funds. These reserves may not be distributed as cash dividends. Further, if our PRC subsidiaries incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other payments to us.

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Our board of directors has complete discretion on whether to declare dividends, subject to the approval of our shareholders. Even if our board of directors decides to pay dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the board of directors may deem relevant. If we pay any dividends, they will be paid in accordance with Cayman Islands law, which provides, in summary, that dividends may be paid out of profits and/or our share premium account provided that in the case of our share premium account, no such distribution or dividend paid to our shareholders will cause us to be unable to pay our debts as they fall due in the ordinary course of our business. In addition, the Companies Law (2013 Revision) of the Cayman Islands prevents us from offering our shares or securities to individuals within the Cayman Islands which may limit our ability to distribute a dividend comprised of our shares or other securities. We will pay our ADS holders to the same extent as holders of our Class A ordinary shares, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder. See “Description of American Depositary Shares.” in our registration statement on Form F-1 (File No. 333-170603), as amended, initially filed with the Commission on November 15, 2010. Cash dividends on our ordinary shares, if any, will be paid in U.S. dollars.

B Significant Changes

Except as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

ITEM 9. THE OFFER AND LISTING

A Offering and Listing Details

Our ADSs, each representing 18 of our Class A ordinary shares, have been listed on NYSE since December 8, 2010 under the symbol “YOKU.”

Until April 15, 2014 (starting from December 8, 2010), the trading price of our ADSs on NYSE ranged from US\$13.76 to US\$69.95 per ADS.

The following table provides the high and low trading prices on the NYSE for the periods indicated below.

	Trading Price	
	High US\$	Low US\$
2010	50.00	25.57
2011	69.95	13.76
2012	32.75	13.82
2013	32.30	15.54
Quarterly Highs and Lows		
First Quarter of 2012	32.75	15.39
Second Quarter of 2012	25.28	19.47
Third Quarter of 2012	21.59	15.46
Fourth Quarter of 2012	20.99	13.82
First Quarter of 2013	25.24	16.60
Second Quarter of 2013	22.50	15.54
Third Quarter of 2013	29.30	17.90
Fourth Quarter of 2013	32.30	24.80
Monthly Highs and Lows		
October 2013	31.49	25.81
November 2013	31.77	24.80
December 2013	32.30	27.78
January 2014	36.84	28.76
February 2014	35.85	27.05
March 2014	37.74	26.52
April 2014 (through April 15)	29.63	23.56

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B [Plan of Distribution](#)

Not applicable.

C [Markets](#)

Our ADSs, each representing 18 of our Class A ordinary shares, have been traded on the NYSE since December 8, 2010 under the symbol “YOKU.”

D [Selling Shareholders](#)

Not applicable.

E [Dilution](#)

Not applicable.

F [Expenses of the Issue](#)

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A [Share Capital](#)

Not applicable.

B [Memorandum and Articles of Association](#)

General. Our ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares and Class B ordinary shares have the same rights except for voting and conversion rights. Certificates representing the ordinary shares are issued in registered form.

Dividends. The holders of our ordinary shares are entitled to such dividends as may be declared by our board of directors subject to the Companies Law (2013 Revision). The Companies Law (2013 Revision) provides, in summary, that dividends may be paid out of profits and/or our share premium accounts provided that in the case of our share premium account, no such distribution or dividend paid to our shareholders will cause us to be unable to pay our debts as they fall due in the ordinary course of our business.

Voting Rights. In respect of matters requiring shareholders’ votes, where a poll is requested, each Class A ordinary share is entitled to one vote and each Class B ordinary share is entitled to four votes. In addition, the following matters are subject to the approval by (x) the holders representing a majority of the aggregate voting power of our company who attend the general meetings in person or by proxy; and (y) the holders representing a majority of the total outstanding Class A ordinary shares then held by holders who acquired our shares prior to the completion of our initial public offering in December 2010 and continue to hold a majority of such shares (either in the form of our Class A ordinary shares or ADSs) through the record date for the general meeting and who attend the general meeting in person or by proxy: (i) a change of control event; (ii) issuance of that number of ordinary shares, or of securities convertible into or exercisable for that number of ordinary shares, equal to or in excess of 20% of the number of all ordinary shares outstanding immediately prior to the issuance of such shares or securities on an as-converted basis, if (x) such ordinary shares are sold at a per share price less than the per share book or market value of the ordinary shares or (y) such securities convertible into or exercisable for the ordinary shares have a per share conversion or exercise price which is less than the per share book or market value of the ordinary share; (iii) election of director(s) to the board at an annual general meeting; and (iv) issuance of ordinary shares or of securities convertible into or exercisable for ordinary shares to a director, officer or substantial security holder of our company on an individual basis exceeding either 1% of the total outstanding ordinary shares on an as-converted basis or 1% of the aggregate voting power outstanding before such issuance. Voting at any shareholder’s meeting is by show of hands unless a poll is demanded. A poll may be demanded by our chairman or any shareholder holding at least 10% of the shares given a right to vote at the meeting, present in person or by proxy.

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A quorum required for a meeting of shareholders consists of at least one shareholder holding not less than an aggregate of one-third of voting share capital of our company present in person or by proxy or, if a corporation or other non-natural person, by its duly authorized representative. Shareholders' meetings may be held annually and may be convened by our board of directors on its own initiative or upon a request to the directors by shareholders holding in aggregate at least 10% of our voting share capital. Advance notice of at least seven days is required for the convening of our annual general meeting and other shareholders' meetings.

An ordinary resolution to be passed by the shareholders requires the affirmative vote of a simple majority of the votes attaching to the ordinary shares cast in a general meeting, while a special resolution requires the affirmative vote of no less than two-thirds of the votes cast attaching to the ordinary shares. A special resolution is required for important matters such as a name change, amending the memorandum and articles of association or reduction of our share capital. Holders of the ordinary shares may effect certain changes by ordinary resolution, including increase the amount of our authorized share capital, consolidate and divide all or any of our share capital into shares of larger amount than our existing share capital, and cancel any shares.

Liquidation. On a liquidation, winding up or otherwise, assets available for distribution among the holders of ordinary shares shall be distributed among the holders of the ordinary shares on a pro rata basis. If our assets available for distribution are insufficient to repay all of the paid-up capital, the assets will be distributed so that the losses are borne by our shareholders proportionately.

Calls on Shares and Forfeiture of Shares. Our board of directors may from time to time make calls upon shareholders for any amounts unpaid on their shares in a notice served to such shareholders at least 14 days prior to the specified time and place of payment. The shares that have been called upon and remain unpaid on the specified time are subject to forfeiture.

Redemption, Repurchase and Surrender of Shares. The provisions of the Companies Law (2013 Revision), in summary, provides that we may issue shares which are to be redeemed or are liable to be redeemed at the option of our directors or a shareholder. In addition, the Companies Law (2013 Revision) allows us to purchase our own shares, including any redeemable shares. Shares to be purchased or redeemed must be fully paid and there must remain at least one shareholder of the company holding shares. Share re-purchases or redemptions may be funded out of profits, capital or share premium, but to the extent they are funded from capital, it is statutorily required that we be able to pay our debts as they fall due in our ordinary course of business following such a purchase or redemption. Subject to these provisions, our articles of association allow us to issue shares on terms that are subject to redemption, at our option or at the option of the holders, on such terms and in such manner as may be determined by special resolution.

Variations of Rights of Shares. All or any of the special rights attached to any class of shares may, subject to the provisions of our articles of association, be varied either with the written consent of the holders of the majority of the issued shares of that class or with the sanction of a special resolution passed at a general meeting of the holders of the shares of that class. The rights conferred upon the holders of the shares of any class shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking in priority to or *pari passu* with such previously existing shares.

Anti-takeover Provisions. Some provisions of our memorandum and articles of association may discourage, delay or prevent a change of control of our company or management that shareholders may consider favorable, including provisions that:

- authorize our board of directors to issue preference shares in one or more series and to designate the price, rights, preferences, privileges and restrictions of such preference shares without any further vote or action by our shareholders; and
- establish advance notice requirements for nominating board of directors nominees or for proposing matters that can be acted on by shareholders at annual shareholder meetings.

However, under Cayman Islands law, our directors may only exercise the rights and powers granted to them under our memorandum and articles of association for a proper purpose and for what they believe in good faith to be in the best interests of our company.

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Registered Office and Objects. Our registered office in the Cayman Islands is located at the offices of Maples Corporate Services Limited, PO Box 309, Umland House, Grand Cayman, KY1-1104, Cayman Islands or at such other place as the Directors may from time to time decide. The objects for which the our company is established are unrestricted and we have full power and authority to carry out any object not prohibited by the Companies Law (2013 Revision) or as the same may be revised from time to time, or any other law of the Cayman Islands.

C [Material Contracts](#)

Other than in the ordinary course of business and other than those described under this item, in “Item 4. Information on the Company — A. History and Development of the Company” and “Item 4. Information on the Company — C. Organizational Structure” or elsewhere in this annual report, we have not entered into any material contract during the two years immediately preceding the date of this annual report.

D [Exchange Controls](#)

See “Item 4. Information on the Company—B. Business Overview—Regulation—Regulations on Foreign Currency Exchange.”

E [Taxation](#)

The following summary of certain Cayman Islands, PRC and United States federal income tax consequences of an investment in our ADSs or ordinary shares is based upon laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change. This summary does not deal with all possible tax consequences relating to an investment in our ADSs or ordinary shares, such as the tax consequences under state, local and other tax laws.

Cayman Islands Taxation

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to us levied by the government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or brought within the jurisdiction of the Cayman Islands. There are no exchange control regulations or currency restrictions in the Cayman Islands.

In addition, because we are a Cayman Islands exempted company, we have the ability to apply for a tax exemption undertaking certificate from the Cayman Islands Governor in Council, whereby for a twenty-year period from the date of grant, no law which is enacted in the Cayman Islands imposing any taxes to be levied on the profits and income or gains or appreciation of a company shall apply to us or our operations.

People’s Republic of China Taxation

We are a holding company incorporated in the Cayman Islands, which holds 100% of our equity interests in our PRC subsidiaries either directly, or indirectly through our Hong Kong subsidiary. Our business operations are principally conducted through our PRC subsidiaries. The New EIT Law and its implementation rules, both of which became effective on January 1, 2008, provide that China-sourced income of foreign enterprises, such as dividends paid by a PRC subsidiary to its overseas parent that is not a PRC resident enterprise and has no establishment in the PRC, will normally be subject to PRC withholding tax at a rate of 10%, unless there are applicable treaties that reduce such rate. Under the Arrangement between the PRC and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income and Capital, such dividend withholding tax rate is reduced to 5% if a Hong Kong resident enterprise owns over 25% of the PRC company distributing the dividends and is the beneficial owner of the dividend received. As our Hong Kong subsidiary owns 100% of Jet Brilliant Beijing, under the aforesaid arrangement, any dividends that Jet Brilliant Beijing pays our Hong Kong subsidiary may be subject to a withholding tax at the rate of 5% if our Hong Kong subsidiary is the beneficial owner of such dividends and not considered to be a PRC tax resident enterprise as described below or a non-PRC tax resident enterprise with an establishment in the PRC and whose dividend income has a connection with such establishment. However, if our Hong Kong subsidiary is not considered to be the beneficial owner of such dividends under SAT Circular 601, such dividends would be subject to the withholding tax rate of 10%. See “Item 4. Information on the Company—B. Business Overview—Regulations—Regulations on Tax—Dividends Withholding Tax.”

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Under the New EIT Law, enterprises established under the laws of jurisdictions outside China with their “de facto management bodies” located within China may be considered to be PRC tax resident enterprises for tax purposes. If we are considered a PRC tax resident enterprise under the above definition, then our global income will be subject to PRC enterprise income tax at the rate of 25%.

The implementation rules of the New EIT Law provide that (i) if the enterprise that distributes dividends is domiciled in the PRC, or (ii) if gains are realized from transferring equity interests of enterprises domiciled in the PRC, then such dividends or capital gains are treated as China-sourced income. It is not clear how “domicile” may be interpreted under the New EIT Law, and it may be interpreted as the jurisdiction where the enterprise is a tax resident. Therefore, if we are considered as a PRC tax resident enterprise for tax purposes, any dividends we pay to our overseas shareholders or ADS holders as well as gains realized by such shareholders or ADS holders from the transfer of our shares or ADSs may be regarded as China-sourced income and as a result become subject to PRC withholding tax at a rate of up to 10%.

See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Our global income and the dividends that we may receive from our PRC subsidiaries may be subject to PRC taxes under the PRC Enterprise Income Tax Law, which would have a material adverse effect on our results of operations.”

Certain United States Federal Income Tax Considerations

The following is a discussion of certain United States federal income tax considerations relating to the acquisition, ownership and disposition of our ADSs or ordinary shares by a U.S. Holder (as defined below) that acquire our ADSs or ordinary shares and hold our ADSs or ordinary shares as “capital assets” (generally, property held for investment) under the United States Internal Revenue Code of 1986, as amended, or the Code. This discussion is based upon existing United States federal tax law, including the Code, its legislative history, existing, temporary and proposed regulations thereunder, published rulings and court decisions, all of which are subject to differing interpretations or change, possibly with retroactive effect. No ruling has been sought from the IRS with respect to any United States federal income tax consequences described below, and there can be no assurance that the IRS or a court will not take a contrary position. This discussion does not discuss all aspects of United States federal income taxation that may be important to particular investors in light of their individual investment circumstances, including investors subject to special tax rules (including for example, financial institutions, insurance companies, regulated investment companies, real estate investment trusts, broker-dealers, traders in securities that elect mark-to-market treatment, tax-exempt organizations (including private foundations), holders who are not U.S. Holders, holders who own (directly, indirectly or constructively) 10% or more of our voting stock, holders who acquire their ADSs or ordinary shares pursuant to any employee share option or otherwise as compensation, investors that will hold their ADSs or ordinary shares as part of a straddle, hedge, conversion, constructive sale or other integrated transaction for United States federal income tax purposes, or investors that have a functional currency other than the United States dollar, all of whom may be subject to tax rules that differ significantly from those discussed below). In addition, this discussion does not address any United States federal estate, gift or alternative minimum tax consequences or any non-United States (except for the cross-references below to the New EIT Law and potential PRC taxes), state or local tax considerations. Each U.S. Holder is urged to consult its tax advisor regarding the United States federal, state, local and non-United States income and other tax considerations of an investment in our ADSs or ordinary shares.

General

For purposes of this discussion, a “U.S. Holder” is a beneficial owner of our ADSs or ordinary shares that is, for United States federal income tax purposes, (i) an individual who is a citizen or resident of the United States, (ii) a corporation (or other entity treated as a corporation for United States federal income tax purposes) created in, or organized under the law of, the United States or any state thereof or the District of Columbia, (iii) an estate the income of which is includible in gross income for United States federal income tax purposes regardless of its source, or (iv) a trust (A) the administration of which is subject to the primary supervision of a United States court and which has one or more United States persons who have the authority to control all substantial decisions of the trust or (B) that has otherwise validly elected to be treated as a United States person under the Code.

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If a partnership (or other entity treated as a partnership for United States federal income tax purposes) is a beneficial owner of our ADSs or ordinary shares, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. If a U.S. Holder is a partner of a partnership holding our ADSs or ordinary shares, the U.S. Holder is urged to consult its tax advisor regarding an investment in our ADSs or ordinary shares.

The discussion below assumes that the representations contained in the deposit agreement are true and that the obligations in the deposit agreement and any related agreement have been and will be complied with in accordance with their terms.

For United States federal income tax purposes, a U.S. Holder of ADSs generally will be treated as the beneficial owner of the underlying shares represented by the ADSs. Accordingly, deposits or withdrawals of ordinary shares for ADSs generally will not be subject to United States federal income tax.

Passive Foreign Investment Company Considerations

A non-United States corporation, such as our company, will be treated as a “passive foreign investment company,” or PFIC, for United States federal income tax purposes for any taxable year, if either (i) 75% or more of its gross income for such year consists of certain types of “passive” income, or (ii) 50% or more of the value of its assets (determined on the basis of a quarterly average) during such year produce or are held for the production of passive income (the “asset test”). For this purpose, cash, cash equivalents, securities held for investment purposes and other similar assets are generally categorized as passive assets. Passive income is any income that would be foreign personal holding company income under the Code, including, without limitation, dividends, interest, certain rents and royalties, annuities, net gains from the sale or exchange of property producing such income, net gains from commodity transactions, net foreign currency gains and net income from notional principal contracts. We will be treated as owning a proportionate share of the assets and earning a proportionate share of the income of any other corporation in which we own, directly or indirectly, more than 25% (by value) of the stock. Although the application of these rules is unclear and therefore determinations are not free from doubt, based on the market price of our ADSs and ordinary shares and the composition of our income and assets for the taxable year ended December 31, 2013, we do not believe that we were a PFIC for that year. However, the United States Internal Revenue Service, or the IRS, does not issue rulings with respect to PFIC status, and there can be no assurance that the IRS, or a court, will agree with our determination.

Although the law in this regard is unclear, we treat our consolidated affiliated entities as being owned by us for United States federal income tax purposes, not only because we exercise effective control over the operation of such entities but also because we are entitled to substantially all of their economic benefits, and, as a result, we consolidate their results of operations in our consolidated financial statements. If it were determined, however, that we are not the owner of the above entities for United States federal income tax purposes, we would likely be treated as a PFIC.

Assuming that we are the owner of our consolidated affiliated entities for United States federal income tax purposes, we primarily operate as a provider of online video content and advertising services. While we do not anticipate being a PFIC for the current taxable year, because the value of our assets, including our goodwill, for purposes of the asset test may be determined, in part, by reference to the market price of our ADSs or ordinary shares, fluctuations in the market price of our ADSs or ordinary shares may cause us to become a PFIC for the current or subsequent taxable year.

If we were to be or become treated as a PFIC for any year during which a U.S. Holder holds our ADS or ordinary shares, our ADSs or ordinary shares generally will continue to be treated as shares in a PFIC as to such U.S. Holder for all succeeding years during which such U.S. Holder holds our ADSs or ordinary shares, unless we cease to be a PFIC and the U.S. Holder makes a “deemed sale” election with respect to the ADSs or ordinary shares. If you make a deemed sale election, you will be deemed to have sold the ADSs or ordinary shares you hold at their fair market value as of the last day of the last year during which we were a PFIC. Any gain from such deemed sale would be taxed as an excess distribution as described below. Any loss from the deemed sale would not be recognized. After the deemed sale election, your ADSs or ordinary shares with respect to which such election was made will generally not be treated as shares in a PFIC unless we subsequently become a PFIC. You are urged to consult your tax adviser regarding the deemed sale election.

Because there are uncertainties in the application of the relevant rules, it is possible that the IRS may successfully challenge our classification of certain income and assets as non-passive, which may result in our company being treated as a PFIC. Because PFIC status is a fact-intensive determination made on an annual basis and will depend upon the composition of our assets and income, and the value of our tangible and intangible assets from time to time, no assurance can be given that we will not be treated as a PFIC for the current or subsequent taxable years.

The discussion below under “Dividends” and “Sale or Other Disposition of ADSs or Ordinary Shares” is written on the assumption that we will not be treated as a PFIC for United States federal income tax purposes. The United States federal income tax rules that apply if we are treated as a PFIC are discussed generally below under “Passive Foreign Investment Company Rules.”

Dividends

Subject to the discussion below under “Passive Foreign Investment Company Rules,” any cash distributions (including the amount of any PRC tax withheld) paid on our ADSs or ordinary shares out of our current or accumulated earnings and profits, as determined under United States federal income tax principles, will generally be includible in the gross income of a U.S. Holder as dividend income on the day actually or constructively received by the U.S. Holder, in the case of ordinary shares, or by the depository, in the case of ADSs. Because we do not intend to determine our earnings and profits on the basis of United States federal income tax principles, any distribution paid will generally be treated as a “dividend” for United States federal income tax purposes. A non-corporate recipient of dividend income generally will be subject to tax on dividend income from a “qualified foreign corporation” at the lower applicable capital gains rate rather than the marginal tax rates generally applicable to ordinary income, provided that certain holding period requirements are met. A non-United States corporation (other than a corporation that is treated as a PFIC for the taxable year in which the dividend is paid or the preceding taxable year) generally will be considered to be a qualified foreign corporation (i) if it is eligible for the benefits of a comprehensive tax treaty with the United States which the Secretary of Treasury of the United States determines is satisfactory for purposes of this provision and which includes an exchange of information program, or (ii) with respect to any dividend it pays on stock (or ADSs in respect of such stock) which is readily tradable on an established securities market in the United States. Because our ADSs trade on the NYSE, which is an established securities market in the United States, the ADSs are expected to be readily tradable, though no assurances can be given in this regard. Thus, we believe that dividends we pay on our ADSs may meet the conditions required for the reduced tax rates. Since we do not expect that our ordinary shares will be listed on an established securities market, we do not believe that dividends we pay on our ordinary shares that are not represented by ADSs will meet the conditions required for these reduced tax rates. Dividends received on our ADSs or ordinary shares will not be eligible for the dividend received deduction allowed to corporations.

In the event that we are deemed to be a PRC resident enterprise under the New EIT Law, a U.S. Holder may be subject to PRC withholding taxes on dividends paid on our ADSs or ordinary shares. We may, however, be eligible for the benefits of the United States-PRC income tax treaty. If we are eligible for such benefits, we may be considered to be a qualified foreign corporation, as defined above, and therefore, dividends we pay on our ordinary shares, regardless of whether such shares are represented by the ADSs, would be eligible for the reduced rates of taxation applicable to qualified dividend income, as discussed above.

Dividends generally will be treated as income from foreign sources for United States foreign tax credit purposes and generally will constitute passive category income, or, in the case of certain U.S. Holders, “general category income.” Depending on the U.S. Holder’s individual facts and circumstances, the U.S. Holder may be eligible to claim a foreign tax credit in respect of any foreign withholding taxes imposed on dividends received on our ADSs or ordinary shares. A U.S. Holder who does not elect to claim a foreign tax credit for foreign tax withheld may instead claim a deduction, for United States federal income tax purposes, in respect of such withholdings, but only for a year in which such holder elects to do so for all creditable foreign income taxes. The rules governing the foreign tax credit are complex and their outcome depends in large part on the U.S. Holder’s individual facts and circumstances. Accordingly, U.S. Holders are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

Sale or Other Disposition of ADSs or Ordinary Shares

Subject to the discussion below under “Passive Foreign Investment Company Rules,” a U.S. Holder will generally recognize capital gain or loss upon the sale or other disposition of ADSs or ordinary shares in an amount equal to the difference between the amount realized upon the disposition and the holder’s adjusted tax basis in such ADSs or ordinary shares. Any capital gain or loss will be long-term if the ADSs or ordinary shares have been held for more than one year and will generally be United States-source gain or loss for United States foreign tax credit purposes. Capital gains of non-corporate taxpayers derived from capital assets held for more than one year are currently eligible for reduced rates of taxation. In the event that gain from the disposition of the ADSs or ordinary shares is subject to tax in the PRC, such gain may be treated as PRC-source gain under the United States-PRC income tax treaty. Depending on the U.S. Holder’s individual facts and circumstances, the U.S. Holder may deduct capital loss (if any) upon the sale or other disposition of ADSs or ordinary shares, but the deductibility of a capital loss is subject to limitations. U.S. Holders are urged to consult their tax advisors regarding the tax consequences if a foreign withholding tax is imposed on a disposition of our ADSs or ordinary shares, including the availability of the foreign tax credit under their particular circumstances.

Passive Foreign Investment Company Rules

If we are treated as a PFIC for any taxable year during which a U.S. Holder holds our ADSs or ordinary shares, and unless the U.S. Holder makes a mark-to-market election (as described below), the U.S. Holder will generally be subject to special United States federal income tax rules that have a penalizing effect, regardless of whether we remain a PFIC, on (i) any excess distribution that we make to the U.S. Holder (which generally means any distribution paid during a taxable year to a U.S. Holder that is greater than 125 percent of the average annual distributions paid in the three preceding taxable years or, if shorter, the U.S. Holder’s holding period for the ADSs or ordinary shares), and (ii) any gain realized on the sale or other disposition, including a pledge, of ADSs or ordinary shares. Under the PFIC rules the:

- excess distribution or gain will be allocated ratably over the U.S. Holder’s holding period for the ADSs or ordinary shares;
- amounts allocated to the current taxable year and any taxable years in the U.S. Holder’s holding period prior to the first taxable year in which we are treated as a PFIC, or a pre-PFIC year, will be taxable as ordinary income; and
- amounts allocated to each prior taxable year, other than a pre-PFIC year, will be subject to tax at the highest tax rate in effect applicable to the U.S. Holder for that year, and such amounts will be increased by an additional tax equal to interest on the resulting tax deemed deferred with respect to such years.

The tax liability for amounts allocated to years prior to the year of disposition or excess distribution cannot be offset by any net operating losses for such years, and gains (but not losses) realized on the sale of the ADSs or ordinary shares cannot be treated as capital, even if the U.S. Holder holds the ADSs or ordinary shares as capital assets.

If we are a PFIC for any taxable year during which a U.S. Holder holds our ADSs or ordinary shares and any entity treated as our non-U.S. subsidiary is also a PFIC, such U.S. Holder would generally be treated as owning a proportionate amount (by value) of the shares of each such entity, a lower-tier PFIC, for purposes of the application of these rules. U.S. Holders should consult their tax advisors regarding the application of the PFIC rules to such entities.

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As an alternative to the foregoing rules, a U.S. Holder of “marketable stock” in a PFIC may make a mark-to-market election with respect to our ADSs, but not our ordinary shares, provided that the ADSs are regularly traded. In general, stock is regularly traded if it is traded in other than de minimis quantities on at least 15 days during each calendar quarter on a qualified exchange or other market, as defined in applicable U.S. Treasury Regulations. We anticipate that our ADSs should qualify as being regularly traded, but no assurances may be given in this regard. If a U.S. Holder makes a valid mark-to-market election, the U.S. Holder will generally (i) include as ordinary income for each taxable year that we are a PFIC the excess, if any, of the fair market value of ADSs held at the end of the taxable year over the adjusted tax basis of such ADSs, and (ii) deduct as an ordinary loss the excess, if any, of the adjusted tax basis of the ADSs over the fair market value of such ADSs held at the end of the taxable year, but such deduction may be taken only to the extent of the net amount previously included in income as a result of the mark-to-market election. The U.S. Holder’s adjusted tax basis in the ADSs would be adjusted to reflect any income or loss resulting from the mark-to-market election. If a U.S. Holder makes a mark-to-market election in respect of a corporation treated as a PFIC and such corporation ceases to be treated as a PFIC, the holder will not be required to take into account the gain or loss described above during any period that such corporation is not treated as a PFIC. If a U.S. Holder makes a mark-to-market election, any gain such U.S. Holder recognizes upon the sale or other disposition of our ADSs will be treated as ordinary income and any loss will be treated as ordinary loss, but such loss will only be treated as ordinary to the extent of the net amount previously included in income as a result of the mark-to-market election. The tax rules that apply to distributions by corporations that are not PFICs would generally apply to distributions by us, except that the lower capital gains rate applicable to qualified foreign corporations (discussed above under “—Dividends”) would not apply. In the case of a U.S. Holder who has held ADSs during any taxable year in respect of which we were treated as a PFIC and continues to hold such ADSs (or any portion thereof), and who is considering making a mark-to-market election, special tax rules may apply relating to purging the PFIC taint of such ADSs.

Because a mark-to-market election, as a technical matter, cannot be made for any lower-tier PFICs that we may own, a U.S. Holder may continue to be subject to the PFIC rules with respect to such U.S. Holder’s indirect interest in any investments held by us that are treated as an equity interest in a PFIC for United States federal income tax purposes.

Alternatively, U.S. Holders can sometimes avoid the rules described above by electing to treat us as a “qualified electing fund.” However, this option will not be available to U.S. Holders because we do not intend to comply with the requirements necessary to permit U.S. Holders to make this election.

If a U.S. Holder owns our ADSs or ordinary shares during any taxable year that we are a PFIC, the holder may be required to file an annual IRS Form 8621 or such other form as is required by the United States Treasury Department. Each U.S. Holder is urged to consult its tax advisor concerning the United States federal income tax consequences of purchasing, holding and disposing of our ADSs or ordinary shares if we are or become treated as a PFIC, including the possibility of making a mark-to-market election or a “deemed sale” election and the unavailability of the election to treat us as a qualified electing fund.

Medicare Tax

An additional 3.8% tax is imposed on a portion or all of the net investment income of certain individuals with a modified adjusted gross income of over \$200,000 (or \$250,000 in the case of joint filers or \$125,000 in the case of married individuals filing separately) and on the undistributed net investment income of certain estates and trusts. For these purposes, “net investment income” generally includes interest, dividends (including dividends paid with respect to our ADSs or ordinary shares), annuities, royalties, rents, net gain attributable to the disposition of property not held in a trade or business (including net gain from the sale, exchange or other taxable disposition of an ADS or ordinary share) and certain other income, reduced by any deductions properly allocable to such income or net gain. Special rules may apply if we are treated as a PFIC with respect to a U.S. Holder. U.S. Holders are urged to consult their tax advisors regarding the applicability of this tax to their income and gains in respect of their investment in our ADSs or ordinary shares.

Information Reporting and Backup Withholding

Dividend payments with respect to the ADSs or ordinary shares and proceeds from the sale, exchange or redemption of the ADSs or ordinary shares may be subject to information reporting to the IRS and possible United States backup withholding, currently at a rate of 28%. Backup withholding will not apply, however, to a U.S. Holder who furnishes a correct taxpayer identification number and makes other required certifications, or who is otherwise exempt from backup withholding. U.S. Holders that are required to establish their exempt status generally must provide such certification on IRS Form W-9. U.S. Holders should consult their tax advisors regarding the application of the United States information reporting and backup withholding rules.

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Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a U.S. Holder's United States federal income tax liability, and a U.S. Holder generally may obtain a refund of any excess amounts withheld under the backup withholding rules by timely filing the appropriate claim for refund with the IRS and furnishing any required information.

Additional Tax Reporting Obligations

Pursuant to the Hiring Incentives to Restore Employment Act of 2010, individual U.S. Holders and certain domestic entities may be required to submit to the IRS certain information with respect to their beneficial ownership of the ADSs or ordinary shares, if such ADSs or ordinary shares are not held on their behalf by a financial institution. This law also imposes penalties if a U.S. Holder is required to submit such information to the IRS and fails to do so.

F Dividends and Paying Agents

Not applicable.

G Statement by Experts

Not applicable.

H Documents on Display

We are subject to the periodic reporting and other informational requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Under the Exchange Act, we are required to file reports and other information with the SEC. Specifically, we are required to file annually a Form 20-F no later than four months after the close of each fiscal year, which is April 30. Copies of reports and other information, when so filed, may be inspected without charge and may be obtained at prescribed rates at the public reference facilities maintained by the SEC at 100 F Street, N.E., Room 1580, Washington, D.C. 20549, and at the regional office of the SEC located at Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. The public may obtain information regarding the Washington, D.C. Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a web site at www.sec.gov that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system.

Our Internet website is www.youku.com. We make available free of charge on our website our annual reports on Form 20-F and any amendments to such reports as soon as reasonably practicable following the electronic filing of such report with the SEC. In addition, we provide electronic or paper copies of our filings free of charge upon request. The information contained on our website is not part of this or any other report filed with or furnished to the SEC.

As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. Our financial statements have been prepared in accordance with U.S. GAAP.

We will furnish our shareholders with annual reports, which will include a review of operations and annual audited consolidated financial statements prepared in conformity with U.S. GAAP.

I Subsidiary Information

For a listing of our subsidiaries, see "Item 4. Information on the Company—C. Organizational Structure."

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Our exposure to interest rate risk primarily relates to the interest income generated by bank deposits with original maturities of three months or less. We have not used any derivative financial instruments to manage our interest risk exposure. Interest-earning instruments carry a degree of interest rate risk. We have not been exposed to material risks due to changes in interest rates. However, our future interest income may be lower than expected due to changes in market interest rates.

Foreign Exchange Risk

Substantially all of our revenues and most of our expenses are denominated in RMB. Our exposure to foreign exchange risk primarily relates to cash and cash equivalents and short-term investments denominated in U.S. dollars as a result of our initial public offering in December 2010 and our follow-on public offering in May 2011. We believe the impact of foreign currency risk is not material and we have not used any forward contracts, currency borrowings or derivative instruments to hedge our exposure to foreign currency exchange risk. Although in general our exposure to foreign exchange risks should be limited, the value of your investment in our ADSs will be affected by the foreign exchange rate between U.S. dollars and RMB because substantially all of our revenues and expenses are denominated in RMB, while the ADSs will be traded in U.S. dollars.

The value of the Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions. The conversion of Renminbi into foreign currencies, including U.S. dollars, has been based on rates set by the People's Bank of China. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar. Under the revised policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy resulted in a more than 20% appreciation of the Renminbi against the U.S. dollar in the following three years. Since July 2008, however, the Renminbi has traded within a narrow range against the U.S. dollar. As a consequence, the Renminbi has fluctuated significantly since July 2008 against other freely traded currencies, in tandem with the U.S. dollar. On June 20, 2010, the People's Bank of China announced that the PRC government would further reform the Renminbi exchange rate regime and increase the flexibility of the exchange rate. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the RMB and the U.S. dollar in the future. To the extent that we need to convert U.S. dollars we receive from our initial public offering and our follow-on public offering into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we receive from the conversion. Conversely, if we decide to convert the Renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amounts available to us.

To the extent that we need to convert U.S. dollars into RMB for our operations, acquisitions or other uses within the PRC, appreciation of the RMB against the U.S. dollar would have an adverse effect on the RMB amount we receive from the conversion. To the extent that we seek to convert RMB into U.S. dollars, depreciation of the RMB against the U.S. dollar would have an adverse effect on the U.S. dollar amount we receive from the conversion. As of December 31, 2013, we had RMB denominated cash balances of US\$167.2 million and U.S. dollar-denominated cash and short-term investment balances of US\$353.7 million. Assuming we had converted the U.S. dollar-denominated cash balance of US\$353.7 million as of December 31, 2013 into RMB at the exchange rate of \$1.00 for RMB6.0537 as of December 31, 2013, this cash balance would have been RMB2,141.2 million. Assuming a further 1% appreciation of the RMB against the U.S. dollar, this cash balance would have decreased to RMB2,119.8 million as of December 31, 2013.

Inflation

Since our inception, inflation in China has not materially impacted our results of operations. According to the National Bureau of Statistics of China, the year-over-year percent changes in the consumer price index for December 2011, 2012 and 2013 were increases of 4.1%, 2.5% and 2.6%, respectively. Although we have not been materially affected by inflation in the past, we may be affected if China experiences higher rates of inflation in the future.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

A Debt Securities

Not applicable.

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B Warrants and Rights

Not applicable.

C Other Securities

Not applicable.

D American Depositary Shares

Fees and Charges Our ADS Holders May Have to Pay

Citibank, N.A., the depository of our ADS program, collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depository collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depository may collect its annual fee for depository services by deducting from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depository may generally refuse to provide fee-attracting services until its fees for those services are paid. Set forth below is a summary of fees holders of our ADSs may be required to pay for various services the depository may provide:

<u>Service</u>	<u>Fees</u>
• Issuance of ADSs	Up to US\$0.05 per ADS issued
• Cancellation of ADSs	Up to US\$0.05 per ADS canceled
• Distribution of cash dividends or other cash distributions	Up to US\$0.02 per ADS held
• Distribution of ADSs pursuant to stock dividends, free stock distributions or exercise of rights	Up to US\$0.05 per ADS held
• Distribution of securities other than ADSs or rights to purchase additional ADSs	Up to US\$0.05 per ADS held
• Depository services	Up to US\$0.02 per ADS held on the applicable record date(s) established by the depository
• Transfer of ADRs	US\$1.50 per certificate presented for transfer

Our ADS holders, persons depositing our ordinary shares and persons surrendering ADSs for cancellation and for the purpose of withdrawing deposited securities shall be responsible for the following charges:

- fees for the transfer and registration of Class A ordinary shares charged by the registrar and transfer agent for the Class A ordinary shares in the Cayman Islands (i.e., upon deposit and withdrawal of Class A ordinary shares);
- expenses incurred for converting foreign currency into U.S. dollars;
- expenses for cable, telex and fax transmissions and for delivery of securities;
- taxes and duties upon the transfer of securities (i.e., when Class A ordinary shares are deposited or withdrawn from deposit); and
- fees and expenses incurred in connection with the delivery or servicing of Class A ordinary shares on deposit.

Fees and Other Payments Made by the Depositary to Us

The depositary has agreed to reimburse us for certain expenses we incur that are related to establishment and maintenance of the ADS program, including investor relations expenses and exchange application and listing fees. There are limits on the amount of expenses for which the depositary will reimburse us, but the amount of reimbursement available to us is not related to the amounts of fees the depositary collects from investors. For the year ended December 31, 2013, we were entitled to US\$1.5 million from the depositary as reimbursement for our expenses incurred in connection with the establishment and maintenance of the ADS program.

PART II.

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

See “Item 10. Additional Information” for a description of the rights of securities holders, which remain unchanged.

The following “Use of Proceeds” information relates to:

- the registration statement on Form F-1 (File number: 333-170603) for our initial public offering of 15,847,700 ADSs, representing 285,258,600 Class A ordinary shares, and the underwriters’ full exercise of their option to purchase an additional 2,377,155 ADSs, representing 42,788,790 Class A ordinary shares, which registration statement was declared effective by the SEC on December 7, 2010. Goldman Sachs (Asia) L.L.C. acted as the sole representative of the underwriters in the initial public offering.
- The registration statement on Form F-1 (File number: 333-173963) for our follow-on public offering of 12,310,000 ADSs, representing 221,580,000 Class A ordinary shares, which registration statement was declared effective by the SEC on May 19, 2011. Goldman Sachs (Asia) L.L.C. acted as the sole representative of the underwriters in the follow-on public offering.

We received net proceeds of US\$217.4 million from our initial public offering and net proceeds of US\$385.9 million from our follow-on public offering. Our expenses incurred and paid to others in connection with the issuance and distribution of the ADSs in our initial public offering totaled US\$19.4 million, which included US\$14.9 million for underwriting discounts and commissions and US\$4.5 million for other expenses.

Our expenses incurred and paid to others in connection with the issuance and distribution of the ADSs in our follow-on public offering totaled US\$14.5 million, which included US\$13.0 million for underwriting discounts and commissions and US\$1.5 million for other expenses.

As of December 31, 2013, we used RMB1.9 billion of the net proceeds from our initial public offering and follow-on public offering on copyrights, servers and equipment.

ITEM 15. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this annual report, our management, with the participation of our chief executive officer, president and chief financial officer, has performed an evaluation of the effectiveness of our disclosure controls and procedures within the meaning of Rules 13a-15(e) and 15d-15(e) of the Exchange Act as of December 31, 2013. Based upon this evaluation, our management has concluded that, as of the end of the period covered by this annual report, our existing disclosure controls and procedures were effective.

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Disclosure controls and procedures means controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rule and forms and that such information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosures.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of its published consolidated financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective may not prevent or detect misstatements and can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2013. In making this assessment, it used the criteria established within the Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework). Based on this assessment, our management has concluded that, as of December 31, 2013, our internal control over financial reporting was effective.

Our independent registered public accounting firm, Ernst & Young Hua Ming LLP, has audited the effectiveness of our internal control over financial reporting as of December 31, 2013, as stated in its report, which appears on page F-3 of this annual report on Form 20-F.

Changes in Internal Control over Financial Reporting

As required by Rule 13a-15(d), under the Exchange Act, our management, including our chief executive officer, president and our chief financial officer, also has conducted an evaluation of our internal control over financial reporting to determine whether any changes occurred during the period covered by this report have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, it has been determined that there has been no such change during the period covered by this annual report.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Messrs. Bryan Zongwei Li and George Leonard Baker Jr., both independent directors (under the standards set forth in Section 303A of the Corporate Governance Rules of the NYSE and Rule 10A-3 under the Exchange Act) and members of our audit committee, are audit committee financial experts.

ITEM 16B. CODE OF ETHICS

Our board of directors has adopted a code of ethics that applies to our directors, officers and employees, including certain provisions that specifically apply to our chief executive officer, president, chief financial officer, senior finance officer, controller, vice presidents and any other persons who perform similar functions for us. We have filed our code of business conduct and ethics as an exhibit to our registration statement on Form F-1 (No. 333-170603), and the code is also available on our official website under the investor relations section at ir.youku.com.

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ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by Ernst & Young Hua Ming LLP, our principal external auditors, for the periods indicated. We did not pay any other fees to our auditors during the periods indicated below.

	2012	2013
	RMB (in thousands)	
Audit fees ⁽¹⁾	9,933	9,000
Audit-related fees ⁽²⁾	—	—
Tax fees ⁽³⁾	260	775
All other fees ⁽⁴⁾	13	13

- (1) “Audit fees” represents the aggregate fees billed and unbilled for professional services rendered by our principal auditors for the integrated audit of our annual consolidated financial statements and the audit of internal control over financial reporting, and audit services that are normally provided by the independent registered public accounting firm in connection with regulatory filing or engagement for those years. For the year ended December 31, 2012, audit fees also included fees for services rendered in connection with our F-4 filing with the SEC relating to the Tudou acquisition in 2012 of RMB1.2 million.
- (2) “Audit-related fees” represents the aggregate fees billed in each of the fiscal years listed for assurance and related services by our principal auditors that are reasonably related to the performance of the audit or review of our financial statements and are not reported under “Audit fees.”
- (3) “Tax fees” represents aggregate fees billed for professional services rendered by our principal auditors for transfer pricing, tax advice and tax planning.
- (4) “All other fees” represents fees for the use of Ernst & Young online accounting research tool.

All audit and permitted non-audit services provided by our independent auditors, including audit services, audit-related services, tax services and other services as described above, must be approved in advance by our audit committee or by one or more members of the committee as shall be designated by the audit committee or the chairperson of the audit committee.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

None.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

None.

ITEM 16F. CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

We have followed and intend to continue to follow the applicable corporate governance standards under the NYSE Corporate Governance Rules. We are not aware of any significant differences between our corporate governance practices and those followed by domestic companies under NYSE listing standards.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

PART III.

ITEM 17. FINANCIAL STATEMENTS

We have elected to provide financial statements pursuant to Item 18.

ITEM 18. FINANCIAL STATEMENTS

The consolidated financial statements of Youku Tudou Inc. are included at the end of this annual report.

ITEM 19. EXHIBITS

Exhibit Number	Document
1.1	Amended and Restated Memorandum and Articles of Association of the Registrant, effective August 23, 2012 (incorporated by reference to Exhibit 99.2 from our periodic report on Form 6-K (File No. 001-34977) furnished to the Commission on August 24, 2012).
2.1	Specimen American Depositary Receipt of the Registrant (incorporated by reference to Exhibit 4.1 from our F-1 registration statement (File No. 333-170603), as amended, initially filed with the Commission on November 15, 2010).
2.2	Specimen Certificate for Ordinary Shares of the Registrant (incorporated by reference to Exhibit 4.2 from our F-1 registration statement (File No. 333-170603), as amended, initially filed with the Commission on November 15, 2010).
2.3	Deposit Agreement among the Registrant, the depositary and holder of the American Depositary Receipts Registrant (incorporated by reference to Exhibit 4.3 from our S-8 registration statement (File No. 333-171454) filed with the Commission on December 29, 2010)
2.4	Amended and Restated Shareholders' Agreement, among the Registrant and other parties therein dated as of September 9, 2010 (incorporated by reference to Exhibit 4.4 from our F-1 registration statement (File No. 333-170603), as amended, initially filed with the Commission on November 15, 2010).
2.5	Share Purchase Agreement, among the Registrant and other parties therein dated as of November 25, 2009 (incorporated by reference to Exhibit 4.5 from our F-1 registration statement (File No. 333-170603), as amended, initially filed with the Commission on November 15, 2010).
2.6	Share Purchase Agreement, among the Registrant and other parties therein dated as of September 9, 2010 (incorporated by reference to Exhibit 4.6 from our F-1 registration statement (File No. 333-170603), as amended, initially filed with the Commission on November 15, 2010).
2.7	Voting Agreement, between the Registrant and GGV II Delaware L.L.C. dated as of March 11, 2012 (incorporated by reference to Exhibit 7.02 from our Schedule 13D initially filed with the Commission in connection with Tudou Holdings Limited on March 16, 2012 (File No. 005-86381)), as amended.
2.8	Voting Agreement, between the Registrant and Sennett Investment (Mauritius) Pte Ltd. dated as of March 11, 2012 (incorporated by reference to Exhibit 7.03 from our Schedule 13D initially filed with the Commission in connection with Tudou Holdings Limited on March 16, 2012 (File No. 005-86381)), as amended.
2.9	Voting Agreement, among the Registrant and IDG Technology Venture Investment III, L.P. and IDG Technology Venture Investment IV, L.P. dated as of March 11, 2012 (incorporated by reference to Exhibit 7.04 from our Schedule 13D initially filed with the Commission in connection with Tudou Holdings Limited on March 16, 2012 (File No. 005-86381)), as amended.
2.10	Voting Agreement, among the Registrant and Mr. Gary Wei Wang, Spring Prosper Group Limited and First Easy Group Limited dated as of March 11, 2012 (incorporated by reference to Exhibit 7.05 from our Schedule 13D initially filed with the Commission in connection with Tudou Holdings Limited on March 16, 2012 (File No. 005-86381)), as amended.
2.11	Voting Agreement, among the Registrant and Crescent Peak, Ltd, Crescent Peak II Limited and Crescent P.E., Ltd. dated as of March 11, 2012 (incorporated by reference to Exhibit 7.06 from our Schedule 13D initially filed with the Commission in connection with Tudou Holdings Limited on March 16, 2012 (File No. 005-86381)), as amended.

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- 4.1 2006 Stock Option Scheme, as amended (incorporated by reference to Exhibit 10.1 from our F-1 registration statement (File No. 333-170603), as amended, initially filed with the Commission on November 15, 2010).
- 4.2 Youku Tudou Inc. Share Incentive Plan (incorporated by reference to Exhibit 10.1 from our S-8 registration statement (File No. 333-184093) filed with the Commission on September 25, 2012).
- 4.3 Form of Indemnification Agreement between the Registrant and its directors and officers (incorporated by reference to Exhibit 10.3 from our F-1 registration statement (File No. 333-170603), as amended, initially filed with the Commission on November 15, 2010).
- 4.4 Form of Employment Agreement between the Registrant and the officers of the Registrant (incorporated by reference to Exhibit 10.4 from our F-1 registration statement (File No. 333-170603), as amended, initially filed with the Commission on November 15, 2010).
- 4.5 Amended and Restated Business Operations Agreement, dated as of April 23, 2013, among 1Verge Internet, 1Verge Information and the shareholders of 1Verge Information (incorporated by reference to Exhibit 4.5 from our 20-F annual report (File No. 001-34977), as amended, initially filed with the Commission on April 26, 2013).
- 4.6 Amended and Restated Business Operations Agreement, dated as of August 16, 2010, among 1Verge Internet, Jiaheyi and the shareholders of Jiaheyi (incorporated by reference to Exhibit 10.6 from our F-1 registration statement (File No. 333-170603), as amended, initially filed with the Commission on November 15, 2010).
- 4.7 Amended and Restated Equity Interest Pledge Agreements, dated as of November 21, 2012, between 1Verge Internet and the shareholders of 1Verge Information (incorporated by reference to Exhibit 4.7 from our 20-F annual report (File No. 001-34977), as amended, initially filed with the Commission on April 26, 2013).
- 4.8 Amended and Restated Equity Interest Pledge Agreement, dated as of September 27, 2010, among 1Verge Internet and the shareholders of Jiaheyi (incorporated by reference to Exhibit 10.8 from our F-1 registration statement (File No. 333-170603), as amended, initially filed with the Commission on November 15, 2010).
- 4.9 Powers of Attorney, dated as of April 23, 2013, by the shareholders of 1Verge Information (incorporated by reference to Exhibit 4.9 from our 20-F annual report (File No. 001-34977), as amended, initially filed with the Commission on April 26, 2013).
- 4.10 Powers of Attorney, dated as of August 16, 2010, by the shareholders of Jiaheyi (incorporated by reference to Exhibit 10.10 from our F-1 registration statement (File No. 333-170603), as amended, initially filed with the Commission on November 15, 2010).
- 4.11 Amended and Restated Exclusive Technical and Consulting Services Agreement, dated as of November 21, 2012, between 1Verge Internet and 1Verge Information (incorporated by reference to Exhibit 4.11 from our 20-F annual report (File No. 001-34977), as amended, initially filed with the Commission on April 26, 2013).
- 4.12 Amended and Restated Exclusive Technical and Consulting Services Agreement, dated as of August 16, 2010, between 1Verge Internet and Jiaheyi (incorporated by reference to Exhibit 10.12 from our F-1 registration statement (File No. 333-170603), as amended, initially filed with the Commission on November 15, 2010).

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- 4.13 Amended and Restated Trademark License Agreement, dated as of August 16, 2010, between 1Verge Internet and 1Verge Information (incorporated by reference to Exhibit 10.13 from our F-1 registration statement (File No. 333-170603), as amended, initially filed with the Commission on November 15, 2010).
- 4.14 Amended and Restated Domain Name License Agreement, dated as of August 16, 2010, between 1Verge Internet and 1Verge Information (incorporated by reference to Exhibit 10.14 from our F-1 registration statement (File No. 333-170603), as amended, initially filed with the Commission on November 15, 2010).
- 4.15 Amended and Restated Equity Option Agreements, dated as of April 23, 2013, among the Registrant, 1Verge Internet, 1Verge Information and the shareholders of 1Verge Information (incorporated by reference to Exhibit 4.15 from our 20-F annual report (File No. 001-34977), as amended, initially filed with the Commission on April 26, 2013).
- 4.16 Amended and Restated Equity Option Agreement, dated as of August 16, 2010, among 1Verge Internet and the shareholders of Jiaheyi (incorporated by reference to Exhibit 10.16 from our F-1 registration statement (File No. 333-170603), as amended, initially filed with the Commission on November 15, 2010).
- 4.17 Amended and Restated Loan Agreements, dated as of November 21, 2012, between 1Verge Internet and the shareholders of 1Verge Information (incorporated by reference to Exhibit 4.17 from our 20-F annual report (File No. 001-34977), as amended, initially filed with the Commission on April 26, 2013).
- 4.18 Amended and Restated Loan Agreement, dated as of August 16, 2010, among 1Verge Internet and the shareholders of Jiaheyi (incorporated by reference to Exhibit 10.18 from our F-1 registration statement (File No. 333-170603), as amended, initially filed with the Commission on November 15, 2010).
- 4.19 Supplementary Agreement, dated as of November 21, 2012, among 1Verge Internet and the shareholders of 1Verge Information (incorporated by reference to Exhibit 4.19 from our 20-F annual report (File No. 001-34977), as amended, initially filed with the Commission on April 26, 2013).
- 4.20 Supplementary Agreement, dated as of August 16, 2010, between 1Verge Internet and Jiaheyi (incorporated by reference to Exhibit 10.20 from our F-1 registration statement (File No. 333-170603), as amended, initially filed with the Commission on November 15, 2010).
- 4.21 Assignment Agreement I, dated as of August 16, 2010, among 1Verge Internet, 1Verge Information, Jiaheyi, Qin Qiong and Liu Dele (incorporated by reference to Exhibit 10.21 from our F-1 registration statement (File No. 333-170603), as amended, initially filed with the Commission on November 15, 2010).
- 4.22 Assignment Agreement II, dated as of August 16, 2010, among 1Verge Internet, 1Verge Information, Jiaheyi, Qin Qiong and Liu Dele (incorporated by reference to Exhibit 10.22 from our F-1 registration statement (File No. 333-170603), as amended, initially filed with the Commission on November 15, 2010).
- 4.23 Assignment Agreement, effective as of November 21, 2012, among 1Verge Internet and the shareholders of 1Verge Information (incorporated by reference to Exhibit 4.23 from our 20-F annual report (File No. 001-34977), as amended, initially filed with the Commission on April 26, 2013).
- 4.24* Business Operations Agreement, dated as of September 10, 2013, among 1Verge Internet, Zhejiang Dongyang Tianshi Media Limited, or Tianshi, and the shareholders of Tianshi.

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- 4.25* Equity Interest Pledge Agreement, effective as of September 10, 2013, between 1Verge Internet and the shareholders of Tianshi.
- 4.26* Powers of Attorney, dated as of September 10, 2013, by the shareholders of Tianshi.
- 4.27 Exclusive Technical and Consulting Services Agreement, effective as of January 6, 2012 between 1Verge Internet and Tianshi (incorporated by reference to Exhibit 4.26 from our Form 20-F (File No. 001-34977) filed with the Commission on April 10, 2012).
- 4.28* Equity Option Agreement, dated as of September 10, 2013, among the Registrant, 1Verge Internet and the shareholders of Tianshi.
- 4.29 Agreement and Plan of Merger, among the Registrant, Two Merger Sub Inc. and Tudou Holdings Limited dated as of March 11, 2012 (incorporated by reference to Exhibit 7.01 from our Schedule 13D initially filed with the Commission in connection with Tudou Holdings Limited on March 16, 2012 (File No. 005-86381)), as amended.
- 4.30* Business Operations Agreement, dated as of September 2, 2013, among Reshuffle Technology, Quan Toodou and the shareholders of Quan Toodou.
- 4.31 Equity Interest Pledge Agreements, dated as of January 28, 2013, between Reshuffle Technology and the shareholders of Quan Toodou (incorporated by reference to Exhibit 4.31 from our 20-F annual report (File No. 001-34977), as amended, initially filed with the Commission on April 26, 2013).
- 4.32* Equity Interest Pledge Agreement, dated as of September 2, 2013, between Reshuffle Technology and Qiong Qin, a shareholder of Quan Toodou.
- 4.33* Powers of Attorney, dated as of September 2, 2013, by the shareholders of Quan Toodou.
- 4.34 Exclusive Technical and Consulting Services Agreement, dated as of January 28, 2013, between Reshuffle Technology and Quan Toodou (incorporated by reference to Exhibit 4.33 from our 20-F annual report (File No. 001-34977), as amended, initially filed with the Commission on April 26, 2013).
- 4.35 Equity Option Agreements, dated as of April 23, 2013, among the Registrant, Reshuffle Technology, Quan Toodou and the shareholders of Quan Toodou (incorporated by reference to Exhibit 4.34 from our 20-F annual report (File No. 001-34977), as amended, initially filed with the Commission on April 26, 2013).
- 4.36* Equity Option Agreement, dated as of September 2, 2013, among the Registrant, Reshuffle Technology, Quan Toodou and Qiong Qin, a shareholder of Quan Toodou.
- 4.37 Loan Agreements, dated as of January 28, 2013, between Reshuffle Technology and the shareholders of Quan Toodou (incorporated by reference to Exhibit 4.35 from our 20-F annual report (File No. 001-34977), as amended, initially filed with the Commission on April 26, 2013).
- 4.38* Loan Agreement, dated as of September 2, 2013, between Reshuffle Technology and Qiong Qin, a shareholder of Quan Toodou.
- 4.39* Translation of Equity Transfer Agreement, dated as of September 2, 2013, between Zhou Yu and Qiong Qin, a shareholder of Quan Toodou, regarding the equity interest of Quan Toodou.
- 4.40 Translation of Executed Form of Equity Interest Pledge Agreement, dated as of February 15, 2012, among Reshuffle Technology and the shareholders of Beijing Tixian Digital Science and Technology Co., Ltd., as currently in effect (incorporated by reference to Exhibit 4.36 from our 20-F annual report (File No. 001-34977), as amended, initially filed with the Commission on April 26, 2013).

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4.41	Translation of Executed Form of Proxy Agreement, dated as of February 15, 2012, among Reshuffle Technology, Beijing Tixian and the shareholders of Beijing Tixian, as currently in effect (incorporated by reference to Exhibit 4.37 from our 20-F annual report (File No. 001-34977), as amended, initially filed with the Commission on April 26, 2013).
4.42	Translation of Executed Form of Exclusive Technical and Consulting Services Agreement, dated as of February 15, 2012, between Beijing Tixian and Reshuffle Technology, as currently in effect (incorporated by reference to Exhibit 4.38 from our 20-F annual report (File No. 001-34977), as amended, initially filed with the Commission on April 26, 2013).
4.43	Translation of Executed Form of Equity Option Agreement, dated as of February 15, 2012, among Reshuffle Technology, Beijing Tixian and the shareholders of Beijing Tixian, as currently in effect (incorporated by reference to Exhibit 4.39 from our 20-F annual report (File No. 001-34977), as amended, initially filed with the Commission on April 26, 2013).
4.44	Translation of Executed Form of Loan Agreement, dated as of December 1, 2011, among Reshuffle Technology and the shareholders of Beijing Tixian, as currently in effect (incorporated by reference to Exhibit 4.40 from our 20-F annual report (File No. 001-34977), as amended, initially filed with the Commission on April 26, 2013).
8.1*	List of Significant Consolidated Entities of the Registrant
11.1	Code of Business Conduct and Ethics of the Registrant (incorporated by reference to Exhibit 99.1 from our F-1 registration statement (File No. 333-170603), as amended, initially filed with the Commission on November 15, 2010).
12.1*	Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2*	Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1**	Chief Executive Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2**	Chief Financial Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1*	Consent of Ernst & Young Hua Ming LLP
15.2*	Consent of TransAsia Lawyers
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Scheme Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed with this annual report on Form 20-F.

** Furnished with this annual report on Form 20-F.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Youku Tudou Inc.

By: /s/ Victor Wing Cheung Koo

Name: Victor Wing Cheung Koo

Title: Chairman of the Board of Directors
Chief Executive Officer

Date: April 16, 2014

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders

Youku Tudou Inc.

We have audited the accompanying consolidated balance sheets of Youku Tudou Inc. (the “Company”) as of December 31, 2013 and 2012, and the related consolidated statements of comprehensive loss, shareholders’ equity and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Youku Tudou Inc. at December 31, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Youku Tudou Inc.’s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated April 16, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young Hua Ming LLP

Beijing, People’s Republic of China

April 16, 2014

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders

Youku Tudou Inc.

We have audited Youku Tudou Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the "COSO criteria"). Youku Tudou Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Youku Tudou Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Youku Tudou Inc. as of December 31, 2013 and 2012, and the related consolidated statements of comprehensive loss, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2013 of Youku Tudou Inc. and our report dated April 16, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young Hua Ming LLP
Beijing, People's Republic of China
April 16, 2014

YOUKU TUDOU INC.

**CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2012 AND 2013**
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

	Notes	As of December 31,		
		2012 RMB	2013 RMB	2013 US\$
ASSETS				
Current assets:				
Cash and cash equivalents		1,655,857	1,764,221	291,429
Restricted cash (including restricted cash of the Consolidated Affiliated Entities that may only be used to settle obligations of the Consolidated Affiliated Entities of RMB9,003 and RMB2,679 (US\$443) as of December 31, 2012 and 2013, respectively)		9,003	2,679	443
Short-term investments	3	2,110,073	1,409,439	232,823
Accounts receivable (net of allowance for doubtful accounts of RMB12,919 and RMB75,522 (US\$12,475) as of December 31, 2012 and 2013, respectively)	5	932,796	1,370,031	226,313
Intangible assets, net	7	19,607	51,942	8,580
Deferred tax assets, net	13	10,470	7,843	1,296
Prepayments and other assets	6	64,909	82,300	13,595
Total current assets		4,802,715	4,688,455	774,479
Non-current assets:				
Property and equipment, net	9	200,681	222,229	36,710
Intangible assets, net	7	1,304,923	1,197,671	197,841
Capitalized content production costs		—	1,176	194
Prepayments and other assets	6	229,185	197,856	32,683
Goodwill	8	4,255,570	4,262,569	704,126
Total non-current assets		5,990,359	5,881,501	971,554
TOTAL ASSETS		10,793,074	10,569,956	1,746,033
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Accounts payable (including accounts payable of the Consolidated Affiliated Entities without recourse to Youku Tudou Inc. of RMB114,044 and RMB115,667 (US\$19,107) as of December 31, 2012 and 2013, respectively)		181,878	213,825	35,321
Advances from customers (including advances from customers of the Consolidated Affiliated Entities without recourse to Youku Tudou Inc. of RMB21,603 and RMB18,425 (US\$3,044) as of December 31, 2012 and 2013, respectively)		21,603	25,081	4,143
Accrued expenses and other liabilities (including accrued expenses and other liabilities of the Consolidated Affiliated Entities without recourse to Youku Tudou Inc. of RMB867,128 and RMB969,702 (US\$160,183) as of December 31, 2012 and 2013, respectively)	10	981,353	1,124,342	185,729
Current portion of long-term debt	11	7,441	—	—
Total current liabilities		1,192,275	1,363,248	225,193
Non-current liabilities:				
Deferred tax liabilities (including deferred tax liabilities of the Consolidated Affiliated Entities without recourse to Youku Tudou Inc. of RMB 224,198 and RMB219,314 (US\$36,228) as of December 31, 2012 and 2013, respectively)	13	224,374	219,519	36,262
Other liabilities (including other liabilities of the Consolidated Affiliated Entities without recourse to Youku Tudou Inc. of RMB nil and RMB4,000 (US\$661) as of December 31, 2012 and 2013, respectively)		19,552	4,070	672
Total non-current liabilities		243,926	223,589	36,934
Total liabilities		1,436,201	1,586,837	262,127
Commitments and contingencies	15			

YOUKU TUDOU INC.

CONSOLIDATED BALANCE SHEETS—continued
AS OF DECEMBER 31, 2012 AND 2013
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

	Notes	As of December 31,		
		2012 RMB	2013 RMB	2013 US\$
Shareholders' equity:				
Class A ordinary shares (US\$0.00001 par value, 9,340,238,793 authorized, 2,286,643,502 and 2,356,529,401 issued and outstanding as of December 31, 2012 and 2013, respectively)	16	149	154	25
Class B ordinary shares (US\$0.00001 par value, 659,761,207 authorized, 659,561,893 and 659,561,893 issued and outstanding as of December 31, 2012 and 2013, respectively)	16	49	49	8
Additional paid-in capital		10,768,204	11,058,360	1,826,711
Statutory reserves		1,500	2,063	341
Accumulated deficit	17	(1,297,147)	(1,878,454)	(310,298)
Accumulated other comprehensive loss		(115,882)	(199,053)	(32,881)
Total shareholders' equity		<u>9,356,873</u>	<u>8,983,119</u>	<u>1,483,906</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>10,793,074</u>	<u>10,569,956</u>	<u>1,746,033</u>

The accompanying notes are an integral part of the consolidated financial statements.

YOUKU TUDOU INC.

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013**
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares (or ADS), and per share (or ADS) data)

	Notes	Years ended December 31,			2013 US\$
		2011 RMB	2012 RMB	2013 RMB	
Net revenues (including sublicensing revenues from a related party amounting to RMB768, RMB nil, and RMB nil for the years ended December 31, 2011, 2012 and 2013, respectively)		897,624	1,795,575	3,028,484	500,271
Cost of revenues	12	(697,337)	(1,499,536)	(2,487,421)	(410,893)
Gross profit		200,287	296,039	541,063	89,378
Operating expenses:					
Product development		(72,573)	(172,885)	(278,015)	(45,925)
Sales and marketing		(230,475)	(363,707)	(681,008)	(112,494)
General and administrative		(80,529)	(238,112)	(261,770)	(43,241)
Total operating expenses		(383,577)	(774,704)	(1,220,793)	(201,660)
Loss from operations		(183,290)	(478,665)	(679,730)	(112,282)
Interest income		23,693	45,478	29,972	4,950
Interest expenses	11	(6,825)	(3,989)	(545)	(90)
Other income (loss), net		(5,682)	9,757	70,573	11,658
Loss before income taxes		(172,104)	(427,419)	(579,730)	(95,764)
Income tax benefit (expense)	13	—	3,416	(1,014)	(168)
Net loss		(172,104)	(424,003)	(580,744)	(95,932)
Net loss per share, basic and diluted	18	(0.09)	(0.18)	(0.19)	(0.03)
Net loss per ADS (each ADS represents 18 class A ordinary shares), basic and diluted		(1.55)	(3.20)	(3.50)	(0.58)
Shares used in computation, basic and diluted	18	1,992,923,515	2,386,474,188	2,986,223,088	2,986,223,088
ADS used in computation, basic and diluted		110,717,973	132,581,899	165,901,282	165,901,282
Other comprehensive loss, net of tax of nil					
Foreign currency translation adjustment		(94,225)	(7,304)	(83,171)	(13,739)
Comprehensive loss attributable to ordinary shareholders		(266,329)	(431,307)	(663,915)	(109,671)

The accompanying notes are an integral part of the consolidated financial statements.

YOUKU TUDOU INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 and 2013
(Amounts in thousands of Renminbi ("RMB") and U.S. dollars ("US\$"),
except for number of shares)

	Class A ordinary shares		Class B ordinary shares		Additional paid-in capital RMB	Statutory reserves RMB	Accumulated other comprehensive loss RMB	Accumulated deficit RMB	Total shareholders' equity RMB
	Shares	Amount RMB	Shares	Amount RMB					
Balances at January 1, 2011	1,235,761,996	82	659,761,207	49	2,625,250	—	(14,353)	(699,540)	1,911,488
Net loss	—	—	—	—	—	—	—	(172,104)	(172,104)
Other comprehensive loss	—	—	—	—	—	—	(94,225)	—	(94,225)
Exercise of stock options and vesting of restricted stock units	9,894,029	1	—	—	4,741	—	—	—	4,742
Share-based compensation	—	—	—	—	47,494	—	—	—	47,494
Issuance of ordinary shares upon secondary offering, net of offering costs	149,580,000	10	—	—	2,507,772	—	—	—	2,507,782
Conversion of Class B to Class A ordinary shares	199,314	—	(199,314)	—	—	—	—	—	—
Balances at December 31, 2011	1,395,435,339	93	659,561,893	49	5,185,257	—	(108,578)	(871,644)	4,205,177
Net loss	—	—	—	—	—	—	—	(424,003)	(424,003)
Other comprehensive loss	—	—	—	—	—	—	(7,304)	—	(7,304)
Statutory reserves	—	—	—	—	—	1,500	—	(1,500)	—
Exercise of stock options and vesting of restricted stock units	50,896,710	2	—	—	23,166	—	—	—	23,168
Share-based compensation	—	—	—	—	118,218	—	—	—	118,218
Issuance of shares as purchase consideration for acquired subsidiaries	840,311,453	54	—	—	5,441,563	—	—	—	5,441,617
Balances at December 31, 2012	2,286,643,502	149	659,561,893	49	10,768,204	1,500	(115,882)	(1,297,147)	9,356,873
Net loss	—	—	—	—	—	—	—	(580,744)	(580,744)
Other comprehensive loss	—	—	—	—	—	—	(83,171)	—	(83,171)
Statutory reserves	—	—	—	—	—	563	—	(563)	—
Exercise of stock options and vesting of restricted stock units	65,390,885	5	—	—	101,798	—	—	—	101,803
Issuance of share purchase consideration to Tudou shareholder previously held in escrow (Note 4)	4,495,014	—	—	—	—	—	—	—	—
Share-based compensation	—	—	—	—	188,358	—	—	—	188,358
Balances at December 31, 2013	2,356,529,401	154	659,561,893	49	11,058,360	2,063	(199,053)	(1,878,454)	8,983,119
Balances at December 31, 2013, in US\$		25		8	1,826,711	341	(32,881)	(310,298)	1,483,906

The accompanying notes are an integral part of the consolidated financial statements.

YOUKU TUDOU INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 2012 AND 2013
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”))

	Years ended December 31,			
	2011 RMB	2012 RMB	2013 RMB	2013 US\$
Cash flows from operating activities:				
Net loss	(172,104)	(424,003)	(580,744)	(95,932)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:				
Depreciation of fixed assets	45,670	81,609	111,098	18,352
Bad debt expense	1,509	9,887	62,603	10,341
Amortization of intangible assets and capitalized content production costs	166,576	416,396	788,299	130,218
Impairment of long-lived assets	—	—	96,071	15,870
Amortization of long-term debt discounts	3,496	1,928	313	52
Loss (gain) on disposal of property and equipment	(18)	52	485	80
Foreign exchange loss (gain)	5,624	469	(13,318)	(2,200)
Share-based compensation	47,494	118,218	188,358	31,114
Gain from remeasurement of previously held investment in acquired subsidiary (Note 4)	—	(3,344)	—	—
Deferred income tax benefit	—	(9,953)	(313)	(52)
Gain from de-recognition of off-market liabilities	—	—	(16,540)	(2,732)
Changes in operating assets and liabilities, net of acquisition:				
Restricted cash	—	(9,003)	6,324	1,045
Accounts receivable	(207,970)	(223,772)	(499,838)	(82,567)
Amounts due from related party	1,232	—	—	—
Prepayments and other assets	(15,875)	20,182	1,441	238
Capitalized content production costs	(11,415)	(9,891)	(6,738)	(1,113)
Accounts payable	(252)	(39,023)	(13,555)	(2,239)
Advances from customers	1,836	(7,244)	3,478	576
Accrued expenses and other liabilities	198,067	214,912	142,059	23,464
Net cash provided by operating activities	<u>63,870</u>	<u>137,420</u>	<u>269,483</u>	<u>44,515</u>
Cash flows from investing activities:				
Acquisition of property and equipment	(84,855)	(90,204)	(144,120)	(23,807)
Proceeds received from maturity of short-term investments	1,199,221	2,826,023	2,989,628	493,851
Short-term investments placed with financial institutions	(2,597,038)	(3,536,711)	(2,283,410)	(377,192)
Proceeds from disposal of property and equipment	24	9	458	76
Cash acquired, net of cash paid for acquired subsidiaries	—	378,666	(6,999)	(1,156)
Acquisition of intangible assets from related party	(114,511)	—	—	—
Acquisition of intangible assets	(376,256)	(361,976)	(740,581)	(122,335)
Net cash used in investing activities	<u>(1,973,415)</u>	<u>(784,193)</u>	<u>(185,024)</u>	<u>(30,563)</u>
Cash flows from financing activities:				
Exercise of employee stock options	4,647	22,485	101,435	16,756
Decrease in restricted cash (Note 4)	—	38,069	—	—
Principal repayments on long-term debt	(27,107)	(11,145)	(7,677)	(1,268)
Principal repayments on short-term loan (Note 4)	—	(31,544)	—	—
Proceeds from IPO and secondary offering activity, net of issuance costs	<u>2,512,969</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net cash provided by financing activities	<u>2,490,509</u>	<u>17,865</u>	<u>93,758</u>	<u>15,488</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(99,849)</u>	<u>(7,773)</u>	<u>(69,853)</u>	<u>(11,539)</u>
Net increase (decrease) in cash and cash equivalents	481,115	(636,681)	108,364	17,901
Cash and cash equivalents at beginning of the year	<u>1,811,423</u>	<u>2,292,538</u>	<u>1,655,857</u>	<u>273,528</u>
Cash and cash equivalents at end of the year	<u><u>2,292,538</u></u>	<u><u>1,655,857</u></u>	<u><u>1,764,221</u></u>	<u><u>291,429</u></u>
Supplemental disclosures of cash flow information:				
Cash paid for interest	3,990	2,320	310	51
Cash paid for income taxes	—	3,772	978	162
Non-cash consideration paid for business acquisitions	—	5,497,219	—	—
Acquisition of property and equipment included in accounts payable	6,126	12,065	21,592	3,567
Acquisition of intangible assets included in accounts payable and due to related party	53,944	155,464	191,711	31,668
Capitalized content production costs included in accrued expenses	1,498	—	1,870	309

The accompanying notes are an integral part of the consolidated financial statements.

YOUKU TUDOU INC.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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1. ORGANIZATION AND BASIS OF PRESENTATION

Youku Inc. (“Youku”) was incorporated under the laws of the Cayman Islands on September 20, 2005. Youku was formerly known as 1Verge Inc. and changed its name to Youku.com Inc. on June 20, 2008. On October 18, 2011, Youku changed its legal name from Youku.com Inc. to Youku Inc. On March 11, 2012, Youku, Two Merger Sub Inc. (“Merger Sub”), a wholly owned subsidiary of Youku, and Tudou Holdings Limited (“Tudou”) entered into the agreement and plan of Merger (the “Merger Agreement”) for Tudou to combine with Youku in a 100% stock-for-stock transaction. On August 23, 2012, the merger (the “Merger”) between Tudou and Merger Sub was completed pursuant to the Merger Agreement. As a result of the Merger, Tudou has become a wholly-owned subsidiary of Youku. Youku changed its legal name from Youku Inc. to Youku Tudou Inc. (the “Company”) at the effective time of the Merger.

Tudou was incorporated under the laws of Cayman Islands as a limited liability company on April 15, 2010. Tudou was incorporated as an investment holding company and has no significant assets or operations of its own, other than its investments in the wholly-owned subsidiaries and consolidated affiliated entities.

The Company, its wholly-owned subsidiaries, consolidated affiliated entities and its directly held wholly-owned subsidiaries (“Consolidated Affiliated Entities”) are hereinafter collectively referred to as the “Group”.

The Group provides online video sharing and distribution services, online advertising services and mobile value-added services through its internet sites, www.youku.com and www.tudou.com. The Group’s principal geographic market is in the PRC. The Company does not conduct any substantive operations of its own but conducts its primary business operations through its wholly-owned subsidiaries and Consolidated Affiliated Entities in the PRC.

As of December 31, 2013, the Company’s significant subsidiaries and Consolidated Affiliated Entities were as follows:

	Place of Incorporation	Date of Establishment /Acquisition	Percentage of Ownership	Principal Activities
Subsidiaries:				
1Verge Internet Technology (Beijing) Co., Ltd. (“1Verge Internet”)	PRC	November 14, 2005	100%	Provision of general and administrative services to group companies
Jet Brilliant Limited (“Jet Brilliant”)	Hong Kong	Acquired on April 27, 2010	100%	Provision of general and administrative services to group companies
Beijing Jet Brilliant Advertising Co., Ltd. (“Jet Brilliant Beijing”), a wholly-owned subsidiary of Jet Brilliant	PRC	Acquired on April 27, 2010	100%	Advertising agency business
Youku Video (Xi’an) Media Technology Co., Ltd. (“Youku Xi’an”), a wholly-owned subsidiary of Jet Brilliant	PRC	August 1, 2011	100%	Provision of content scrutiny for compliance of content regulations
Trade Lead Investments Ltd. (“Trade Lead”)	BVI	January 6, 2012	100%	Copyright agency services
Tudou Holdings Limited (“Tudou”)	Cayman	Acquired on August 23, 2012	100%	Investment holding
StarCloud Media Co., Ltd. (“StarCloud”), a wholly-owned subsidiary of Tudou	BVI	Acquired on August 23, 2012	100%	Investment holding
Reshuffle Technology (Shanghai) Co., Ltd. (“Reshuffle Technology”), indirectly wholly-owned by StarCloud	PRC	Acquired on August 23, 2012	100%	Technology consulting and administrative services
Chuanxian Technology (Shanghai) Co., Ltd. (“Chuanxian”), indirectly wholly-owned by StarCloud	PRC	Acquired on August 23, 2012	100%	Technology consulting services
Consolidated Affiliated Entities:				
1Verge Information Technology (Beijing) Co., Ltd. (“1Verge Information”)	PRC	February 24, 2006	Nil	Online video sharing and distribution services, online advertising services, mobile value added services

Zhejiang Dongyang Tianshi Media Ltd. (“Tianshi”)	PRC	Acquired on January 6, 2012	Nil	Advertising agency, television production and cultural information consultation
Quan Toodou Network Science and Technology Co., Ltd. (“Quan Toodou”)	PRC	Acquired on August 23, 2012	Nil	Online advertising operations
Shanghai Quan Toodou Cultural Communication Co., Ltd. (“Toodou Cultural”), a wholly-owned subsidiary of Quan Toodou	PRC	Acquired on August 23, 2012	Nil	Advertising production and operations

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In April 2010, the Company acquired 100% of the equity interest of Jet Brilliant, a Hong Kong company which wholly owns Jet Brilliant Beijing, an advertising company established in Beijing.

In August 2011, the Company established Youku Xi’an, a wholly-owned subsidiary of the Company, which mainly engages in content scrutiny for compliance of content regulations.

On January 6, 2012, as an existing holder of 5% equity interest in Trade Lead and Tianshi, the Company completed the acquisition of the remaining 95% equity interest in Trade Lead and Tianshi (Note 4). On the acquisition date, Youku and 1Verge Internet entered into a series of contractual arrangements with Tianshi and the respective shareholders of Tianshi, Ms. Wen Lu and Ms. Qiong Hu, both employees of the Company. On September 17, 2013, 1Verge Information injected RMB7 million as registered capital into Tianshi. Upon completion of the increase of registered capital, 1Verge Information became a shareholder of Tianshi that holds 70% of its equity interest, and Ms. Wen Lu and Ms. Qiong Hu jointly hold the remaining 30% the equity interest of Tianshi.

On August 23, 2012, upon completion of the Merger, Tudou and Reshuffle Technology, entered into a series of contractual agreements with Quan Toodou and the respective shareholders of Quan Toodou, Ms. Qiong Qin, the wife of Youku’s founder and chief executive officer, Mr. Victor Koo, Mr. Wei Wang, the founder and chief executive officer of Tudou, and Ms. Zhiqi Wang, an employee of Tudou.

In November, 2012, Ms. Qiong Qin transferred 60% equity interest in 1Verge Information to Mr. Dele Liu. As a result, Ms. Qiong Qin and Mr. Dele Liu held 20% and 80% of 1Verge Information respectively.

In January 2013, Mr. Wei Wang and Ms. Zhiqi Wang transferred 33.3% of their equity interest in Quan Toodou to Mr. Dele Liu and Mr. Zhou Yu, an employee of Tudou. As a result, Ms. Qiong Qin, Mr. Dele Liu and Mr. Zhou Yu held 66.7%, 15.3% and 18% of Quan Toodou respectively.

In July 2013, 1Verge Information acquired 100% equity interest in Beijing Maiyu Cultural Diffusion Co. Ltd. (“Maiyu”) for cash consideration of RMB7 million. After the acquisition, Maiyu became a wholly-owned subsidiary of the Group and the Company recognized goodwill for RMB6,999 (US\$1,156) Maiyu mainly engages in advertising design and publication activities.

In September 2013, Mr. Zhou Yu transferred 18% of his equity interest in Quan Toodou to Ms. Qiong Qin. As a result, Ms. Qiong Qin held 84.7% of Quan Toodou.

PRC laws and regulations prohibit or restrict foreign ownership of Internet content and online advertising businesses. To comply with these foreign ownership restrictions, the Group operates its websites and provides online video and online advertising services in the PRC through the Consolidated Affiliated Entities, the PRC legal entities that were established by the individuals authorized by the Group. The paid-in capital of the Consolidated Affiliated Entities was mainly funded by the Group through loans extended to the authorized individuals.

The principal terms of the series of contractual arrangements (“Contractual Agreements”) the Company entered into with its Consolidated Affiliated Entities and their respective shareholders are further described below:

Equity option agreements

Pursuant to the equity option agreements amongst 1Verge Internet, 1Verge Information and its shareholders, amended and restated in August 2010, the shareholders granted 1Verge Internet or its designated party, an exclusive irrevocable option to purchase, all or part of the equity interests held by its shareholders, when and to the extent permitted under PRC law, at an amount equal to either a) the amount of loans extended to the shareholders under the loan agreements mentioned below or b) the lowest price then permitted by PRC law in consideration of the cancellation of all or part of the loans extended to the shareholders under the loan agreements. Without the consent of 1Verge Internet or its designated party, the shareholders may not transfer, donate, pledge, or otherwise dispose of their equity shareholdings in any way. The agreement will remain in full force and effect until the earlier of (i) the date on which all of the equity interests in 1Verge Information has been acquired by 1Verge Internet or its designated party or (ii) upon the unilateral termination by 1Verge Internet or its designated party, by giving 30 days advance written notice of termination to the shareholders of 1Verge Information.

The equity option agreements were amended and restated in November 2012 and April 2013 amongst 1Verge Internet, 1Verge Information and its shareholders such that the Company became a party to the agreement and has been granted all the rights that 1Verge Internet has been granted under the agreement. In addition, the Company, at its sole discretion, has the right to decide whether the option and other rights granted under the agreement will be exercised by the Company, 1Verge Internet or its designated party. Any additional consideration paid to the shareholders to exercise the option in excess of the amount of loans extended to the shareholders under the loan agreement shall be returned to 1Verge Internet or its designated party after the completion of the equity interest transfer. To ensure that the cash flow requirements of 1Verge Information’s ordinary operations are met and/or to set off any losses that may be incurred, the Company is obligated, only to the extent permissible under PRC laws, to provide financing support to 1Verge Information, whether or not 1Verge Information actually incurs any such operational loss. The Company will not request repayment if 1Verge Information or its shareholders are unable to do so.

The equity option agreements entered amongst Youku, 1Verge Internet, 1Verge Information, Tianshi and its shareholders on January 6, 2012, amended and restated in April and September 2013, contain terms substantially similar to the terms described above except the purchase consideration to be paid to the shareholders to acquire the equity interests in Tianshi shall be the lowest price then permitted by PRC law and Youku, 1Verge Internet or its designated party shall make payment of such price by cancelling all or a portion of the service fees, if any, due under the exclusive technical and consulting service agreement. If the Company, 1Verge Internet or its designated party is required by applicable laws or competent authorities to pay any consideration for exercise of the options, the shareholders of Tianshi agree to return all of such consideration to 1Verge Internet or its designated party after the

completion of such equity interest transfers.

The equity option agreements entered amongst Tudou, Reshuffle Technology, Quan Toodou and its shareholders on August 22, 2012, amended and restated in April and September 2013, contain terms substantially similar to the terms described above.

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Business operation agreements

Pursuant to the business operation agreement amongst 1Verge Internet, 1Verge Information and its shareholders, amended and restated in August 2010, 1Verge Information must appoint the persons designated by 1Verge Internet to be its executive director or directors, general manager, chief financial officer and any other senior officers. 1Verge Information agrees to accept the proposal provided by 1Verge Internet from time to time relating to employment, daily business and financial management. Without 1Verge Internet’s prior written consent, 1Verge Information shall not conduct any transaction which may materially affect its assets, obligations, rights or operations, including but not limited to, incurrence or assumption of any indebtedness, sale or purchase of any assets or rights, incurrence of any encumbrance on any of its assets or intellectual property rights in favor of a third party, or transfer of any rights or obligations under this agreement to a third party. The term of this agreement is ten years and will extend automatically for another ten year period unless 1Verge Internet provides written notice requesting no extension three months prior to the expiration date. 1Verge Internet may terminate the agreement at any time by providing 30 days advance written notice to 1Verge Information and to each of its shareholders. Neither 1Verge Information nor any of its shareholders may terminate this agreement prior to the expiration date or during the ten-year extension period.

The business operation agreement amongst 1Verge Internet, 1Verge Information and its shareholders was amended and restated in November 2012 and April 2013 such that the term of the agreement shall be automatically extended for successive ten year periods unless 1Verge Internet terminates the agreement by providing three months advance written notice prior to the expiration of a ten-year term.

The business operation agreements entered amongst 1Verge Internet, 1Verge Information, Tianshi and its shareholders on January 6, 2012, amended and restated in April and September 2013 and Reshuffle Technology, Quan Toodou and its shareholders on August 22, 2012, amended and restated in April and September 2013, contain terms substantially similar to the terms described above.

Exclusive technical and consulting service agreements

Pursuant to the exclusive technical consulting and service agreement between 1Verge Internet and 1Verge Information, amended and restated in August 2010, 1Verge Internet or its designated party, has the exclusive right to provide technical and consulting services in return for a service fee determined based on a set formula defined in the agreement. During the term of the agreement, 1Verge Internet has the right to adjust the service fee at its sole discretion without the consent of 1Verge Information. Without 1Verge Internet’s prior written consent, 1Verge Information shall not engage any third party for any of the technical and consulting services provided under this agreement. In addition, 1Verge Internet exclusively owns all intellectual property rights resulting from the agreement. The term of this agreement is ten years and will extend automatically for another ten-year period unless 1Verge Internet gives a written notice terminating this agreement three months before the expiration date. 1Verge Information is not permitted to terminate the agreement prior to the expiration date, unless 1Verge Internet fails to comply with any of its obligations under the agreement and such failure renders the continued performance of this agreement impossible.

The exclusive technical consulting and service agreement was amended and restated in November 2012 such that 1Verge Internet may transfer its rights or obligations under this agreement to any third party without the consent of 1Verge Information, but shall inform 1Verge Information of the assignment.

The exclusive technical and consulting service agreement entered between 1Verge Internet, 1Verge Information and Tianshi on January 6, 2012, is substantially similar to the terms described above, except that the services provided by 1Verge Internet are relevant to the television drama, library management and other operations of Tianshi.

The exclusive technical and consulting service agreement entered between Reshuffle Technology and Quan Toodou on August 22, 2012, amended and restated in January 2013, contain terms substantially similar to the exclusive technical and consulting services agreement between 1Verge Internet and 1Verge Information that is described above.

Loan agreements

Under the loan agreements between 1Verge Internet and the shareholders of 1Verge Information, amended and restated in August 2010, 1Verge Internet provided interest-free loans in several tranches with an aggregate amount of RMB20.0 million to the shareholders of 1Verge Information solely for the initial capitalization of 1Verge Information and subsequent financial requirements in 1Verge Information. The loans can be repaid only with the proceeds from the sale of all of the equity interest in 1Verge Information to 1Verge Internet or its designated representative(s). The term of each loan is ten years from the first withdrawal of such loan by 1Verge Information’s shareholders, and will be automatically extended for another ten years unless terminated by written notice from 1Verge Internet to the shareholders of 1Verge Information three months prior to the due date.

The loan agreements were amended and restated in November 2012 amongst 1Verge Internet, 1Verge Information and its shareholders, such that the term of each loan is changed to be ten years from the execution date of this agreement and shall be automatically extended for successive ten year periods unless terminated by advance written notice from 1Verge Internet to the shareholders of 1Verge Information three months prior to the due date.

The loan agreements between Reshuffle Technology and the shareholder of Quan Toodou, amended and restated in January and September 2013, contains terms substantially similar to the terms described above, except that the total amount of loans that may be extended to the shareholders of Quan Toodou is RMB150 million, of which RMB70 million has been extended as of December 31, 2013.

Power of attorney agreements

Pursuant to the power of attorney agreements, amended and restated in August 2010, the shareholders of 1Verge Information each

irrevocably granted 1Verge Internet or any individual or entity designated by 1Verge Internet in writing as their attorney-in-fact to vote, the rights to vote on their behalf on all matters of 1Verge Information requiring shareholder approval under PRC laws and regulations and 1Verge Information's articles of association. This agreement will remain effective as long as the shareholders continue to hold equity interests in 1Verge Information.

The power of attorney agreements were amended and restated in November 2012 and April 2013, the shareholders of 1Verge Information each irrevocably granted any individual, appointed in writing by 1Verge Internet, who is approved by the Company as their attorney-in-fact, to vote on his/her behalf and exercise the full voting rights as the shareholder of 1Verge Information on all matters of 1Verge Information requiring shareholder approval under PRC laws and regulations and 1Verge Information's articles of association. This agreement will remain effective as long as 1Verge Information exists. At the same time, 1Verge Internet passed a shareholders' resolution indicating that all activities related to the powers and rights assigned pursuant to the power of attorney agreements shall be exercised at the direction and approval of the Company and the resolution will be effective for the same term as the power of attorney agreements.

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The shareholders of Tianshi and Quan Toodou each granted an irrevocable power of attorney to 1Verge Internet effective from January 6, 2012, amended and restated in April and September 2013, and Reshuffle Technology effective from August 22, 2012, amended and restated in April and September 2013, respectively, with terms substantially similar to the terms describe above. At the same time, 1Verge Internet and Reshuffle Technology also passed shareholders’ resolutions with respect to the power of attorneys for Tianshi and Quan Toodou with terms substantially similar to the terms described above.

Equity interest pledge agreements

Pursuant to the equity interest pledge agreements between 1Verge Internet and the shareholders of 1Verge Information, amended and restated August 2010 and November 2012, the shareholders of 1Verge Information pledge all of their equity interests in 1Verge Information to 1Verge Internet, to guarantee 1Verge Information and its shareholders’ performance of their obligations under the amended and restated loan agreements, the amended and restated exclusive technical and consulting service agreements and the amended and restated equity option agreements. If 1Verge Information and/or any of its shareholders breach their contractual obligations under this agreement, 1Verge Internet, as pledgee, will be entitled to certain rights, including the right to sell the pledged equity interests. Without 1Verge Internet’s prior written consent, shareholders of 1Verge Information shall not transfer or assign the pledged equity interests, or create or allow any encumbrance that would prejudice 1Verge Internet’s interests. During the term of this agreement, 1Verge Internet is entitled to receive all of the dividends and profits paid on the pledged equity interests. The equity interest pledge will be effective upon the completion of the registration of the pledge with the competent local branch of the SAIC, and expire on the earlier of (i) the date on which 1Verge Information and its shareholders have fully performed their obligations under the above-referred agreements; or (ii) 1Verge Internet enforces the pledge pursuant to the terms and conditions under this agreement, to fully satisfy its rights under such agreements.

The equity interest pledge agreements entered among 1Verge Internet, 1Verge Information and the shareholders of Tianshi on January 6, 2012, amended and restated in September 2013 is substantially similar to the equity interest pledge agreement described above, except the guarantee scope of the equity interest pledge is limited to Tianshi and its shareholders’ performance of their obligations under the exclusive technical and consulting services agreement and the equity option agreement.

The equity interest pledge agreements entered among Reshuffle Technology and the shareholders of Quan Toodou on August 22, 2012, amended and restated in January and September 2013, is substantially similar to the terms described above, except that the guarantee scope of the equity interest pledge is limited to Quan Toodou and its shareholders’ performance of their obligations under the loan agreements, the exclusive technical and consulting services agreement and the business operations agreement.

Trademark license agreement and domain name license agreement

Pursuant to the trademark license and domain name license agreement between 1Verge Internet and 1Verge Information, amended and restated August 2010, 1Verge Internet grants a non-exclusive and non-transferable license, without sublicense rights, to 1Verge Information to use its trademarks and domain names. 1Verge Information may only use the trademarks and the domain names in its own business operations. The license fee under each agreement is 5% of the total revenue of 1Verge Information. In addition, 1Verge Internet may reduce or exempt 1Verge Information all or part of the license fee. The term of this agreement is ten years and will extend for successive ten-year periods upon agreement of both parties.

Despite the lack of technical majority ownership, there exists a parent-subsidiary relationship between the Company and the Consolidated Affiliated Entities through the irrevocable power of attorney agreements, whereby the shareholders of the Consolidated Affiliated Entities effectively assigned all of their voting rights underlying their equity interest to any individual appointed by 1Verge Internet and Reshuffle Technology, the exercise of which will be at the direction and approval of the Company and Tudou, respectively. In addition, the Company demonstrates its ability and intention to continue to exercise the ability to absorb substantially all of the expected losses and receive substantially all of the economic benefits of the Consolidated Affiliated Entities directly or through 1Verge Internet and Reshuffle Technology, pursuant to the commitment letters of financial support and the exclusive consulting and technical services agreements, respectively. Thus, the Company is considered the primary beneficiary of 1Verge Information and Tianshi and Tudou is considered the primary beneficiary of Quan Toodou. As a result of the above, the Company consolidates the Consolidated Affiliated Entities in accordance with Accounting Standards Codification (“ASC”) subtopic 810-10 (“ASC 810-10”) *Consolidation: Overall*.

In November 2012, 1Verge Internet ceased to be, and the Company became, the primary beneficiary of 1Verge Information, as the Company committed to provide unlimited financial support to 1Verge Information pursuant to the amended and restated equity option agreements and 1Verge Internet passed a shareholder’s resolution indicating that all activities related to the power and rights assigned pursuant to the power of attorney agreements shall be exercised at the direction and approval of the Company.

The Company, in consultation with its PRC counsel, believes that (i) the ownership structure of the Consolidated Affiliated Entities does not violate, breach, contravene or conflict with any applicable PRC laws; and (ii) each of the Contractual Agreements amongst the Primary Beneficiaries, 1Verge Internet, Reshuffle Technology and the Consolidated Affiliated Entities and their respective shareholders that are governed by PRC laws constitutes a legal, valid and binding obligation of the parties thereto and does not violate any requirements of PRC laws.

However, uncertainties in the PRC legal system could cause the Company’s current ownership structure to be found in violation of any future PRC laws or regulations and could limit the Company’s ability, through the Primary Beneficiaries, to enforce its rights under these Contractual Agreements. Furthermore, shareholders of the Consolidated Affiliated Entities may not act in the best interests of the Company or may not perform their obligations under the above mentioned agreements. Such risks exist throughout the period in which the Company intends to operate its business through Contractual Agreements with the Consolidated Affiliated Entities.

In addition, if the current structure or any of the Contractual Agreements were found to be in violation of any existing or future PRC

law, the Company may be subject to penalties, which may include, but not limited to, revocation of business and operating licenses, being required to discontinue or restrict its business operations, restriction of the Company's right to collect revenues, blocking of the Company's websites, being required to restructure its operations, imposition of additional conditions or requirements with which the Company may not be able to comply, or other regulatory or enforcement actions against the Company that could be harmful to its business. The imposition of any of these or other penalties may result in a material and adverse effect on the Company's ability to conduct its business.

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The following table sets forth the assets and liabilities of Consolidated Affiliated Entities included in the Company’s consolidated balance sheets:

	As of December 31,		
	2012 RMB	2013 RMB	2013 US\$
Cash and cash equivalents	400,162	370,140	61,142
Restricted cash	9,003	2,679	443
Accounts receivable (net of allowance for doubtful accounts of RMB12,919 and RMB75,522 (US\$12,475) as of December 31, 2012 and 2013, respectively)	915,653	1,344,915	222,164
Amounts due from inter-companies (1)	6,396	24,658	4,073
Other current assets	60,667	44,147	7,293
Total current assets	1,391,881	1,786,539	295,115
Property and equipment, net	14,818	40,501	6,690
Intangible assets, net	1,109,894	975,949	161,215
Other non-current assets	39,549	37,015	6,115
Total non-current assets	1,164,261	1,053,465	174,020
Total assets	2,556,142	2,840,004	469,135
Accounts payable	114,044	115,667	19,107
Advance from customers	21,603	18,425	3,044
Amounts due to inter-companies (2)	1,287,918	1,684,786	278,307
Accrued expenses and other current liabilities	867,128	969,702	160,183
Total current liabilities	2,290,693	2,788,580	460,641
Deferred tax liabilities	224,198	219,314	36,228
Other liabilities	—	4,000	661
Total non-current liabilities	224,198	223,314	36,889
Total liabilities	2,514,891	3,011,894	497,530

- (1) Amounts due from inter-companies represent fees and operating expenses paid by Consolidated Affiliated Entities on behalf of subsidiaries;
- (2) Amounts due to inter-companies represent expenses charged by subsidiaries for technology consulting and service fees provided to Consolidated Affiliated Entities.

The financial performance of the Consolidated Affiliated Entities is as follows:

	Years ended December 31,			
	2011 RMB	2012 RMB	2013 RMB	2013 US\$
Net revenues	889,144	1,950,624	2,969,464	490,521
Net income (loss)	53,169	353,637	(450,288)	(74,382)

As of December 31, 2013, there was no pledge or collateralization of the assets of Consolidated Affiliated Entities and the Primary Beneficiaries have not provided any financial support that it was not previously contractually required to. Restricted cash of RMB2,679 (US\$443) may only be used to settle the obligations of the Consolidated Affiliated Entities. Creditors of the Consolidated Affiliated Entities have no recourse to the general credit of the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (“U.S. GAAP”). The consolidated financial statements of the Group include the financial statements of the Company, its subsidiaries and Consolidated Affiliated Entities in which the Company is the primary beneficiary. The results of the subsidiaries are consolidated from the date on which the Group obtained control and continue to be consolidated until the date that such control ceases. A controlling financial interest is typically determined when a company holds a majority of the voting equity interest in an entity. However, if the Company demonstrates its ability to control the Consolidated Affiliated Entities through power to govern the activities that most significantly impact its economic performance and is obligated to absorb substantially all of the expected losses and receive substantially all the economic benefits of the Consolidated Affiliated Entities, then the entity is consolidated. All significant intercompany balances and transactions between the Company, its subsidiaries and Consolidated Affiliated Entities have been eliminated in consolidation. The Company has included the results of operations of acquired businesses from the respective dates of acquisition.

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Use of estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Management evaluates estimates, including those related to the allowance for doubtful accounts, amortization of intangible assets and capitalized content costs, recoverability and useful lives of long-lived assets, consumption patterns for licensed copyrights and user generated content, recoverability of the carrying values of goodwill and indefinite-lived intangible assets, fair value of stock options to purchase the Company’s ordinary shares, forfeiture rates for options and restricted stock (units) granted, allocation of purchase price to identifiable assets and liabilities acquired in business combinations, accrual of sales commissions to third-party advertising agencies, valuation allowances on deferred tax assets and income tax uncertainties, among others. Management bases the estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results could differ from these estimates.

Convenience translation

Translations of amounts from Renminbi (“RMB”) into United States dollars for the convenience of the reader were calculated at the noon buying rate of US\$1.00 to RMB6.0537 on December 31, 2013 in the City of New York for cable transfers of RMB as certified for customs purposes by the Federal Reserve Bank of New York. No representation is made that the RMB amounts could have been, or could be, converted into United States dollars at such rate.

Foreign currency translation and transactions

The Company’s functional currency is the US\$. The Company’s subsidiaries and Consolidated Affiliated Entities determined their functional currencies based on the criteria of ASC subtopic 830-10, *Foreign Currency Matters: Overall*. The Company uses the monthly average exchange rate for the year and the exchange rate at the balance sheet date to translate the operating results and financial position, respectively. Translation differences are recorded in accumulated other comprehensive loss, a component of shareholders’ equity. The Company uses the RMB as its reporting currency.

Transactions denominated in foreign currencies are re-measured into the functional currency at the exchange rates prevailing on the transaction dates. Financial assets and liabilities denominated in foreign currencies are re-measured into the functional currency at the exchange rates prevailing at the balance sheet date. The foreign exchange losses included in “other income (loss), net” in the consolidated statements of comprehensive loss for the years ended December 31, 2011 and 2012 were RMB5,949 and RMB2,619, respectively, and the foreign exchange gain included in the consolidated statement of comprehensive loss for the year ended December 31, 2013 was RMB12,358 (US\$2,041).

Fair value measurements

Financial instruments include cash and cash equivalents, restricted cash, short-term investments, accounts receivable, accounts payable and long-term debt. The carrying values of these financial instruments, other than long-term debt, approximate their fair values due to their short-term maturities. The carrying value of long-term debt as of December 31, 2012 also approximates its fair value as it is due for repayment in 2013.

ASC subtopic 820-10 (“ASC 820-10”), *Fair Value Measurements: Overall*, establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1—Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets
- Level 2—Include other inputs that are directly or indirectly observable in the marketplace
- Level 3—Unobservable inputs which are supported by little or no market activity

ASC 820-10 describes three main approaches to measuring the fair value of assets and liabilities: (1) market approach; (2) income approach and (3) cost approach. The market approach uses prices and other relevant information generated from market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present value amount. The measurement is based on the value indicated by current market expectations about those future amounts. The cost approach is based on the amount that would currently be required to replace an asset.

Assets and liabilities including cash and cash equivalents, restricted cash, short-term investments are measured at fair value on a recurring basis as of December 31, 2012 and 2013 under Level 1. The Company has no assets or liabilities measured at fair value on a recurring or non-recurring basis using significant observable inputs (Level 2) or significant unobservable inputs (Level 3) for the year ended December 31 2012.

For the year ended December 31, 2013, the Company recognized an impairment loss of approximately RMB96,071(US\$15,870) for long-lived assets and intangible assets with finite useful lives using an income approach and the respective carrying amount of the long-lived assets and intangible assets subject to the impairment test were reduced to their fair values on the measurement date of July 1, 2013. Such impairment loss was charged in cost of revenue and other operating expenses in the consolidated statements of comprehensive loss for the year ended December 31, 2013 (see Note 2 “Impairment of Long-Lived Assets Other Than Goodwill”). The inputs used to measure the fair value of long-lived assets and intangible assets with finite useful lives, including future cash flow projections and discount rate (16%), were largely unobservable or based on management’s assumptions and estimates, and accordingly, the measurement was classified as Level 3. The Company has no assets or liabilities measured at fair value on a recurring or non-recurring basis using significant observable inputs (Level 2) for the year ended December 31, 2013.



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Cash and cash equivalents and short-term investments

Cash and cash equivalents represent cash on hand and demand deposits placed with banks or other financial institutions. All highly liquid investments with original maturities of three months or less from the date of purchase are classified as cash equivalents. All highly liquid investments with original maturities greater than three months, but less than twelve months, are classified as short-term investments.

During the years ended December 31, 2011, 2012 and 2013, the Company recorded interest income from short-term investments of RMB15,535, RMB33,253 and RMB23,185 (US\$3,830) in the consolidated statements of comprehensive loss, respectively.

The short-term investments balance was RMB2,110,073 and RMB1,409,439 (US\$232,823) as of December 31, 2012 and 2013.

Restricted cash

Restricted cash is restricted as to usage based on contracts entered into with third parties. The restricted cash balance was RMB9,003 and RMB2,679 (US\$443) as of December 31, 2012 and 2013.

Accounts receivable

The Group considers many factors in assessing the collectability of its receivables due from its customers, such as the age of the amounts due, the customer’s payment history and credit-worthiness. An allowance for doubtful accounts is recorded in the period in which a loss is determined to be probable. Accounts receivable balances are written off after all collection efforts have been exhausted.

Property and equipment

Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets, as follows:

Office computer equipment	3 years
Office furniture and equipment	3 years
Software	3 years
Servers and network equipment	3 years
Motor vehicles	5 years

Leasehold improvements are amortized over the shorter of the estimated useful lives of the assets or the lease terms.

Repair and maintenance costs are charged to expense as incurred, whereas the cost of renewals and betterments that extend the useful life of the assets are capitalized as additions to the related assets. Retirements, sales and disposals of assets are recorded by removing the cost and accumulated depreciation from the asset and accumulated depreciation accounts with any resulting gain or loss reflected in the consolidated statements of comprehensive loss.

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All direct and indirect costs that are related to the construction of property and equipment and incurred before the assets are ready for their intended use are capitalized as construction in progress. Construction in progress is transferred to specific property and equipment items and depreciation of these assets commences when ready for their intended use.

Commitments and contingencies

In the normal course of business, the Company is subject to contingencies, such as legal proceedings and claims arising out of its business, that cover a wide range of matters. Liabilities for such contingencies are recorded when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated.

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Company, but which will only be resolved when one or more future events occur or fail to occur. The Company’s management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company or unasserted claims that may result in such proceedings, the Company, in consultation with its legal counsel, evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Company’s financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss, if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee would be disclosed.

Capitalized content production costs

The Company contracts for the production of, and self produces, short films to exhibit on its websites. Capitalized content production costs (which include direct production costs, production overhead and acquisition costs) are stated at the lower of unamortized cost or estimated fair value.

Cash outflows for capitalized content production costs are presented as cash flows from operating activities in accordance with ASC subtopic 926-230-45, *Entertainment—Films: Statement of Cash Flows, Other Presentation Matters*.

Non-episodic film costs

The Company amortizes production costs using the individual-film-forecast-computation method, which amortizes such costs in the same ratio that current period actual revenue (numerator) bears to estimated remaining unrecognized ultimate revenue as of the beginning of the fiscal year (denominator).

The Company estimates total revenues to be earned (“ultimate revenues”) throughout the life of a film. Ultimate revenue estimates for the produced films are periodically reviewed and adjustments, if any, will result in changes to amortization rates. Estimates used in calculating the fair value of the self-produced content are based upon assumptions about future demand and market conditions.

Non-episodic film costs are only capitalized when the revenue stream related to the produced videos is determinable either through specific advertising contracts or other circumstances whereby revenue can be determined to be associated with the specific video and the ultimate revenue can be reasonably estimated.

Episodic film costs

Due to the uncertainty of making reliable estimates, for episodic films, estimates of ultimate revenues are limited to the amount of revenue contracted for each episode. Accordingly, production costs incurred in excess of the amount of revenue contracted for each episode are expensed as incurred on an episode-by-episode basis.

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The Company amortizes such costs for each episode in the same ratio that current period actual revenue (numerator) bears to estimated remaining unrecognized ultimate revenue as of the beginning of the current period (denominator) which is related to each episode.

The Company recognized impairment charges on capitalized content production costs of RMB nil, RMB nil and RMB487 (US\$81) for the years ended December 31, 2011, 2012 and 2013, respectively (see Note 2 “Impairment of Long-Lived Assets Other Than Goodwill”).

Goodwill and intangible assetsGoodwill

Goodwill represents the excess of the purchase price over the fair value of the identifiable net assets acquired in a business combination. The Company assesses goodwill for impairment in accordance with ASC subtopic 350-20 (“ASC 350-20”), *Intangibles — Goodwill and Other: Goodwill*, which requires that goodwill be tested for impairment at the reporting unit level at least annually and more frequently upon the occurrence of certain events, as defined by ASC 350-20.

A reporting unit is defined as an operating segment or one level below an operating segment referred to as a component. The Company determines its reporting units by first identifying its operating segments, and then assesses whether any components of these segments constituted a business for which discrete financial information is available and where segment management regularly reviews the operating results of that component. Prior to the acquisitions (Note 4), the Company had one reporting unit because no discrete financial information was available below the consolidated level. Subsequent to the acquisitions of Trade Lead (including Tianshi) and Tudou, the Company continues to have one reporting unit at the Group level as the operating results of Trade Lead (including Tianshi) and Tudou are not regularly reviewed by segment management.

Goodwill is tested for impairment on October 1 in each year. We adopted Accounting Standards Update (“ASU”) No. 2012- 02, *Intangibles — Goodwill and Other (Topic 350), Goodwill for Impairment*, pursuant to which we can elect to perform a qualitative assessment to determine whether the two-step impairment testing on goodwill is necessary. In 2013, we elected to use the two-step process required by ASC 350-20 to perform the annual impairment test. First, the Company reviews the carrying amount of the reporting unit compared to the fair value of the reporting unit. If the fair value of the reporting unit exceeds the carrying value of the reporting unit, goodwill is not impaired and the Company is not required to perform further testing. If the carrying value of the reporting unit exceeds the fair value of the reporting unit, then the Company must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit’s goodwill. The Company determines the implied fair value of goodwill by deducting the fair values of identifiable assets and liabilities from the fair value of the reporting unit. The fair value of identifiable assets and liabilities are determined using a discounted cash flow approach. This approach is based on cash flow assumptions that are consistent with the plans and estimates being used to manage the business. If the implied fair value of the reporting unit goodwill is lower than its carrying amount, goodwill of the reporting unit is impaired and is written down to its implied fair value. There has been no impairment of goodwill in any of the years presented.

Intangible assets

Licensed copyrights relate to titles to movies, television series and other video content acquired from external parties. Licensed copyrights are amortized using an accelerated method based on consumption patterns. Estimates of the consumption patterns for licensed copyrights are reviewed periodically and revised, if necessary. When the amortization pattern is revised, it is accounted for as a change in accounting estimate prospectively. The amortization of licensed video content other than movies and television series is on a straight-line basis, as the consumption pattern based on historical viewing data supports this method.

The advertising license is amortized using the straight-line method over the remaining term of the license.

The intangible assets acquired in the Merger, namely technology, customer relationships, non-compete agreement, user generated content, licensed copyrights and domain name, trademark and online video license, are recognized and measured at the fair value as of the acquisition date.

The technology and customer relationship are amortized using the straight-line method over the estimated useful life. The non-compete agreement is amortized using the straight-line method over the contractual period. The user generated content is amortized using an accelerated method over the estimated useful life, which is expected to be two years.

As of December 31, 2013, intangible assets have weighted-average useful lives as follows:

Licensed copyrights	1.96 years, on an accelerated consumption pattern
Advertising license	28 years
Technology	5 years
Non-compete agreement	3 years
Customer relationship	5 years
User generated content	2 years
Domain name, trademark and online video license	indefinite

Intangible assets with definite useful lives are carried at cost less accumulated amortization.

Domain name, trademark and online video license acquired from the Merger of Tudou may be renewed indefinitely at little cost and the Company intends to renew the domain name, trademark and online video license indefinitely.

The initial registration fee for the Company's domain names and the renewal fees for the online video licenses and trademarks are expensed as incurred. Intangible assets with an indefinite useful life are not amortized, instead, they are tested for impairment annually or more frequently if events or changes in circumstances indicate that it is more likely than not that the assets are impaired. The Company assess indefinite-lived intangible assets for impairment in accordance with ASC subtopic 350-30 ("ASC 350-30"), *Intangibles — Goodwill and Other: General Intangibles Other than Goodwill* on October 1 of each year. The Company performs a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired based on guidance in ASU No. 2012- 02, *Intangibles — Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment*. If it is more likely than not the fair value of such an asset exceeds its carrying value, the Company would not need to calculate the fair value of the asset that year. However, if the Company concludes otherwise, a quantitative impairment test is performed. The quantitative impairment test consists of calculating the fair value of the asset and comparing it to the carrying amount. If the carrying amount exceeds its fair value, an impairment loss in an amount equal to that excess will be recognized. There has been no impairment charges realized on the Company's indefinite-lived intangible assets in any of the years presented.

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Impairment of Long-Lived Assets Other Than Goodwill

The Company evaluates long-lived assets, such as fixed assets and purchased or acquired intangible assets with finite lives, for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable in accordance with ASC subtopic 360-10 (“ASC 360-10”), *Property, Plant and Equipment: Overall*. When such events occur, the Company assesses the recoverability of an asset group based on the undiscounted future cash flow the asset group is expected to generate and recognizes an impairment loss when estimated undiscounted future cash flow expected to result from the use of the assets group plus net proceeds expected from the eventual disposition of the asset group, if any, is less than the carrying value of the assets group. If the Company identifies an impairment, the Company reduces the carrying value of the asset group to its estimated fair value based on a discounted cash flow approach or, when available and appropriate, to comparable market values. The Company uses estimates and judgments in its impairment tests and if different estimates or judgments had been utilized, the timing or the amount of any impairment charges could be different. Asset groups to be disposed of would be reported at the lower of its carrying value or fair value less costs to sell, and no longer depreciated. The assets and liabilities of a disposal group classified as held for sale would be presented separately in the appropriate asset and liability sections of the consolidated balance sheets.

During 2013, the Company noted that the actual consumption patterns of licensed television series and movies were more accelerated than originally estimated. The more accelerated consumption pattern and shortening of the estimated useful life was considered an impairment indicator for the licensed copyright that the carrying value of the licensed copyrights may not be recoverable and therefore, the changes in circumstances triggered the need to perform a recoverability test as of July 1, 2013. Accordingly, the Company assessed the recoverability of the licensed copyrights based on the undiscounted future cash flows associated with the asset group including the licensed copyrights with the assistance of an independent third-party valuation firm. In accordance with ASC 360, an asset group is a group of long-lived assets, together with other assets and liabilities, at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. The Company determined that the asset group subject to the recoverability test should include prepayments for licensed copyrights, licensed copyrights, advertising license, technology, non-compete agreement, customer relationship, user generated content, capitalized content production costs, and property, plant and equipment, with a total carrying amount of RMB974,857 (US\$161,035) as of July 1, 2013. The undiscounted cash flows for the asset group were based on a 2.5 year projection period, which is the remaining useful life of the licensed copyrights, which were determined to be the primary asset of the asset group. Cash flow projections were based on past experience, actual operating results and management’s best estimates about future developments, as well as certain market assumptions. The recoverability test indicated that the undiscounted cash flows were less than the carrying value of the related asset group. The Company then proceeded to determine the fair value of the asset group in accordance with ASC 820-10 with the assistance of an independent third-party valuation firm. The Company concluded that the Group’s current usage of assets represented the high and best use of market participants. A discount rate of approximately 16% was used in the valuation which reflects the market assessment of the risks specific to the Group’s industry and is based on the weighted-average cost of capital for the asset group. The fair value of the asset group was determined to be RMB878,786 (US\$145,165) as of July 1, 2013.

An impairment charge of RMB nil, RMB nil, and RMB96,071(US\$15,870) was recorded for the years ended December 31, 2011, 2012, and 2013, respectively. The impairment charge has been allocated to the respective assets of the asset group on a pro rata basis based on their relative carrying amounts. The impairment charge was recorded in cost of revenue and other operating expenses for the year ended December 31, 2013 as follows:

	For the year ended December 31,	
	2013	2013
	RMB	US\$
Cost of revenues	85,442	14,114
Product development	2,920	482
Sales and marketing	4,376	723
General and administrative	3,333	551
	<u>96,071</u>	<u>15,870</u>

In accordance with ASC 360-10, impairment losses on long-lived assets to be held and used were reflected as a permanent write-down of the cost basis of the affected assets. Accordingly, the Group eliminated the previously recorded cost and accumulated depreciation or amortization of the impaired long-lived assets.

In accordance with ASC 360-10 and ASC 250, *Accounting Changes and Error Corrections* (“ASC 250”), the change in consumption patterns for licensed copyrights is considered a change in accounting estimate, and such change in accounting estimate was applied after the impairment loss was recorded against the carrying amounts of the assets within the asset group. In accordance with ASC 250, the Company has accounted for the change in estimate prospectively effective from July 1, 2013. The amortization pattern for purchased movies and television series copyrights that were previously amortized over three years using an accelerated consumption pattern was reduced to two years using a revised accelerated consumption pattern. The effect of the change in estimate resulted in an increase to the amortization expense and net loss by RMB76,070 (US\$12,566) and an increase to the basic and ADS loss per share of RMB0.03 and RMB0.46, respectively, for the year ended December 31, 2013. The change in estimate is calculated based on the carrying amounts of the licensed copyrights after impairment charge for the existing content as of July 1, 2013.

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Revenue recognition

The Group’s revenues are derived principally from online advertising services. Revenue is recognized only when the price is fixed or determinable, persuasive evidence of an arrangement exists, the service is performed and collectability of the related fee is reasonably assured under ASC subtopic 605-10, *Revenue Recognition: Overall*.

Revenue from online advertising services

Advertising contracts are signed to establish the fixed price and advertising services to be provided. Pursuant to the advertising contracts, the Group provides advertisement placements on its web pages in different formats, including but not limited to video, banners, links, logos and buttons. The Group makes a credit assessment of the customer to assess the collectability of the contract price prior to entering into contracts. For those contracts for which the collectability was assessed as not reasonably assured, the Group recognizes revenue only when the cash is received and all other revenue recognition criteria are met. For contracts where the Group provides customers with marketing services that contain multiple deliverables (e.g., advertisements in different formats to be delivered over different periods of time), the Group recognizes revenue pursuant to ASC subtopic 605-25, *Revenue Recognition: Multiple-Element Arrangements*, as amended by ASU No. 2009-13 (“ASU 2009-13”), *Multiple-Deliverable Revenue Arrangements*, which was adopted by the Company on January 1, 2011. ASU 2009-13 requires the Group to allocate revenue to arrangement deliverables using the relative selling price method. The Group limits the amount of revenue recognition for delivered elements to the amount that is not contingent on the future undelivered items. Due to the nature of the Group’s advertisement arrangements, wherein revenue is contingent upon the delivery of undelivered items, revenue is recognized ratably over the performance period of the last deliverable in the arrangement. Revenue is deferred when non-refundable payments are received from customers prior to satisfaction of revenue recognition criteria discussed above.

Revenue from sub-licensing

The Group also generates revenues from sub-licensing content licensed from third party vendors. The exclusive licensing agreement the Group enters into with the vendors has a definitive license period and gives the Group rights to sublicense these contents to other third parties. The Group enters into a non-exclusive sub-license agreement with a sub-licensee for a period that falls within the original exclusive license period. The Company receives a fixed amount of the sub-license fee upfront under the sub-licensing arrangements and does not have any future obligation once it has provided the underlying disk to the sub-licensee (which is provided at or before the beginning of the sub-license period). In accordance with ASC subtopic 926-605, *Entertainment-Films: Revenue Recognition*, the Group recognizes the amount of the sub-license fee as revenue at the beginning of the sub-license period only when the Company meets all the following criteria: persuasive evidence of a sub-licensing arrangement with a customer exists, the content has been delivered or is available for immediate and unconditional delivery, the sub-license period of the arrangement has begun and the customer can begin its exploitation, exhibition, or sale, the arrangement fee is fixed or determinable and collection of the arrangement fee is reasonably assured. The Group recognized sub-licensing revenues of RMB31,486, RMB96,091 and RMB98,351 (US\$16,247) for the years ended December 31, 2011, 2012 and 2013, respectively.

Revenue from mobile value-added services (“MVAS”)

The Group generates revenue from MVAS through partnership agreements with third party mobile network operators. The Group provides video clips to mobile network operators for its mobile phone users. Users pay a monthly subscription fee to the mobile network operator to access the video channel or pay on a per-clip download basis, and the Group shares the fees collected by the mobile network operator for such services. MVAS revenue is generally recognized when the Group receives monthly statements from the mobile network operators indicating the transaction volume generated by its mobile phone users that are subject to revenue share with the Group. For smaller mobile network operators, the Group defers revenue recognition until cash is received. The Group recognized MVAS revenues of RMB4,910, RMB46,894 and RMB196,075 (US\$32,389) for the years ended December 31, 2011, 2012 and 2013, respectively.

Revenues from MVAS represent only the Group’s shares of the revenues to be received from the mobile network operators, i.e. recorded on a net basis. The Group is not the primary obligor in the arrangement, nor does it enter into contracts with end customers or has the price setting capabilities, rather the Group provides the content to the mobile network operators in accordance with the operator’s overall strategy and requirements.

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Barter transactions

The Group enters into cross-promotional agreements, which represent advertising-for-advertising, advertising-for-content, content for advertising barter transactions, and follows ASC subtopic 605-20, *Revenue Recognition: Services*. Such barter transactions should be recorded at fair value only if such value of the advertising surrendered in the transaction is determinable within reasonable limits. The volume of such transactions was not significant.

The Group enters into nonmonetary transactions to exchange online broadcasting rights of video content with other online video broadcasting companies from time to time. The exchanged content provides rights for each respective party only to broadcast the content received on its own website; though, each party retains the right to continue broadcasting and / or sublicense the rights to the content it surrendered in the exchange. The Group accounts for these nonmonetary exchanges in accordance with ASC 845, *Nonmonetary Transactions*. The exchange of online broadcasting rights of video content is similar to the exchange of inventory since both parties use the exchanged content in the same line of business to facilitate advertising sales to customers who are not parties to the exchange. As a result, the Group records these nonmonetary exchanges at the carrying values of the broadcasting rights given up, which is nil, with no resulting gain or loss being recognized.

Commissions to third-party advertising agencies

The Group provides cash incentives in the form of commissions to certain third-party advertising agencies based on volume and performance, and accounts for such incentives as a reduction of revenue in accordance with ASC subtopic 605-50, *Revenue Recognition: Customer Payments and Incentives*. The Group accounts for cash consideration given to agencies for which it does not receive a separately identifiable benefit or cannot reasonably estimate fair value as a reduction of revenue. The Group has estimated and recorded commissions to third-party advertising agencies as follows:

	For the years ended December 31,			
	2011	2012	2013	2013
	RMB	RMB	RMB	US\$
Commissions to third-party advertising agencies	180,644	442,663	584,978	96,631

Value-added tax and business tax

In November 2011, the PRC Ministry of Finance and the State Administration of Taxation jointly issued two circulars setting out the details of the pilot Value-added, business taxes (“VAT”) reform program, which change the charge of sales tax from business tax to VAT for certain pilot industries. The pilot VAT reform program initially applied only to the pilot industries in Shanghai, and has been expanded to eight additional regions, including, among others, Beijing in 2012. Entities located in Shanghai and Beijing fall within the scope of the pilot program and have been recognized as the VAT general taxpayers since January 1, 2012 and September 1, 2012, respectively, the effective time of the pilot program in each of the regions. Prior to the implementation of the pilot VAT reform program, revenues generated from online advertising services and other services were subject to business tax, surcharges and cultural business construction fee totaling 8.6% of revenues before deduction for commissions to agencies. From the applicable effective time onwards, the online advertising services provided by these entities are subject to VAT at a rate of 6% plus 12% surcharges on VAT and 3% cultural business construction fee on revenues derived from online advertising services.

VAT and business tax for the years ended December 31, 2011, 2012 and 2013 of RMB90,215, RMB169,283 and RMB276,497 (US\$45,674), respectively, were recorded in cost of revenues (Note 12) in the consolidated statements of comprehensive loss.

Advertising expenses

Advertising expenses, primarily advertisements through media publication are included in “Sales and marketing” and are expensed when incurred. Advertising expense for the years ended December 31, 2011, 2012 and 2013 were RMB40,290, RMB42,748 and RMB143,691 (US\$23,736), respectively.

Product development expenses

Product development expenses consist primarily of personnel-related expenses (including shared-based compensation cost) incurred for the development of, enhancement to, and maintenance of the Group’s websites as well as costs associated with new product development and enhancement. Depreciation expenses and other operating costs are also included in product development expenses. The Group recognizes product development costs as expense when incurred.

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Government subsidies

Government subsidies primarily consist of financial subsidies received from provincial and local governments for operating a business in their jurisdictions and compliance with specific policies promoted by the local governments. There are no defined rules and regulations to govern the criteria necessary for companies to receive such benefits, and the amount of financial subsidy is determined at the discretion of the relevant government authorities. For the government subsidies with non-operating nature and with no further conditions to be met, the amounts are recorded as a non-operating income in “Other income, net” when received; whereas for the government subsidies with certain operating conditions, the amounts are recorded as liabilities when received and will be recorded as an operating income when the conditions are met. In 2013, the government granted RMB13,504 (US\$2,231) as a financial support for the project on enhancing the bandwidth. These grants should only be used in the related project and were recorded as a deduction of bandwidth cost. The amount recognized as other income for the years ended December 31, 2011, 2012 and 2013 was RMB nil, RMB10,531 and RMB25,489 (US\$4,210), respectively.

Leases

Leases have been classified as either capital or operating leases. Leases that transfer substantially all the benefits and risks incidental to the ownership of assets are accounted for as if there was an acquisition of an asset and incurrence of an obligation at the inception of the lease. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred. The Group had no capital leases for the years ended December 31, 2011, 2012 and 2013.

Income taxes

The Group follows the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax bases of assets and liabilities using enacted tax rates that will be in effect in the period in which the differences are expected to reverse. The Group records a valuation allowance to offset deferred tax assets if, based on the weight of available evidence, it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized. The effect of a change in tax rate is recognized in tax expense in the period that includes the enactment date of the change in tax rate. The Group has elected to classify interest and penalties related to an uncertain tax position, if and when required, as part of income tax expense in the consolidated statements of comprehensive loss.

The Group applies the provisions of ASC subtopic 740 (“ASC 740”), *Accounting for Income Taxes*, to account for uncertainty in income taxes. ASC 740 prescribes a recognition threshold a tax position is required to meet before being recognized in the financial statements. The Group recognizes in its consolidated financial statements the benefit of a tax position if a tax return position or future tax position is “more likely than not” to be sustained under examination based solely on the technical merits of the position. Tax positions that meet the “more likely than not” recognition threshold are measured, using a cumulative probability approach, at the largest amount of tax benefit that has a greater than fifty percent likelihood of being realized upon settlement. The Group’s estimated liability for unrecognized tax benefits are periodically assessed for adequacy and may be affected by changing interpretations of laws, rulings by tax authorities, changes and or developments with respect to tax audits, and the expiration of the statute of limitations. As each audit is concluded, adjustments, if any, are recorded in the Group’s financial statements. Additionally, in future periods, changes in facts and circumstances, and new information may require the Group to adjust the recognition and measurement estimates with regard to changes in individual tax position. Changes in recognition and measurement estimates are recognized in the period which the change occurs.

Loss per share

The Company computes earnings per Class A and Class B ordinary shares in accordance with ASC subtopic 260-10 (“ASC 260-10”), *Earnings Per Share: Overall*, using the two-class method. Basic loss per share is computed by dividing net loss attributable to holders of ordinary shares by the weighted-average number of ordinary shares outstanding during the period.

The liquidation and dividend rights of the holders of the Company Class A and Class B ordinary shares are identical, except with respect to voting. As a result, and in accordance with ASC 260-10, the undistributed earnings for each year are allocated based on the contractual participation rights of the Class A and Class B ordinary shares. As the liquidation and dividend rights are identical, the losses are allocated on a proportionate basis.

Diluted loss per share is calculated by dividing net loss attributable to ordinary shareholders as adjusted for the effect of dilutive ordinary share equivalents, if any, by the weighted-average number of ordinary and dilutive ordinary share equivalents outstanding during the period. Dilutive ordinary share equivalents are excluded from the computation of diluted loss per share if their effects would be anti-dilutive.

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Share-based compensation

Options and restricted stock units granted to employees

The Group has accounted for share-based compensation in accordance with ASC subtopic 718-10 (“ASC 718-10”), *Compensation-Stock Compensation: Overall*, for share-based payment transactions with employees. Under the fair value recognition provisions of ASC 718-10, share-based compensation costs are measured at the grant date. The Group has elected to recognize share-based compensation costs using the straight-line method over the requisite service period with a graded vesting schedule, provided that the amount of compensation cost recognized at any date is at least equal to the portion of the grant-date value of the options and restricted stock units that are vested at that date. ASC 718-10 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from initial estimates. Share-based compensation costs are recorded net of estimated forfeiture such that expense was recorded only for those options and restricted stock units that are expected to vest.

Options and restricted stock units granted to non-employees

The Group has accounted for equity instruments issued to non-employees in accordance with the provisions of ASC 718-10 and ASC subtopic 505-50, *Equity: Equity-based Payments to Non-Employees*. All transactions in which goods or services are received in exchange for equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable. The measurement date of the fair value of the equity instrument issued is the date in which the counterparty’s performance is completed. Options and restricted stock units granted to non-employees were not material to the Company’s consolidated results of operations.

Concentration of risks

Concentration of credit risks

Financial instruments that potentially subject the Group to significant concentration of credit risk primarily consist of cash and cash equivalents, restricted cash, short-term investments and accounts receivable. The carrying amounts of these assets represent the Group’s maximum exposure to credit risk. As of December 31, 2013, the Group has RMB1,764,221 (US\$291,429) in cash and cash equivalents and RMB2,679 (US\$443) in restricted cash, which is held in cash and demand deposits with several financial institutions in the PRC and Hong Kong. Since the global financial crisis beginning in the third quarter of 2008, the risk of bankruptcy of those banks in which the Group has deposits or investments has increased significantly. In the event of bankruptcy of one of these financial institutions, the Group may not be able to claim its cash and demand deposits back in full. The Group continues to monitor the financial strength of the financial institutions. Accounts receivable are typically unsecured and denominated in RMB, derived from revenue earned from customers and agencies in the PRC, which are exposed to credit risk. The risk is mitigated by credit evaluations the Group performs on its customers and its ongoing monitoring process of outstanding balances. The Group maintains an allowance for doubtful accounts and actual losses have generally been within management’s expectations. Top five customers accounted for 35.9% of gross accounts receivable as of December 31, 2013 (2012: 36%) with 8.4%, 8.4%, 8.3%, 5.5% and 5.3%, respectively. For the years ended December 31, 2011, 2012 and 2013, no customer accounted for greater than 10% of net revenues.

Business and economic risks

The Group participates in a dynamic high technology industry and believes that changes in any of the following areas could have a material adverse effect on the Group’s future financial position, results of operations or cash flows: changes in the overall demand for services and products; changes in business offerings; competitive pressures due to new entrants; advances and new trends in new technologies and industry standards; changes in bandwidth suppliers; changes in certain strategic relationships or customer relationships; regulatory considerations; copyright regulations; and risks associated with the Group’s ability to attract and retain employees necessary to support its growth.

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The Group’s operations could be adversely affected by significant political, economic and social uncertainties in the PRC.

Currency convertibility risk

Substantially all of the Group’s operating activities are transacted in RMB, which is not freely convertible into foreign currencies. All foreign exchange transactions take place either through the People’s Bank of China or other banks authorized to buy and sell foreign currencies at the exchange rates quoted by the People’s Bank of China. Approval of foreign currency payments by the People’s Bank of China or other regulatory institutions requires submitting a payment application form together with suppliers’ invoices, shipping documents and signed contracts.

Foreign currency exchange rate risk

The Group’s exposure to foreign currency exchange rate risk primarily relates to cash and cash equivalents and short-term investments denominated in U.S. dollars. The functional currency of the Company is the U.S. dollar, and the reporting currency is RMB. Since July 21, 2005, the RMB has been permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. The appreciation of RMB against the U.S. dollar was approximately 3.0% in 2013. Any significant revaluation of RMB may materially and adversely affect the cash flows, operating results and financial position of the Group. As a result, an appreciation of RMB against the U.S. dollar would result in foreign currency translation losses when translating the net assets of the Company from the U.S. dollar into RMB.

For the years ended December 31, 2011, 2012 and 2013, the net foreign currency translation loss resulting from the translation of the U.S. dollar functional currency to the RMB reporting currency recorded in other comprehensive loss was RMB94,225, RMB7,304 and RMB83,171 (US\$13,739), respectively.

Segment reporting

In accordance with ASC subtopic 280-10, *Segment Reporting: Overall*, the Group’s chief operating decision maker has been identified as the Chief Executive Officer, who reviews the consolidated results of operations when making decisions about allocating resources and assessing performance of the Group as a whole; hence, the Group has only one operating segment. The Group does not distinguish between markets or segments for the purpose of internal reporting. As the Group’s long-lived assets and revenue are substantially located in and derived from the PRC, no geographical segments are presented.

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Comprehensive income (loss)

Comprehensive income (loss) is defined as the changes in equity of the Group during a period from transactions and other events and circumstances excluding transactions resulting from investments by owners and distributions to owners. Among other disclosures, ASC 220, *Comprehensive Income*, requires that all items that are required to be recognized under current accounting standards as components of comprehensive income (loss) be reported in a financial statement that is displayed with the same prominence as other financial statements. For each of the periods presented, the Company’s comprehensive income (loss) includes net income (loss) and foreign currency translation adjustments and is presented in the consolidated statements of comprehensive loss.

Comparative information

Certain of the prior year comparative figures have been reclassified to conform to the current year’s presentation (e.g., the Company disclosed amounts due to/from inter-companies of Consolidated Affiliated Entities to conform to the current year’s presentation).

Recent accounting pronouncements

In March of 2013, the Financial Accounting Standards Boards (“FASB”) issued Accounting Standards Update No. 2013-05 (“ASU 2013-05”) “*Foreign Currency Matters, Parent’s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity.*” The amendments clarify the applicable guidance for the de-recognition of all or a portion of a cumulative translation adjustment when an entity ceases to have a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity or when other changes stipulated occur and involve a foreign entity. The amendments are effective prospectively for fiscal years, and interim reporting periods within those years, beginning after December 15, 2013. The Company will adopt ASU 2013-05 beginning January 1, 2014, and does not expect that the adoption to have a material impact on its consolidated financial statements.

In March of 2013, the FASB issued Accounting Standards Update No. 2013-11 (“ASU 2013-11”) “*Income Taxes—Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carry forward, a Similar Tax Loss, or a Tax Credit Carry forward Exists.*” The amendments clarify that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss, similar tax loss, or tax credit carry forward, except as noted in the following sentence. To the extent a net operating loss, similar tax loss, or tax credit carry forward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such a purpose, then under this exception the unrecognized tax benefit is to be presented in the financial statements as a liability and should not be combined with (netted with) the deferred tax asset. The assessment of whether a deferred tax asset is “available” is based on the unrecognized tax benefit and deferred tax asset amounts that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date. The amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The Company will adopt ASU 2013-05 beginning January 1, 2014, and is currently evaluating the impact on its consolidated financial statements of adopting this guidance.

3. SHORT-TERM INVESTMENTS

As of December 31, 2012 and 2013, the Company’s short-term investments consisted of interest-bearing deposits placed with financial institutions with original maturities over three months but less than twelve months. The interest rates earned on the deposits ranged from 0.65% to 1.50% per annum with a weighted-average original maturity of 0.66 years.

As of December 31, 2012 and 2013, the amount of interest-bearing deposits with original maturities over three months but less than twelve months held in financial institutions by geographic location was as follows:

	As of December 31,		
	2012	2013	2013
	RMB	RMB	US\$
The PRC	1,695,017	1,195,393	197,465
Hong Kong	415,056	214,046	35,358
Total	<u>2,110,073</u>	<u>1,409,439</u>	<u>232,823</u>

As of December 31, 2012 and 2013, the Company’s interest-bearing deposits denominated in Renminbi and U.S. dollars were as follows:

	As of December 31,		
	2012	2013	2013
	RMB	RMB	US\$
Renminbi	160,563	—	—
U.S. dollars	1,949,510	1,409,439	232,823
Total	<u>2,110,073</u>	<u>1,409,439</u>	<u>232,823</u>

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4. BUSINESS COMBINATIONS*Trade Lead Acquisition*

On January 6, 2012 (“the acquisition date”), the Company completed the acquisition of the remaining 95% equity interest in Trade Lead and Tianshi, a PRC domestic company owned by principal owners of Trade Lead, for a total purchase price of RMB112,936, which was settled by cash consideration of RMB78,869 and 6,202,179 Class A ordinary shares of the Company. In addition, the consideration transferred includes the effective settlement of amounts payable by Youku to Trade Lead and Tianshi of RMB47,071 and the acquisition-date fair value of the 5% equity interest in Trade Lead and Tianshi previously held by the Company of RMB5,051. The net gain arising from the re-measurement of the existing carrying value of investment to fair value amounted to RMB3,344 and was included in “Other income (loss), net” in the consolidated statements of comprehensive loss. There was no gain or loss recognized from the effective settlement of pre-existing relationships between Youku, Trade Lead and Tianshi.

On the acquisition date, the allocation of the purchase price of the assets acquired and liabilities assumed based on their fair values was as follows:

	RMB
Cash and cash equivalents	53,091
Tangible assets acquired	88,888
Intangible assets	6,391
Goodwill	73,688
Liabilities assumed	(56,194)
Deferred tax liabilities	(806)
Total consideration	<u>165,058</u>

The excess of purchase price over tangible assets, identifiable intangible assets and liabilities assumed was recorded as goodwill. None of the goodwill is expected to be deductible for income tax purposes. The acquired identifiable intangible assets were valued using an income approach known as the multi-period excess earnings method. For the years ended December 31, 2012 and 2013, no significant measurement period adjustments were recorded.

Total identifiable intangible assets acquired mainly include sales backlog of RMB5,821, and TV episodes library of RMB570, which have an estimated average useful life of one year. Total goodwill of RMB73,688 primarily represents expected synergies from combining the operations of the Company, Trade Lead and Tianshi, which are complementary to each other.

The Company recognized RMB1,140 of acquisition-related costs which were included in general and administrative expenses for the year ended December 31, 2012.

The actual results of operation after the acquisition date and pro forma results of operations for the acquisition have not been presented because the effects were not material.

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Tudou Acquisition

On August 23, 2012, Youku announced the completion of the Merger between Tudou and Merger Sub pursuant to the Merger Agreement. Tudou was one of the leading Internet video companies in the PRC providing premium licensed content, user generated content and original in-house produced content. Each of Tudou’s Class A ordinary shares and Class B ordinary shares (not including Tudou Class B ordinary shares represented by Tudou ADSs) issued and outstanding immediately prior to the effective time of the closing of the Merger has been cancelled in exchange for the right to receive 7.177 Class A ordinary shares of Youku, and each of Tudou’s ADSs representing four Tudou Class B ordinary shares had been surrendered in exchange for the right to receive 1.595 of Youku ADSs, each of which represents 18 Class A ordinary shares of Youku.

Youku completed the acquisition of Tudou on August 23, 2012, the date on which control was obtained to govern the financial and operating policies of Tudou and obtain benefits from its activities. Youku is identified as the accounting acquirer since shareholders of Youku held a controlling interest in the combined entity after the Merger, Youku’s former management team dominates the executive positions of the combined entity and Youku paid a premium over the pre-combination fair value of Tudou to effect the Merger. The Company expects to achieve significant synergies and cost reductions by eliminating redundant processes and facilities. The results of Tudou’s operations have been included in the consolidated financial statements of the Company since the acquisition date.

The acquisition-date fair value of the consideration transferred totaled RMB5,411,030, which consisted of the following:

	<u>RMB</u>
To Tudou shareholders*	5,262,951
To holders of outstanding Tudou share options**	144,598
Settlement of pre-existing relationships ***	<u>3,481</u>
Total consideration	<u><u>5,411,030</u></u>

* The fair value of Youku shares issuable to Tudou shareholders totaled 838,604,288 Youku Class A ordinary shares, was based on the closing price of US\$17.78 of Youku ADS on the New York Stock Exchange (“NYSE”) on August 23, 2012. 834,109,274 Youku Class A ordinary shares have been issued as of December 31, 2012 and the remaining 4,495,014 Youku Class A ordinary shares previously held in escrow were issued to Mr. Gary Wang, the founder and chief executive officer of Tudou, during the year ended December 31, 2013 (Note 16).

** Youku issued replacement share options. The portion of the fair-value-based measure of the replacement award amounted to RMB144,598 was attributable to pre-combination services and included as a component of the consideration to be transferred.

*** As a result of the Merger, amounts receivable from and payable to Tudou were effectively settled, resulting in an increase of RMB3,481 to the consideration transferred. No gain or loss was recognized as a result of the settlement of pre-existing relationships between Youku and Tudou.

According to ASC 805, *Business Combinations* (“ASC 805”), to determine the portion of a replacement award that is part of the consideration transferred for the acquiree, the acquirer shall measure both the replacement awards granted by the acquirer and the acquiree awards as of the acquisition date in accordance with ASC 718. The portion of the fair-value-based measure of the replacement award that is part of the consideration transferred was RMB144,598 and represents the portion of the acquiree award that is attributable to pre-combination service. The difference in the fair value between Youku’s issued replacement award and Tudou’s award attributable to pre-combination service was inconsequential and expensed on the date of replacement, or the acquisition date. The fair value of replacement awards related to post-combination service is recognized in the post-combination statements of comprehensive income over the remaining vesting period of the replacement awards (Note 19).

The Company has completed the valuations necessary to assess the fair value of the tangible and intangible assets acquired and liabilities assumed, resulting from which the amount of goodwill was determined and recognized as of the acquisition date. The following table summarizes the estimated aggregate fair values of the assets acquired and liabilities assumed as of the date of acquisition:

	<u>RMB</u>
Cash and cash equivalents	404,444
Restricted cash	38,069
Accounts receivable	274,412
Property, plant and equipment	93,870
Intangible assets	1,083,230
Other assets	47,420
Short-term loan	(31,544)
Other current liabilities	(445,171)
Deferred tax liabilities	(235,582)
Goodwill	<u>4,181,882</u>
Total consideration	<u><u>5,411,030</u></u>

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The fair value of accounts receivable acquired was RMB274,412. Gross contractual accounts receivable acquired totaled RMB354,787 and the Company’s best estimate of the contractual cash flows not expected to be collected at acquisition date totaled RMB80,375.

The excess of purchase price over tangible assets, identifiable intangible assets and liabilities assumed was recorded as goodwill. The goodwill recognized is attributable primarily to expected synergies and the assembled workforce of Tudou. None of the goodwill is expected to be deductible for income tax purposes. For the years ended December 31, 2012 and 2013, no significant measurement period adjustments were recorded.

The details of acquired intangible assets are as follows:

	<u>Valuation Method</u>	<u>RMB</u>	<u>Estimated Remaining Useful Life</u>
Domain name, trademarks and Online video license	Relief from royalty	845,300	Indefinite
Technology	Relief from royalty	27,900	Around 5 years
Non-compete agreement	Profit differential	8,200	Around 3 years
Customer relationship	Cost approach	41,530	Around 5 years
Licensed copyrights	Multi-period excess earnings method	97,900	Around 1.79 years
User generated content	Multi-period excess earnings method	62,300	Around 2 years
Content produced	Multi-period excess earnings method	100	Around 0.1 years
Total		<u>1,083,230</u>	

The Company recognized RMB27,614 of acquisition-related costs which were included in general and administrative expenses for the year ended December 31, 2012.

The amount of revenue and net loss of Tudou included in the Company’s consolidated statements of comprehensive loss from the acquisition date to December 31, 2012 is RMB195,668 and RMB157,400, respectively.

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The information of pro forma revenue and net loss for the year ended December 31, 2011 is not available and the cost to develop it would be excessive. The unaudited pro forma information for the year ended December 31, 2012 set forth below gives effect to the acquisition as if it had occurred at the beginning of the fiscal year. The pro forma results have been calculated after applying the Company’s accounting policies and including adjustments primarily related to the amortization of acquired intangible assets, share-based compensation expenses for assumed unvested stock options, together with the consequential tax effects, as applicable. The pro forma information does not include any impact of transaction synergies and is presented for informational purposes only and is not necessarily indicative of the results of operations that actually would have been occurred had the acquisition been consummated as of that time or that may result in the future:

	Year ended December 31,	
	Pro forma (unaudited)	As reported
	2012	2012
	RMB	RMB
Revenue, net	2,203,161	1,795,575
Net loss	661,508	424,003

5. ACCOUNTS RECEIVABLE, NET

	As of December 31,		
	2012	2013	2013
	RMB	RMB	US\$
Accounts receivable	945,715	1,445,553	238,788
Allowance for doubtful accounts	(12,919)	(75,522)	(12,475)
Accounts receivable, net	<u>932,796</u>	<u>1,370,031</u>	<u>226,313</u>

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The following table presents movement of the allowance for doubtful accounts:

	As of December 31,		
	2012 RMB	2013 RMB	2013 US\$
Balance at the beginning of the year	3,032	12,919	2,134
Provisions	9,887	62,603	10,341
Balance at the end of the year	<u>12,919</u>	<u>75,522</u>	<u>12,475</u>

6. PREPAYMENTS AND OTHER ASSETS

The current and non-current portions of prepayments and other assets consist of the following:

	As of December 31,		
	2012 RMB	2013 RMB	2013 US\$
Current portion:			
Prepaid copyrights	20,163	27,673	4,571
Prepayments for jointly produced content	20,862	15,727	2,598
Deposits and prepaid rental fees	12,225	23,024	3,803
Others	11,659	15,876	2,623
	<u>64,909</u>	<u>82,300</u>	<u>13,595</u>

	As of December 31,		
	2012 RMB	2013 RMB	2013 US\$
Non-current portion:			
Prepaid copyrights	187,682	163,175	26,955
Deposits for copyrights and rental fees	24,310	15,409	2,545
Others	17,193	19,272	3,183
	<u>229,185</u>	<u>197,856</u>	<u>32,683</u>

The Company recognized impairment charges on prepaid copyrights of RMB nil, RMB nil and RMB19,741 (US\$3,261) for the years ended December 31, 2011, 2012 and 2013, respectively (see Note 2 “ Impairment of Long-Lived Assets Other Than Goodwill”).

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7. INTANGIBLE ASSETS, NET

	As of December 31, 2012			
	Gross carrying value	Accumulated amortization	Net carrying value	
	RMB	RMB	RMB	
Current portion:				
<i>Intangible assets with definite useful years</i>				
Licensed copyrights	38,151	(18,544)	19,607	
Non-current portion:				
<i>Intangible assets with definite useful years</i>				
Licensed copyrights	771,733	(421,063)	350,670	
Advertising license	1,510	(130)	1,380	
Technology	27,900	(1,976)	25,924	
Non-compete agreement	8,200	(968)	7,232	
Customer relationship	41,530	(2,941)	38,589	
User generated content	62,300	(26,472)	35,828	
Content produced	100	(100)	—	
	913,273	(453,650)	459,623	
<i>Intangible assets with indefinite useful years</i>				
Domain name, trademark and online video license	845,300	—	845,300	
	1,758,573	(453,650)	1,304,923	
	As of December 31, 2013			
	Gross carrying value	Accumulated amortization	Net carrying value	Net carrying value
	RMB	RMB	RMB	US\$
Current portion:				
<i>Intangible assets with definite useful years</i>				
Licensed copyrights	162,613	(110,671)	51,942	8,580
Non-current portion:				
<i>Intangible assets with definite useful years</i>				
Licensed copyrights	627,771	(333,889)	293,882	48,546
Advertising license	1,221	(62)	1,159	191
Technology	20,854	(2,526)	18,328	3,028
Non-compete agreement	5,287	(1,240)	4,047	669
Customer relationship	31,042	(3,759)	27,283	4,507
User generated content	17,809	(10,137)	7,672	1,267
	703,984	(351,613)	352,371	58,208
<i>Intangible assets with indefinite useful years</i>				
Domain name, trademark and online video license	845,300	—	845,300	139,633
	1,549,284	(351,613)	1,197,671	197,841

The Company recognized impairment charges on intangible assets of RMB nil, RMB nil and RMB55,331(US\$9,140) for the years ended December 31, 2011, 2012 and 2013, respectively (see Note 2 “ Impairment of Long-Lived Assets Other Than Goodwill”).

Amortization expense was RMB161,553, RMB402,445 and RMB775,855 (US\$128,162) for the years ended December 31, 2011, 2012 and 2013, respectively. Estimated amortization expense relating to the existing intangible assets for each of the next five years is as follows:

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(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
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	<u>RMB</u>	<u>US\$</u>
Within 1 year	300,819	49,692
Between 1 and 2 years	74,141	12,247
Between 2 and 3 years	22,142	3,658
Between 3 and 4 years	8,738	1,443
Between 4 and 5 years	405	67

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8. GOODWILL

The changes in the carrying amount of goodwill are as follows:

	As of December 31,		
	2012	2013	2013
	RMB	RMB	US\$
Balance as of January 1	—	4,255,570	702,970
Goodwill acquired	4,255,570	6,999	1,156
Impairment losses	—	—	—
Balance as of December 31	<u>4,255,570</u>	<u>4,262,569</u>	<u>704,126</u>

9. PROPERTY AND EQUIPMENT, NET

Property and equipment consist of the following:

	As of December 31,		
	2012	2013	2013
	RMB	RMB	US\$
Office computer equipment	16,251	9,938	1,642
Office furniture and equipment	11,948	13,643	2,254
Software	7,987	14,241	2,352
Servers and network equipment	380,413	378,560	62,534
Motor vehicles	2,609	1,510	248
Leasehold improvements	19,073	26,795	4,427
	<u>438,281</u>	<u>444,687</u>	<u>73,457</u>
Less: Accumulated depreciation	(240,345)	(222,458)	(36,747)
Construction in progress	2,745	—	—
	<u>200,681</u>	<u>222,229</u>	<u>36,710</u>

The Company recognized impairment charges on property and equipment of RMB nil, RMB nil and RMB20,512 (US\$3,388) for the years ended December 31, 2011, 2012 and 2013, respectively (see Note 2 “ Impairment of Long-Lived Assets Other Than Goodwill”).

Depreciation expense was RMB45,670, RMB81,609 and RMB111,098 (US\$18,352) for the years ended December 31, 2011, 2012 and 2013, respectively.

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10. ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities consist of the following:

	As of December 31,		
	2012 RMB	2013 RMB	2013 US\$
Accrued agency commissions	424,355	417,843	69,023
Accrued bonuses and individual income taxes	153,487	185,674	30,671
Accrued bandwidth and server hosting expenses	139,698	140,173	23,155
Tax and surcharges payable	119,268	84,317	13,928
Accrued channel distribution fee	37,073	64,084	10,586
Accrued advertising and promotion expenses	17,800	47,427	7,834
Accrued professional fees	16,398	2,232	369
Payable to employees for exercise of stock options and RSUs exercise	8,782	47,603	7,863
Litigation accrual (Note 15)	5,574	6,469	1,069
Deferred government grants	6,900	700	116
Unrecognized tax benefit	9,662	16,695	2,758
Accrued video production fee	9,802	55,148	9,110
Others	32,554	55,977	9,247
	<u>981,353</u>	<u>1,124,342</u>	<u>185,729</u>

11. LONG-TERM DEBT

On April 23, 2008, the Company entered into an equipment loan and security agreement and a supplemental agreement (collectively known as the “Loan Agreement”) with independent third parties (the “Lenders”).

According to the Loan Agreement, the Lenders agreed to make term loans to the Company from time to time from the closing date of the Loan Agreement to the Termination Date (defined below) in an aggregate principal amount not exceeding US\$10,000 (the “Commitment”). The Termination Date is the earlier of (i) the date the Lenders may terminate making loans or extending other credit pursuant to the rights of the Lenders in event of default, or (ii) December 31, 2008.

The Company can only use the loan to purchase eligible equipment, such as computer equipment, lab and shop equipment, test equipment, office equipment and other standard hardware.

The Lenders are entitled to receive a warrant instrument issued by the Company exercisable for a number of Series C Preferred Shares of the Company at an initial exercise price equal to US\$0.081128308 per share, such number of shares having an aggregate exercise price equal to the sum of (i) US\$350 (issued to the Lenders, equivalent to 4,314,154 shares in total immediately upon the execution of the Loan Agreement), and (ii) the product of (A) 0.035 and (B) the original principal amount of each equipment loan advanced to the Company by the Lenders.

In connection with the execution of the Loan Agreement, the Company issued a warrant to the Lenders which allow the Lenders to purchase 4,314,154 shares of the Company’s Series C Preferred Shares in April 2008, which was recognized as a liability at fair value with a corresponding asset recognized as issuance costs. The Company has amortized such issuance costs over the facility period of the Loan Agreement.

In May 2008, the Company borrowed RMB31,507 (US\$4,500) and, in connection with the borrowing, issued a warrant to purchase 1,941,368 Series C Preferred Shares. Principal payments on the borrowing were made over a period of thirty-two months in equal, monthly installments, commencing after an initial four month period of interest-only monthly payments with no remaining balance outstanding as of December 31, 2011. Interest was charged at a fixed annual interest rate of 12% per annum.

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In June 2008, the Company borrowed RMB9,688 (US\$1,400). In connection with this borrowing, the Company issued an additional warrant to the Lenders to purchase 603,980 Series C Preferred Shares.

In September 2008, the Company borrowed RMB17,784 (US\$2,600). In connection with this borrowing, the Company issued an additional warrant to the Lenders to purchase 1,121,680 Series C Preferred Shares.

In January 2009, the Company borrowed RMB5,333 (US\$780) and RMB3,256 (US\$476), respectively. In connection with these borrowings, the Company issued additional warrants to the Lenders to purchase 541,900 Series C Preferred Shares.

The principal for the borrowings made in June 2008, September 2008 and January 2009 is to be repaid in full over a period of thirty-six months in equal, monthly installments with no remaining balance outstanding as of December 31, 2011. Interest is charged at a fixed interest rate of 12% per annum.

On July 13, 2010, the Company entered into a working capital loan and security agreement and a supplemental agreement (collectively known as the “New Loan Agreement”) with independent third parties (the “V and VI Lenders”).

According to the New Loan Agreement, the V and VI Lenders agreed to make term loans to the Company from time to time from the closing date in an aggregate principal amount not exceeding US\$10,000.

The Company or its wholly owned subsidiary, 1Verge Internet can use the loan for general corporate purposes. The V and VI Lenders are entitled to receive a warrant instrument issued by the Company exercisable into a number of Series E Preferred Shares or the next round of preferred shares of the Company at the share issue price, such number of shares having an aggregate exercise price equal to the sum of (i) US\$250 and (ii) the product of (A) 0.05 and (B) the original principal amount of each working capital loan advanced to the Company by the V and VI Lenders. Since the Company has issued Series F Preferred Shares on September 9, 2010, the next round preferred shares referred to in the Loan Agreement should be the Series F Preferred Shares.

In July 2010, the Company borrowed RMB33,875 (US\$5,000) under the New Loan Agreement. In connection with this borrowing, the Company issued a warrant, which was recognized as a liability at fair value, to the V and VI Lenders to purchase a number of Series E Preferred Shares or Series F Preferred Shares to be calculated at the pre-determined formula. The principal and interest is to be repaid in full over a period of thirty-two months in equal, monthly installments, commencing after an initial four-month period of interest-only monthly payments. Interest is charged at a fixed annual interest rate of 12% per annum. In connection with this borrowing, the outstanding long term loans amounted to RMB7,441 and RMB nil as of December 31, 2012 and 2013, respectively.

The New Loan Agreement expired on October 31, 2010 and the Company has not made new borrowings under this New Loan Agreement.

The total proceeds received for the loans is first allocated to warrants based on their fair values at the time of issuance, and the remaining value is allocated to the loans. Loan discounts are amortized over the contractual life of the loans using the effective interest method. Interest expense arising from the loans is reported in the consolidated statements of comprehensive loss.

Interest expense on these loans for the years ended December 31, 2011, 2012 and 2013 was RMB6,825, RMB3,534 and RMB545 (US\$ 90), which include RMB3,496, RMB1,928 and RMB313 (US\$52) of discount amortization, respectively. No interest expense has been capitalized in any periods presented. In July 2013, the Company repaid the remaining balance of these loans and there were no loans outstanding as of December 31, 2013.

Upon completion of the IPO in December 2010, all the warrants issued with the loans were exercised, Series C and Series E Preferred Shares were automatically converted into Class A ordinary shares and the carrying value of the warrant liability was reclassified to equity upon the exercise.

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12. COST OF REVENUES

	For the years ended December 31,			
	2011 RMB	2012 RMB	2013 RMB	2013 US\$
VAT and business tax	90,215	169,283	276,497	45,674
Bandwidth costs	324,682	524,623	685,650	113,261
Depreciation of servers and other equipment	39,052	68,569	102,367	16,910
Content costs	243,388	737,061	1,422,907	235,048
	<u>697,337</u>	<u>1,499,536</u>	<u>2,487,421</u>	<u>410,893</u>

13. INCOME TAXES*Cayman Islands*

Under the current laws of the Cayman Islands, the Company is not subject to tax on income or capital gains. Additionally, upon payment of dividends by the Company to its shareholders, no Cayman Islands withholding tax will be imposed.

British Virgin Islands

Under the current tax laws of British Virgin Islands, StarCloud is not subject to tax on income or capital gain. In addition, no British Virgin Islands withholding tax will be imposed on payments of dividends by StarCloud to its shareholders.

Hong Kong

Under the current tax laws of Hong Kong, Jet Brilliant is subject to Hong Kong profits tax on its activities conducted in Hong Kong. Dividends from Jet Brilliant are exempt from withholding tax.

China

Under the New Enterprise Income Tax (“EIT”) Law, which became effective on January 1, 2008, foreign invested enterprises and domestic enterprises are subject to a unified EIT rate of 25%, except for certain entities in encouraged industries or regions that are entitled to tax incentives under the New EIT Law. In accordance with the implementation rules of the New EIT Law, a qualified “High and New Technology Enterprise” (“HNTE”) is eligible for a preferential tax rate of 15%.

1Verge Internet has been recognized as a HNTE under the New EIT Law by relevant government authorities in 2010 and is entitled to preferential tax rate of 15% for the years ended December 31, 2010, 2011 and 2012 provided that it continued to meet the HNTE requirements each year. 1Verge Internet is obligated to complete an annual self-assessment of continued compliance in order to apply the lower tax rate. The HNTE status is subject to approval and renewal after the HNTE certification expires. 1Verge Internet received the approval and renewed the HNTE certification during 2013, and will continue to be entitled to preferential tax rate of 15% for the years ended December 31, 2013, 2014 and 2015.

1Verge Information, a consolidated affiliated entity of which the Company is the primary beneficiary, is located in the Beijing Zhongguancun Science Park and has been recognized as a HNTE under the New EIT Law by relevant authorities in December 2009 and was entitled to a preferential tax rate of 15% for the years ended December 31, 2009, 2010 and 2011. 1Verge Information is subject to a 25% EIT rate for the years ended December 31, 2012 and 2013.

The other PRC subsidiaries and Consolidated Affiliated Entities are subject to a 25% EIT rate.

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According to the New EIT Law and its implementation rules, foreign enterprises, which have no establishment or place in China but derive dividends, interest, rents, royalties and other income (including capital gains) from sources in China or which has an establishment or place in China but the aforementioned incomes are not connected with the establishment or place shall be subject to PRC withholding tax (“WHT”) at 10% (a further reduced WHT rate may be available according to the applicable double tax treaty or arrangement provided that the foreign enterprise is the tax resident of the jurisdiction where it is located and it is the beneficial owner of the dividends, interest and royalties income).

Also, the New EIT Law treats enterprises established outside of China with “effective management and control” located in China as PRC resident enterprises for tax purposes. The term “effective management and control” is generally defined as exercising overall management and control over the business, personnel, accounting, properties, etc. of an enterprise. The Company, if considered a PRC resident enterprise for tax purposes, would be subject to the PRC EIT at the rate of 25% on its worldwide income. As of December 31, 2013, no detailed interpretation or guidance has been issued to define “place of effective management.” Furthermore, as of December 31, 2013, the administrative practice associated with interpreting and applying the concept of “place of effective management” is unclear. The Group has analyzed the applicability of this law and will continue to monitor the related development and application to the Company.

The Group’s loss before income taxes consists of:

	For the years ended December 31,			
	2011	2012	2013	2013
	RMB	RMB	RMB	US\$
Non-PRC	(47,756)	(452,545)	(391,377)	(64,651)
PRC	(124,348)	25,126	(188,353)	(31,113)
	<u>(172,104)</u>	<u>(427,419)</u>	<u>(579,730)</u>	<u>(95,764)</u>

Income tax expense (benefit) for the year ended December 31, 2011, 2012 and 2013 consisted of:

	For the years ended December 31,			
	2011	2012	2013	2013
	RMB	RMB	RMB	US\$
Current income tax expense	—	6,537	3,377	558
Deferred income tax benefit	—	(9,953)	(2,363)	(390)
	<u>—</u>	<u>(3,416)</u>	<u>1,014</u>	<u>168</u>

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The reconciliation of total tax expense computed by applying the respective statutory income tax rate to pre-tax loss is as follows:

	For the years ended December 31,			
	2011 RMB	2012 RMB	2013 RMB	2013 US\$
Income tax benefit at PRC statutory rate	(43,026)	(106,855)	(144,933)	(23,941)
International tax rate difference	11,939	114,516	98,550	16,279
Other adjustments	—	254	1,422	235
Permanent difference	6,960	7,915	(11,028)	(1,821)
Change in unrecognized tax benefit	1,425	775	7,557	1,248
Effect of preferential tax treatment	2,932	7,086	8,976	1,483
Effect of tax rate change on deferred taxes	(16,382)	(7,542)	10,957	1,810
Expired net operating losses	—	17,652	44,152	7,293
Change in valuation allowance	36,152	(37,217)	(14,639)	(2,418)
Income tax (benefit)/expense	—	(3,416)	1,014	168

The tax effects of temporary differences that give rise to the deferred tax asset balances at December 31, 2012 and 2013 are as follows:

	December 31,		
	2012 RMB	2013 RMB	2013 US\$
Deferred tax assets, current portion:			
Advertising expenses	8,883	77	13
Accrued payroll	26,073	30,481	5,035
Accrued expenses	12,829	15,269	2,522
Revenue on last deliverable basis	3,952	4,363	721
Bad debt provision	23,321	38,573	6,372
Others	516	3,844	635
Valuation allowance	(65,104)	(84,764)	(14,002)
Deferred tax assets, current portion, net	10,470	7,843	1,296
Deferred tax liabilities, current portion			
Intangible assets appreciation	(135)	—	—
Deferred tax liabilities, current portion	(135)	—	—
Deferred tax assets, non-current portion:			
Net operating losses carried forward	240,582	155,780	25,733
Fixed assets (accumulated depreciation)	2,651	—	—
Copyrights amortization	106,083	139,740	23,083
Impairment of intangible assets and fixed assets	—	14,403	2,379
Valuation allowance	(335,472)	(301,173)	(49,750)
Deferred tax assets, non-current portion, net	13,844	8,750	1,445
Deferred tax liabilities, non-current portion			
Domain name, trademark and online video license	(211,325)	(211,325)	(34,908)
Technology	(6,481)	(4,585)	(757)
Non-compete agreement	(1,808)	(1,014)	(168)
Customer relationship	(9,647)	(6,824)	(1,127)
User generated content	(8,957)	(1,955)	(323)
Fixed assets (accumulated depreciation)	—	(2,566)	(424)
Deferred tax liabilities, non-current portion	(238,218)	(228,269)	(37,707)
Deferred tax liabilities, non-current portion, net	(224,374)	(219,519)	(36,262)

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Valuation allowances have been provided on the net deferred tax assets where, based on all available evidence, it was considered more likely than not that some portion or all of the recorded deferred tax assets will not be realized in future periods. Realization of the net deferred tax assets is dependent on factors including future reversals of existing taxable temporary differences and adequate future taxable income, exclusive of reversing deductible temporary differences and tax loss or credit carry forwards. The Company evaluates the potential realization of deferred tax assets on an entity-by-entity basis. As of December 31, 2012 and 2013, valuation allowances were provided against deferred tax assets in entities where it was determined it was more likely than not that the benefits of the deferred tax assets will not be realized.

As of December 31, 2013, the Company had net operating loss available carry forwards of RMB753,788 (US\$124,517) per income tax returns filed, which can be carried forward to offset future taxable income. The remaining net operating losses will expire between 2014 and 2018 if not utilized.

The Company did not provide for deferred income taxes and foreign withholding taxes on the undistributed earnings of foreign subsidiaries as of December 31, 2013 on the basis of its intent to permanently reinvest foreign subsidiaries’ earnings. It is not practicable for the Company to estimate the amount of unrecognized deferred tax liabilities.

The changes in unrecognized tax benefits are as follows:

	For the years ended December 31,			
	2011 RMB	2012 RMB	2013 RMB	2013 US\$
Beginning balance	20,651	22,076	99,613	16,455
Addition from acquisitions	—	80,870	—	—
Additions based on tax position of the current year	1,425	775	164,448	27,165
Reductions for the tax positions of the current year	—	(3,882)	(8,729)	(1,442)
Reductions due to lapse of applicable statute of limitations	—	(226)	(1,609)	(266)
Ending balance	<u>22,076</u>	<u>99,613</u>	<u>253,723</u>	<u>41,912</u>

As of December 31, 2011, 2012 and 2013, the Group has RMB22,076, RMB99,613 and RMB253,723 (US\$41,912) of unrecognized tax benefits, RMB344 and RMB775 and RMB7,033 (US\$1,162) of which would affect the effective tax rate if recognized in the years ended December 31, 2011, 2012 and 2013, respectively. The Group does not anticipate any other material changes to its unrecognized tax position in the next twelve months.

The Company recorded interest and penalties of RMB nil for the years ended December 31, 2011, 2012 and 2013, respectively. The years 2009 to 2013 remain subject to examination by the PRC tax authorities.

14. EMPLOYEE DEFINED CONTRIBUTION PLAN

Full-time employees of the Company’s subsidiaries and its Consolidated Affiliated Entities in the PRC participate in a government mandated defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to employees. Chinese labor regulations require that the subsidiaries and Consolidated Affiliated Entities of the Company make contributions to the government for these benefits based on certain percentages of the employees’ salaries. The Group has no legal obligation for the benefits beyond the contributions made. The total amount for such employee benefits which are expensed as incurred were RMB25,191, RMB56,999 and RMB98,904 (US\$16,338) for the years ended December 31, 2011, 2012 and 2013, respectively.

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15. COMMITMENTS AND CONTINGENCIES

Operating lease commitments

The Group leases facilities in the PRC under non-cancelable operating leases expiring on different dates. Payments under operating leases are expensed on a straight-line basis over the periods of the respective leases, including rent holidays of 1 to 6 months. The Group’s lease agreements are entered into with third parties and usually have a renewal option with an advance notice period of 1 to 3 months, and no rent escalation clauses, restrictions or contingent rents.

Total office rental expenses under all operating leases were RMB19,622, RMB43,257 and RMB81,831 (US\$13,518) for the years ended December 31, 2011, 2012 and 2013, respectively. Future minimum payments under non-cancelable operating leases for office rental consist of the following as of December 31, 2013:

	<u>RMB</u>	<u>US\$</u>
2014	62,507	10,325
2015	36,743	6,070
2016	8,559	1,414
2017 and thereafter	—	—
	<u>107,809</u>	<u>17,809</u>

Total bandwidth rental expenses were recorded in cost of revenues (Note 12).

Future minimum payments under non-cancelable operating leases for bandwidth rental consist of the following as of December 31, 2013:

	<u>RMB</u>	<u>US\$</u>
2014	567,465	93,739
2015	60,894	10,059
2016	5,940	981
2017	200	33
2018 and thereafter	—	—
	<u>634,499</u>	<u>104,812</u>

Total licensed copyrights were recorded in intangible assets (Note 7).

Future minimum payments under non-cancelable licensed copyrights consist of the following as of December 31, 2013:

	<u>RMB</u>	<u>US\$</u>
2014	287,705	47,525
2015	100,599	16,618
2016	21,978	3,631
2017	3,246	536
2018 and thereafter	—	—
	<u>413,528</u>	<u>68,310</u>

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Litigation, claims and assessments

The Company is involved in a number of claims pending in various courts, in arbitration, or otherwise unresolved as of December 31, 2013. These claims are substantially related to alleged copyright infringement as well as routine and incidental matters to its business, among others. Adverse results in these claims may include awards of damages and may also result in, or even compel, a change in the Company’s business practices, which could impact the Company’s future financial results. The Group has accrued RMB6,469 (US\$1,069) in “Accrued expenses and other liabilities” in the consolidated balance sheet as of December 31, 2013 and recognized losses of RMB5,482 (US\$906) for the year ended December 31, 2013.

The Company is unable to estimate the reasonably possible loss or a range of reasonably possible losses for proceedings in the early stages or where there is a lack of clear or consistent interpretation of laws specific to the industry-specific complaints among different jurisdictions. Although the results of unsettled litigations and claims cannot be predicted with certainty, the Company does not believe that, as of December 31, 2013, there was at least a reasonable possibility that the Company may have incurred a material loss, or a material loss in excess of the accrued expenses, with respect to such loss contingencies. The losses accrued include judgments handed down by the court and out-of-court settlements after December 31, 2013, but related to cases arising on or before December 31, 2013. The Company is in the process of appealing certain judgments for which losses have been accrued. However, the ultimate timing and outcome of pending litigation is inherently uncertain. Therefore, although management considers the likelihood of a material loss for all pending claims, both asserted and unasserted, to be remote, if one or more of these legal matters were resolved against the Company in the same reporting period for amounts in excess of management’s expectations, the Company’s consolidated financial statements of a particular reporting period could be materially adversely affected.

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16. ORDINARY SHARES

Upon completion of the IPO in December 2010, the authorized share capital of the Company was US\$100 divided into 9,340,238,793 Class A ordinary shares of par value US\$0.00001 each and 659,761,207 Class B ordinary shares of par value US\$0.00001 each. Each Class A ordinary share is entitled to one vote and each Class B ordinary share is entitled to four votes. Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof. Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. Upon any transfer of Class B ordinary shares by a holder thereof to any person or entity which is not an affiliate of such holder, such Class B ordinary shares shall be automatically and immediately converted into the equal number of Class A ordinary shares. The holders of ordinary shares are also entitled to receive dividends whenever funds are legally available and when declared by the Board of Directors, subject to prior rights of holders of all other classes of shares outstanding.

Upon completion of the IPO in December 2010, 328,047,390 Class A ordinary shares were issued and 1,202,475,813 convertible redeemable preferred shares were automatically converted into either Class A or Class B ordinary shares, amongst which 12,452,848 Class A ordinary shares were issued to the holders of the warrants.

Upon completion of the secondary offering in May 2011, 151,380,000 Class A ordinary shares were issued.

In connection with the acquisition of Trade Lead and Tianshi on January 6, 2012 and the merger of Tudou and Two Merger Sub Inc. on August 23, 2012, 6,202,179 Class A ordinary shares and 834,109,274 Class A ordinary shares were issued, respectively. The remaining share consideration previously held in escrow of 4,495,014 Youku Class A ordinary shares related to the Merger was issued to Mr. Gary Wang during the year ended December 31, 2013 and the fair value of the 4,495,014 Youku Class A ordinary shares was part of the consideration transferred to effect the Merger and recorded as an increase to additional paid in capital as of December 31, 2012 (Note 4).

As of December 31, 2013, there were 2,356,529,401 and 659,561,893 Class A and Class B ordinary shares outstanding, respectively.

17. ACCUMULATED DEFICIT AND STATUTORY RESERVE FUNDS

The Company’s ability to pay dividends is primarily dependent on the Company receiving distributions of funds from its subsidiaries. Relevant PRC statutory laws and regulations permit payments of dividends by the Group’s PRC subsidiaries only out of its retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. The results of operations reflected in the financial statements prepared in accordance with U.S. GAAP differ from those reflected in the statutory financial statements of the Company’s subsidiaries.

In accordance with the Regulations on Enterprises with Foreign Investment of China and its Articles of Association, the Company’s subsidiaries, being foreign-invested enterprises established in the PRC, are required to provide for certain statutory reserves, namely the general reserve fund, enterprise expansion fund and staff welfare and bonus fund, all of which are appropriated from net profit as reported in its PRC statutory accounts. Each of the Company’s subsidiaries is required to allocate at least 10% of its after-tax profits to the general reserve fund until such fund has reached 50% of its registered capital. Appropriations to the enterprise expansion fund and staff welfare and bonus fund are at the discretion of the Board of Directors of the Company’s subsidiaries.

In accordance with the China Company Laws, the Company’s Consolidated Affiliated Entities must make appropriations from their after-tax profits as reported in their PRC statutory accounts to non-distributable reserve funds, namely statutory surplus fund, statutory public welfare fund and discretionary surplus fund. The Company’s Consolidated Affiliated Entities are required to allocate at least 10% of their after-tax profits to the statutory surplus fund until such fund has reached 50% of their respective registered capital. Appropriation to discretionary surplus is made at the discretion of the Company’s Consolidated Affiliated Entities.

YOUKU TUDOU INC.

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The general reserve fund and statutory surplus fund are restricted to set-off against losses, expansion of production and operation and increasing registered capital of the respective company. The staff welfare and bonus fund and statutory public welfare fund are restricted to the capital expenditures for the collective welfare of employees. The reserves are not allowed to be transferred to the Company in terms of cash dividends, loans or advances, nor are they available for distribution except under liquidation.

Under PRC laws and regulations, there are certain restrictions on the Company’s PRC subsidiaries and Consolidated Affiliated Entities with respect to transferring certain of their net assets to the Company either in the form of dividends, loans, or advances. Amounts restricted include paid-up capital and statutory reserve funds of the Company’s PRC subsidiaries and the net assets of the Consolidated Affiliated Entities in which the Company has no legal ownership, totaling RMB3,289,006 and RMB3,189,683 (US\$526,898) as of December 31, 2012 and 2013, respectively.

YOUKU TUDOU INC.

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18. LOSS PER SHARE

The following table sets forth the computation of basic and diluted net loss per share:

	2011		2012		2013			
	Class A RMB	Class B RMB	Class A RMB	Class B RMB	Class A RMB	Class A US\$	Class B RMB	Class B US\$
Loss per share — basic:								
Numerator:								
Allocation of undistributed losses	(115,135)	(56,969)	(306,819)	(117,184)	(452,476)	(74,744)	(128,268)	(21,188)
Denominator:								
Weighted-average ordinary shares outstanding	1,333,230,326	659,693,189	1,726,912,295	659,561,893	2,326,661,195	2,326,661,195	659,561,893	659,561,893
Denominator used for loss per share	1,333,230,326	659,693,189	1,726,912,295	659,561,893	2,326,661,195	2,326,661,195	659,561,893	659,561,893
Loss per share — basic	<u>(0.09)</u>	<u>(0.09)</u>	<u>(0.18)</u>	<u>(0.18)</u>	<u>(0.19)</u>	<u>(0.03)</u>	<u>(0.19)</u>	<u>(0.03)</u>
Loss per share — diluted:								
Numerator:								
Allocation of undistributed losses for diluted	(115,135)	(56,969)	(306,819)	(117,184)	(452,476)	(74,744)	(128,268)	(21,188)
Reallocation of undistributed losses as a result of conversion of Class B to Class A shares	(56,969)	—	(117,184)	—	(128,268)	(21,188)	—	—
Allocation of undistributed losses	(172,104)	(56,969)	(424,003)	(117,184)	(580,744)	(95,932)	(128,268)	(21,188)
Denominator:								
Weighted-average ordinary shares outstanding	1,333,230,326	659,693,189	1,726,912,295	659,561,893	2,326,661,195	2,326,661,195	659,561,893	659,561,893
Conversion of Class B to Class A ordinary shares	659,693,189	—	659,561,893	—	659,561,893	659,561,893	—	—
Denominator used for loss per share	1,992,923,515	659,693,189	2,386,474,188	659,561,893	2,986,223,088	2,986,223,088	659,561,893	659,561,893
Loss per share — diluted	<u>(0.09)</u>	<u>(0.09)</u>	<u>(0.18)</u>	<u>(0.18)</u>	<u>(0.19)</u>	<u>(0.03)</u>	<u>(0.19)</u>	<u>(0.03)</u>

The effect of stock options and non-vested restricted stock units have been excluded from the computation of diluted loss per share for the years ended December 31, 2011, 2012 and 2013 as their effect would be anti-dilutive.

19. SHARE-BASED COMPENSATION

In December 2005, the Company adopted the 2006 Option Plan (the “2006 Plan”). The 2006 Plan provides for the granting of share options to employees, officers, directors, advisors or consultants of the Company. These options were granted with exercise prices denominated in U.S. dollars, which is the functional currency of the Company. The Company has reserved 140,441,231 ordinary shares for issuance under the 2006 Plan. The maximum term of any issued stock option is ten years from the grant date. These awards vest over a four-year schedule for employees, officers, and directors as stated below:

- (1) One-sixth of the options shall vest upon the first anniversary of the grant date;
- (2) One-twelfth of the options shall vest upon the last day of each three-month period of the second and third year after the grant date; and
- (3) One-twenty fourth of the options shall vest upon the last day of each three-month period of the fourth year after the grant date.

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In November 2010, the Company adopted the 2010 Share Incentive Plan (the “2010 Plan”) which was approved by the Board of Directors. The 2010 Plan permits the grant of options to purchase the Company’s Class A ordinary shares, restricted shares and restricted share units as deemed appropriate by the administrator under the 2010 Plan. The maximum aggregate number of Class A ordinary shares that may be issued pursuant to all awards under the 2010 Plan is 100,000,000 shares. The award terms are generally granted at the fair market value of the ordinary shares at the date of grant and generally vest over a four-year schedule. The maximum term of any issued stock option is ten years from the grant date.

In September 2012, the Company amended and restated the 2010 Plan with the Youku Tudou Inc. Share Incentive Plan (the “Youku Tudou Plan”). The major changes made to the 2010 plan are to change the name of the plan and to increase the number of Class A ordinary shares available for issuance under the plan by 100,799,784 shares, which represent the number of reserved but unissued shares under Tudou’s 2010 Share Incentive Plan (the Tudou Plan”), as adjusted to give effect to the Merger which resulted in Tudou becoming a wholly-owned subsidiary of the Company as of August 23, 2012. Meanwhile, the Tudou Plan was amended and restated with the Amended and Restated Tudou Holdings Limited 2010 Share Incentive Plan (the “Amended Tudou Plan”) to, among other things, decrease the total number of reserved but unissued shares under the Tudou Plan by 100,799,784 shares. The Amended Tudou Plan has been cancelled and assumed by the Company upon the closing of the Merger as of August 23, 2012. The maximum aggregate number of Class A ordinary shares that may be issued pursuant to all awards under the Youku Tudou Plan is 200,799,784 shares. The award terms are generally granted at the fair market value of the ordinary shares at the date of grant and generally vest over a four-year schedule as stated below:

- (1) One-sixth of the options shall vest upon the first anniversary of the grant date;
- (2) One-twelfth of the options shall vest upon the last day of each three-month period of the second and third year after the grant date; and
- (3) One-twenty fourth of the options shall vest upon the last day of each three-month period of the fourth year after the grant date.

Or:

- (1) One-fourth of the options shall vest upon the first anniversary of the grant date; and
- (2) One-sixteenth of the options shall vest upon the last day of each three-month period of the second, third and fourth year after the grant date.

Or:

One-sixteenth of the options shall vest upon the last day of each three-month period of the first, second, third and fourth year after the grant date.

The maximum term of any issued stock option is ten years from the grant date. In accordance with ASC 718-10, all share-based payments to employees are measured in the consolidated financial statements based on their grant-date fair values. Compensation expense is recognized on a straight-line basis, net of estimated forfeitures over the requisite service period with a graded vesting schedule.

Stock options

The following table summarizes the stock option activity under the 2006 Plan and Youku Tudou Plan for the year ended December 31, 2013:

Stock options	Number of shares	Weighted-average exercise price (US\$)	Weighted-average grant-date fair value (US\$)	Weighted-average remaining contractual life (years)	Aggregate intrinsic value (US\$)
Outstanding, January 1, 2013	144,760,968	0.3530	0.3507	5.94	96,544
Granted	18,308,268	1.0249	0.5375		
Exercised	(51,672,672)	0.3173	0.4738		
Forfeited	(12,644,892)	0.6893	0.5368		
Outstanding, December 31, 2013	<u>98,751,672</u>	0.4532	0.2971	6.03	121,472
Vested and expected to vest at December 31, 2013	<u>95,685,150</u>	0.4373	0.2882	5.94	119,220
Exercisable at December 31, 2013	<u>66,631,986</u>	0.2572	0.1843	4.98	95,024

Pursuant to the Merger on August 23, 2012, the Company issued replacement awards to Tudou option holders (Note 4). Each of Tudou’s stock options outstanding immediately prior to the effective time of the Merger has been cancelled in exchange for the right to receive 7.177 stock options of Youku and the exercise price of each replacement award was also adjusted accordingly. In the Merger, Youku exchanged its share-based payment awards for awards held by employees of Tudou, and the replacement award continues to have, and is subject to, the same terms and conditions applicable to Tudou’s option immediately prior to the Merger. The total incremental share based compensation expense relating to post-combination service was RMB78,063, with RMB12,487 recognized as additional share based compensation cost for the year ended December 31, 2012 and RMB65,576 to be recognized over the remaining vesting period of 2.78 years.

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The aggregate intrinsic value in the table above represents the difference between the fair value of the Company’s ordinary shares as of December 31, 2013 and the exercise price of the options. Forfeitures are estimated at the time of grant based upon the Company’s historical and expected forfeitures for stock options granted and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. To the extent actual forfeitures is different from the Company’s estimate, actual share based compensation costs related to these awards may be different from the expectation.

The weighted-average grant-date fair value of options granted during the years ended December 31, 2011, 2012, and 2013 was US\$0.7350, US\$0.5508, and US\$0.5375, respectively.

Total intrinsic value of options exercised during the years ended December 31, 2011, 2012 and 2013 was US\$7,141, US\$46,421 and US\$44,261, respectively.

Total fair value of options vested during the years ended December 31, 2011, 2012 and 2013 was US\$3,249, US\$4,836 and US\$8,345, respectively.

As of December 31, 2013, there was RMB67,780 (US\$11,196) of unrecognized share-based compensation cost related to stock options, which are expected to be recognized over a weighted-average vesting period of 3.02 years. To the extent the actual forfeiture rate is different from the Company’s estimate, actual share-based compensation related to these awards may be different from the expectation.

The binomial option pricing model is used to determine the fair value of the stock options granted to employees. The binomial model requires the input of highly subjective assumptions, including the expected stock price volatility and the sub-optimal early exercise factor. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. Expected dividend yield is determined in view of the Company’s historical dividend payout rate. For expected volatilities, the Company has made reference to historical volatilities of several comparable public companies. The sub-optimal early exercise factor was estimated based on the vesting and contractual terms of the awards and management’s expectation of exercise behavior of the grantees.

The following table presents the assumptions used to estimate the fair values of the stock options granted in the years presented:

	2011	2012	2013
Risk-free interest rate	2.2%	2.2%	2.1 to 2.8%
Expected dividend yield	—	—	—
Expected volatility range	55.8%	52.0%	54.0 to 57.0%
Sub-optimal early exercise factor	2 times	2-3 times	2-3 times

Non-vested restricted stock units

The fair value of each non-vested restricted stock unit is based on the fair market value of the underlying ordinary shares on the date of grant.

A summary of non-vested restricted stock unit activity under the Youku Tudou Plan for the year ended December 31, 2013 is presented below:

Non-vested restricted stock units	Number of non-vested restricted stock units	Weighted average grant-date fair value (US\$)
Non-vested, January 1, 2013	39,907,080	1.2708
Granted	42,294,204	1.1930
Forfeited	(2,604,889)	1.1551
Vested	(13,718,213)	1.3298
Non-vested, December 31, 2013	65,878,182	1.2132

As of December 31, 2013, there was RMB440,153 (US\$72,708) of unrecognized share-based compensation cost related to restricted stock units, which are expected to be recognized over a weighted-average vesting period of 2.90 years. To the extent the actual forfeiture rate is different from the Company’s estimates, actual share-based compensation related to these awards may be different from the expectation.

Total compensation cost recognized for the years ended December 31, 2011, 2012 and 2013 are as follows:

	For the years ended December 31,			
	2011 RMB	2012 RMB	2013 RMB	2013 US\$
Cost of revenues	3,894	12,751	32,110	5,304
Product development	12,233	26,157	38,400	6,343
Sales and marketing	14,196	28,741	50,712	8,377
General and administrative	17,171	50,569	67,136	11,090
Total	47,494	118,218	188,358	31,114

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20. RELATED PARTY TRANSACTIONS

Starting in the year ended December 31, 2010, the Company entered into copyright license agreements with Trade Lead and Tianshi, an entity whose principal shareholder is also a principal shareholder of the Company, Chengwei Partners, L.P., Chengwei Ventures Evergreen Fund, L.P and Chengwei Ventures Evergreen Advisors Fund, LLC, collectively referred to as Chengwei Funds.

In September 2011, the Company acquired a 5% equity interest in Trade Lead and Tianshi for RMB1,707 in cash. The Company also entered into sublicensing agreements with Trade Lead and Tianshi and recognized sublicensing revenues of RMB768 in “net revenues” included in the consolidated statement of comprehensive loss for the year ended December 31, 2011. On January 6, 2012, the Company completed the acquisition of the remaining 95% equity interest in Trade Lead and Tianshi. As a result, the Company owns 100% equity interest in Trade Lead and Tianshi (Note 4).

There are no related party transactions for the years ended December 31, 2012 and 2013.

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21. CONDENSED FINANCIAL INFORMATION OF THE PARENT COMPANY

Balance Sheets

	Notes	As of December 31,		
		2012 RMB	2013 RMB	2013 US\$
ASSETS				
Current assets:				
Cash and cash equivalents		831,208	1,038,947	171,622
Short-term investments		2,049,977	1,409,439	232,823
Intangible assets, net		11,460	9,836	1,625
Due from subsidiaries		785,441	1,193,761	197,194
Prepayments and other assets		5,008	3,358	556
Total current assets		3,683,094	3,655,341	603,820
Non-current assets:				
Property and equipment, net		7	—	—
Intangible assets, net		10,869	38,703	6,392
Prepayments and other assets		21	578	95
Long-term investments in subsidiaries		5,684,349	5,324,281	879,509
Total non-current assets		5,695,246	5,363,562	885,996
TOTAL ASSETS		9,378,340	9,018,903	1,489,816
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Accounts payable		8,455	20,288	3,351
Accrued expenses and other liabilities		5,571	15,496	2,559
Current portion of long-term debt	11	7,441	—	—
Total current liabilities		21,467	35,784	5,910
Non-current liabilities:				
Long-term debt	11	—	—	—
Total non-current liabilities		—	—	—
Total liabilities		21,467	35,784	5,910
Shareholders' equity:				
Class A ordinary shares (US\$0.00001 par value, 9,340,238,793 authorized, 2,286,643,502 and 2,356,529,401 issued and outstanding as of December 31, 2012 and 2013, respectively)	16	149	154	25
Class B ordinary shares (US\$0.00001 par value, 659,761,207 authorized, 659,561,893 and 659,561,893 issued and outstanding as of December 31, 2012 and 2013, respectively)	16	49	49	8
Additional paid-in capital		10,768,204	11,058,360	1,826,711
Accumulated other comprehensive loss		(115,882)	(199,053)	(32,881)
Accumulated deficit		(1,295,647)	(1,876,391)	(309,957)
Total shareholders' equity		9,356,873	8,983,119	1,483,906
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		9,378,340	9,018,903	1,489,816

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Statements of Comprehensive Loss

	Notes	Years ended December 31			
		2011 RMB	2012 RMB	2013 RMB	2013 US\$
Net revenues		—	—	—	—
Cost of revenues		(150)	(66)	—	—
Gross loss		(150)	(66)	—	—
Operating expenses:					
Product development		(119)	(37)	(7)	(1)
Sales and marketing		(40)	(330)	(1,023)	(169)
General and administrative		(6,634)	(34,396)	(7,204)	(1,190)
Total operating expenses		(6,793)	(34,763)	(8,234)	(1,360)
Loss from operations		(6,943)	(34,829)	(8,234)	(1,360)
Interest income		19,970	38,537	22,010	3,636
Interest expenses	11	(6,825)	(3,534)	(545)	(90)
Equity in losses of subsidiaries		(181,749)	(426,907)	(609,270)	(100,644)
Others, net		3,443	2,730	15,295	2,526
Loss before income taxes		(172,104)	(424,003)	(580,744)	(95,932)
Income taxes		—	—	—	—
Net loss		(172,104)	(424,003)	(580,744)	(95,932)
Other comprehensive loss, net of tax of nil					
Foreign currency translation adjustments		(94,225)	(7,304)	(83,171)	(13,739)
Comprehensive loss attributable to ordinary shareholders		(266,329)	(431,307)	(663,915)	(109,671)

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Statements of Cash Flows

	Years ended December 31,			
	2011 RMB	2012 RMB	2013 RMB	2013 US\$
Cash flows from operating activities:				
Net loss	(172,104)	(424,003)	(580,744)	(95,932)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:				
Equity in losses of subsidiaries	181,749	426,907	609,270	100,644
Amortization of long-term debt discounts	3,496	1,928	313	52
Gain from remeasurement of previously held investment in acquired subsidiary (Note 4)	—	(3,344)	—	—
Other reconciling items	173	95	65	11
Foreign exchange gain	—	—	(15,295)	(2,526)
Changes in operating assets and liabilities:				
Prepayments and other assets	(7,258)	(8,209)	(1,867)	(308)
Accrued expenses and other liabilities	108	1,990	10,367	1,712
Net cash provided by (used in) operating activities:	6,164	(4,636)	22,109	3,653
Cash flows from investing activities				
Acquisition of intangible assets from related party	(32,675)	—	—	—
Acquisition of intangible assets	(12,909)	(26,175)	(81,042)	(13,387)
Equity investment	(494,281)	(78,869)	—	—
Proceeds received from maturity of short-term investments	1,134,162	2,826,023	2,839,628	469,073
Short-term investments placed with financial institutions	(2,531,979)	(3,476,711)	(2,193,410)	(362,326)
Loan to subsidiary	(77,677)	(338,665)	(408,320)	(67,450)
Net cash provided by (used in) investing activities	(2,015,359)	(1,094,397)	156,856	25,910
Cash flows from financing activities:				
Exercise of employee stock options	4,647	22,485	101,435	16,756
Principal repayments on long-term debt	(27,107)	(11,145)	(7,677)	(1,268)
Proceeds from IPO and secondary offering activity, net of issuance costs	2,512,969	—	—	—
Net cash provided by financing activities	2,490,509	11,340	93,758	15,488
Effect of exchange rate changes on cash and cash equivalents	(94,211)	(6,546)	(64,984)	(10,735)
Net increase in cash and cash equivalents	387,103	(1,094,239)	207,739	34,316
Cash and cash equivalents at beginning of the year	1,538,344	1,925,447	831,208	137,306
Cash and cash equivalents at end of the year	1,925,447	831,208	1,038,947	171,622
Supplemental disclosures of cash flow information:				
Non-cash consideration paid for business acquisitions	—	5,497,219	—	—

YOUKU TUDOU INC.

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(a) Basis of presentation

The condensed financial information of the Company has been prepared using the same accounting policies as set out in the Company’s consolidated financial statements except that the Company used the equity method to account for investment in its subsidiaries.

The Company records its investment in its subsidiaries under the equity method of accounting. Such investment is presented on the balance sheets as “Investment in subsidiaries” and share of their loss as “Equity in losses of subsidiaries” in the statements of comprehensive loss.

Each of the Company’s PRC subsidiaries has restrictions on its ability to pay dividends to the Company under PRC laws and regulations (Note 17). The subsidiaries did not pay any dividends to the Company for the years presented.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted by reference to the consolidated financial statements.

(b) Commitments

The Company does not have any significant commitments or long-term obligations as of any of the periods presented, except for those disclosed in the consolidated financial statements (Notes 11 and 15).

BUSINESS OPERATIONS AGREEMENT

This Business Operations Agreement (this “**Agreement**”) is entered in Beijing, the People’s Republic of China (the “**PRC**”, excluding the Hong Kong Special Administrative Region, the Macao Special Administrative Region and Taiwan, for the purposes of this Agreement) and dated September 10, 2013.

by and among the following parties:

- (1) **PARTY A: IVERGE INTERNET TECHNOLOGY (BEIJING) CO., LTD.**
Legal Address: Section D, 5/F, SinoSteel Plaza, No 8, Haidian Street, Haidian District, Beijing, China
Legal Representative: Victor Wing Cheung Koo
- (2) **PARTY B: ZHEJIANG DONGYANG TIANSHI MEDIA LIMITED.**
Legal Address: C3-015-A, Hengdian Television Industry Experimental Area, Zhejiang, China
Legal Representative: Lu Wen
- (3) **PARTY C: LU WEN**, a PRC citizen whose PRC identification number is 420111197001125521, and whose residential address is Room 801A, Building 505, Atlantic Place, Chaoyang District, Beijing, PRC
- (4) **PARTY D: HU QIONG**, a PRC citizen whose PRC identification number is 360103194206020328 and whose residential address Room 801A, Building 505, Atlantic Place, Chaoyang District, Beijing, PRC.
- (5) **PARTY E: IVERGE INFORMATION TECHNOLOGY (BEIJING) CO., LTD.**
Legal Address: Section A&C, 5/F, SinoSteel Plaza, No 8, Haidian Street, Haidian District, Beijing, China
Legal Representative: QIN Qiong

(Individually a “**Party**”, and collectively the “**Parties**”)

WHEREAS:

- A. Party A is a wholly foreign-owned enterprise registered in the PRC;
- B. Party B is a wholly domestic-owned company registered in the PRC and is approved by relevant governmental authorities to engage in the advertising agency, production of television, and cultural information consultation;
- C. A business relationship has been established between Party A and Party B by entering into Exclusive Technical and Consulting Services Agreement, pursuant to which Party B is required to make all the stipulated payments to Party A. Therefore, the daily operations of Party B will have a material impact on its ability to pay the payables to Party A;

- D. Party C, Party D and Party E are the shareholders of Party B, who own 24% , 6% and 70%, equity interest, respectively, in Party B.
- E. Party A, Party B, Party C and Party D entered into a Business Operation Agreement on April 23, 2013 (Original Agreement), pursuant to which the Parties reached consensus on the business operation of Party B. As the date hereof, the Parties agree to restate the Original Agreement. The Parties further acknowledge that this Agreement does not substantially change the Original Agreement, and the provisions of this Agreement reflect the intention of the parties when they executed the Original agreement.

THEREFORE, through friendly negotiation in the principle of equality and common interest, the Parties hereby jointly agree to abide by the following:

1. Effective Date

This Agreement shall take effect from September 10, 2013 (“**Effective Date**”).

2. Negative Undertakings

In order to ensure Party B’s performance of the agreements between Party A and Party B and all its obligations born to Party A, Party B together with its shareholders Party C ,Party D and Party E hereby jointly confirm and agree that unless Party B has obtained a prior written consent from Party A or another party appointed by Party A, Party B shall not conduct any transaction which may materially affect its assets, obligations, rights or operations, including but not limited to the following contents:

- 2.1 To conduct any business which is beyond the normal business scope;
- 2.2 To borrow money or incur any debt from any third party;
- 2.3 To change or dismiss any directors or to dismiss and replace any senior management members;
- 2.4 To sell to or acquire from any third party any assets or rights, including but not limited to any intellectual property rights;
- 2.5 To provide guarantee for any third party with its assets or intellectual property rights or to provide any other guarantee or to place any other obligations over its assets;
- 2.6 To amend the articles of association of the Party B or to change its business area;

- 2.7 To change the normal business process or modify any material company policy;
- 2.8 To assign any of the rights or obligations under this Agreement herein to any third party;
- 2.9 To incur or assume any indebtedness.
- 2.10 To liquidate Party B and allocate the remaining assets;
- 2.11 To make significant adjustment to its business operation mode, marketing strategy, operation policy or client relationship.

3. Management of Operation and Arrangements of Human Resource

- 3.1 Party B together with its shareholders Party C , Party D and Party E hereby jointly agree to accept and strictly perform the proposals in respect of the employment and dismissal of its employees, the daily business management and financial management, etc., provided by Party A from time to time.
- 3.2 Party B together with its shareholders Party C, Party D and Party E hereby jointly and severally agree that Party C, Party D and Party E shall only appoint the personnel designated by Party A as the Executive Director or Directors of the Board of Directors of Party B in accordance with the procedures required by the applicable laws and regulations and the articles of association of Party B, and shall cause such Executive Director or Board of Directors of Party B to appoint the personnel designated by Party A as Party B's General Manager, Chief Financial Officer, and other senior officers.
- 3.3 If any of the above officers resigns or is dismissed by Party A, he or she will lose the qualification to be appointed for any position in Party B and thereafter Party B, Party C ,Party D and Party E shall appoint or cause the appointment of another candidate designated by Party A to assume such position.
- 3.4 For the purpose of the above-mentioned Section 3.3, Party B, Party C, ,Party D and Party E shall take all the necessary internal or external procedures to accomplish the above dismissal and engagement in accordance with the relevant laws and regulations, the articles of association of Party B and this Agreement.
- 3.5 Each of Party C, Party D and Party E hereby agrees to, upon the execution of this Agreement, simultaneously sign a Power of Attorney, pursuant to which each of Party C ,Party D and Party E shall authorize any individual designated by Party A in writing, to the extent permitted by the PRC law, to exercise his or her shareholders' rights, including the full voting right of a shareholder at Party B's shareholders' meetings. Each of Party C, Party D and Party E further agrees to replace the authorized person appointed according to the above mentioned Power of Attorney at any time according to the requirement of Party A.

4. Other Agreements

- 4.1 Given (i) that the business relationship between Party A and Party B has been established through the Exclusive Technical and Consulting Services Agreement and (ii) that the daily business activities of Party B will have a material impact on Party B's ability to pay the payables to Party A, each of Party C, Party D and Party E agrees that:
- he/she/it shall not put forward, or vote in favor of, any shareholder resolution to, or otherwise request Party B to, distribute profits, funds, assets or property to the shareholders of Party B or any of its affiliates; and
 - he/she/it shall not put forward, or vote in favor of, any shareholder resolution to, or otherwise request Party B to, issue any dividends or other distributions with respect to the equity interest of Party B held by Party C, Party D and Party E; provided, however, if such dividends or other distributions are distributed to Party C and/or Party D and/or Party E from Party B, he/she will immediately and unconditionally pay or transfer to Party A any dividends or other distributions in whatsoever form obtained from Party B as a shareholder of Party B at the time such payables arise, after having deducted and paid any and all relevant taxes and expenses applicable to such a shareholder as a result of his/her receipt of such dividends or other distributions.
- 4.2 If any of Party C, Party D or Party E is held liable for any legal or any other responsibilities by reason of his/her performance of his/her obligations under this Agreement and as a shareholder of Party B, Party A shall keep each of Party C, Party D and Party E fully indemnified from any such liabilities, costs or losses (including but not limited to any and all legal expenses) incurred by Party C and/or Party D and/or Party E, provided that the actions performed by Party C, Party D and Party E according to his/her obligations under this Agreement and as a shareholder of Party B are taken in good faith and are not contrary to the best interests of Party A and Party B.
- 4.3 To ensure that the cash flow requirements of Party B's ordinary operations are met and/or to set off any loss accrued during such operations, Party A is obligated, only to the extent permissible under PRC law, to provide financing support for Party B, whether or not Party B actually incurs any such operational loss. Party A's financing support for Party B may take the form of bank entrusted loans or borrowings. Contracts for any such entrusted loans or borrowings shall be executed separately.

5. Entire Agreement and Modifications

- 5.1 This Agreement together with all the other agreements and/or documents mentioned or specifically included in this Agreement, to which Party A, Party B, Party C and/or Party D and/or Party E is a party thereunder (where applicable) will be part of the whole agreements concluded in respect of the subject matters in this Agreement and shall replace all the other prior oral and written agreements, contracts, understandings and communications among all the parties involving the subject matters of this Agreement.
- 5.2 Any modification of this Agreement shall take effect only after it is executed by each and every Party. The amendment and supplement duly executed by each and every Party shall form part of this Agreement and shall have the same legal effect as this Agreement.

6. Governing Law

The execution, validity, performance, interpretation and disputes of this Agreement shall be governed by and construed in accordance with the PRC laws.

7. Dispute Resolution

- 7.1 The Parties shall strive to settle any dispute arising from the interpretation or performance of this Agreement through friendly consultation in good faith. In case no settlement can be reached through friendly consultation, each Party can submit such matter to the China International Economic and Trade Arbitration Commission (“CIETAC”) for arbitration in accordance with the then current rules of CIETAC. The arbitration proceedings shall take place in Beijing and shall be conducted in Chinese. The arbitration award shall be final and binding upon all the Parties. This article shall not be affected by the termination or elimination of this Agreement.
- 7.2 During the process of the dispute resolution, each Party shall continue to perform its obligations in good faith according to the provisions of this Agreement except for the subject matters in dispute.

8. Notice

- 8.1 Any notice that is given by the Parties hereto for the purpose of performing the rights and obligations hereunder shall be in written form. Where such notice is delivered personally, the actual delivery time is regarded as notice time; where such notice is transmitted by telex or facsimile, the notice time is the time when such notice is transmitted. If such notice (i) does not reach the addressee on a business day or (ii) reaches the addressee after the business hours, the next business day following such day is the date of notice. The written form includes facsimile and telex.
- 8.2 Any notice or other correspondence hereunder provided shall be delivered to the following addresses in accordance with the above terms:

PARTY A : IVERGE INTERNET TECHNOLOGY (BEIJING) CO., LTD.

Address : Section D, 5/F, SinoSteel Plaza, No 8, Haidian Street, Haidian District, Beijing, China
Fax : 010-59708818
Tele : 010-58851881
Addressee : Victor Wing Cheung Koo

PARTY B : ZHEJIANG DONGYANG TIANSHI MEDIA LIMITED.

Address : C3-015-A, Hengdian Television Industry Experimental Area, Zhejiang, China
Fax : 010-84862809
Tele : 010-84864655
Addressee :

PARTY C : LU WEN

Address : Room1803, Building 525, Atlantic Place, Chaoyang District, Beijing, PRC
Fax : 010-84862809
Tele : 010-84864655
Addressee : LU Wen

PARTY D : HU QIONG

Address : Room 801A, Building 505, Atlantic Place, Chaoyang District, Beijing, PRC.
Fax : 010-84862809
Tele : 010-84864655
Addressee : HU Qiong

PARTY E : IVERGE INFORMATION TECHNOLOGY (BEIJING) CO., LTD.

Address : Section A&C, 5/F, SinoSteel Plaza, No 8, Haidian Street, Haidian District, Beijing, China
Fax : 010-59708818
Tele : 010-58851881
Addressee : QIN Qiong

9. Effectiveness, Term and Others

- 9.1 This Agreement shall be executed by a duly authorized representative of each Party on the date first written above and become effective as of the Effective Date. The term of this agreement is ten years unless early termination occurs in accordance with the relevant provisions herein. This Agreement may extend automatically for another ten year period except that Party A provides a written notice stating its intention not to extend this Agreement three months prior to the expiration of the initial term of this Agreement.
- 9.2 Party B, Party C, Party D, Party E shall not terminate this Agreement within the terms of this Agreement. Notwithstanding the above stipulation, Party A shall have the right to terminate this Agreement at any time by issuing a prior written notice to Party B, Party C, Party D and Party E thirty (30) days before the termination.
- 9.3 In case any terms and stipulations in this Agreement are regarded as illegal or can not be performed in accordance with the applicable laws, they shall be deemed to be deleted from this Agreement and lose their effect and this Agreement shall be treated as if they did not exist from the very beginning. However, the remaining stipulations will remain effective. Each Party shall replace the deleted stipulations with lawful and effective stipulations, which are acceptable to each Party, through mutual negotiation.
- 9.4 Any failure or delay on the part of any Party to exercise any rights, powers or privileges hereunder shall not operate as a waiver thereof. Any single or partial exercise of such rights, powers or privileges shall not preclude any further exercise of such rights, powers or privileges.

10. Languages and Counterparts

This Agreement is executed in Five (5) originals in English and each Party shall retain 1 original.

[The space below is intentionally left blank.]

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be duly executed on their behalf by a duly authorized representative as of the date first written above.

PARTY A: 1VERGE INTERNET TECHNOLOGY (BEIJING) CO., LTD.
(Company Seal)

By: /s/ Victor Wing Cheung Koo
Authorized Representative: Victor Wing Cheung Koo

PARTY B: ZHEJIANG DONGYANG TIANSHI MEDIA LIMITED.
(Company Seal)

By: /s/Authorized Representative

PARTY C: LU WEN

By: /s/ LU Wen

PARTY D: HU QIONG

By: /s/ HU Qiong

PARTY E: 1VERGE INFORMATION TECHNOLOGY (BEIJING) CO., LTD.

By: /s/ Dele Liu
Authorized Representative: Dele Liu
(Company Seal)

EQUITY INTEREST PLEDGE AGREEMENT

This Equity Interest Pledge Agreement (this “**Agreement**”) is entered in Beijing, the People’s Republic of China (“**PRC**”, excluding the Hong Kong Special Administrative Region, the Macao Special Administrative Region and Taiwan, for the purposes of this Agreement) by and among the following parties:

- (1) **PLEDGEE: 1VERGE INTERNET TECHNOLOGY (BEIJING) CO., LTD.**
Legal Address: Section A and C, 5/F, SinoSteel Plaza, No 8, Haidian Street, Haidian District, Beijing, China
Legal Representative: Victor Wing Cheung Koo

and

- (2) **PLEDGORS:**

LU WEN, a PRC citizen whose PRC identification number is 420111197001125521 and whose residential address is, Room 1803, Building 525, Atlantic Place, Chaoyang District, Beijing, PRC.

HU QIONG, a PRC citizen whose PRC identification number is 360103194206020328 and whose residential address is, Room 1803, Building 525, Atlantic Place, Chaoyang District, Beijing, PRC.

1VERGE INFORMATION TECHNOLOGY (BEIJING) CO., LTD., (“**1Verge Information**”) a limited liability company established under the laws of the PRC, with its registered address at Section A&C, 5/F, SinoSteel Plaza, No 8, Haidian Street, Haidian District, Beijing, China

(individually a “**Party**” and collectively the “**Parties**”)

WHEREAS:

- A. LU Wen, HU Qiong and 1Verge Information respectively own an 24%, 6% and 70%, equity interest in Zhejiang Dongyang Tianshi Media Limited.. (“**Dongyang Tianshi**”).
- B. Dongyang Tianshi is a limited liability company engaging in the advertising agency, production of television, and cultural information consultation.
- C. The Pledgee, a wholly foreign-owned company registered in Beijing, PRC, has been licensed by the PRC relevant government authority to carry on the business of computer software products and Internet products development, sale and services, etc.

- D. In order to ensure that (i) the Pledgee collects Service Fees under the Services Agreement from Dongyang Tianshi, (iii) the Pledgors' other obligations under the Option Agreement are fulfilled, and (iv) all other debts, monetary liabilities or other payment obligations owed to the Pledgee by the Pledgors and/or Dongyang Tianshi, arising under or in relation to the Services Agreement, including, but not limited to, any obligation to pay damages for a breach of any obligation of the Pledgors or Dongyang Tianshi under the Services Agreement (as applicable), are paid, the Pledgors are willing to pledge all the Equity Interest (as defined below) in Dongyang Tianshi to the Pledgee as security for the above-mentioned obligations of the Pledgors and Dongyang Tianshi (collectively, the "**Secured Obligations**").

In order to set forth each Party's rights and obligations, the Pledgee and the Pledgors through mutual negotiations hereby enter into this Agreement based upon the following terms:

1. Definitions

Unless otherwise provided in this Agreement, the following terms shall have the following meanings:

- 1.1 "**Pledge**" means the full content of Section 2 hereunder.
- 1.2 "**Equity Interest**" means all the equity interests in Dongyang Tianshi held by the relevant Pledgor (including all present and future rights and benefits based on such equity interests), and any additional equity interests in Dongyang Tianshi acquired by such Pledgor subsequent to the date hereof. For the avoidance of any doubt, LU Wen holds a 24% equity interest (amounting to RMB2,400,000), HU Qiong holds a 6% equity interest (amounting to RMB 600,000) in Dongyang Tianshi and 1Verge Information holds a 70% equity interest (amounting RMB 7,000,000).
- 1.3 "**Event of Default**" means any event in accordance with Section 6 hereunder.
- 1.4 "**Notice of Default**" means the notice of default issued by the Pledgee in accordance with this Agreement.

1.A. "Effective Date"

This Agreement shall be effective on September 10, 2013 ("Effective Date"). Notwithstanding the foregoing, the Pledge (as defined in Section 2.1) shall only come into effect in accordance with Section 3 of this Agreement.

2. **Pledge**

2.1 Each Pledgor hereby pledges, and if required, transfers and assigns all his/her rights, titles and interests in the Equity Interest in Dongyang Tianshi to the Pledgee as security for all of the Secured Obligations (the “**Pledge**”) of an amount up to the Maximum Amount (as defined below), and grant a first priority security interest in all rights, titles and interests that he/she has or may at any time hereafter acquire in and to the Equity Interest, together with all equity or other ownership interests representing a dividend on the Equity Interest, a distribution or return of capital upon or in respect of such Equity Interest, any subscription, first refusal, pre-emptive or other purchase rights with respect to or arising from such Equity Interest, any voting rights with respect to such Equity Interest or any other interest which, by reason of notice or lapse of time or the occurrence of other events, may be converted into a direct equity interest in Dongyang Tianshi, and all proceeds of the foregoing (collectively, the “**Pledged Collateral**”).

2.1.1 The Parties understand and agree that the monetary valuation arising from, relating to or in connection with the Secured Obligations shall be a variable and floating valuation until the Settlement Date (as defined below). Therefore, based on the reasonable assessment and evaluation by the Pledgors and the Pledgee of the Secured Obligations and the Pledged Collateral, the Pledgors and the Pledgee mutually acknowledge and agree that the Pledge shall aggregately secure the Secured Obligations for a maximum amount of RMB 10,000,000 (the “**Maximum Amount**”) prior to the Settlement Date.

The Pledgors and the Pledgee may, taking into account the fluctuation in the monetary value of the Secured Obligations and the Pledged Collateral, adjust the Maximum Amount based on mutual agreement by amending and supplementing this Agreement, from time to time, prior to the Settlement Date.

2.1.2 Upon the occurrence of any of the events below (each an “**Event of Settlement**”), the Secured Obligations shall be fixed at a value of the sum of all Secured Obligations that are due, outstanding and payable to the Pledgee on or immediately prior to the date of such occurrence (the “**Fixed Obligations**”):

- (a) any or all of the Services Agreements or the Option Agreements expires or is terminated pursuant to the stipulations thereunder;
- (b) the occurrence of an Event of Default pursuant to Section 6 that is not resolved, which results in the Pledgee serving a Notice of Default to the relevant Pledgor(s) pursuant to Section 6.3;

- (c) the Pledgee reasonably determines (having made due enquiries) that any of the Pledgors and/or Dongyang Tianshi is insolvent or could potentially be made insolvent; or
- (d) any other event that requires the settlement of the Secured Obligations in accordance with relevant laws of the PRC.

2.2 For the avoidance of doubt, the day of the occurrence of an Event of Settlement shall be the settlement date (the “**Settlement Date**”). On or after the Settlement Date, the Pledgee shall be entitled, at the election of the Pledgee, to enforce the Pledge in accordance with Section 7.

2.3 The Pledgee is entitled to collect dividends or other distributions, if any, arising from the Equity Interest during the Term of the Pledge (as defined below).

3. Effectiveness of Pledge, Scope and Term

3.1 The Pledgors shall, promptly after the duly registration of the equity ownership of Dongyang Tianshi described hereof and the execution of this Agreement, register this Agreement and the Pledge hereunder with the State Administration for Industry and Commerce of the PRC or its competent local counterpart (the “**AIC**”). The Pledgors shall deliver to the Pledgee a copy of the registration or filing certificate from the AIC within 7 days from the date of submission of the application for registration of this Agreement and Pledge with the AIC.

3.2 The Pledge shall be effective upon the registration of the Pledge with the AIC in accordance with Section 3.1 above. The term of the Pledge shall commence on the date when the Pledge is registered with the AIC and shall expire on the earlier of (a) the date on which all outstanding Secured Obligations are paid in full or otherwise satisfied (as applicable) or (b) the Pledgee enforces the Pledge pursuant to the terms and conditions hereof, to satisfy its rights under the Secured Obligations and Pledged Collateral in full (the “**Term of the Pledge**”).

4. Representations and Warranties of the Pledgors

Each of the Pledgors hereby makes the following representations and warranties to the Pledgee and confirms that the Pledgee executes this Agreement in reliance on such representations and warranties:

4.1 Each of the Pledgors is the legal owner of the Equity Interest that has been registered in his/her name, and is entitled to create a pledge on such Equity Interest.

- 4.2 None of the Pledged Collateral or the Pledge will be interfered with by any other parties at any time once the Pledgee exercises the rights of the Pledge in accordance with this Agreement.
- 4.3 The Pledgee shall be entitled to dispose or assign the Pledge in accordance with the relevant laws and this Agreement.
- 4.4 All necessary authorizations have been obtained for the execution and performance of this Agreement by each of the Pledgors and the execution and performance of this Agreement by each of the Pledgors does not violate any applicable laws or regulations. The representative of each of the Pledgors who signs this Agreement is lawfully and effectively authorized.
- 4.5 Each of the Pledgors warrants that there is no on-going civil, administrative or criminal litigation or administrative punishment or arbitration related to the Equity Interest and is not aware of any such action pending or likely to be pending in the future as of the date of this Agreement.
- 4.6 There are no outstanding taxes, fees or undecided legal procedures related to the Equity Interest as of the date of this Agreement.
- 4.7 Each stipulation hereunder is the expression of each Party's true intention and shall be binding upon all the Parties.

5. Covenants of the Pledgors

- 5.1 Each of the Pledgors covenants to the Pledgee that he/she shall:
 - 5.1.1 not transfer or assign the Equity Interest, or create or permit to be created any pledge, lien, charge, mortgage, encumbrance, option, security or other interest in or over the Equity Interest that has been registered in his/her name, other than the Pledge created hereunder and the option granted under the Option Agreement, without the prior written consent from the Pledgee;
 - 5.1.2 comply with and implement laws and regulations with respect to the pledge of rights, present to the Pledgee the notices, orders or suggestions with respect to the Pledge issued or made by the competent authority within 5 days upon receiving such notices, orders or suggestions and take actions in accordance with the reasonable instructions of the Pledgee; and
 - 5.1.3 timely notify the Pledgee of any events or any received notices (i) which may affect the Equity Interest or any part of the Pledgee's rights, (ii) which may change the Pledgors' covenants or obligations under this Agreement or (iii) which may affect the Pledgors' performance of their obligations under this Agreement, and take actions in accordance with the reasonable instructions of the Pledgee.

- 5.2 The Pledgors agree that the Pledgee's right of exercising the Pledge under this Agreement shall not be suspended or hampered by the Pledgors or any successors of the Pledgors or any person authorized by the Pledgors.
- 5.3 The Pledgors jointly and severally covenant to the Pledgee that in order to protect or perfect the security over the Secured Obligations, the Pledgors shall (i) execute in good faith and cause other parties who have interests in the Pledge to execute all the forms, instruments, agreements (including those required for the registration and de-registration of the Pledge with the AIC), and/or (ii) take actions and cause other parties who have interests in the Pledge to take actions as required by the Pledgee and (iii) allow the Pledgee to exercise the rights and authorization vested in the Pledgee under this Agreement.
- 5.4 The Pledgors agree to promptly make or cause to be made any filings or records, give or cause to be given any notices and take or cause to be taken any other actions as may be necessary under the laws of the PRC, to perfect the Pledge of the Pledged Collateral, including the AIC registration set forth in Section 3.1.
- 5.5 Each of the Pledgors covenants to the Pledgee that he/she will comply with and perform all the guarantees, covenants, agreements, representations and conditions for the benefits of the Pledgee. The Pledgor shall compensate for all the losses suffered by the Pledgee for such Pledgor's failure to perform or fully perform his/her guarantees, covenants, agreements, representations or conditions.

6. Events of Default

- 6.1 Each of the following shall constitute an Event of Default:
 - 6.1.1 Any of the Pledgors and/or Dongyang Tianshi fails to make full and timely payment of any amounts due under the Secured Obligations as required under the Services Agreement or an event of default (as defined and stipulated in those agreements) has occurred and is continuing;
 - 6.1.2 any of the Pledgors makes or has made any inaccurate, incomplete, misleading or untrue representations or warranties under Section 4, or is in violation or breach of any of the representations and warranties under Section 4;

- 6.1.3 any of the Pledgors breaches any of the covenants under Section 5;
- 6.1.4 any of the Pledgors breaches any other covenants, undertakings or obligations of the Pledgors set forth herein;
- 6.1.5 any of the Pledgors is unable to perform its obligations under this Agreement due to the separation or merger of Dongyang Tianshi with other third parties or for any other reason;
- 6.1.6 any of the Pledgors relinquishes all or any part of the Pledged Collateral or transfers or assigns all or any part of the Pledged Collateral without the prior written consent of the Pledgee (except the transfers or assigns permitted under the Option Agreement);
- 6.1.7 any indebtedness, guarantee or other obligation of any of the Pledgors and/or Dongyang Tianshi, whether pursuant to a contract or otherwise, (i) is accelerated as a result of a default thereunder and is required to be repaid or performed prior to the due date; or (ii) has become due and is not repaid or performed when due which, in the Pledgee's reasonable view, has materially adversely affected the Pledgor's ability to perform their obligations under this Agreement;
- 6.1.8 this Agreement is illegal as a result of any applicable laws or any of the Pledgors is restricted from continuing to perform his/her obligations under this Agreement;
- 6.1.9 any approval, permit, license or authorization from any applicable governmental entity (or registration or filing procedure) required for Dongyang Tianshi to engage in the advertising agency and publishing businesses in the PRC is withdrawn, suspended, invalidated or materially amended;
- 6.1.10 any approval, permit, license or authorization from any applicable government authority required to perform this Agreement or make this Agreement enforceable, legal and valid is withdrawn, suspended, invalidated or materially amended; or
- 6.1.11 any property owned by the Pledgor is altered or damaged which, in the Pledgee's reasonable view, has materially adversely affected the Pledgor's ability to perform their obligations under this Agreement.

- 6.2 The Pledgors shall immediately give a written notice to the Pledgee if any of the Pledgors is aware or find that any event set forth in Section 6.1 or any events that may result in the foregoing events have occurred or are occurring.
- 6.3 Unless an Event of Default set forth in Section 6.1 has been rectified to the Pledgee's satisfaction, the Pledgee, at any time the event of default occurs or thereafter, may give a written notice of default to any or both Pledgors, and require such Pledgor(s) and/or Dongyang Tianshi, at the discretion of the Pledgee, to immediately make full payment of the outstanding amounts payable under the Services Agreements, and/or Option Agreements (as the case may be), and other payables, or dispose of the Pledge in accordance with Section 7 herein.

7. Exercise of the Rights of the Pledge

- 7.1 The Pledgors shall not transfer or assign the Pledge without prior written approval from the Pledgee prior to the full settlement and fulfillment of the Secured Obligations.
- 7.2 The Pledgee shall give a notice of default to the Pledgor(s) when the Pledgee exercises the rights of Pledge.
- 7.3 Subject to Section 6.3, the Pledgee may exercise the right to dispose of the Pledge at any time when the Pledgee gives a notice of default in accordance with Section 6.3 or thereafter.
- 7.4 The Pledgee is entitled to have priority in receiving proceeds from the auction or sale of all or part of the Pledged Collateral in accordance with legal procedures until the outstanding Secured Obligation or other monetary obligations payable by the Pledgors and/or Dongyang Tianshi is fully paid, repaid or otherwise settled.
- 7.5 The Pledgors shall not hinder the Pledgee from disposing the Pledge in accordance with this Agreement and shall give necessary assistance so that the Pledgee could realize his Pledge.

8. Transfer or Assignment

- 8.1 The Pledgors shall not donate or transfer their rights and obligations herein to any third party without prior written consent from the Pledgee.
- 8.2 This Agreement shall be binding upon the Pledgors and their successors and be effective to the Pledgee and his each successor and assignee.
- 8.3 The Pledgee may transfer or assign all Secured Obligations and its right to the Pledge to any third party at any time. In this case, the assignee shall enjoy and undertake the same rights and obligations herein of the Pledgee as if the assignee is a party hereto. When the Pledgee transfers or assigns the Secured Obligations and its rights to the Pledge, at the request of the Pledgee, the Pledgors shall execute the relevant agreements and/or documents with respect to such transfer or assignment.

8.4 After a change to the Pledgee resulting from a transfer or assignment, the new parties to the pledge shall re-execute a pledge contract.

9. Termination

This Agreement shall not terminate until the Term of the Pledge expires pursuant to Section 3 herein.

10. Force Majeure

10.1 If this Agreement is delayed in or prevented from performing in the Event of Force Majeure (“**Event of Force Majeure**”), only within the limitation of such delay or prevention, the affected Party is absolved from any liability under this Agreement. Force Majeure, which includes acts of governments, acts of nature, fire, explosion, geographic change, flood, earthquake, tide, lightning, war, means any unforeseen events beyond the prevented Party’s reasonable control and cannot be prevented with reasonable care. However, any shortage of credit, capital or finance shall not be regarded as an event beyond a Party’s reasonable control. The Party affected by Force Majeure who claims for exemption from performing any obligations under this Agreement or under any Section herein shall notify the other party of such exemption promptly and advise him of the steps to be taken for completion of the performance.

10.2 The Party affected by Force Majeure shall not assume any liability under this Agreement. However, subject to the Party affected by Force Majeure having taken its reasonable and practicable efforts to perform this Agreement, the Party claiming for exemption of the liabilities may only be exempted from performing such liability as within limitation of the part performance delayed or prevented by Force Majeure. Once causes for such exemption of liabilities are rectified and remedied, both parties agree to resume performance of this Agreement with their best efforts.

11. Applicable Law and Dispute Resolution

11.1 The execution, validity, performance and interpretation of this Agreement shall be governed by and construed in accordance with the laws of the PRC.

- 11.2 The Parties shall strive to settle any dispute arising from the interpretation or performance through friendly consultation. In case no settlement can be reached through consultation, each party can submit such matter to China International Economic and Trade Arbitration Commission (“CIETAC”) for arbitration. The arbitration shall follow the then current rules of CIETAC, and the arbitration proceedings shall be conducted in Chinese and shall take place in Beijing. The arbitration award shall be final and binding upon the Parties. This article shall not be affected by the termination or elimination of this Agreement.
- 11.3 In case of any disputes arising out of the interpretation and performance of this Agreement or any pending arbitration of such dispute, each Party shall continue to perform their obligations under this Agreement, except for the matters in dispute.

12. Notice

Any notice or correspondence, which is given by the Party as stipulated hereunder, shall be in Chinese and English writing and shall be delivered in person or by registered or prepaid mail or recognized express service, or be transmitted by telex or facsimile to the following addresses:

PLEDGEE : **IVERGE INTERNET TECHNOLOGY (BEIJING) CO., LTD.**
Address : Section A and C, 5/F, SinoSteel Plaza, No 8, Haidian Street, Haidian District, Beijing, China
Fax : 010-59708818
Tele : 010-58851881
Addressee : Victor Wing Cheung Koo

LU WEN
Address : Room 1803, Building 525, Atlantic Place, Chaoyang District, Beijing, PRC
Fax : 010-84862809
Tele : 010-84864655
Addressee : LU Wen

HU QIONG
Address : Room 1803, Building 525, Atlantic Place, Chaoyang District, Beijing, PRC
Fax : 010-84862809
Tele : 010-84864655
Addressee : HU Qiong

1Verge Information Technology (Beijing) Co., Ltd.
Address: Section A&C, 5/F, SinoSteel Plaza, No 8, Haidian Street, Haidian District, Beijing, China
Fax: 010-59708818
Tele: 010-58851881
Addressee : QIN Qiong

13. Appendices

The appendices to this Agreement constitute an integral part of this Agreement.

14. Waiver

The Pledgee's non-exercise or delay in exercise of any rights, remedies, power or privileges hereunder shall not be deemed as the waiver of such rights, remedies, power or privileges. Any single or partial exercise of the rights, remedies, power and privileges shall not exclude the Pledgee from exercising any other rights, remedies, power and privileges. The rights, remedies, power and privileges hereunder are accumulative and shall not exclude the application of any other rights, remedies, power and privileges stipulated by laws.

15. Miscellaneous

15.1 Any amendments, modifications or supplements to this Agreement shall be in writing and come into effect upon being executed and sealed by the Parties hereto.

15.2 In case any terms and stipulations in this Agreement are regarded as illegal or can not be performed in accordance with the applicable law, such terms and stipulations shall be deemed to ineffective and not enforceable within the scope governed by the applicable law, and the remaining stipulations will remain effective.

[The space below is intentionally left blank.]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed on their behalf by a duly authorized representative as of the date first written above.

PLEDGEE: 1VERGE INTERNET TECHNOLOGY (BEIJING) CO., LTD.
(Company Seal)

By: /s/ Victor Wing Cheung Koo
Authorized Representative: Victor Wing Cheung Koo

PLEDGOR: LU WEN

By: /s/ LU Wen
Name: LU WEN

PLEDGOR: HU QIONG

By: /s/ HU Qiong
Name: HU QIONG

PLEDGOR: 1VERGE INFORMATION TECHNOLOGY (BEIJING) CO., LTD.

By: /s/ Dele Liu
Authorized Representative: Dele Liu
(Company Seal)

POWER OF ATTORNEY

I, LU Wen, a citizen of the People’s Republic of China (the “**PRC**”), PRC ID card number 420111197001125521, hereby irrevocably authorize any individual, appointed, in writing, by 1Verge Internet Technology (Beijing) Co., Ltd. (1Verge Internet), who is approved by Youku Tudou Inc. (“**Authorizee**”), to the extent permitted by the PRC Law, as my sole attorney to singly exercise, in the manner as approved by Youku Tudou Inc., to exercise the following powers and rights during the term of this Power of Attorney pursuant to Section 3.5 of the Business Operations Agreement entered into among, 1Verge Internet, Zhejiang Dongyang Tianshi Media Limited. (“**Dongyang Tianshi**”) 1Verge Information Technology (Beijing) Co., Ltd. (“**1Verge Information**”), **HU Qiong** and I on September 10, 2013(the “**Operations Agreement**”):

I confirm and acknowledge that I authorized and designated the Authorizee to vote on my behalf at Dongyang Tianshi ‘s shareholders’ meetings and to exercise full voting rights as a shareholder of Dongyang Tianshi as granted to myself by law and under Dongyang Tianshi’s Articles of Association during the term of this Power of Attorney (“**POA**”). Such voting rights include, but are not limited to, the right to propose the holding of shareholders’ meetings, to accept any notification(s) regarding the holding and discussion procedures of meetings, to attend Dongyang Tianshi’s shareholders’ meetings and to exercise full voting rights (i.e., being my authorized representative at shareholders’ meetings, designating and appointing an executive director or directors of the Board and the general manager, deciding the allotment of profits, etc.), to sell or transfer any or all of my shares of Dongyang Tianshi. This POA confirms and clarifies my authorizations to the Authorizee during the term of the POA.

The POA shall take effect from September 10, 2013 and will remain effective as long as Dongyang Tianshi exists. The POA amends and restates the POA dated April 23, 2013.

LU Wen

/s/ LU Wen

Date: September 10, 2013

POWER OF ATTORNEY

I, HU Qiong, a citizen of the People's Republic of China (the "PRC"), PRC ID card number 360103194206020328, hereby irrevocably authorize any individual, appointed, in writing, by 1Verge Internet Technology (Beijing) Co., Ltd. (1Verge Internet), who is approved by Youku Tudou Inc. ("**Authorizee**"), to the extent permitted by the PRC Law, as my sole attorney to singly exercise, in the manner as approved by Youku Tudou Inc., to exercise the following powers and rights during the term of this Power of Attorney pursuant to Section 3.5 of the Business Operations Agreement entered into among, 1Verge Internet, Zhejiang Dongyang Tianshi Media Limited. ("**Dongyang Tianshi**") 1Verge Information Technology (Beijing) Co., Ltd. ("**1Verge Information**"), LU Wen and I on September 10, 2013 (the "**Operations Agreement**"):

I confirm and acknowledge that I authorized and designated the Authorizee to vote on my behalf at Dongyang Tianshi 's shareholders' meetings and to exercise full voting rights as a shareholder of Dongyang Tianshi as granted to myself by law and under Dongyang Tianshi's Articles of Association during the term of this Power of Attorney ("POA"). Such voting rights include, but are not limited to, the right to propose the holding of shareholders' meetings, to accept any notification(s) regarding the holding and discussion procedures of meetings, to attend Dongyang Tianshi's shareholders' meetings and to exercise full voting rights (i.e., being my authorized representative at shareholders' meetings, designating and appointing an executive director or directors of the Board and the general manager, deciding the allotment of profits, etc.), to sell or transfer any or all of my shares of Dongyang Tianshi. This POA confirms and clarifies my authorizations to the Authorizee during the term of the POA.

The POA shall take effect from September 10, 2013 and will remain effective as long as Dongyang Tianshi exists. The POA amends and restates the POA dated April 23, 2013.

HU Qiong

/s/ HU Qiong

Date: September 10, 2013

POWER OF ATTORNEY

I, **1VERGE INFORMATION TECHNOLOGY (BEIJING) CO., LTD.**, (“**1Verge Information**”) a limited liability company established under the laws of the People’s Republic of China (the “**PRC**”), with its registered address at Section A&C, 5/F, SinoSteel Plaza, No 8, Haidian Street, Haidian District, Beijing, China, hereby irrevocably authorize any individual, appointed, in writing, by 1Verge Internet Technology (Beijing) Co., Ltd. (1Verge Internet), who is approved by Youku Tudou Inc. (“**Authorizee**”), to the extent permitted by the PRC Law, as my sole attorney to singly exercise, in the manner as approved by Youku Tudou Inc., to exercise the following powers and rights during the term of this Power of Attorney pursuant to Section 3.5 of the Business Operations Agreement entered into among, 1Verge Internet, Zhejiang Dongyang Tianshi Media Limited. (“**Dongyang Tianshi**”) 1Verge Information Technology (Beijing) Co., Ltd. (“**1Verge Information**”), **LU Wen** and I on September 10, 2013 (the “**Operations Agreement**”):

I confirm and acknowledge that I authorized and designated the Authorizee to vote on my behalf at Dongyang Tianshi ‘s shareholders’ meetings and to exercise full voting rights as a shareholder of Dongyang Tianshi as granted to myself by law and under Dongyang Tianshi’s Articles of Association during the term of this Power of Attorney (“**POA**”). Such voting rights include, but are not limited to, the right to propose the holding of shareholders’ meetings, to accept any notification(s) regarding the holding and discussion procedures of meetings, to attend Dongyang Tianshi’s shareholders’ meetings and to exercise full voting rights (i.e., being my authorized representative at shareholders’ meetings, designating and appointing an executive director or directors of the Board and the general manager, deciding the allotment of profits, etc.), to sell or transfer any or all of my shares of Dongyang Tianshi. This POA confirms and clarifies my authorizations to the Authorizee during the term of the POA.

The POA shall take effect from September 10, 2013 and will remain effective as long as Dongyang Tianshi exists.

1VERGE INFORMATION TECHNOLOGY (BEIJING) CO., LTD

/s/ Dele Liu

Authorized Representative: Dele Liu

Date: September 10, 2013

EQUITY OPTION AGREEMENT

This Equity Option Agreement (this “**Agreement**”) is entered in Beijing, the People’s Republic of China (“**PRC**”, excluding the Hong Kong Special Administrative Region, the Macao Special Administrative Region and Taiwan, for the purposes of this Agreement) and dated September 10, 2013, by and among the following parties:

- (1) **Youku Tudou Inc**, a Cayman Islands exempted company (**Youku Cayman**)
- (2) **1VERGE INTERNET TECHNOLOGY (BEIJING) CO., LTD.** (“**1Verge Internet**” or “**Party A**”)
Legal Address: Section D, 5/F, SinoSteel Plaza, No 8, Haidian Street, Haidian District, Beijing, China
Legal Representative: Victor Wing Cheung Koo
- (3) **LU WEN**, a PRC citizen whose PRC identification number is 420111197001125521 and whose residential address is Room 801A, Building 505, Atlantic Place, Chaoyang District, Beijing, PRC

HU QIONG, a PRC citizen whose PRC identification number is 360103194206020328 and whose residential address is, Room 801A, Building 505, Atlantic Place, Chaoyang District, Beijing, PRC

1VERGE INFORMATION TECHNOLOGY (BEIJING) CO., LTD., (“**1Verge Information**”) a limited liability company established under the laws of the PRC, with its registered address at Section A&C, 5/F, SinoSteel Plaza, No 8, Haidian Street, Haidian District, Beijing, China

(Each of LU Wen, HU Qiong and 1Verge Information is hereinafter referred to as a “**Grantor**” and collectively the “**Grantors**”; Youku Cayman and Party A, each individually and collectively “**Youku**”)

WHEREAS:

- A. 1Verge Internet is a wholly foreign-owned enterprise, duly established and registered in Beijing under the laws of the PRC.
- B. The Grantors together hold 100% of the registered capital of Zhejiang Dongyang Tianshi Media Limited. (“**Dongyang Tianshi**”), a limited liability company, with a registered capital of RMB 10,000,000. (the “**Equity Interests**”), of which LU Wen, HU Qiong, and 1Verge Information hold 24%, 6% and 70%, respectively..

- C. On January 6, 2012 an Exclusive Technical Consulting and Services Agreement was entered into between Party A and Dongyang Tianshi (“**Services Agreement**”), pursuant to which Dongyang Tianshi will pay a service fee to Party A in consideration for services provided by Party A.
- D. Each of the Grantors has agreed to grant exclusively to Youku an option to acquire the Equity Interests that have been registered in his/her/its name, subject to the terms and conditions set forth below.

THEREFORE, Through Friendly Negotiation In The Principle Of Equality And Common Interest, The Parties Agree As Follows:

SECTION 1: GRANT OF THE OPTION

1.1 Grant of Option

Each of the Grantors hereby grants to Youku an option (each an “**Option**” and collectively the “**Options**”) to acquire their respective Equity Interests at the price equivalent to the lowest price then permitted by PRC laws, and Youku shall make payment of such price by cancelling all or a portion of the service fee. Each of the Options shall become vested as of the date of this Agreement.

1.2 Term

This Agreement shall take effect as of the Effective Date and shall remain in full force and effect until the earlier of (1) the date on which all of the Equity Interests have been acquired by Youku directly or through its designated representative (individual or legal person); or (2) the unilateral termination by Youku (at its sole and absolute discretion), by giving 30 days prior written notice to the Grantors of its intention to terminate this Agreement.

1.3 EFFECTIVE DATE

This Agreement shall take effect from September 10, 2013. (“**Effective Date**”).

SECTION 2: EXERCISE OF THE OPTION AND ITS CLOSING

2.1 Timing of Exercise

2.1.1 Each of the Grantors agrees that Youku in its sole discretion may at any time, and from time to time after the date hereof, exercise the Option granted by such Grantor, in whole or in part, to acquire all or any portion of their respective Equity Interests.

- 2.1.2 For the avoidance of doubt, each of the Grantors hereby agrees that Youku shall be entitled to exercise the Option granted by such Grantor for an unlimited number of times, until all of his/her Equity Interests have been acquired by Youku .
- 2.1.3 Each of the Grantors agrees that Youku may designate in its sole discretion any third party to exercise the Option granted by such Grantor on its behalf, in which case Youku shall provide written notice to such Grantor at the time the Option granted by such Grantor is exercised.
- 2.1.4 For the avoidance of doubt, Youku Cayman, in its sole discretion, will decide whether the Options and other rights granted under this Agreement will be exercised by Youku Cayman and/or by Party A.

2.2 Transfer

Each of the Grantors agrees that the Option granted by such Grantor shall be freely transferable, in whole or in part, by Youku to any third party, and that, upon such transfer, the Option may be exercised by such third party upon the terms and conditions set forth herein, as if such third party were a party to this Agreement, and that such third party shall assume the rights and obligations of Youku hereunder.

2.3 Notice Requirement

- 2.3.1 To exercise an Option, Youku shall send a written notice to the relevant Grantor, and such Option is to be exercised by no later than ten (10) days prior to each Closing Date (as defined below), specifying therein:
 - 2.3.1.1 The date of the effective closing of such acquisition (a “**Closing Date**”);
 - 2.3.1.2 the name of the person in which the Equity Interests shall be registered;
 - 2.3.1.3 the amount of Equity Interests to be acquired from such Grantor;
 - 2.3.1.4 the type of payment; and
 - 2.3.1.5 a letter of authorization, where a third party has been designated to exercise the Option.
- 2.3.2 For the avoidance of doubt, it is expressly agreed among the parties that Youku shall have the right to exercise the Options and elect to register the Equity Interests in the name of another person as it may designates from time to time.

2.4 Closing

On each Closing Date, Youku shall make payment by cancelling all or a portion of the service fee payable by such Grantor to Youku, in the same proportion that Youku or its designated party acquires the Equity Interest held by such Grantor.

SECTION 3: COMPLETION

3.1 Capital Contribution Transfer Agreement

Concurrently with the execution and delivery of this Agreement, and from time to time upon the request of Youku, each of the Grantors shall execute and deliver one or more capital contribution transfer agreements, each in the form and content substantially satisfactory to Youku (each a “**Transfer Agreement**”), together with any other documents necessary to give effect to the transfer to Youku or its designated party of all or any part of the Equity Interests upon an exercise of the Option by Youku (the “**Ancillary Documents**”). Each Transfer Agreement and the Ancillary Documents are to be kept in Youku’s possession.

Each of the Grantors hereby agrees and authorizes Youku to complete, execute and submit to the relevant company registrar any and all Transfer Agreements and the Ancillary Documents to give effect to the transfer of all or any part of the Equity Interests upon an exercise of the Option by Youku at its sole discretion where necessary and in accordance with this Agreement.

3.2 Board Resolution

Notwithstanding Section 3.1 above, concurrently with the execution and delivery of this Agreement, and from time to time upon the request of Youku, each of Grantors shall execute and deliver one or more resolutions of the board of directors and/or shareholders of Dongyang Tianshi, approving the following:

- 3.2.1 The transfer by the Grantor of all or part of the Equity Interests held by such Grantor to Youku or its designated party; and
- 3.2.2 Any other matters as Youku may reasonably request.

Each Resolution is to be kept in Youku’s possession.

3.3 Return of Consideration

If Youku or any transferee designated by Youku is required by applicable laws or competent authorities to pay any considerations to the Grantors for its exercise of the Options, the Grantors agree to return any and all of such consideration to 1Verge Internet or such transferee as soon as possible after the completion of such equity interest transfers.

SECTION 4: REPRESENTATIONS AND WARRANTIES

4.1 Representations and Warranties

Each of Grantors represents and warrants to Youku that:

- 4.1.1 he/she/it has the full power and authority to enter into, and perform under, this Agreement;
- 4.1.2 his/her/its signing of this Agreement or fulfilling of any its obligations hereunder does not violate any laws, regulations and contracts to which he/she is bound, or require any government authorization or approval;
- 4.1.3 there is no lawsuit, arbitration or other legal or government procedures pending which, based on his/her knowledge, shall materially and adversely affect this Agreement and the performance thereof;
- 4.1.4 he/she/it has disclosed to Youku all documents issued by any government department that might cause a material adverse effect on the performance of its obligations under this Agreement;
- 4.1.5 he/she/it has not been declared bankrupt by a court of competent jurisdiction;
- 4.1.6 save as disclosed to Youku, his/her Equity Interests is free and clear from all liens, encumbrances and third party rights;
- 4.1.7 he/she/it will not transfer, donate, pledge, or otherwise dispose of his/her Equity Interests in any way unless otherwise agreed by Youku ;
- 4.1.8 the Option granted to Youku by him/her/it shall be exclusive, and he/she shall in no event grant the Option or any similar rights to a third party by any means whatsoever; and
- 4.1.9 LU Wen further represents and warrants to Youku that she owns 24% of the Equity Interests of Dongyang Tianshi, and HU Qiong further represents and warrants to Youku that he owns 6% of the Equity Interests of Dongyang Tianshi, and 1Verge Information further represents and warrants to Youku that it owns 70% of the Equity Interests of Dongyang Tianshi.

The parties hereby agree that the representations and warranties set forth in Sections 4 (except for Section 4.1.9) shall be deemed to be repeated as of each Closing Date as if such representation and warranty were made on and as of such Closing Date.

4.2 Covenants and Undertakings

4.2.1 Undertakings of Youku: To ensure that the cash flow requirements of Dongyang Tianshi's ordinary operations are met and/or to set off any loss accrued during such operations, Youku is obligated, only to the extent permissible under PRC laws, to provide financing support for Dongyang Tianshi, whether or not Dongyang Tianshi actually incur any such operational loss. Youku's financing support may take the form of bank entrusted loans or borrowings to Dongyang Tianshi or its shareholders. Contracts for any such entrusted loans or borrowings shall be executed separately. Youku will not request repayment if Dongyang Tianshi or its shareholders are unable to do so.

4.2.2 Undertakings of the Grantor

Each of Grantors covenants and undertakes that:

4.2.2.1 he/she/it will complete all such formalities as are necessary to make Youku or its designated party a proper and registered shareholder of Dongyang Tianshi. Such formalities include, but are not limited to, assisting Youku with the obtaining of necessary approvals of the equity transfer from relevant government authorities (if any), the submission of the Transfer Agreement(s) to the relevant administration for industry and commerce for the purpose of amending the articles of association, changing the shareholder register and undertaking any other changes.

4.2.2.2 he/she/it will not amend the articles of association, increase or decrease the registered capital, sell, transfer, mortgage, create or allow any encumbrance or otherwise dispose of the assets, business, revenues or other beneficial interests, incur or assume any indebtedness, or enter into any material contracts, except in the ordinary course of business (for the purpose of this paragraph, any contract with a value exceeding RMB 100,000 shall be deemed to be a material contract).

SECTION 5: TAXES

Any taxes and duties that might arise from the execution and performance of this Agreement, including any taxes and expenses incurred by and applicable to any of the Grantors as a result of the exercise of the Option(s) by Youku or its designated party, or the acquisition of the Equity Interests from the Grantor(s), will be borne by Youku .

SECTION 6: GOVERNING LAW AND DISPUTE SETTLEMENT

6.1 Governing Law

The execution, validity, performance and interpretation of this Agreement shall be governed by and construed in accordance with the laws of the PRC.

6.2 Friendly Consultation

If a dispute arises in connection with the interpretation or performance of this Agreement, the parties shall attempt to resolve such dispute through friendly consultations between them or mediation by a neutral third party.

If the dispute cannot be resolved in the aforesaid manner within thirty (30) days after the commencement of such discussions, either party may submit the dispute to arbitration.

6.3 Arbitration

Any dispute arising in connection with this Agreement shall be submitted to the China International Economic and Trade Arbitration Commission (“**CIETAC**”) for arbitration. The arbitration shall follow the then current rules of CIETAC, and the arbitration proceedings shall be conducted in Chinese and shall take place in Beijing. The arbitration award shall be final and binding upon the parties. This article shall not be affected by the termination or elimination of this Agreement.

6.4 Matters not in Dispute

In case of any disputes arising out of the interpretation and performance of this Agreement or any pending arbitration of such dispute, each party shall continue to perform their obligations under this Agreement, except for the matters in dispute.

SECTION 7: CONFIDENTIALITY

7.1 Confidential Information

The contents of this Agreement and the annexes hereof shall be kept confidential. No party shall disclose any such information to any third party (except for the purpose described in Section 2.2 and by prior written agreement among the parties). Each party’s obligations under this clause shall survive after the termination of this Agreement.

7.2 Exceptions

If a disclosure is explicitly required by law, any courts, arbitration tribunals, or administrative authorities, such a disclosure by any party shall not be deemed a violation of Section 7.1 above.

SECTION 8: MISCELLANEOUS

8.1 Entire Agreement

8.1.1 This Agreement constitutes the entire agreement and understanding among the parties in respect of the subject matter hereof and supersedes all prior discussions, negotiations and agreements among them. This Agreement shall only be amended by a written instrument signed by all the parties.

8.1.2 The appendices attached hereto shall constitute an integral part of this Agreement and shall have the same legal effect as this Agreement.

8.2 Notices

8.2.1 Unless otherwise designate by the other Party, any notices or other correspondences among the parties in connection with the performance of this Agreement shall be delivered in person, by express mail, e-mail, facsimile or registered mail to the following correspondence addresses and fax numbers:

Youku Tudou Inc.

Address : PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands
Fax : 1-345-949-8080
Tele : 1-345-949-8080
Addressee : Victor Wing Cheung Koo

IVERGE INTERNET TECHNOLOGY (BEIJING) CO., LTD.

Address : Section D, 5/F, SinoSteel Plaza, No 8, Haidian Street, Haidian District, Beijing, China
Fax : 010-59708818
Tele : 010-58851881
Addressee : Victor Wing Cheung Koo

LU Wen

Address : Room1803, Building 525, Atlantic Place, Chaoyang District, Beijing, PRC
Fax : 010-84862809
Tele : 010-84864655
Addressee : LU Wen

HU Qiong

Address : Room1803, Building 525, Atlantic Place, Chaoyang District, Beijing, PRC
Fax : 010-84862809
Tele : 010-84864655
Addressee : HU Qiong

1Verge Information Technology (Beijing) Co., Ltd.

Address: Section A&C, 5/F, SinoSteel Plaza, No 8, Haidian Street, Haidian District, Beijing, China
Fax: 010-59708818
Tele: 010-58851881
Addressee : QIN Qiong

8.2.2 Notices and correspondences shall be deemed to have been effectively delivered:

- 8.2.2.1 at the exact time displayed in the corresponding transmission record, if delivered by facsimile, unless such facsimile is sent after 5:00 pm or on a non-business day in the place where it is received, in which case the date of receipt shall be deemed to be the following business day;
- 8.2.2.2 on the date that the receiving Party signs for the document, if delivered in person (including express mail);
- 8.2.2.3 on the fifteenth (15th) day after the date shown on the registered mail receipt, if sent by registered mail;
- 8.2.2.4 on the successful printing by the sender of a transmission report evidencing the delivery of the relevant e-mail, if sent by e-mail.

8.3 Binding Effect

This Agreement, upon being signed by the parties or their duly authorized representatives, shall be binding on the parties and their successors and assigns.

8.4 Language and Counterparts

This Agreement shall be executed in four (4) originals in English, with one (1) original for Youku, one (1) original each for Grantors.

8.5 Days and Business Day

A reference to a day herein is to a calendar day. A reference to a business day herein is to a day on which commercial banks are open for business in the PRC.

8.6 Headings

The headings contained herein are inserted for reference purposes only and shall not affect the meaning or interpretation of any part of this Agreement.

8.7 Singular and Plural

Where appropriate, the plural includes the singular and vice versa.

8.8 Unspecified Matter

Any matter not specified in this Agreement shall be handled through mutual discussions among the parties and stipulated in separate documents with binding legal effect, or resolved in accordance with PRC laws.

8.9 Survival of Representations, Warranties, Covenants and Obligations

The respective representations, warranties, covenants and obligations of the parties, as set forth in this Agreement or made by or on behalf of them, respectively, pursuant to this Agreement, shall remain in full force and effect, regardless of any investigation (or any statement as to the results thereof) made by or on behalf of any party, and shall survive the transfer and payment for the Equity Interests.

[The space below is intentionally left blank.]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed on their behalf by a duly authorized representative as of the date first written above.

Youku Tudou Inc.

By: /s/ Victor Wing Cheung Koo
Name: Victor Wing Cheung Koo
Title: Chief Executive Officer

**1VERGE INTERNET TECHNOLOGY (BEIJING)
CO., LTD.**
(Company Seal)

By: /s/ Victor Wing Cheung Koo
Authorized Representative: Victor Wing Cheung Koo

GRANTOR: LU WEN

By: /s/ LU Wen

GRANTOR: HU QIONG

By: /s/ HU Qiong

**GRANTOR: 1VERGE INFORMATION TECHNOLOGY
(BEIJING) CO., LTD.**

By: /s/ Dele Liu
Authorized Representative: Dele Liu
(Company Seal)

BUSINESS OPERATIONS AGREEMENT

This Business Operations Agreement (this “**Agreement**”) is entered in Shanghai, the People’s Republic of China (the “**PRC**”, excluding the Hong Kong Special Administrative Region, the Macao Special Administrative Region and Taiwan, for the purposes of this Agreement) and dated September 2, 2013.

by and among the following parties:

- (1) **PARTY A: RESHUFFLE TECHNOLOGY (SHANGHAI) CO., LTD**
Legal Address: Room 22301-1007, No. 14 Building, Pudong Software Park, No. 498 Guoshoujing Road, Zhangjiang High-technology Zone, Shanghai, PRC.
Legal Representative: YANG Weidong
- (2) **PARTY B: SHANGHAI QUAN TOODOU NETWORK SCIENCE AND TECHNOLOGY CO., LTD**
Legal Address: Room 105, No. D Building, No. 2500 Long Dong Avenue, Zhangjiang High-technology Zone, Shanghai, PRC.
Legal Representative: Qin Qiong
- (3) **PARTY C: QIN QIONG** a PRC citizen whose PRC identification number is 310108197109214485, and whose residential address is Room 702, No 2, Lane 1220, Jiangning Road, Putuo District, Shanghai, China
- (4) **PARTY D: LIU DELE** a PRC citizen whose PRC identification number is 310101196805284437, and whose residential address is Room 1701, Tower D, Sunz Garden, 98 Jianguo Road, Chaoyang District, Beijing, China

(Individually a “**Party**”, and collectively the “**Parties**”)

WHEREAS:

- A Party A is a wholly foreign-owned enterprise registered in the PRC;
- B Party B is a domestic company registered in the PRC and owns all equity interest in Shanghai Quan Toodou Cultural Communication Co., Ltd. (the “**Subsidiary**”). Party B and the Subsidiary are approved by relevant governmental authorities to engage in the business of providing Internet information services and value-added telecommunications services;
- C A business relationship has been established between Party A and Party B by entering into an Exclusive Technical and Consulting Services Agreement, pursuant to which Party B is required to make all the stipulated payments to Party A. Therefore, the daily operations of Party B will have a material impact on its ability to pay the payables to Party A;

D Party C and Party D are the shareholders of Party B, who own 84.7% and 15.3% equity interest, respectively, in Party B.

THEREFORE, through friendly negotiation in the principle of equality and common interest, the Parties hereby jointly agree to abide by the following:

1. Effective Date

This Agreement shall take effect from September 2, 2013. ("**Effective Date**").

2. Negative Undertakings

In order to ensure Party B's performance of the agreements between Party A and Party B and all its obligations born to Party A, Party B together with its shareholders Party C and Party D hereby jointly confirm and agree that unless Party B has obtained prior written consent from Party A or another party appointed by Party A, Party B shall not, nor shall Party C or Party D cause Party B to conduct any transaction which may materially affect its assets, obligations, rights or operations, including but not limited to the following contents:

- 2.1 to conduct any business that is beyond the normal business scope;
- 2.2 to borrow money or incur any debt from any third party;
- 2.3 to change or dismiss the executive director or to dismiss and replace any senior management members;
- 2.4 to sell to or acquire from any third party any assets or rights, including but not limited to any intellectual property rights;
- 2.5 to provide guarantee for any third party with its assets or intellectual property rights or to provide any other guarantee or to place any other obligations over its assets;
- 2.6 to amend the articles of association of Party B or change its business area;
- 2.7 to change the normal business process or modify any material company policy;
- 2.8 to assign any of the rights or obligations under this Agreement herein to any third party;
- 2.9 to incur or assume any indebtedness;

- 2.10 to liquidate Party B and allocate the remaining assets;
- 2.11 to make significant adjustment to its business operation mode, marketing strategy, operation policy or client relationship; or
- 2.12 to have any of its subsidiaries do any of the foregoing

3. Management of Operation and Arrangements of Human Resource

- 3.1 Party B together with its shareholders Party C and Party D hereby jointly agree to accept and strictly perform the proposals in respect of the employment and dismissal of its employees, the daily business management and financial management, etc., provided by Party A from time to time.
- 3.2 Party B together with its shareholders Party C and Party D hereby jointly and severally agree that Party C and Party D shall only appoint the personnel designated by Party A as the Executive Director of Party B in accordance with the procedures required by the applicable laws and regulations and the articles of association of Party B, and shall cause such Executive Director to appoint the personnel designated by Party A as Party B's General Manager, Chief Financial Officer, and other senior officers.
- 3.3 If any of the above officers resigns or is dismissed by Party A, he or she will lose the qualification to be appointed for any position in Party B and thereafter Party B, Party C and Party D shall appoint or cause the appointment of another candidate designated by Party A to assume such position.
- 3.4 For the purpose of the above-mentioned Section 3.3, Party B, Party C and Party D shall take all the necessary internal or external procedures to accomplish the above dismissal and appointment in accordance with the relevant laws and regulations, the articles of association of Party B and this Agreement.
- 3.5 Each of Party C and Party D hereby agrees to, upon the execution of this Agreement, simultaneously sign a Power of Attorney, pursuant to which each of Party C and Party D shall authorize any individual appointed by Party A in writing, to the extent permitted by the PRC law exercise his, her or its shareholders' rights, including the full voting right of a shareholder at Party B's shareholders' meetings. Each of Party C and Party D further agrees to replace the authorized person appointed according to the above mentioned Power of Attorneys at any time according to the requirement of Party A.

4. Other Agreements

- 4.1 Given (i) that the business relationship between Party A and Party B has been established through the Exclusive Consulting and Services Agreement, and (ii) that the daily business activities of Party B will have a material impact on Party B's ability to pay the payables to Party A, each of Party C and Party D agrees that:
- he/she shall not put forward, or vote in favor of, any shareholder resolution to, or otherwise request Party B to, distribute profits, funds, assets or property to the shareholders of Party B or any of its affiliates; and
 - he/she shall not put forward, or vote in favor of, any shareholder resolution to, or otherwise request Party B to, issue any dividends or other distributions with respect to the equity interest of Party B held by Party C or Party D; provided, however, if such dividends or other distributions are distributed to Party C and/or Party D from Party B, he/she will immediately and unconditionally pay or transfer to Party A any dividends or other distributions in whatsoever form obtained from Party B as a shareholder of Party B at the time such payables arise, after having deducted and paid any and all relevant taxes and expenses applicable to such a shareholder as a result of his/her receipt of such dividends or other distributions.
- 4.2 If any of Party C or Party D is held liable for any legal or any other responsibilities by reason of his/her performance of his/her obligations under this Agreement and as a shareholder of Party B, Party A shall keep each of Party C and Party D fully indemnified from any such liabilities, costs or losses (including but not limited to any and all legal expenses) incurred by Party C and/or Party D, provided that the actions performed by Party C and/or Party D according to his/her obligations under this Agreement and as a shareholder of Party B are taken in good faith and are not contrary to the best interests of Party A.
- 4.3 To ensure that the cash flow requirements of Party B's ordinary operations are met and/or to set off any loss accrued during such operations, Party A is obligated, only to the extent permissible under PRC law, to provide financing support for Party B, whether or not Party B actually incurs any such operational loss. Party A's financing support for Party B may take the form of bank entrusted loans or borrowings. Contracts for any such entrusted loans or borrowings shall be executed separately. Party A foregoes its right to seek repayment in the event that the Party B is unable to repay such findings.

5. Entire Agreement and Modifications

- 5.1 This Agreement together with the powers of attorney executed by each of Party C and Party D in accordance with Section 3.5 shall replace and substitute all previous agreements, contracts, understandings and communications among all the Parties with respect to the subject matters of this Agreement, including but not limited to the Power of Attorney entered into by Party C and Party D dated .
- 5.2 Any modification of this Agreement shall take effect only after it is executed by each and every Party. The amendment and supplement duly executed by each and every Party shall form part of this Agreement and shall have the same legal effect as this Agreement.

6. Governing Law

The execution, validity, performance, interpretation and disputes of this Agreement shall be governed by and construed in accordance with the PRC laws.

7. Dispute Resolution

- 7.1 The Parties shall strive to settle any dispute arising from the interpretation or performance of this Agreement through friendly consultation in good faith. In case no settlement can be reached through friendly consultation, each Party can submit such matter to the China International Economic and Trade Arbitration Commission (“CIETAC”), for arbitration in accordance with the then current rules of CIETAC. The arbitration proceedings shall take place in Shanghai and shall be conducted in Chinese. The arbitration award shall be final and binding upon all the Parties. This Section 7 shall not be affected by the termination or elimination of this Agreement.
- 7.2 During the process of the dispute resolution, each Party shall continue to perform its obligations in good faith according to the provisions of this Agreement except for the subject matters in dispute.

8. Notice

- 8.1 Any notice that is given by the Parties hereto for the purpose of performing the rights and obligations hereunder shall be in written form. Where such notice is delivered personally, the actual delivery time is regarded as notice time; where such notice is transmitted by telex or facsimile, the notice time is the time when such notice is transmitted. If such notice (i) does not reach the addressee on a business day or (ii) reaches the addressee after the business hours, the next business day following such day is the date of notice. The written form includes facsimile and telex.
- 8.2 Any notice or other correspondence hereunder provided shall be delivered to the following addresses in accordance with the above terms:

PARTY A : RESHUFFLE TECHNOLOGY (SHANGHAI) CO., LTD

Address : Room 22301-1007, No. 14 Building, Pudong Software Park, No. 498 Guoshoujing Road, Zhangjiang High-technology Zone, Shanghai, PRC
Fax : 021-51702388
Tele : 021-51702355
Addressee : YANG Weidong

PARTY B : SHANGHAI QUAN TOODOU NETWORK SCIENCE AND TECHNOLOGY CO., LTD

Address : Room 105, No. D Building, No. 2500 Long Dong Avenue, Zhangjiang High-technology Zone, Shanghai, PRC
Fax : 021-51702388
Tele : 021-51702355
Addressee : Qin Qiong

PARTY C : Qin Qiong

Address : Room 1602, Tower 3, Palm Tree International Apartment, 8 South Chaoyang Park Road, Beijing, China
Fax : 010-59708818
Tele : 010-58851881
Addressee : Qin Qiong

PARTY D : Liu Dele

Address : Room 1701, Tower D, Sunz Garden, 98 Jianguo Road, Chaoyang District, Beijing, China
Fax : 010-59708818
Tele : 010-58851881
Addressee : Liu Dele

9. Effectiveness, Term and Others

- 9.1 This Agreement shall be executed by a duly authorized representative of each Party on the date first written above and become effective as of the Effective Date. The term of this agreement is ten years unless early termination occurs in accordance with the relevant provisions herein. This Agreement will extend automatically for successive ten year periods unless Party A provides written notice stating its intention not to extend this Agreement three months prior to the expiration of a ten year term.

- 9.2 Party B, Party C and Party D shall not have the right to terminate this Agreement. Notwithstanding the above stipulation, Party A shall have the right to terminate this Agreement at any time by issuing a prior written notice to Party B, Party C and Party D thirty (30) days before the termination.
- 9.3 In case any terms and stipulations in this Agreement are regarded as illegal or can not be performed in accordance with the applicable laws, they shall be deemed to be deleted from this Agreement and lose their effect and this Agreement shall be treated as if they did not exist from the very beginning. However, the remaining stipulations will remain effective. Each Party shall replace the deleted stipulations with lawful and effective stipulations, which are acceptable to each Party, through mutual negotiation.
- 9.4 Any failure or delay on the part of any Party to exercise any rights, powers or privileges hereunder shall not operate as a waiver thereof. Any single or partial exercise of such rights, powers or privileges shall not preclude any further exercise of such rights, powers or privileges.
- 9.5 This Agreement amends and restates all previous agreements. In the event of any discrepancy between this Agreement and any previous agreement, this Agreement shall prevail to the extent of the discrepant provisions.

[The space below is intentionally left blank.]

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be duly executed on their behalf by a duly authorized representative as of the date first written above.

**PARTY A: RESHUFFLE TECHNOLOGY (SHANGHAI)
CO., LTD**
(Company Seal)

By: /s/ YANG Weidong
Authorized Representative: YANG Weidong

**PARTY B: SHANGHAI QUAN TOODOU NETWORK
SCIENCE AND TECHNOLOGY CO., LTD.**
(Company Seal)

By: /s/ QIN Qiong
Authorized Representative: Qin Qiong

PARTY C: QIN QIONG

By: /s/ QIN Qiong

PARTY D: LIU DELE

By: /s/ LIU Dele

EQUITY INTEREST PLEDGE AGREEMENT

This Equity Interest Pledge Agreement (this “**Agreement**”) is entered in Shanghai, the People’s Republic of China (“**PRC**”, excluding the Hong Kong Special Administrative Region, the Macao Special Administrative Region and Taiwan, for the purposes of this Agreement) and dated September 2, 2013 by and among the following parties:

- (1) **PLEDGEE: RESHUFFLE TECHNOLOGY (SHANGHAI) CO., LTD**
Registered Address: Room 22301-1007, No. 14 Building, Pudong Software Park, No. 498 Guoshoujing Road, Zhangjiang High-technology Zone, Shanghai, PRC.
Legal Representative: YANG Weidong

and

- (2) **PLEDGOR: Qin Qiong**
ID Card No: 310108197109214485
Address: Room 702, No 2, Lane 1220, Jiangning Road, Putuo District, Shanghai, China

(Individually a “**Party**” and collectively the “**Parties**”).

WHEREAS:

- A. Qin Qiong is a PRC citizen, and owns 66.7% equity interest in Shanghai Quan Toodou Network Science and Technology Co., Ltd. (“**Shanghai Quan Toodou**”).
- B. Shanghai Quan Toodou is a limited liability company registered in Shanghai engaging in the business of Internet information services, value-added telecommunication services, etc.
- C. The Pledgor entered into a Loan Agreement on September 2, 2013 (the “**Loan Agreement**”), under which Reshuffle Technology (Shanghai) Co., Ltd will extend loans in an aggregate amount of RMB127,000,000 (the **Loan**) to the Pledgor, RMB 47,000,000 of which has already been provided.
- D. The Pledgee, a wholly foreign-owned company registered in Shanghai, PRC, has been licensed by the PRC relevant government authority to carry on the business of computer software products and Internet products development, sale and services, etc. The Pledgee and Shanghai Quan Toodou entered into an Exclusive Technical and Consulting Services Agreement on Jan 28, 2013, pursuant to which Shanghai Quan Toodou is required to pay service fees (the “**Service Fees**”) to the Pledgee in consideration of the corresponding services to be provided by the Pledgee (the “**Services Agreement**”).

- E. Simultaneous with the execution of this Agreement, the Pledgee, the Pledgor, Liu Dele, and Shanghai Quan Toodou have also entered into a Business Operations Agreement, pursuant to which the Pledgee is authorized to exercise the shareholder's rights of the Pledgor, Liu Dele and Yu Zhou, and exerts control over the daily operation of Shanghai Quan Toodou through contractual arrangements (the Business Operations Agreements).
- F. Simultaneous with the execution of this Agreement, the Pledgor have also entered into an Equity Option Agreement with the Pledgee, pursuant to which the Pledgor grants to the Pledgee an exclusive right to purchase the Equity Interest (as defined below) at any time upon satisfaction of various requirements under the PRC law (the "**Option Agreement**").
- G. In order to ensure that (i) the Pledgor repay the Loan under the Loan Agreement; (ii) the Pledgee collects Service Fees under the Services Agreement, (iii) the Pledgor's other obligations under the Option Agreement are fulfilled, (iv) the Pledgor's and Shanghai Quan Toodou's obligations under the Business Operations Agreement are fulfilled, and (v) all other debts, monetary liabilities or other payment obligations owed to the Pledgee by the Pledgor and/or Shanghai Quan Toodou, arising under or in relation to the Services Agreement or the Loan Agreement, or the Business Operations Agreement or the Option Agreement, including, but not limited to, any obligation to pay damages for a breach of any obligation of the Pledgor or Shanghai Quan Toodou under the Loan Agreement or the Services Agreement (as applicable), are paid, the Pledgor are willing to pledge all the Equity Interest (as defined below) in Shanghai Quan Toodou to the Pledgee as security for the above-mentioned obligations of the Pledgor and Shanghai Quan Toodou (collectively, the "**Secured Obligations**").

In order to set forth each Party's rights and obligations, the Pledgee and the Pledgor through mutual negotiations hereby enter into this Agreement based upon the following terms:

1. Definitions

Unless otherwise provided in this Agreement, the following terms shall have the following meanings:

- 1.1 "**Pledge**" means the full content of Section 2 hereunder.
- 1.2 "**Equity Interest**" means all the equity interests in Shanghai Quan Toodou held by the relevant Pledgor (including all present and future rights and benefits based on such equity interests), and any additional equity interests in Shanghai Quan Toodou acquired by such Pledgor subsequent to the date hereof. For the avoidance of any doubt, on the date hereof, Qin Qiong holds a 84.7% equity interests (representing RMB 127 million in registered capital, of which RMB 47 million has been actually contributed) in Shanghai Quan Toodou.

- 1.3 “**Event of Default**” means any event in accordance with Section 6 hereunder.
- 1.4 “**Notice of Default**” means the notice of default issued by the Pledgee in accordance with this Agreement.
- 1.5 “**Effective Date**” This Agreement shall be effective upon its being signed by the Parties hereunder. Notwithstanding the foregoing, the Pledge (as defined in Section 2.1) shall only come into effect in accordance with Section 3 of this Agreement.

2. **Pledge**

- 2.1 The Pledgor hereby pledges, and if required, transfers and assigns all his/her rights, titles and interests in the Equity Interest in Shanghai Quan Toodou to the Pledgee as security for all of the Secured Obligations (the “**Pledge**”) of an amount up to the Maximum Amount (as defined below), and grant a first priority security interest in all rights, titles and interests that he/she has or may at any time hereafter acquire in and to the Equity Interest, together with all equity or other ownership interests representing a dividend on the Equity Interest, a distribution or return of capital upon or in respect of such Equity Interest, any subscription, first refusal, pre-emptive or other purchase rights with respect to or arising from such Equity Interest, any voting rights with respect to such Equity Interest or any other interest in Shanghai Quan Toodou which, by reason of notice or lapse of time or the occurrence of other events, may be converted into a direct equity interest in Shanghai Quan Toodou, and all proceeds of the foregoing (collectively, the “**Pledged Collateral**”).
- 2.1.1 Both Parties understand and agree that the monetary valuation arising from, relating to or in connection with the Secured Obligations shall be a variable and floating valuation until the Settlement Date (as defined below). Therefore, based on the reasonable assessment and evaluation by the Pledgor and the Pledgee of the Secured Obligations and the Pledged Collateral, the Pledgor and the Pledgee mutually acknowledge and agree that the Pledge shall aggregately secure the Secured Obligations for a maximum amount of RMB 100,000,000 (the “Maximum Amount”) prior to the Settlement Date.

The Pledgor and the Pledgee may, taking into account the fluctuation in the monetary value of the Secured Obligations and the Pledged Collateral, adjust the Maximum Amount based on mutual agreement by amending and supplementing this Agreement, from time to time, prior to the Settlement Date.

- 2.1.2 Upon the occurrence of any of the events below (each an “Event of Settlement”), the Secured Obligations shall be fixed at a value of the sum of all Secured Obligations that are due, outstanding and payable to the Pledgee on or immediately prior to the date of such occurrence (the “Fixed Obligations”):
- (a) the occurrence of an Event of Default pursuant to Section 6 that is not resolved, which results in the Pledgee serving a Notice of Default to the relevant Pledgor(s) pursuant to Section 6.3;
 - (b) the Pledgee reasonably determines (having made due enquiries) that the Pledgor and/or Shanghai Quan Toodou is insolvent or could potentially be made insolvent; or
 - (c) any other event that requires the settlement of the Secured Obligations in accordance with relevant laws of the PRC.
- 2.2 For the avoidance of doubt, the day of the occurrence of an Event of Settlement shall be the settlement date (the “Settlement Date”). On or after the Settlement Date, the Pledgee shall be entitled, at the election of the Pledgee, to enforce the Pledge in accordance with Section 7.
- 2.3 The Pledgee is entitled to collect dividends or other distributions, if any, arising from the Equity Interest during the Term of the Pledge (as defined below).

3. **Effectiveness of Pledge, Scope and Term**

- 3.1 The Pledgor shall, promptly after the execution of this Agreement, register this Agreement and the Pledge hereunder with the State Administration for Industry and Commerce of the PRC or its competent local counterpart (the “AIC”). The Pledgor shall deliver to the Pledgee a copy of the registration or filing certificate from the AIC within 7 days from the date of submission of the application for registration of this Agreement and Pledge with the AIC.

3.2 The Pledge shall be effective upon the registration of the Pledge with the AIC in accordance with Section 3.1 above. The term of the Pledge shall commence on the date when the Pledge is registered with the AIC and shall expire on the earlier of (a) the date on which all outstanding Secured Obligations are paid in full or otherwise satisfied (as applicable) or (b) the Pledgee enforces the Pledge pursuant to the terms and conditions hereof, to satisfy its rights under the Secured Obligations and Pledged Collateral in full (the “Term of the Pledge”).

4. Representations and Warranties of the Pledgor

The Pledgor hereby makes the following representations and warranties to the Pledgee and confirms that the Pledgee executes this Agreement in reliance on such representations and warranties:

- 4.1 The Pledgor is the legal owner of the Equity Interest that has been registered in his/her name, and is entitled to create a pledge on such Equity Interest.
- 4.2 None of the Pledged Collateral or the Pledge will be interfered with by any other pledgee at any time once the Pledgee exercises the rights of the Pledge in accordance with this Agreement.
- 4.3 The Pledgee shall be entitled to dispose or assign the Pledge in accordance with the relevant laws and this Agreement.
- 4.4 All necessary authorizations have been obtained for the execution and performance of this Agreement by the Pledgor and the execution and performance of this Agreement by the Pledgor does not violate any applicable laws or regulations.
- 4.5 The Pledgor warrants that there is no on-going civil, administrative or criminal litigation or administrative punishment or arbitration related to the Equity Interest and is not aware of any such action pending or likely to be pending in the future as of the date of this Agreement.
- 4.6 There are no outstanding taxes, fees or undecided legal procedures related to the Equity Interest as of the date of this Agreement.
- 4.7 Each stipulation hereunder is the expression of each Party’s true intention and shall be binding upon both Parties.

5. Covenants of the Pledgor

- 5.1 The Pledgor covenants to the Pledgee that he/she shall:

- 5.1.1 not transfer or assign the Equity Interest, or create or permit to be created any pledge, lien, charge, mortgage, encumbrance, option, security or other interest in or over the Equity Interest that has been registered in his/her name, other than the Pledge created hereunder and the option granted under the Option Agreement, without the prior written consent from the Pledgee;
 - 5.1.2 comply with and implement laws and regulations with respect to the pledge of rights, present to the Pledgee the notices, orders or suggestions with respect to the Pledge issued or made by the competent authority within 5 days upon receiving such notices, orders or suggestions and take actions in accordance with the reasonable instructions of the Pledgee; and
 - 5.1.3 timely notify the Pledgee of any events or any received notices (i) which may affect the Equity Interest or any part of the Pledgee's rights, (ii) which may change the Pledgor's covenants or obligations under this Agreement or (iii) which may affect the Pledgor's performance of their obligations under this Agreement, and take actions in accordance with the reasonable instructions of the Pledgee.
- 5.2 The Pledgor agrees that the Pledgee's right of exercising the Pledge under this Agreement shall not be suspended or hampered by the Pledgor or any successors of the Pledgor or any person authorized by the Pledgor.
 - 5.3 The Pledgor covenants to the Pledgee that in order to protect or perfect the security over the Secured Obligations, the Pledgor shall (i) execute in good faith and cause other parties who have interests in the Pledge to execute all the forms, instruments, agreements (including those required for the registration and de-registration of the Pledge with the AIC), and/or (ii) take actions and cause other parties who have interests in the Pledge to take actions as required by the Pledgee and (iii) allow the Pledgee to exercise the rights and authorization vested in the Pledgee under this Agreement.
 - 5.4 The Pledgor agrees to promptly make or cause to be made any filings or records, give or cause to be given any notices and take or cause to be taken any other actions as may be necessary under the laws of the PRC, to perfect the Pledge of the Pledged Collateral, including the AIC registration set forth in Section 3.1.
 - 5.5 The Pledgor covenants to the Pledgee that he/she will comply with and perform all the guarantees, covenants, agreements, representations and conditions for the benefits of the Pledgee. The Pledgor shall compensate for all the losses suffered by the Pledgee for such Pledgor's failure to perform or fully perform his/her guarantees, covenants, agreements, representations or conditions.

6. Events of Default

- 6.1 Each of the following shall constitute an Event of Default:
- 6.1.1 Shanghai Quan Toodou or the Pledgor fails to make full and timely payment of any amounts due under the Secured Obligations as required under the Services Agreement, License Agreements, Loan Agreement, Business Operations Agreement or Option Agreement, or an event of default (as defined and stipulated in those agreements) has occurred and is continuing;
 - 6.1.2 the Pledgor makes or has made any inaccurate, incomplete, misleading or untrue representations or warranties under Section 4, or is in violation or breach of any of the representations and warranties under Section 4;
 - 6.1.3 the Pledgor breaches any of the covenants under Section 5;
 - 6.1.4 the Pledgor breaches any other covenants, undertakings or obligations of the Pledgor set forth herein;
 - 6.1.5 the Pledgor is unable to perform its obligations under this Agreement due to the separation or merger of Shanghai Quan Toodou with other third parties or for any other reason;
 - 6.1.6 the Pledgor relinquishes all or any part of the Pledged Collateral or transfers or assigns all or any part of the Pledged Collateral without the prior written consent of the Pledgee (except the transfers or assigns permitted under the Option Agreement);
 - 6.1.7 any indebtedness, guarantee or other obligation of the Pledgor, whether pursuant to a contract or otherwise, (i) is accelerated as a result of a default thereunder and is required to be repaid or performed prior to the due date; or (ii) has become due and is not repaid or performed when due which, in the Pledgee's reasonable view, has materially adversely affected the Pledgor's ability to perform their obligations under this Agreement;
 - 6.1.8 this Agreement is illegal as a result of any applicable laws or the Pledgor is restricted from continuing to perform his/her obligations under this Agreement;

- 6.1.9 any approval, permit, license or authorization from any applicable governmental entity (or registration or filing procedure) required for Shanghai Quan Toodou to provide Internet information services and/or value-added telecommunications services in the PRC is withdrawn, suspended, invalidated or materially amended;
 - 6.1.10 any approval, permit, license or authorization from any applicable government authority required to perform this Agreement or make this Agreement enforceable, legal and valid is withdrawn, suspended, invalidated or materially amended; or
 - 6.1.11 any property owned by the Pledgor is altered or damaged which, in the Pledgee's reasonable view, has materially adversely affected the Pledgor's ability to perform their obligations under this Agreement.
- 6.2 The Pledgor shall immediately give a written notice to the Pledgee if the Pledgor is aware or find that any event set forth in Section 6.1 or any events that may result in the foregoing events have occurred or are occurring.
- 6.3 Unless an Event of Default set forth in Section 6.1 has been rectified to the Pledgee's satisfaction, the Pledgee, at any time the event of default occurs or thereafter, may give a written notice of default to any or both Pledgor, and require such Pledgor(s), at the discretion of the Pledgee, to immediately make full payment of the outstanding amounts payable under the Loan Agreements, Services Agreement and/or License Agreements, and other payables, or dispose of the Pledge in accordance with Section 7 herein.

7. Exercise of the Rights of the Pledge

- 7.1 The Pledgor shall not transfer or assign the Pledged Collateral without prior written approval from the Pledgee prior to the full settlement and fulfillment of the Secured Obligations.
- 7.2 The Pledgee may give a notice of exercise to the Pledgor and dispose of the Pledge at any time upon the occurrence of any Event of Settlement.
- 7.3 Subject to Section 6.3, the Pledgee may exercise the right to dispose of the Pledge at any time when the Pledgee gives a notice of exercise in accordance with Section 6.3 or thereafter.
- 7.4 The Pledgee is entitled to have priority in receiving payment by the evaluation or proceeds from the auction or sale of whole or part of the Pledged Collateral in accordance with legal procedures until the outstanding Secured Obligation or other monetary obligations payable by the Pledgor and/or Shanghai Quan Toodou is fully paid, repaid or otherwise settled.

7.5 The Pledgor shall not hinder the Pledgee from disposing the Pledge in accordance with this Agreement and shall give necessary assistance so that the Pledgee could realize his Pledge.

8. Transfer or Assignment

- 8.1 The Pledgor shall not donate or transfer her rights and obligations herein to any third party without prior written consent from the Pledgee.
- 8.2 This Agreement shall be binding upon the Pledgor and each of her successor and be effective to the Pledgee and its successor and assignee.
- 8.3 The Pledgee may transfer or assign all Secured Obligations and its right to the Pledge to any third party at any time. In this case, the assignee shall enjoy and undertake the same rights and obligations herein of the Pledgee as if the assignee is a party hereto. When the Pledgee transfers or assigns the Secured Obligations and its rights to the Pledge, at the request of the Pledgee, the Pledgor shall execute the relevant agreements and/or documents with respect to such transfer or assignment.
- 8.4 After a change to the Pledgee resulting from a transfer or assignment, the new parties to the pledge shall re-execute a pledge contract.

9. Termination

This Agreement shall not terminate until the Term of the Pledge expires pursuant to Section 3 herein.

10. Force Majeure

- 10.1 If this Agreement is delayed in or prevented from performing in the Event of Force Majeure (“**Event of Force Majeure**”), only within the limitation of such delay or prevention, the affected Party is absolved from any liability under this Agreement. Force Majeure, which includes acts of governments, acts of nature, fire, explosion, geographic change, flood, earthquake, tide, lightning, war, means any unforeseen events beyond the prevented Party’s reasonable control and cannot be prevented with reasonable care. However, any shortage of credit, capital or finance shall not be regarded as an event beyond a Party’s reasonable control. The Party affected by Force Majeure who claims for exemption from performing any obligations under this Agreement or under any Section herein shall notify the other party of such exemption promptly and advise it or her of the steps to be taken for completion of the performance.

10.2 The Party affected by Force Majeure shall not assume any liability under this Agreement. However, subject to the Party affected by Force Majeure having taken its reasonable and practicable efforts to perform this Agreement, the Party claiming for exemption of the liabilities may only be exempted from performing such liability as within limitation of the part performance delayed or prevented by Force Majeure. Once causes for such exemption of liabilities are rectified and remedied, both Parties agree to resume performance of this Agreement with their best efforts.

11. Applicable Law and Dispute Resolution

11.1 The execution, validity, performance and interpretation of this Agreement shall be governed by and construed in accordance with the laws of the PRC.

11.2 Both Parties shall strive to settle any dispute arising from the interpretation or performance through friendly consultation. In case no settlement can be reached through consultation, each Party can submit such matter to China International Economic and Trade Arbitration Commission (“CIETAC”) for arbitration. The arbitration shall follow the then current rules of CIETAC, and the arbitration proceedings shall be conducted in Chinese and shall take place in Shanghai. The arbitration award shall be final and binding upon both Parties. This article shall not be affected by the termination or elimination of this Agreement.

11.3 In case of any disputes arising out of the interpretation and performance of this Agreement or any pending arbitration of such dispute, each Party shall continue to perform their obligations under this Agreement, except for the matters in dispute.

12. Notice

Any notice or correspondence, which is given by the Party as stipulated hereunder, shall be in Chinese and English writing and shall be delivered in person or by registered or prepaid mail or recognized express service, or be transmitted by telex or facsimile to the following addresses:

PLEDGEE : RESHUFFLE TECHNOLOGY (SHANGHAI) CO., LTD
Address : Room 22301-1007, No. 14 Building, Pudong Software Park, No. 498 Guoshoujing Road,
Zhangjiang High-technology Zone, Shanghai, PRC.
Fax : 021-51702388
Tele : 021-51702355
Addressee : YANG Weidong

Qin Qiong
Address : Room 702, No 2, Lane 1220, Jiangning Road, Putuo District, Shanghai, China
Fax : 010-59708818
Tele : 010-58851881
Addressee : Qin Qiong

13. Appendices

The appendices to this Agreement constitute an integral part of this Agreement.

14. Waiver

The Pledgee's non-exercise or delay in exercise of any rights, remedies, power or privileges hereunder shall not be deemed as the waiver of such rights, remedies, power or privileges. Any single or partial exercise of the rights, remedies, power and privileges shall not exclude the Pledgee from exercising any other rights, remedies, power and privileges. The rights, remedies, power and privileges hereunder are accumulative and shall not exclude the application of any other rights, remedies, power and privileges stipulated by laws.

15. Miscellaneous

- 15.1 Any amendments, modifications or supplements to this Agreement shall be in writing and come into effect upon being executed and sealed by both Parties hereto.
- 15.2 In case any terms and stipulations in this Agreement are regarded as illegal or can not be performed in accordance with the applicable law, such terms and stipulations shall be deemed to ineffective and not enforceable within the scope governed by the applicable law, and the remaining stipulations will remain effective.
- 15.3 This Agreement constitutes the entire agreement between the Parties in respect of the subject matter hereof and supersede any and all prior discussions, negotiations and agreements between the Parties(including the equity pledge agreement dated 22 August 2012 and the equity pledge agreement dated 28 January 2013 between the Parties.)

15.4 This Agreement is prepared in both English and Chinese. In case of any discrepancy between the English and Chinese versions, the Chinese version shall prevail.

[The space below is intentionally left blank.]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed on their behalf by a duly authorized representative as of the date first written above.

PLEDGEE: RESHUFFLE TECHNOLOGY (SHANGHAI) CO., LTD
(Company Seal)

By: /s/ YANG Weidong
Authorized Representative: YANG Weidong

PLEDGOR: Qin Qiong

By: /s/ Qin Qiong

POWER OF ATTORNEY

I, Qin Qiong, citizen of the People's Republic of China (the "PRC"), PRC ID card number 310108197109214485, hereby irrevocably authorize any individual appointed, in writing, by Reshuffle Technology (Shanghai) Co., Ltd. (**WFOE**), who is approved by Youku Tudou Inc. ("**Authorizee**"), to the extent permitted by the PRC Law, as my sole attorney to singly exercise, in the manner as approved by Youku Tudou Inc., the following powers and rights during the term of this Power of Attorney ("**POA**") pursuant to Section 3.5 of the Business Operations Agreement entered into among WFOE, Shanghai Quan Toodou Network Science and Technology Co., Ltd ("**Shanghai Quan Toodou**"), Liu Dele and I on September 2, 2013 (the "**Operations Agreement**"):

I hereby authorize and designate the Authorizee to vote on my behalf at the shareholders' meetings of Shanghai Quan Toodou and exercise the full voting rights as its shareholder as granted to me by law and under the Articles of Association of Shanghai Quan Toodou, including but not limited to, the right to propose the holding of shareholders' meeting, to accept any notification about the holding and discussion procedure of the meeting, to attend the shareholders' meeting of Shanghai Quan Toodou and exercise the full voting rights (such as, my authorized representative on the shareholders' meeting of the company, to designate and appoint the executive director or directors of the Board and the general manager and to decide the allotment of the profits, etc.), to sell or transfer any or all of my shares of Shanghai Quan Toodou.

The authorization I granted to WFOE can be re-authorized or assigned to any third party without my consent. In exercising the rights and powers provided hereunder, the Authorizee shall act with due care and diligence and pursuant to this POA and the applicable laws.

The POA shall take effect from September 2, 2013 and will remain effective as long as Shanghai Quan Toodou exists. The POA amends and restates the POA dated April 23, 2013.

Qin Qiong

/s/ QIN Qiong

Date: September 2, 2013

POWER OF ATTORNEY

I, Liu Dele, citizen of the People's Republic of China (the "PRC"), PRC ID card number 310101196805284437, hereby irrevocably authorize any individual appointed, in writing, by Reshuffle Technology (Shanghai) Co., Ltd. (WFOE), who is approved by Youku Tudou Inc. ("Authorizee"), to the extent permitted by the PRC Law, as my sole attorney to singly exercise, in the manner as approved by Youku Tudou Inc., the following powers and rights during the term of this Power of Attorney ("POA") pursuant to Section 3.5 of the Business Operations Agreement entered into among WFOE, Shanghai Quan Toodou Network Science and Technology Co., Ltd ("Shanghai Quan Toodou"), Qin Qiong, and I on September 2, 2013 (the "Operations Agreement"):

I hereby authorize and designate the Authorizee to vote on my behalf at the shareholders' meetings of Shanghai Quan Toodou and exercise the full voting rights as its shareholder as granted to me by law and under the Articles of Association of Shanghai Quan Toodou, including but not limited to, the right to propose the holding of shareholders' meeting, to accept any notification about the holding and discussion procedure of the meeting, to attend the shareholders' meeting of Shanghai Quan Toodou and exercise the full voting rights (such as, my authorized representative on the shareholders' meeting of the company, to designate and appoint the executive director or directors of the Board and the general manager and to decide the allotment of the profits, etc.), to sell or transfer any or all of my shares of Shanghai Quan Toodou.

The authorization I granted to WFOE can be re-authorized or assigned to any third party without my consent. In exercising the rights and powers provided hereunder, the Authorizee shall act with due care and diligence and pursuant to this POA and the applicable laws.

The POA shall take effect from September 2, 2013 and will remain effective as long as Shanghai Quan Toodou exists. The POA amends and restates the POA dated April 23, 2013.

Liu Dele

/s/ LIU Dele

Date: September 2, 2013

EQUITY OPTION AGREEMENT

This Equity Option Agreement (this “**Agreement**”) is entered in Shanghai, the People’s Republic of China (“**PRC**”, excluding the Hong Kong Special Administrative Region, the Macao Special Administrative Region and Taiwan, for the purposes of this Agreement) and dated September 2, 2013, by and among the following parties:

- (1) **YOUKU TUDOU INC. (“YOUKU Cayman”)**
- (2) **RESHUFFLE TECHNOLOGY (SHANGHAI) CO., LTD. (“WFOE”)**
- (3) **Qin Qiong**, a PRC citizen whose PRC identification number is 310108197109214485, and whose residential address is Room 702, No 2, Lane 1220, Jiangning Road, Putuo District, Shanghai (“**Grantor**”)
- (4) **SHANGHAI QUAN TOODOU NETWORK SCIENCE AND TECHNOLOGY CO., LTD (“Shanghai Quan Toodou”)**

(Individually a “**Party**” and collectively the “**Parties**”).

WHEREAS:

- A. YOUKU Cayman is an exempted company duly established and registered under the laws of the Cayman Islands.
- B. WFOE is a wholly foreign-owned enterprise duly established and registered in Shanghai under the laws of the PRC.
- C. The Grantor holds 84.7 % of the registered capital of Shanghai Quan Toodou, a limited liability company, with a registered capital of RMB 100,000,000. (the “**Equity Interests**”).
- D. The Grantor entered into a Loan Agreement on September 2, 2013 (the “**Loan Agreement**”), pursuant to which WFOE extended loans in an aggregate amount of RMB127,000,000 (the **Loan**) to Grantor.
- E. Youku Cayman, WFOE, Grantor, Shanghai Quan Toodou and certain other parties entered into an Equity Option Agreement (独家购买权合同, Original Agreement) dated April 23, 2013. Youku Cayman, WFOE, Grantor, and Shanghai Quan Toodou agreed to sign this Agreement to restate the Original Agreement. Youku Cayman, WFOE, Grantor and Shanghai Quan Toodou further acknowledge that this Agreement does not substantially change the Original Agreement, and the provisions of this Agreement reflect the intention of the Parties when they executed the Original Agreement. In this Agreement, the Grantor has agreed to grant exclusively to Youku Cayman and WFOE (Individually and collectively “**Youku**”) an option to acquire the Equity interests that have been registered in his name, subject to the terms and conditions set forth below.

THEREFORE, Through Friendly Negotiation In The Principle Of Equality And Common Interest, All Parties Agree As Follows:

SECTION 1: GRANT OF THE OPTION

1.1 Grant of Option

The Grantor hereby grants to Youku an option (“**Option**”) to acquire his Equity Interests at the price equivalent to the lowest price then permitted by PRC laws, and WFOE shall make payment of such price by cancelling all or a portion of the Loan. The Option shall become vested as of the date of this Agreement. Shanghai Quan Toodou hereby agrees to the Grantor’s granting of the option to Youku.

1.2 Term

This Agreement shall take effect as of the Effective Date and shall remain in full force and effect until the earlier of (1) the date on which all of the Equity Interests have been acquired by Youku directly or through its designated representative (individual or legal person); or (2) the unilateral termination by Youku (at its sole and absolute discretion), by giving 30 days prior written notice to the Grantor of its intention to terminate this Agreement.

1.3 Consideration of Option

The Grantor acknowledges that WFOE’s provision of the Loan to the Grantor is deemed to be the consideration for the grant of the Option, the sufficiency and payment of which have been acknowledged and recognized.

1.4 EFFECTIVE DATE

This Agreement shall take effect from September 2, 2013 (“**Effective Date**”).

SECTION 2: EXERCISE OF THE OPTION AND ITS CLOSING

2.1 Timing of Exercise

2.1.1 The Grantor and Shanghai Quan Toodou agree that Youku in its sole discretion may at any time, and from time to time after the date hereof, exercises the Option granted by the Grantor, in whole or in part, to acquire all or any portion of his Equity Interests.

- 2.1.2 For the avoidance of doubt, Youku Cayman, in its sole discretion, will decide whether the option and other rights granted under this Agreement will be exercised by Youku Cayman and/or by WFOE.
- 2.1.3 The Grantor and Shanghai Quan Toodou agree that Youku may designate in its sole discretion any third party to exercise the Option granted by the Grantor on its behalf, in which case Youku shall provide written notice to such Grantor at the time the Option granted by the Grantor is exercised.

2.2 Transfer

The Grantor and Shanghai Quan Toodou agree that the Option granted hereunder shall be freely transferable, in whole or in part, by Youku to any third party, and that, upon such transfer, the Option may be exercised by such third party upon the terms and conditions set forth herein, as if such third party were a party to this Agreement, and that such third party shall assume the rights and obligations of Youku hereunder.

The Grantor and Shanghai Quan Toodou agree that their rights and obligations hereunder cannot be transferred to any third party unless such transfer is agreed to by Youku.

2.3 Notice Requirement

- 2.3.1 To exercise an Option, Youku shall send written notices to the Grantor and Shanghai Quan Toodou, and such Option is to be exercised no later than ten (10) days prior to the Closing Date (as defined below), specifying therein:
- 2.3.1.1 the date of the effective closing of an acquisition (a “**Closing Date**”);
 - 2.3.1.2 the name of the person in which the Equity Interests shall be registered;
 - 2.3.1.3 the amount of Equity Interests to be acquired from the Grantor;
 - 2.3.1.4 the type of payment; and
 - 2.3.1.5 a letter of authorization, where a third party has been designated to exercise the Option.
- 2.3.2 For the avoidance of doubt, it is expressly agreed by all Parties that Youku shall have the right to exercise the Option and elect to register the Equity Interests in the name of another person as it may designate from time to time.

2.4 Closing

On each Closing Date, Youku shall make payment by cancelling all or a portion of the Loan payable by the Grantor to WFOE, in the same proportion that Youku or its designated party acquires the Equity Interest held by the Grantor.

SECTION 3: COMPLETION

3.1 Capital Contribution Transfer Agreement

Concurrently with the execution and delivery of this Agreement, and from time to time upon the request of Youku, the Grantor shall execute and deliver one or more capital contribution transfer agreements, in the form and content substantially satisfactory to Youku (“**Transfer Agreement**”), together with any other documents necessary to give effect to the transfer to Youku or its designated party of all or any part of the Equity Interests upon an exercise of the Option by Youku (the “**Ancillary Documents**”). The Transfer Agreement and the Ancillary Documents are to be kept in Youku’s possession.

The Grantor hereby agrees and authorizes Youku to complete, execute and submit to the relevant company registrar any and all Transfer Agreements and the Ancillary Documents to give effect to the transfer of all or any part of the Equity Interests upon an exercise of the Option by Youku at its sole discretion where necessary and in accordance with this Agreement.

3.2 Board Resolution

Notwithstanding Section 3.1 above, concurrently with the execution and delivery of this Agreement, and from time to time upon the request of Youku, the Grantor shall execute and deliver one or more resolutions of the board of directors and/or shareholders of Shanghai Quan Toodou, approving the following:

3.2.1 The transfer by the Grantor of all or part of the Equity Interests held by such Grantor to Youku or its designated party; and

3.2.2 any other matters as Youku may reasonably request.

Each Resolution is to be kept in Youku’s possession.

3.3 Waiver of Right of First Refusal

Upon the written request of Youku, the Grantor shall waive any and all of his right of first refusal or other preemptive rights provided under the PRC laws or the articles of association of Shanghai Quan Toodou with respect to the equity transfer conducted by any other shareholder of Shanghai Quan Toodou.

3.4 Return of Additional Consideration

If Youku or any transferee designated by Youku is required by applicable laws or competent authorities to pay any additional consideration (i.e. the transfer price is higher than the relevant registered capital of Shanghai Quan Toodou corresponding to the Equity Interest under transfer) to the Grantor for its exercise of the Options, the Grantor agrees to return any and all of such additional consideration to WFOE or such transferee as soon as possible after the completion of such equity interest transfer.

SECTION 4: REPRESENTATIONS AND WARRANTIES

4.1 Representations and Warranties

The Grantor represents and warrants to Youku that:

- 4.1.1 she has the full power and authority to enter into, and perform under, this Agreement;
- 4.1.2 her signing of this Agreement or fulfilling of any of her obligations hereunder does not violate any laws, regulations and contracts to which she is bound, or require any government authorization or approval;
- 4.1.3 there is no lawsuit, arbitration or other legal or government procedures pending which, based on his knowledge, shall materially and adversely affect this Agreement and the performance thereof;
- 4.1.4 she has disclosed to Youku all documents issued by any government department that might cause a material adverse effect on the performance of her obligations under this Agreement;
- 4.1.5 she has not been declared bankrupt by a court of competent jurisdiction;
- 4.1.6 save as disclosed to Youku, her Equity Interests is free and clear from all liens, encumbrances and third party rights;
- 4.1.7 she will not transfer, donate, pledge, or otherwise dispose of her Equity Interests in any way unless as otherwise agreed by Youku;
- 4.1.8 the Option granted to Youku by her shall be exclusive, and she shall in no event grant the Option or any similar rights to a third party by any means whatsoever; and
- 4.1.9 the Grantor further represents and warrants to Youku that she owns 84.7% of the Equity Interests of Shanghai Quan Toodou. She hereby agrees that the representations and warranties set forth in Sections 4 (except for Section 4.1.9) shall be deemed to be repeated as of each Closing Date as if such representation and warranty were made on and as of such Closing Date.

4.2 Covenants and Undertakings

- 4.2.1 Undertakings of Youku: To ensure that the cash flow requirements of the Shanghai Quan Toodou's ordinary operations are met and/or to set off any loss accrued during such operations, Youku is obligated, only to the extent permissible under PRC laws, to provide financing support for Shanghai Quan Toodou, whether or not Shanghai Quan Toodou actually incur any such operational loss. Youku's financing support may take the form of bank entrusted loans or borrowings to Shanghai Quan Toodou or its shareholders. Contracts for any such entrusted loans or borrowings shall be executed separately. Youku will not request repayment if Shanghai Quan Toodou or its shareholders are unable to do so.
- 4.2.2 Undertakings of the Grantor and Shanghai Quan Toodou
- 4.2.2.1 the Grantor and Shanghai Quan Toodou will complete all such formalities as are necessary to make Youku or its designated party a proper and registered shareholder of Shanghai Quan Toodou. Such formalities include, but are not limited to, assisting Youku with the obtaining of necessary approvals of the equity transfer from relevant government authorities (if any), the submission of the Transfer Agreement(s) to the relevant administration for industry and commerce for the purpose of amending the articles of association, changing the shareholder register and undertaking any other changes.
- 4.2.2.2 the Grantor will, upon request by Youku, establish a domestic entity to hold the interest in Shanghai Quan Toodou as a Chinese joint venture partner in case Shanghai Quan Toodou is restructured as a foreign-invested telecommunication enterprise. Shanghai Quan Toodou will provide any necessary assistance that Youku and the Grantor need (if any).
- 4.2.2.3 without the prior consent of Youku, the Grantor will not cause or agree Shanghai Quan Toodou to, and Shanghai Quan Toodou will not (a) amend the articles of association, (b) increase or decrease the registered capital, (c) sell, transfer, mortgage, create or allow any encumbrance or otherwise dispose of the assets, business, revenues or other beneficial interests, (d) incur or assume any indebtedness, or (e) enter into any material contracts, except in the ordinary course of business (for the purpose of this paragraph, any contract with a value exceeding RMB 100,000 shall be deemed to be a material contract).

SECTION 5: TAXES

Any taxes and duties that might arise from the execution and performance of this Agreement, including any taxes and expenses incurred by and applicable to any of the Grantor as a result of the exercise of the Option(s) by Youku or its designated party, or the acquisition of the Equity Interests from the Grantor(s), will be borne by Youku .

SECTION 6: GOVERNING LAW AND DISPUTE SETTLEMENT

6.1 Governing Law

The execution, validity, performance and interpretation of this Agreement shall be governed by and construed in accordance with the laws of the PRC.

6.2 Friendly Consultation

If a dispute arises in connection with the interpretation or performance of this Agreement, all parties shall attempt to resolve such dispute through friendly consultations among them or mediation by a neutral third party.

If the dispute cannot be resolved in the aforesaid manner within thirty (30) days after the commencement of such discussions, either Party may submit the dispute to arbitration.

6.3 Arbitration

Any dispute arising in connection with this Agreement shall be submitted to the China International Economic and Trade Arbitration Commission (“**CIETAC**”) for arbitration. The arbitration shall follow the then current rules of CIETAC, and the arbitration proceedings shall be conducted in Chinese and shall take place in Shanghai. The arbitration award shall be final and binding upon the parties. This Section 6 shall not be affected by the termination or elimination of this Agreement.

6.4 Matters not in Dispute

In case of any disputes arising out of the interpretation and performance of this Agreement or any pending arbitration of such dispute, each Party shall continue to perform their obligations under this Agreement, except for the matters in dispute.

SECTION 7: CONFIDENTIALITY

7.1 Confidential Information

The contents of this Agreement and the annexes hereof shall be kept confidential. No Party shall disclose any such information to any third party (except for the purpose described in Section 2.2 and by prior written agreement among the Parties). Each Party’s obligations under this clause shall survive after the termination of this Agreement.

7.2 Exceptions

If a disclosure is explicitly required by law, any courts, arbitration tribunals, or administrative authorities, such a disclosure by any Party shall not be deemed a violation of Section 7.1 above.

SECTION 8: MISCELLANEOUS

8.1 Entire Agreement

8.1.1 This Agreement constitutes the entire agreement and understanding by all Parties in respect of the subject matter hereof and supersedes all prior discussions, negotiations and agreements among them (including the Equity Option Agreement dated 28 January 2013 among the Parties). This Agreement shall only be amended by a written instrument signed by all the Parties.

8.1.2 The appendices attached hereto shall constitute an integral part of this Agreement and shall have the same legal effect as this Agreement.

8.2 Notices

8.2.1 Unless otherwise designate by the other Party, any notices or other correspondences by all Parties in connection with the performance of this Agreement shall be delivered in person, by express mail, e-mail, facsimile or registered mail to the following correspondence addresses and fax numbers:

YOUKU TUDOU INC.

Address : PO Box 309, Uglan House, Grand Cayman, KY1-1104, Cayman Islands
Fax : 010-59708818
Tele : 010-58851881
Addressee : KOO Victor

RESHUFFLE TECHNOLOGY (SHANGHAI) CO., LTD..

Address :Room 22301-1007, No. 14 Building, Pudong Software Park, No. 498 Guoshoujing Road, Zhangjiang High-technology Zone, Shanghai, PRC.
Fax : 021-51702388
Tele : 021-51702355
Addressee :YANG Weidong

Qin Qiong

Address : Room 702, No 2, Lane 1220, Jiangning Road, Putuo District, Shangha
Fax : 010-59708818
Tele : 010-58851881
Addressee : Qin Qiong

SHANGHAI QUAN TOODOU NETWORK SCIENCE AND TECHNOLOGY CO., LTD.

Address : Room 105, No. D Building, No. 2500 Long Dong Avenue, Zhangjiang High-technology Zone,
Shanghai, PRC.
Fax : 021-51702388
Tele : 021-51702355
Addressee : Qin Qiong

8.2.2 Notices and correspondences shall be deemed to have been effectively delivered:

8.2.2.1 at the exact time displayed in the corresponding transmission record, if delivered by facsimile, unless such facsimile is sent after 5:00 pm or on a non-business day in the place where it is received, in which case the date of receipt shall be deemed to be the following business day;

8.2.2.2 on the date that the receiving Party signs for the document, if delivered in person (including express mail);

8.2.2.3 on the fifteenth (15th) day after the date shown on the registered mail receipt, if sent by registered mail;

8.2.2.4 on the successful printing by the sender of a transmission report evidencing the delivery of the relevant e-mail, if sent by e-mail.

8.3 Days and Business Day

A reference to a day herein is to a calendar day. A reference to a business day herein is to a day on which commercial banks are open for business in the PRC.

8.4 Unspecified Matter

Any matter not specified in this Agreement shall be handled through mutual discussions by all Parties and stipulated in separate documents with binding legal effect, or resolved in accordance with PRC laws.

8.5 Severability

Any provision of this Agreement that is invalid or unenforceable because of any inconsistency with relevant law shall be ineffective or unenforceable within such jurisdiction where the relevant law governs, without affecting in any way the remaining provisions hereof.

8.6 Survival of Representations, Warranties, Covenants and Obligations

The respective representations, warranties, covenants and obligations of the Parties, as set forth in this Agreement or made by or on behalf of them, respectively, pursuant to this Agreement, shall remain in full force and effect, regardless of any investigation (or any statement as to the results thereof) made by or on behalf of any Party, and shall survive the transfer and payment for the Equity Interests.

8.7 Binding Effect

This Agreement, upon being signed by all Parties or their duly authorized representatives, shall be binding on all Parties and their successors and assigns.

8.8 Amendment

This Agreement should not be amended without Youku's prior written confirmation. Youku has sole discretion as to the amendments to this Agreement, for which the Grantor agree to accept unconditionally and sign the amended agreement promptly.

8.9 Entire Agreement

This Agreement amends and restates all Previous Agreements. In the event of any discrepancy between this Agreement and any Previous Agreement, this Agreement shall prevail to the extent of the discrepant provisions.

8.10 Language and Counterparts

This Agreement shall be executed in three (4) originals in English, with one (1) original for Youku Cayman, one (1) original for WFOE, one (1) original for the Grantor, and (1) original for Shanghai Quan Toodou.

[The space below is intentionally left blank.]

IN WITNESS WHEREOF, all Parties hereto have caused this Agreement to be duly executed on their behalf by a duly authorized representative as of the date first written above.

YOUKU TUDOU INC.

By: /s/ Victor Wing Cheung Koo
Authorized Representative: Victor Wing Cheung Koo

RESHUFFLE TECHNOLOGY (SHANGHAI) CO., LTD
(Company Seal)

By: /s/ YANG Weidong
Authorized Representative: YANG Weidong

GRANTOR: Qin Qiong

By: /s/ Qin Qiong

SHANGHAI QUAN TOODOU NETWORK SCIENCE AND TECHNOLOGY CO., LTD

By: /s/ Qin Qiong
Authorized Representative: Qin Qiong

LOAN AGREEMENT

This Loan Agreement (this “**Agreement**”) is entered in Shanghai, the People’s Republic of China (“**PRC**”, excluding the Hong Kong Special Administrative Region, the Macao Special Administrative Region and Taiwan, for purposes of this agreement) and dated September 2, 2013.

by and among the following parties:

- (1) **PARTY A: RESHUFFLE TECHNOLOGY (SHANGHAI) CO., LTD (“Lender”)**
 Legal Address: Room 22301-1007, No. 14 Building, Pudong Software Park, No. 498 Guoshoujing Road, Zhangjiang High-technology Zone, Shanghai, PRC
 Legal Representative: YANG Weidong

and

- (2) **Qin Qiong (“Borrower”)**
 ID Card No: 310108197109214485
 Address: Room 702, No 2, Lane 1220, Jiangning Road, Putuo District, Shanghai

(Lender and Borrower, each a “Party”; collectively, “Parties”)

WHEREAS:

- A. Qin Qiong holds 84.7% equity interest of the Shanghai Quan Toodou Network Science and Technology Co., Ltd (“**Shanghai Quan Toodou**”).
- B. The Lender and the Borrower entered into a loan agreement (**Original Loan Agreement**) on Aug 22, 2012, pursuant to which the Lender provided the Borrower with Loans in the amount of 100,000,000 (“**Original Loans**”). The Lender and the Borrower amended and restated the Original Loan Agreement on 28 January 2013 (“**Amended and Restated Loan Agreement**”).
- B. In addition to the Original Loans, the Borrower borrowed RMB27,000,000 to acquire 18% of the shares of Shanghai Quan Toodou.

THEREFORE, the Parties, through friendly negotiation based on equal and mutual benefit, agree as follows:

1. Purpose and Sum of the Loan

- 1.1 Subject to the terms and conditions set forth in this Agreement, the Lender has agreed to lend to the Borrower in the principal amount of up to RMB 127,000,000 (“**Loan**”) paid in RMB. Such Loan shall be interest-free throughout the term of the Loan.

- 1.2 Subject to the conditions precedent set forth below, RMB 47 million has been actually provided by the Lender to the Borrower.

2. Loan Terms

- 2.1 The term for such Loan will be ten (10) years from the execution date of this Agreement. The term under this Agreement shall be automatically extended for successive ten year periods unless written notice to the contrary is given by the Lender three months prior to the expiration of this Agreement.
- 2.2 The Borrower hereby confirms that such loan provided by the Lender was used only for the investment in the Shanghai Quan Toodou. Without the Lender's prior written consent, the Borrower shall not transfer or pledge his equity interest hereunder to any other third party.
- 2.3 The Lender and the Borrower jointly agree and confirm that the Borrower shall not repay the Loan in advance except for Lender's requirement or the expiration of this Agreement. The Borrower shall repay the Loan only in the following way and amount: the Borrower shall repay the Loan only by using all the funds obtained by the Borrower from transferring the entire Borrower's equity in Shanghai Quan Toodou to Lender or to any other third party designated by the Lender. In case the funds received by the Borrower from transferring the aforesaid equity is subject to any tax or administrative expenses, the Borrower shall only be obliged to repay the net portion of such funds (after deducting any applicable tax and expenses) to the Lender. When all of the Borrower's equity in Shanghai Quan Toodou is transferred as stipulated above and if all the fund thereof is repaid to the Lender by the Borrower, all the outstanding Loans hereunder shall be regarded as repaid.
- 2.4 The Lender and the Borrower agree and confirm that the Borrower shall immediately repay the Loan in advance in case any one of the following occurs:
- 2.4.1 The Borrower dies or becomes a person with no or limited capacity for civil rights;
- 2.4.2 The Borrower commits a crime or is involved in crime;
- 2.4.3 Any third party claims debt of the Borrower exceeding RMB1,000,000 (RMB one million) which the Borrower is not able to repay;

2.4.4 There are no legal restrictions for foreign investors to directly invest in the value-added telecommunication business or online audiovisual streaming business under PRC law; or

2.4.5 In the event that the Lender issues a written notice to the Borrower for repayment of the Loan.

3. Conditions Precedent to the Disbursement of the Loan

3.1 Lender shall not be obliged to make any disbursement of the Loan unless all of the following conditions have been satisfied or written waiver to all the conditions that have not been satisfied has been obtained:

3.1.1 The Borrower has delivered the written drawdown request pursuant to Section 1.2 of this Agreement.

3.1.2 All the representations and warranties made by the Borrower are correct, accurate, complete and not misleading.

3.1.3 The Borrower is not in breach of the covenants and undertakings made by such Borrower in Section 5 hereof.

3.1.4 Simultaneously with the execution of this Agreement, the Parties have executed an Equity Option Agreement (“**Option Agreement**”), pursuant to which the Borrower grant to the Lender or its designated person (legal or natural) an exclusive option to purchase all of the Borrower’s equity interest in Shanghai Quan Toodou, to the extent permitted under PRC laws.

3.1.5 Simultaneously with the execution of this Agreement, the Parties have executed an Equity Interest Pledge Agreement (“**Pledge Agreement**”), pursuant to which the Borrower has pledged all of his equity interest in Shanghai Quan Toodou to the Lender, to the extent permitted under PRC laws.

4. Representations and Warranties

4.1 The Borrower makes the following representations and warranties to the Lender, and confirms that the Lender execute and perform this Agreement in reliance of such representations and warranties:

4.1.1 The Borrower has the full capacity for civil rights and has the power to enter into this Agreement;

4.1.2 The execution of this Agreement of the Borrower will not violate any law or binding obligations;

- 4.1.3 This Agreement shall constitute a binding obligation of the Borrower, enforceable against him in accordance with its terms upon its execution;
 - 4.1.4 The Borrower neither commits criminal behaviors nor is involved in criminal activity;
 - 4.1.5 Except for the option under the Option Agreement and the pledge under the Pledge Agreement, without the prior consent of the Lender, the Borrower shall not create any pledge over part or whole of the Borrower's shareholder's right in Shanghai Quan Toodou or any priority for any third party with the beneficiary neither the Lender nor its subsidiaries or affiliates.
- 4.2 The Lender makes the following representations and warranties to the Borrower:
- 4.2.1 The Lender is a company registered and validly existing under the laws of PRC;
 - 4.2.2 The execution and performance of this Agreement by the Lender is in compliance with the power of the Lender. The Lender has taken proper measures and has gained authorizations and approvals for the execution and performance of this Agreement;
 - 4.2.3 This Agreement shall constitute the legal, valid and binding obligations of the Lender, which is enforceable against the Lender in accordance with its terms upon its execution.

5. Covenants and Undertakings of Borrower

- 5.1 The Borrower, as shareholder of Shanghai Quan Toodou, hereby undertakes to and cause Shanghai Quan Toodou to, observe the following terms with all efforts during the term of this Agreement:
- 5.1.1 it shall not modify in any way its articles of association or alter its shareholding structure without the prior written consent of the Lender;
 - 5.1.2 it shall not transfer or dispose of any material asset, or create any other security interest over the same without the prior written consent of the Lender;
 - 5.1.3 it shall not provide any warranty or assume any debt for any third party which is beyond its normal daily business scope without the prior written consent of the Lender;

- 5.1.4 it shall not enter into any material contracts without the prior written consent of the Lender, except those entered into in the ordinary course of business (for the purpose of this paragraph, any contract with a value exceeding RMB 100,000 shall be deemed to be a material contract);
- 5.1.5 it shall not extend any loan or credit to any third party without the prior written consent of the Lender;
- 5.1.6 it shall not merge with or invest in any third party without the prior written consent of the Lender;
- 5.1.7 it shall not declare in any way any bonus or dividends for its shareholders without the prior written consent of the Lender.

5.2 The Borrower further commits to the Lender, within the term of this Agreement, as follows:

- 5.2.1 he shall take all the measures to guarantee and maintain his identification and status as shareholders of Shanghai Quan Toodou;
- 5.2.2 he shall not transfer or dispose of any of his equity interest or other rights or powers pertinent to his equity interest in Shanghai Quan Toodou;
- 5.2.3 he shall procure that the shareholders' meeting of Shanghai Quan Toodou shall not pass any decision about its merger with or investment in any third party without the prior written consent of the Lender;
- 5.2.4 he shall not carry out any action bearing material influences on the assets, business, obligations or liabilities of Shanghai Quan Toodou without prior written consent of the Lender;
- 5.2.5 he shall immediately and unconditionally transfer all or part of his equity interest in Shanghai Quan Toodou to Lender or any third party designated by the Lender in accordance with PRC laws and, where applicable, procure all the other shareholders of Shanghai Quan Toodou waive any prior right over purchasing such shares, as required by the Lender;
- 5.2.6 he shall strictly observe his commitments and guarantees under this Agreement and other related agreements.

5.3 The Borrower hereby covenants and undertakes that upon the signing of this Agreement, the Borrower shall:

- 5.3.1 pledge all equity interest in Shanghai Quan Toodou held by the Borrower for the benefit of the Lender to guarantee the due repayment of the Loan hereunder, the payment of the service fees under the Exclusive Technical and Consulting Services Agreement, and the payment of the license fees under the Amended and Restated Trademark License Agreement and the Amended and Restated Domain Name License Agreement;
- 5.3.2 appoint and authorize an individual or entity designated by the Lender to exercise the rights and powers pertinent to the equity interest in Shanghai Quan Toodou held by the Borrower simultaneously with the execution of this Agreement and sign and deliver a power of attorney ;
- 5.3.3 confirm and ratify in the capacity of a shareholder of Shanghai Quan Toodou that the Borrower is bound by the Business Operations Agreement entered into by the Lender, Shanghai Quan Toodou and the Borrower on _Jan 28_ 2013;
- 5.3.4 confirm and agree that the Lender shall have the right to acquire or to designate any third party of its choice to acquire from time to time part or all of the equity interest of Shanghai Quan Toodou from the Borrower at an agreed price and enter into the Option Agreement.

6. Default

If a Borrower fails to perform its repayment obligation pursuant to this Agreement, an overdue interest at the rate of 0.01% per day upon the outstanding amount of the Loan shall be payable to the Lender.

7. Confidentiality

- 7.1 Both Parties acknowledge and confirm to take all possible measures to keep confidential all the confidential materials and information (the “**Confidential Information**”) they get to know by this Agreement. Both Parties shall not disclose, provide or transfer such Confidential Information to any third party without the prior written consent of the other Party. In case of the termination of this Agreement, the receiving party of the Confidential Information shall return or destroy all the files, materials or software as required by the disclosing party, and delete any of the Confidential Information from any memory equipments and discontinue using such Confidential Information.
- 7.2 Both parties agree that this Section 7 shall survive the modification and termination of this Agreement.

8. Notices

Unless a written notice of change of address is issued, all correspondence relating to this Agreement shall be delivered in person, or by registered or prepaid mail, or by recognized express services or facsimile to the addresses appointed by the other Party from time to time.

9. Governing Law and Dispute Settlement

- 9.1 The execution, validity, performance and interpretation of this Agreement shall be governed by and construed in accordance with the laws of the PRC.
- 9.2 Both parties shall strive to settle any dispute arising from the interpretation or performance through friendly consultation. In case no settlement can be reached through consultation, either Party may submit such matter to China International Economic and Trade Arbitration Commission (“**CIETAC**”) for arbitration. The arbitration shall follow the then current rules of CIETAC, and the arbitration proceedings shall be conducted in Chinese and shall take place in Shanghai. The arbitration award shall be final and binding upon both Parties. This article shall not be affected by the termination or elimination of this Agreement.
- 9.3 In case of any disputes arising out of the interpretation and performance of this Agreement or any pending arbitration of such dispute, each Party shall continue to perform their obligations under this Agreement, except for the matters in dispute.

10. Force Majeure

- 10.1 Force Majeure refers to any accident which is beyond the Party’s control and is inevitable with the reasonable care of the other Party who shall be influenced, including but not limited to governmental activity, natural force, fire, explosion, storm, flood, earthquake, tide, lightening or war. However, the credit, capital or shortage of financing shall not be deemed as the matters beyond one Party’s reasonable control. The Party influenced by the Force Majeure and seeking for exemption hereunder shall notify the other Party as soon as possible and inform the other Party of the measures to take in order to accomplish the performance of this Agreement.
- 10.2 In case the performance of this Agreement is delayed or cumbered by the above-referenced Force Majeure, the Party who is influenced by the Force Majeure shall not bear any liability within the scope of delay and cumbrance, and shall take all the proper measures to reduce or eliminate the influence of Force Majeure, and shall make efforts to renew the performance of its obligations hereunder which has been delayed or cumbered by the Force Majeure. Each Party shall try its best to restore the performance of this Agreement once the Force Majeure is eliminated.

11. Miscellaneous

- 11.1 This Agreement shall be effective upon its being signed by the Parties hereunder.
- 11.2 Any modification, termination or waiver of this Agreement shall not take effect without the written consent of each Party.
- 11.3 Any appendix attached hereto shall be of the same effect as this Agreement. This Agreement constitutes the entire agreement and understanding by both Parties in respect of the subject matter hereof and supersedes all prior discussions, negotiations and agreements among them (including the Original Loan Agreement and the Amended and Restated Loan Agreement).
- 11.4 The Borrower shall not transfer his rights and obligations hereunder to any third party without the prior written consent of the Lender.
- 11.5 In case any terms and stipulations in this Agreement is regarded as illegal or cannot be performed in accordance with the applicable law, it shall be deemed to be deleted from this Agreement and lose its effect and this Agreement shall remain its effect and be treated as without it from the very beginning. Each Party shall replace the deleted stipulations with those lawful and effective ones, which are acceptable to the Lender, through mutual negotiation.
- 11.6 This Agreement is prepared in both English and Chinese. In case of any discrepancy between the English and Chinese versions, the Chinese version shall prevail.

[The space below is intentionally left blank.]

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be duly executed on their behalf by a duly authorized representative as of the date first written above.

RESHUFFLE TECHNOLOGY (SHANGHAI) CO., LTD
(Company Seal)

By: /s/ YANG Weidong
Authorized Representative: YANG Weidong

BORROWER: Qin Qiong

By: /s/ QIN Qiong

Equity Transfer Agreement
(translated version)

This Agreement is executed as of September 2, 2013 by and between:

Transferor: Yu Zhou ID Card No.: 370203197209032018 (“Party A”)

Transferee: Qin Qiong ID Card No.: 310108197109214485 (“Party B”)

SHANGHAI QUAN TOODOU NETWORK SCIENCE AND TECHNOLOGY CO., LTD (the “Target Company”) has a registered capital of RMB 150 million, of which Qin Qiong contributed RMB 100 million, representing 66.7%, Yu Zhou contributed RMB 27 million, representing 18%, and Liu Dele contributed RMB 23 million, representing 15.3%. In accordance with pertinent laws and regulations, upon amicable negotiations between the Parties, the Parties hereby agree as follows:

Article 1 Subject and Price of Transfer

1. Party A will transfer the 18% equity it holds in the Target Company (equivalent to RMB 27 million) to Party B at a valuated price of RMB 27 million.
2. Other rights affiliated to the equity will be transferred together with the equity.
3. The Transferee shall pay the equity transfer price in full to the Transferor in cash or via wire transfer within 30 days upon the date hereof.

Article 2 Undertakings and Warranties

Party A undertakes that it is the legal owner of, and has full and valid right to dispose of, the equity to be transferred to Party B pursuant to Article 1 hereof. Party A further undertakes that the equity to be transferred by it is free of any mortgage or other security interest and subject to no claims by any third person.

Article 3 Liabilities for Breach

To the extent that Party B fails to pay the equity transfer price as scheduled, for each overdue day, it shall bear a penalty fine equivalent to 0.1% of the outstanding amount of equity transfer price; it shall also compensate Party A for any economic loss arising as a result of its breach that cannot be covered by the penalty fine.

Article 4 Dispute Resolution

Any disputes arising from the performance of this Agreement shall be resolved by the Parties through amicable negotiations. In case such negotiations fail, such disputes shall be submitted to Shanghai Arbitration Commission for arbitration.

Article 5 Miscellaneous

1. This Agreement is made in five originals, one for each Party and one for the Target Company for purposes of relevant procedures.
-

2. This Agreement shall take effect upon executed by both Parties.

[No body text below]

Party A (signature): /s/ Yu Zhou Party B (signature): /s/ Qiong Qin

Date: September 2, 2013

Youku Tudou Inc.
List of Significant Consolidated Entities

Significant Subsidiaries

IVerge Internet Technology (Beijing) Co., Ltd., a PRC company
Jet Brilliant Limited, a Hong Kong company
Beijing Jet Brilliant Advertising Co., Ltd., a PRC company
Youku Video (Xi'an) Media Technology Co., Ltd., a PRC company
Trade Lead Investments Ltd., a British Virgin Islands company
Tudou Holdings Limited, a Cayman Islands company
StarCloud Media Co., Limited, a British Virgin Islands company
Reshuffle Technology (Shanghai) Co., Ltd., a PRC company
Chuanxian Technology (Shanghai) Co., Ltd., a PRC company

Significant Consolidated Affiliated Entities

IVerge Information Technology (Beijing) Co., Ltd., a PRC company
Zhejiang Dongyang Tianshi Media Ltd., a PRC company
Quan Toodou Network Science and Technology Co., Ltd., a PRC company
Shanghai Quan Toodou Cultural Communication Co., Ltd., a PRC company

* Other consolidated entities of Youku Tudou Inc. have been omitted from this list since, considered in the aggregate as a single entity, they would not constitute a significant subsidiary.

**Certification by the Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Victor Wing Cheung Koo, certify that:

1. I have reviewed this annual report on Form 20-F of Youku Tudou Inc. (the “Company”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and
5. The Company’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of Company’s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

Date: April 16, 2014

By: /s/ Victor Wing Cheung Koo
Name: Victor Wing Cheung Koo
Title: Chief Executive Officer

**Certification by the Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Michael Ge Xu, certify that:

1. I have reviewed this annual report on Form 20-F of Youku Tudou Inc. (the “Company”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and
5. The Company’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of Company’s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

Date: April 16, 2014

By: /s/ Michael Ge Xu
Name: Michael Ge Xu
Title: Chief Financial Officer

**Certification by the Chief Executive Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Youku Tudou Inc. (the "Company") on Form 20-F for the year ended December 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Victor Wing Cheung Koo, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 16, 2014

By: /s/ Victor Wing Cheung Koo
Name: Victor Wing Cheung Koo
Title: Chief Executive Officer

**Certification by the Chief Financial Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Youku Tudou Inc. (the "Company") on Form 20-F for the year ended December 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael Ge Xu, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 16, 2014

By: /s/ Michael Ge Xu
Name: Michael Ge Xu
Title: Chief Financial Officer

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-184093) pertaining to the Youku Tudou Inc. Share Incentive Plan and the Amended and Restated Tudou Holdings Limited 2010 Share Incentive Plan, and the Registration Statement (Form S-8 No. 333-171454) pertaining to the 2006 Stock Option Scheme and 2010 Share Incentive Plan of Youku Tudou Inc. (formerly Youku Inc.), of our reports dated April 16, 2014, with respect to the consolidated financial statements of Youku Tudou Inc. and the effectiveness of internal control over financial reporting of Youku Tudou Inc., included in its Annual Report (Form 20-F) for the year ended December 31, 2013.

/s/ Ernst & Young Hua Ming LLP

Beijing, People's Republic of China

April 16, 2014



TransAsia Lawyers

Advisors on PRC & International Law

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Website: www.TransAsiaLawyers.com

April 16, 2014

Youku Tudou Inc.
11/F, SinoSteel Plaza
8 Haidian Street, Haidian District
Beijing 100080
The People's Republic of China

Ladies and Gentlemen,

We consent to the reference to our firm under the heading "Risk Factors" in "Item 3: Key Information" in Youku Tudou Inc.'s Annual Report on Form 20-F for the year ended December 31, 2013, which will be filed with the Securities and Exchange Commission in the month of April 2014.

Yours faithfully,

/s/ TransAsia Lawyers

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