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Web Proof Information Pack of



Forgame Holdings Limited

雲遊控股有限公司

(Incorporated in Cayman Islands with limited liability)

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CONTENTS

This Web Proof Information Pack contains the following Information relating to the Company.

Warning

Contents

Summary

Definitions

Glossary

Forward-looking Statements

Risk Factors

Directors

Corporate Information

Industry Overview

Regulations

Our History, Reorganization and Corporate Structure

Business

Contractual Arrangements

Relationship with Our Controlling Shareholders

Directors and Senior Management

Share Capital

Financial Information

Appendix I — Accountant’s Report

Appendix II — Summary of the Constitution of the Company and Cayman Islands Company Law

Appendix III — Statutory and General Information

YOU SHOULD READ THE SECTION HEADED “WARNING” ON THE COVER OF THIS WEBPROOF INFORMATION DOCUMENT.

SUMMARY

This summary is intended to give you an overview of the information contained in this document. Since it is a summary, it does not contain all the information that may be important to you. You should read this document in its entirety.

OVERVIEW

We are a leading developer and publisher of webgames in China with a fast-growing mobile game business. We were the No.1 webgame developer in China, with a 24% market share of net revenue from webgame development industry in 2012, according to iResearch, an independent research institution. We had successfully developed and launched over 30 easy-to-access, highly engaging and popular games as of June 30, 2013. Our publishing platform, *91wan*, published 79 self-developed and licensed webgames and had attracted over 179 million registered players as of June 30, 2013. This integrated business model creates synergies that improve our overall performance. All games we develop or publish adopt an item-based revenue model, in which players have free access to games and can purchase virtual items that improve their in-game experience. Please refer to the sections headed “— Our Industry” and “Industry Overview — Webgame Value Chain Overview” for details on webgame distribution and payment model.

Game Development

Our creative game development studios and proprietary game analytics engine are key to the success of our game development business. We actively monitor the latest online trends relating to entertainment and popular culture and develop webgames with popular themes that appeal to mainstream players. Our game analytics engine tracks, analyzes and reports in-game behavior metrics, player activity data and player demographics to enable our game development studios to develop high quality games that are fun and exciting to play. Some of our webgames are among the most popular and successful games in China, representing five, five and four of the top 15 webgames in terms of gross billings in 2011 and the first and second halves of 2012, respectively, more than any other game developer in China. Our games can be played both on our own publishing platform, *91wan*, and through an extensive network of more than 350 publishing partners, including popular websites operated by Tencent, Qihoo360, YY and 4399.

Given the similarities between webgames and mobile games, we believe that we will be able to leverage our proprietary game development capabilities to further expand into the mobile gaming market. We launched our first mobile game, the strategy war game *The Era of Storms*, on Android and iOS platforms in the second quarter of 2012, which generated monthly gross billings of over RMB14 million in August 2013. We are developing mobile games that leverage elements of our successful webgames, as well as new genres of mobile games.

As of June 30, 2013, we expected to commence beta testing of at least five webgames and six mobile games by the end of 2013 and at least 12 webgames and 12 mobile games in 2014, respectively.

Game Publishing

We operate our own publishing platform, *91wan*, an online webgame platform that uses broadband connections, large server clusters, encryption and compression to stream game content to players’ devices. *91wan* has grown rapidly since its establishment in 2007, attracting 7.5 million average MAUs for the six months ended June 30, 2013, as compared to approximately 5.2 million, 3.6 million and 2.7 million average MAUs for 2012, 2011 and 2010, respectively. *91wan* was named one of the “Top 10 Game Operating Platforms” by Baidu Game Billboard (百度遊戲風雲榜) in both 2011 and 2012.

We published 20 self-developed and 59 licensed webgames on *91wan* as of June 30, 2013. We select third-party developed games which complement our own portfolio as well as games which attract more players to our platform. *91wan* also serves as a valuable platform on which we can beta test our self-developed games, enabling

SUMMARY

us to optimize our games according to player data and feedback prior to launch and to more successfully promote our games to our publishing partners.

We engage third-party payment channels for our game publishing business. Third-party payment channels charge us handling fees at a certain percentage of the transaction amounts settled through their channels, which are directly deducted from the transaction amounts. Settlements with payment channels occur on a real-time basis. Please refer to the sections headed "Business — Our Businesses — Our Game Publishing Business — Payment Channels" and "Business — Our Businesses — Procurement and Suppliers" for details of our cooperation with payment channels.

Revenue Model

All of the games we develop or publish adopt an item-based revenue model, in which players have free access to our games and can purchase virtual items that improve their in-game experience. We generate revenues when players purchase virtual items.

For our games published by our publishing partners, our publishing partners are responsible for collecting payments from players and sharing gross billings generated from these games with us. The gross billings generated from our games published on *91wan* are shared between our game development business and game publishing business, similar to the arrangement between *91wan* and third-party game developers. Please refer to the sections headed "Business — Our Game Development Business — Revenue Model and Pricing" and "Business — Our Game Publishing Business — Revenue Sharing" for details.

We have grown rapidly during the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013. Our revenue increased from RMB95.1 million in 2010 to RMB776.6 million in 2012, representing a CAGR of 185.8%, while our game development revenue increased from RMB49.7 million in 2010 to RMB540.7 million in 2012, representing a CAGR of 229.8% and our game publishing revenue increased from RMB45.4 million in 2010 to RMB235.9 million in 2012, representing a CAGR of 128.0%. Our revenue increased 65.3% from RMB347.1 million for the six months ended June 30, 2012 to RMB573.7 million for the six months ended June 30, 2013, while our game development revenue increased 63.9% from RMB231.6 million for the six months ended June 30, 2012 to RMB379.5 million for the six months ended June 30, 2013 and our game publishing revenue increased 68.1% from RMB115.6 million for the six months ended June 30, 2012 to RMB194.3 million for the six months ended June 30, 2013. We have improved our financial performance from an adjusted net loss of RMB40.4 million in 2010 to an adjusted net profit of RMB153.6 million for the six months ended June 30, 2013. Please refer to the sections headed "Financial Information — Summary Historical Financial Information — Selected Historical Consolidated Statement of Comprehensive (Loss)/Income Data and Balance Sheet Data" and "Financial Information — Other Financial Measures."

Cooperation Agreements

Cooperation Agreements with Publishing Partners

For each game that is published on a publishing partner's platform, we enter into a separate cooperation agreement with that partner, granting it the right to publish, promote, distribute and service the game in specified territories which is renewable upon mutual agreement.

Our publishing partners are responsible for collecting payments from players and sharing gross billings generated from our games with us. Our publishing partners are also responsible for the sales and marketing of our games as well as certain aspects of player services that do not require in-game technical support.

Generally, we are responsible for providing our publishing partners with content updates and on-going technical support for the operations of our games, as well as preventing, detecting and resolving in-game cheating and

SUMMARY

hacking activities. As the game developer, we generally have broad termination rights, such as if a publishing partner promotes our games under a different name or grant virtual items to players for testing purposes without our prior authorization. Please refer to the section headed “Business — Our Businesses — Our Game Development Business — Publishing Partners” for the key terms and provisions of cooperation agreements with publishing partners.

Cooperation Agreements with Third-Party Game Developers

For each licensed game we publish on *91wan*, we enter into a cooperation agreement with the game developer. The terms of these cooperation agreements are similar to the cooperation agreements we enter into with publishing partners for our own games. Please refer to the section headed “Business — Our Businesses — Our Game Publishing Business — Revenue Sharing” for the key terms and provisions of cooperation agreements with third-party game developers.

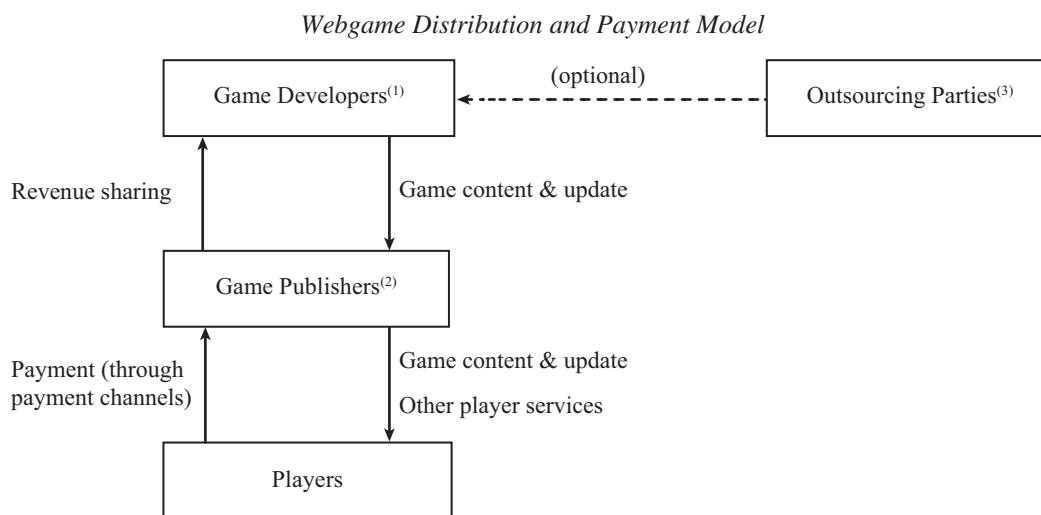
OUR INDUSTRY

Online games are one of the most popular forms of digital entertainment in China. According to CNNIC, 345 million, or 58.5%, of Internet users in China had played online games as of June 30, 2013. The online gaming industry in China has two major segments, namely, client-based games and webgames. There are significant differences between client-based games and webgames and the two segments are treated as distinct markets. While client-based games typically target hardcore players, webgames target the mass market. Client-based games and webgames also differ in terms of technological requirements, game development and design, game maintenance and service and player engagement.

Webgames emerged in 2007 and have become the second largest segment of online games, accounting for approximately 13% of the total online gaming market in 2012, compared to client-based games with approximately 83% of the total online gaming market, according to iResearch. The webgame segment has grown at a CAGR of 85.2% from 2008 to 2012, and is expected to further grow at a CAGR of 21.8% from 2012 to 2016 according to iResearch.

SUMMARY

China's webgame industry participants primarily consist of webgame developers and publishers. Webgame developers are responsible for developing game content, ongoing calibration of the games and providing in-game technical support. Developers own intellectual property rights to the games they develop and typically license their games to publishers or publish their games on their own publishing platforms. Webgame publishers are responsible for game advertising, player acquisition and technical support relating to publishing platforms. They typically publish games licensed from third-party webgame developers or self-developed games. The following chart illustrates the typical webgame distribution and payment model:



Notes:

- (1) Include (i) us in our capacity as a game developer and (ii) our game licensors.
- (2) Include (i) us in our capacity as a game publisher (*91wan*) and (ii) our publishing partners.
- (3) Include our outsourcing partners who provide technical and/or graphic services.

Other participants include (i) players, some of whom purchase virtual items and generate revenue for the games; (ii) server hosting and bandwidth leasing companies, who provide server hosting and bandwidth leasing services for both game developers and publishers; (iii) payment channels, who collect payments from players for game publishers; and (iv) outsourcing parties, who provide technical and/or graphic services.

The webgame development market is relatively concentrated. According to iResearch, the top three game developers in China accounted for 57.4% of the industry's total net revenue received by game developers in 2012. The aggregate gross billings of the top 15 webgames represented more than 70% gross billings of the total market in 2012.

Smartphones have become an increasingly popular means to access the Internet. According to iResearch, the penetration rate of smartphones in China, defined as the number of smartphones in use as a percentage of all mobile devices, was 32.6% as of December 31, 2012, and is expected to reach 46.2% by 2016, illustrating the significant potential for continued growth in smartphone use. As smartphones allow players to have real-time Internet access without a personal computer, mobile game developers can expand the accessibility of their games and improve player engagement by capturing time spent away from personal computers. The mobile gaming market generated an estimated revenue of RMB1.9 billion in 2012 and is expected to further grow to RMB17.8 billion in 2016, representing a CAGR of 75.5%.

According to iResearch, webgame developers with innovative R&D capabilities and experience, an established player base, and data analytics are better positioned to succeed in the mobile gaming market. Given the similarities between webgames and mobile games, webgame developers are able to leverage their R&D knowledge in developing new games tailored for mobile devices, and convert existing webgames into mobile games.

SUMMARY

Please refer to the section headed “Industry Overview” for a detailed discussion of our industry, the competitive landscape and the source of related information.

OUR COMPETITIVE STRENGTHS

We believe that the following strengths are key to our continued success and represent significant competitive barriers:

- A market leader in China’s webgame industry with a differentiated business model integrating development and publishing;
- Strong in-house game development expertise with a track record of successful games and robust pipeline;
- Leading publishing platform;
- Large game portfolio and diversified publishing network; and
- Collaborative culture led by a stable management team.

Please refer to the section headed “Business — Our Strengths” for a detailed discussion of these strengths.

OUR STRATEGIES

We aim to execute the following strategies to further engage an increasing number of players in our games and improve monetization of our games:

- Continue to broaden our game portfolio and drive monetization;
- Expand our leading publishing platform;
- Continue to enhance our technology and game analytics engine;
- Further expand into the mobile gaming market;
- Broaden reach into international markets; and
- Pursue strategic acquisitions and partnerships.

Please refer to the section headed “Business — Our Strategies” for a detailed discussion of these strategies.

CONTRACTUAL ARRANGEMENTS

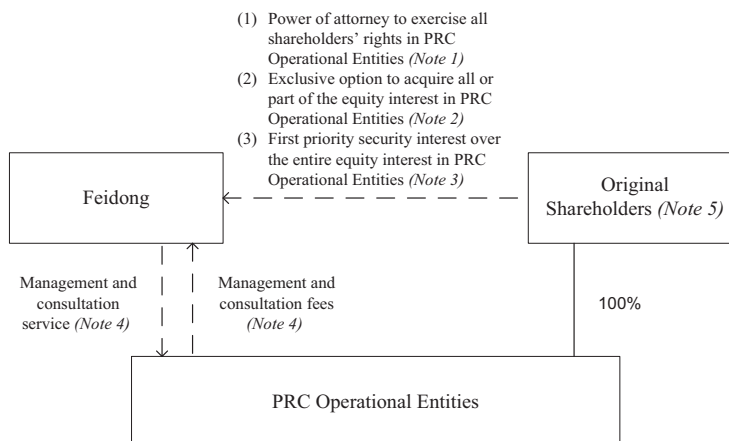
According to applicable laws and regulations in the PRC, foreign investors are not allowed to hold more than 50% of the equity interests of a company providing value-added telecommunications services, including ICP services. As such, in line with common practice in industries subject to foreign investment restrictions in the PRC, Feidong, our wholly-owned subsidiary, has entered into a series of Contractual Arrangements with our PRC Operational Entities and their respective shareholders for us to gain effective control over and receive the economic benefits generated by the businesses currently operated by our PRC Operational Entities. The Contractual Arrangements allow our PRC Operational Entities’ financial position and results of operations to be consolidated into our financial position and results of operations under IFRS. We believe that the Contractual Arrangements are narrowly tailored as they are used to enable the Group to conduct businesses in industries that are subject to foreign investment restrictions.

Our PRC legal advisers have advised us that each of the Contractual Arrangements is legal, valid and binding. However, there can be no assurance that the Contractual Arrangements will be determined by the PRC government to be in compliance with applicable PRC laws, rules, regulations or policies in the future. If the Contractual Arrangements are found to be in violation of any applicable PRC laws or regulations, the relevant

SUMMARY

regulatory authorities may impose various sanctions that could have a material adverse impact on our business, prospect, financial condition and results of operations. Please refer to the section headed “Risk Factors — Risks Relating to Our Contractual Arrangements” for details of risks relating to the Contractual Arrangements.

The following diagram illustrates the flow of economic benefits from the PRC Operational Entities to our Group stipulated under the Contractual Arrangements:



Note:

1. Please refer to the section headed “Contractual Arrangements – Powers of Attorney” of this document for details.
2. Please refer to the section headed “Contractual Arrangements – Exclusive Option Agreements” of this document for details.
3. Please refer to the section headed “Contractual Arrangements – Share Pledge Agreements” of this document for details.
4. Please refer to the section headed “Contractual Arrangements – Exclusive Business Cooperation Agreements” of this document for details.
5. Original Shareholders are the Founders. Please refer to the section headed “Definitions” of this document for details of the Founders.
6. “————” denotes direct legal and beneficial ownership in the equity interest and “----->” denotes contractual relationship.

Please refer to the section headed “Contractual Arrangements” for details of the Contractual Arrangements.

PRE-[●] INVESTMENTS

There have been two rounds of Pre-[●] Investments in the Company.

The first round of Pre-[●] Investments was undertaken by the Series A Investors and was completed on June 15, 2012. The Series A Investors made an aggregate investment of US\$68,800,000 in the Company, of which US\$58,800,000 was used for the repurchase of Shares held by Foga Networks on behalf of Longling Capital Ltd and Baolink Capital Ltd, the holding companies of the Pre-Series A Investors and US\$10,000,000 was used as the general working capital of our Company. Upon completion, the Series A Investors, namely TA, Qiming and Ignition, held approximately 20.10%, 5.79% and 1.77% of the then-issued share capital of our Company, respectively. We believe that Series A Investors’ investment in our Company demonstrates their confidence in our Group’s operations and serves as an endorsement of our Company’s performance, strength and prospects.

The second round of Pre-[●] Investments was undertaken by the Second Round Pre-[●] Investors. The Second Round Pre-[●] Investors paid a total consideration of US\$24,000,000 to acquire approximately 6.3% of the then-issued share capital of our Company from Foga Holdings, Foga Networks and Foga Development. Our Directors believe that the Company can benefit from the commitment of the Second Round Pre-[●] Investors to the Company and can leverage their local knowledge and network to enhance the strategic business model of the

SUMMARY

Group. Please refer to the section headed “Our History, Reorganization and Corporate Structure — Pre-[●] Investments” for details.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Our Founders are the ultimate owners of the Group and operate the business through the PRC Operational Entities. They exercise common control over the Group and will be our Controlling Shareholders immediately upon [●]. None of our Controlling Shareholders were engaged or interested in any business which, directly or indirectly, competes or may compete with our Group’s business. Our Directors do not expect any significant transactions between our Group and our Controlling Shareholders. Our Directors believe that our Group is capable of carrying on its business independently without unduly relying on them. Please refer to the section headed “Relationship with Our Controlling Shareholders” for details.

SHARE OPTION SCHEMES

We have granted options under the Pre-[●] Share Option Scheme. Please refer to the section headed “Appendix III — Statutory and General Information — Pre-[●] Share Option Scheme” for details.

As of the Latest Practicable Date, options to subscribe for an aggregate of 6,303,497 Shares had been conditionally granted by our Company to three Independent Non-executive Directors, two members of the senior management and 360 other employees of our Group.

We have conditionally adopted the Post-[●] Share Option Scheme. Please refer to the section headed “Appendix III — Statutory and General Information — Post-[●] Share Option Scheme” for details.

RESTRICTED SHARE UNIT SCHEME

We have conditionally approved and adopted the RSU Scheme on September 1, 2013. As of the Latest Practicable Date, no RSU had been granted or agreed to be granted by our Company pursuant to the RSU Scheme. The maximum number of Shares which may be granted under the RSU Scheme is 11,290,494. Please refer to the section headed “Appendix III — Statutory and General Information — RSU Scheme” for details.

SUMMARY

SUMMARY HISTORICAL FINANCIAL INFORMATION

The following tables set forth summary consolidated financial information of our Group. We have derived the consolidated financial information for the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013 and as of December 31, 2010, 2011 and 2012 and June 30, 2013 from our audited consolidated financial statements set forth in the Accountant’s Report in Appendix I to this document. We have derived the consolidated financial information for the six months ended June 30, 2012 from our reviewed consolidated financial statements set forth in the Accountant’s Report in Appendix I to this document. The summary consolidated financial information should be read together with, and is qualified in its entirety by reference to, the consolidated financial statements in this document, including the related notes. Our consolidated financial information was prepared in accordance with IFRS.

Selected Historical Consolidated Statement of Comprehensive (Loss)/Income Data and Balance Sheet Data

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2010	2011	2012	2012	2013
	(RMB’000)				
	(unaudited)				
Revenue	95,078	384,009	776,649	347,122	573,748
Game development	49,701	252,016	540,749	231,564	379,482
Game publishing	45,377	131,993	235,900	115,558	194,266
Gross profit	40,377	315,179	697,561	316,149	509,631
Operating (loss)/profit	(40,410)	40,513	283,591	151,672	163,602
(Loss)/profit for the year/period	(40,384)	17,849	217,617	122,236	(243,347)
Other Financial Measures					
Adjusted net (loss)/profit ⁽¹⁾ (unaudited)	(40,384)	114,938	240,031	125,881	153,588

Note:

- (1) We define adjusted net profit/(loss) as net income or loss excluding share-based compensation, fair value change of preferred shares and finance costs relating to the issuance of preferred shares. Adjusted net profit/(loss) eliminates the effect of non-cash share-based compensation and non-cash fair value change of preferred shares which have been and may continue to be significant recurring factors in our business, as well as the expenses relating to the one-time issuance of preferred shares. The use of adjusted net profit/(loss) has material limitations as an analytical tool, as adjusted net profit/(loss) does not include all items that impact our net loss or profit for the year/period. Please refer to the section headed “Financial Information — Other Financial Measures.”

As we launched our first webgame in 2009, revenues from our game development business increased and our game pipeline steadily grew during the the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013. We had an operating loss in 2010 because we incurred significant game development costs upfront without the corresponding revenues as we were still in the early stage of our business. Please refer to the section headed “Financial Information — Results of Operations” for details. Despite our operating profit for the six months ended June 30, 2013, we had a loss for the period as a result of the fair value loss of convertible redeemable preferred shares of RMB369.4 million. Please refer to the section headed “Financial Information — Shareholders’ Equity” and Note 30 to the Accountant’s Report in Appendix I to this document for details.

	As of December 31,			As of June 30,
	2010	2011	2012	2013
	(RMB’000)			
Current assets	74,026	192,606	417,165	535,072
Current liabilities	122,089	149,985	199,402	191,692
Total assets	108,120	254,817	522,029	667,997
Total liabilities	127,652	159,347	658,692	1,010,086

SUMMARY

	As of December 31,			As of June 30,
	2010	2011	2012	2013
	(RMB'000)			
Share capital	—	64	49	49
Reserves	25,888	125,930	(228,351)	(190,430)
(Accumulated losses)/Retained earnings	(45,420)	(30,524)	91,639	(151,708)
Total (deficits)/equity	(19,532)	95,470	(136,663)	(342,089)

As of December 31, 2012 and June 30, 2013, we had total deficits of RMB136.7 million and RMB342.1 million, respectively. This was primarily due to (i) the negative reserve of RMB228.4 million and RMB190.4 million, respectively, of which RMB371.9 million was other reserve resulting from the repurchase of ordinary shares in connection with the Pre-[●] Investment by the Series A Investors in June 2012; and (ii) the accumulated fair value loss of convertible redeemable preferred shares of RMB18.8 million and RMB388.2 million, respectively, as of December 31, 2012 and June 30, 2013. Please refer to the section headed “Financial Information — Shareholders’ Equity” and Notes 24 and 30 to the Accountant’s Report in Appendix I to this document for details.

Selected Consolidated Statements of Cash Flows

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2010	2011	2012	2012	2013
	(RMB'000)				
	(unaudited)				
Operating cash flows before changes in working capital	(38,606)	144,290	298,722	156,840	203,545
Changes in working capital	65,907	(19,379)	45,423	52,820	(34,029)
Income tax paid	(510)	(24,261)	(44,516)	(26,224)	(38,617)
Net cash generated from operating activities	26,791	100,650	299,629	183,436	130,899
Net cash used in investing activities	(16,908)	(28,112)	(51,972)	(7,820)	(154,362)
Net cash (used in)/generated from financing activities	—	—	(20,896)	351,008	(1,550)
Net increase/(decrease) in cash and cash equivalents	9,883	72,538	226,761	526,624	(25,013)
Cash and cash equivalents at beginning of year/period	3,572	13,455	85,993	85,993	312,639
Exchange losses on cash and cash equivalents	—	—	(115)	—	(211)
Cash and cash equivalents at end of year/period	<u>13,455</u>	<u>85,993</u>	<u>312,639</u>	<u>612,617</u>	<u>287,415</u>

SUMMARY

FINANCIAL RATIOS

The following table sets forth certain of our financial ratios as of the dates or for the periods indicated:

	<u>For the Year Ended December 31,</u>			<u>For the Six Months Ended June 30,</u>	
	2010	2011	2012	2012	2013
Revenue growth	—	303.9%	102.2%	—	65.3%
Net profit growth	—	144.2%	1,119.2%	—	N/A ⁽¹⁾
Gross margin ⁽²⁾	42.5%	82.1%	89.8%	91.1%	88.8%
Operating margin ⁽³⁾	(42.5%)	10.6%	36.5%	43.7%	28.5%
EBITDA margin ⁽⁴⁾	(40.6%)	12.2%	35.4%	44.0%	(34.0%)
Adjusted EBITDA margin ⁽⁵⁾	(40.6%)	37.5%	38.3%	45.0%	35.1%
Net margin ⁽⁶⁾	(42.5%)	4.6%	28.0%	35.2%	(42.4%)
Adjusted net margin ⁽⁷⁾	(42.5%)	29.9%	30.9%	36.3%	26.8%

Notes:

- (1) Net profit growth is not applicable as we had a net loss of RMB243.3 million for the six months ended June 30, 2013 as compared to a net profit of RMB122.2 million for the six months ended June 30, 2012.
- (2) Gross margin is calculated by dividing gross profit by revenue.
- (3) Operating margin is calculated by dividing operating (loss)/profit by revenue.
- (4) EBITDA margin is calculated by dividing EBITDA by revenue. EBITDA refers to earnings before interest income, finance income, tax, depreciation and amortization. Please refer to the section headed “Financial Information — Other Financial Measures” for details.
- (5) Adjusted EBITDA margin is calculated by dividing adjusted EBITDA by revenue. Please refer to the section headed “Financial Information — Other Financial Measures” for details.
- (6) Net margin is calculated by dividing (loss)/profit by revenue.
- (7) Adjusted net margin is calculated by dividing adjusted net (loss)/profit by revenue. Please refer to the section headed “Financial Information — Other Financial Measures” for details.

Our revenue and net profit grew steadily during the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013. The growth of our game development revenue has been driven by our continued launch of new successful games and our existing successful games which have continued to attract more playing players, and the growth of our game publishing revenue was primarily because we broadened our player base on *91wan* through targeted marketing and promotional campaigns to attract more players, continued to provide high-quality player services to increase the number of paying players and licensed more popular games from third-party developers which helped increase the size of our player base through organic growth and increase the number of paying players. As a result of the foregoing, our operating profit also significantly increased during the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013. Please refer to the section headed “Financial Information — Results of Operations” for details.

SUMMARY

SELECTED OPERATING DATA

Our revenue is affected by two key metrics: (i) average monthly paying users, or average MPUs; and (ii) average revenue per monthly paying user, or ARPPU. In our game development business, average MPUs refer to the average of the aggregate number of paying players for the games we develop in each month during a given period, while ARPPU is calculated as the game development revenue divided by the number of the average MPUs for the games we develop in any given period. In our game publishing business, average MPUs refer to the average of the aggregate number of paying players for the games published on *91wan* in each month during a given period, while ARPPU is calculated as the game publishing revenue divided by the number of the average MPUs for the games published on *91wan* in any given period. The following table sets forth the related operating data for the periods indicated:

	<u>For the Year Ended December 31,</u>			<u>For the Six Months Ended June 30,</u>	
	2010	2011	2012	2012	2013
Game Development:					
Average MPUs (in thousands) ⁽¹⁾	69	240	518	382	758
ARPPU (RMB)	60	88	87	101	83
Game Publishing:					
Registered players (in thousands)	47,395	88,163	141,147	117,028	179,088
Average MPUs (in thousands) ⁽¹⁾	30	40	71	67	115
ARPPU (RMB)	125	274	278	289	282

Note:

(1) The numbers do not eliminate the duplicated calculation of the paying players of our own games published on *91wan*.

RECENT DEVELOPMENT

Our Directors confirm that there has been no material adverse change in our financial or trading position, indebtedness, mortgage, contingent liabilities, guarantees or prospects of our Group since June 30, 2013, the date of the latest audited financial information of our Group. None of our game development revenue, game publishing revenue, gross profit or gross profit margin has changed materially and adversely since June 30, 2013. None of our average MPUs, ARPPU or number of registered players has changed materially and adversely since June 30, 2013.

Prior to [●], the Series A Preferred Shares are not traded in an active market and the fair value at respective reporting dates is determined using valuation techniques. Please refer to Note 30 to the Accountant's Report in Appendix I to this document for details of the key assumptions of the valuations. Upon the completion of [●], the Series A Preferred Shares will be automatically converted to Ordinary Shares of the Company on one-to-one basis.

DIVIDEND POLICY

During the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, Feiyin and Weidong declared and paid dividends of RMB90.5 million in 2012. The Company has not paid or declared any dividend since its inception. As of the Latest Practicable Date, all outstanding dividends payable had been fully settled. We funded the payment of the declared dividends with cash at bank and on hand.

The declaration of dividends of the Company is subject to the discretion of our Board and the approval of our Shareholders. Our Directors may recommend a payment of dividends in the future after taking into account our operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions, capital expenditure and future development requirements, shareholders' interests and other factors which they may deem relevant at such time. Any declaration and payment as well as the amount of the dividends will be

SUMMARY

subject to our constitutional documents and the Cayman Islands Company Law, including the approval of our Shareholders. Any declarations of dividends for a given year may not necessarily reflect our intention for future declarations of dividends, which will be at the absolute discretion of our Directors.

RISK FACTORS

Our business is subject to a number of risks, including but not limited to risks relating to our business, risks relating to our contractual arrangements, risks relating to our industry, and risks relating to conducting business in the PRC. You should read the entire section headed "Risk Factors" of this document carefully. Some of the major risks we face include:

- Our short operating history makes it difficult to evaluate our prospects and future financial results. We have experienced rapid revenue growth and we may not be able to successfully manage our current and future growth or maintain or enhance our monetization abilities;
- Our top games may not be able to maintain popularity and we may not be able to develop new popular games or launch new games during a favorable market window;
- We may not be able to successfully operate our own publishing platform and we are also subject to certain risks inherent to our publishing business;
- Our expansion into the mobile game market may not be successful;
- If the PRC government finds our Contractual Arrangements to be in violation of PRC laws, we could be subject to severe penalties or be forced to relinquish our interests in our PRC Operational Entities; and
- Our Contractual Arrangements may not be as effective in providing operational control over our PRC Operational Entities as direct ownership.

DEFINITIONS

In this document, unless the context otherwise requires, the following words and expressions shall have the following meanings.

“Alpaca”	Alpaca Capital Limited, a company incorporated in the BVI on April 1, 2008. It is wholly owned by Mr. Zhiming Zhu, an independent third party.
“Appionics”	Appionics Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability on March 23, 2012, in which the Group acquired a minority interest on April 18, 2013. The remaining shareholding interests in Appionics are held by independent third parties
“Articles of Association” or “Articles”	the articles of association of the Company that were conditionally adopted on September 1, 2013, as amended from time to time
“Audit and Compliance Committee”	the audit and compliance committee of the Board
“Board” or “Board of Directors”	our board of Directors
“Business Day”	any day (other than a Saturday, Sunday or public holiday in Hong Kong) on which banks in Hong Kong are open generally for normal banking business to the public
“BVI”	the British Virgin Islands
“CAGR”	represents the average year-over-year growth rate of a value over a specified period of time, taking into account the effects of compounding. $CAGR = (Ending\ Period\ Value/Beginning\ Period\ Value)^{(1/Number\ of\ Periods)} - 1$
“Cayman Islands Company Law”	the Companies Law (as amended) of the Cayman Islands
“Cayman Islands”	the Cayman Islands, a British Overseas Territory
“China” or “PRC”	the People’s Republic of China and, except where the context otherwise requires and only for the purpose of this document, excluding Hong Kong, Macau and Taiwan
“CNNIC”	China Internet Network Information Center
“Companies Ordinance”	the Companies Ordinance of Hong Kong (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company,” “our Company,” “we,” “us” or “our”	Forgame Holdings Limited (雲遊控股有限公司) (formerly known as Foga Holdings Limited), an exempted company incorporated in the Cayman Islands on July 26, 2011 with limited liability and, except where the context otherwise requires, all of its subsidiaries and PRC Operational Entities or where the context refers to any time prior to its incorporation, the business which its predecessors or the

DEFINITIONS

	predecessors of its present subsidiaries and PRC Operational Entities was engaged in and which was subsequently assumed by it
<i>"Contractual Arrangements"</i>	a series of contractual arrangements entered into by Feidong, the PRC Operational Entities and their respective shareholders, details of which are described in the section headed "Contractual Arrangements"
<i>"Controlling Shareholders"</i>	the Holding Companies, Mr. Wang, Mr. Huang, Mr. Liao, Mr. Yang and Mr. Zhuang
<i>"Cooperation Agreement"</i>	a cooperation agreement by and among the Founders and the Pre-Series A Investors on September 30, 2009
<i>"Director(s)"</i>	director(s) of our Company
<i>"EIT Law"</i>	the PRC Enterprise Income Tax Law passed by the National People's Congress of the PRC on March 16, 2007 and taking effect on January 1, 2008, as amended, supplemented and otherwise modified from time to time
<i>"Executive Director(s)"</i>	executive director(s) of our Company
<i>"Family Trusts"</i>	collectively, Wang Trust, Keith Huang Trust, Hao Dong Trust and ZHUANGJG Trust
<i>"Feidong"</i>	Guangzhou Feidong Software Technology Co., Ltd. (also known as Guangzhou Feidong Software Technology Company Limited), (廣州菲動軟件科技有限公司), an indirect, wholly-owned subsidiary of the Company, incorporated under the laws of the PRC on June 13, 2012
<i>"Feiyin"</i>	Guangzhou Feiyin Information Technology Co., Ltd. (also known as Guangzhou Feiyin Information Technology Company Limited), (廣州菲音信息科技有限公司), a limited company established under the laws of the PRC on April 12, 2004, the financial results of which have been consolidated and accounted for as a subsidiary of our Company by virtue of the Contractual Arrangements and one of the PRC Operational Entities. Mr. Wang, Mr. Huang, Mr. Liao, Mr. Yang and Mr. Zhuang hold 23.75%, 41.10%, 24.70%, 0.95% and 9.50% equity interests in Feiyin, respectively
<i>"Foga Development"</i>	Foga Development Co. Ltd., a company incorporated in the BVI on July 25, 2011, which was established by Mr. Zhuang and is one of the Holding Companies. The entire issued share capital is held by Managecorp Limited acting as the trustee of the ZHUANGJG Trust.
<i>"Foga Group"</i>	Foga Group Ltd. (also known as Foga Group Limited), a company incorporated in the BVI on July 25, 2011, which was established by Mr. Wang and is one of the Holding Companies. The entire issued share capital is held by Managecorp Limited acting as the trustee of the Wang Trust.

DEFINITIONS

“ <i>Foga Holdings</i> ”	Foga Holdings Ltd., a company incorporated in the BVI on July 25, 2011, which was established by Mr. Liao and is one of the Holding Companies. The entire issued share capital is held by Managecorp Limited acting as the trustee of the Hao Dong Trust.
“ <i>Foga Internet Development</i> ”	Foga Internet Development Ltd., a company incorporated in the BVI on July 25, 2011, which was established and wholly-owned by Mr. Yang and is one of the Holding Companies.
“ <i>Foga Networks</i> ”	Foga Networks Development Ltd., a company incorporated in the BVI on July 25, 2011, which was established by Mr. Huang and is one of the Holding Companies. The entire issued share capital is held by Managecorp Limited acting as the trustee of the Keith Huang Trust.
“ <i>Foga Tech</i> ”	Foga Tech Limited, a limited company incorporated under the laws of Hong Kong on August 9, 2011 and a wholly-owned subsidiary of the Company
“ <i>Founders</i> ”	collectively, Mr. Wang, Mr. Huang, Mr. Liao, Mr. Yang and Mr. Zhuang
“ <i>GAPP</i> ”	General Administration of Press and Publication of the PRC (中華人民共和國新聞出版總署)
“ <i>GDP</i> ”	gross domestic product
“ <i>Group</i> ” or “ <i>our Group</i> ”	our Company, its subsidiaries and the PRC Operational Entities (the financial results of which have been consolidated and accounted for as the subsidiaries of our Company by virtue of the Contractual Arrangements), or where the context so requires, in respect of the period before our Company became the holding company of the present subsidiaries, the business operated by such subsidiaries and the PRC Operational Entities
“ <i>Hao Dong Trust</i> ”	a discretionary trust set up by Mr. Liao of which Managecorp Limited acts as the trustee and the discretionary beneficiary is Mr. Liao
“ <i>HKICPA</i> ”	The Hong Kong Institute of Certified Public Accountants
“ <i>Hong Kong</i> ” or “ <i>HK</i> ”	The Hong Kong Special Administrative Region of the PRC
“ <i>Hong Kong dollars,</i> ” <i>HK dollars</i> ” or “ <i>HK\$</i> ”	Hong Kong dollars, the lawful currency of Hong Kong

DEFINITIONS

“ <i>Hongkong Ledong</i> ”	Hongkong Ledong Tech Limited (香港樂動科技有限公司), a limited company incorporated under the laws of Hong Kong on March 22, 2012 and an indirect wholly-owned subsidiary of the Company
“ <i>Hong Kong Takeovers Code</i> ” or “ <i>Takeovers Code</i> ”	The Codes on Takeovers and Mergers and Share Repurchases, as amended, supplemented or otherwise modified from time to time
“ <i>ICP License</i> ”	a value-added telecommunications business operation license issued by the relevant PRC government authorities with a service scope of information services
“ <i>IFRS</i> ”	the International Financial Reporting Standards, amendments and interpretations issued by the International Accounting Standards Board
“ <i>Ignition</i> ”	collectively, Ignition Growth Capital I, L.P. (formerly known as Ignition Capital Partners I, L.P.), a limited partnership formed in the State of Delaware, U.S. on September 12, 2007 and Ignition Growth Capital Managing Directors Fund I, LLC (formerly known as Ignition Capital Managing Directors Fund I, LLC), a limited liability company incorporated in the State of Delaware, U.S. on September 11, 2007, and which are Series A Investors. The beneficial owners of Ignition Growth Capital I, L.P. include 43 limited partners, each of whom owns less than 10% of the shareholding interests of Ignition Growth Capital I, L.P. and are all independent third parties. The beneficial owners of Ignition Growth Capital Managing Directors Fund I, LLC include 18 limited partners, each of whom owns less than 10% of the shareholding interests of Ignition Growth Capital Managing Directors Fund I, LLC and are all independent third parties.
“ <i>Independent Non-executive Director(s)</i> ”	independent non-executive Director(s) of the Company
“ <i>iResearch</i> ”	Shanghai iResearch Co., Ltd, an independent industry consultant commissioned by the Group to prepare an independent research report
“ <i>Jieyou</i> ”	Guangzhou Jieyou Software Co., Ltd. (also known as Guangzhou Jieyou Software Company Limited*) (廣州捷遊軟件有限公司), a limited company established under the laws of the PRC on June 7, 2012, the financial results of which have been consolidated and accounted for as a subsidiary of our Company by virtue of the Contractual Arrangements, and one of the PRC Operational Entities. Mr. Wang, Mr. Huang, Mr. Liao, Mr. Yang and Mr. Zhuang holds 20.94%, 12.37%, 17.13%, 0.95% and 48.61% equity interests in Jieyou, respectively
“ <i>Keith Huang Trust</i> ”	a discretionary trust set up by Mr. Huang of which Managecorp Limited acts as the trustee and the beneficiaries of which are Mr. Huang and certain of his family members

DEFINITIONS

<i>"Latest Practicable Date"</i>	[date] being the latest practicable date for ascertaining certain information in this document before its publication
<i>"Managecorp Limited"</i>	Managecorp Limited, the trustee of each of the Family Trusts
<i>"Memorandum"</i>	a memorandum entered into by the Founders on January 5, 2013 pursuant to which they confirmed their previous oral agreement to exercise common control over our Company, our subsidiaries and our PRC Operational Entities and the conduct of business by such entities
<i>"Memorandum of Association"</i>	the memorandum of association of our Company, conditionally adopted on September 1, 2013 and as amended from time to time
<i>"MIIT"</i>	Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部) (formerly known as the Ministry of Information Industry)
<i>"MOC"</i>	Ministry of Culture of the PRC (中華人民共和國文化部)
<i>"MOFCOM"</i>	Ministry of Commerce of the PRC (中華人民共和國商務部) or its competent local branches
<i>"Mr. Huang"</i>	Mr. Huang Weibing (黃衛兵) (alias: Huang Kai (黃凱)), one of the Founders and the settlor of the Keith Huang Trust
<i>"Mr. Liao"</i>	Mr. Liao Dong (廖東), one of the Founders and the settlor of the Hao Dong Trust
<i>"Mr. Wang"</i>	Mr. Wang Dongfeng (汪東風), one of the Founders and the settlor of the Wang Trust
<i>"Mr. Yang"</i>	Mr. Yang Tao (楊韜), one of the Founders
<i>"Mr. Zhuang"</i>	Mr. Zhuang Jieguang (莊捷廣), one of the Founders and the settlor of the ZHUANGJG Trust
<i>"NDRC"</i>	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) or its competent local branches
<i>"Nomination Committee"</i>	the nomination committee of the Board
<i>"Ordinary Share(s)"</i>	ordinary share(s) with nominal value of US\$0.0001 each in the share capital of the Company
<i>"PBOC"</i>	The People's Bank of China (中國人民銀行), the central bank of China
<i>"PBOC Rate(s)"</i>	the exchange rate for foreign exchange transactions set daily by PBOC based on the China interbank foreign exchange market rate of the previous day and with reference to current exchange rates on the world financial markets

DEFINITIONS

<i>“People’s Congress”</i>	the PRC’s legislative apparatus, including the National People’s Congress of the PRC and all the local people’s congresses (including provincial, municipal and other regional or local people’s congresses) as the context may require, or any of them
<i>“Pineapple”</i>	Pineapple Grove Limited, a company incorporated in the BVI on April 11, 1997. It is owned 50.10% by Mr. Tom Hwang and 49.90% by Ms. Nancy Tsai, who are independent third parties.
<i>“Post-[●] Share Options”</i>	options to be granted under the Post-[●] Share Option Scheme
<i>“Post-[●] Share Option Scheme”</i>	the post-[●] share option scheme conditionally adopted by our Company on September 1, 2013, for the benefit of our Directors, members of senior management, employees and other eligible participants defined in the scheme; a summary of the principal terms is set forth in the section headed “Appendix III — Statutory and General Information — Post-[●] Share Option Scheme”
<i>“PRC GAAP”</i>	generally accepted accounting principles in the PRC
<i>“PRC government” or “State”</i>	the government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof, or where the context requires, any of them
<i>“PRC Operational Entities”</i>	collectively, Feiyin, Weidong and Jieyou, the financial results of which have been consolidated and accounted for as a subsidiary of our Company by virtue of the Contractual Arrangements
<i>“Preferred Holders Majority”</i>	the holders of at least a majority of the voting power of the outstanding Series A Preferred Shares (voting together as a class and on an as converted basis)
<i>“Pre-[●] Investments”</i>	collectively, the pre-[●] investments in the Company undertaken by TA, Qiming and Ignition pursuant to the Series A Preferred Share Purchase Agreement and the pre-[●] investments undertaken by Pineapple, Soaring Harmony, Alpaca and Prometheus, details of which are set out in the section headed “Our History, Reorganization and Corporate Structure — Pre-[●] Investments”
<i>“Pre-[●] Share Options”</i>	options granted under the Pre-[●] Share Option Scheme
<i>“Pre-[●] Share Option Scheme”</i>	the pre-[●] share option scheme approved and adopted by our Shareholders on October 31, 2012, which was amended and restated on September 1, 2013, for the benefit of our Directors, members of senior management, employees and other eligible participants defined in the scheme; a summary of the principal terms is set forth in the section headed “Appendix III — Statutory and General Information — Pre-[●] Share Option Scheme”
<i>“Pre-Series A Investors”</i>	collectively, Mr. Wong Po Tsan and Ms. Wang Baoshan

DEFINITIONS

“ <i>Prometheus</i> ”	Prometheus Capital (International) Co, Ltd, a company incorporated in the BVI on February 4, 2013. It is wholly owned by Mr. Wang Sicong, an independent third party.
“ <i>Qiming</i> ”	collectively, Qiming Venture Partners III, L.P., an exempted limited partnership registered in the Cayman Islands on May 6, 2011, and Qiming Managing Directors Fund III, L.P., an exempted limited partnership registered in the Cayman Islands on May 6, 2011, and which are Series A Investors. The beneficial owners of Qiming Venture Partners III, L.P. include 56 limited partners, each of whom owns less than 10% of the shareholding interests of Qiming Venture Partners III, L.P. and are all independent third parties. The beneficial owners of Qiming Managing Directors Fund, III, L.P. include 29 limited partners, each of whom owns less than 10% of the shareholding interests of Qiming Managing Directors Fund III, L.P. and are all independent third parties.
“ <i>Remuneration Committee</i> ”	the remuneration committee of the Board
“ <i>Renminbi</i> ” or “ <i>RMB</i> ”	Renminbi yuan, the lawful currency of the PRC
“ <i>Reorganization</i> ”	the reorganization arrangements undergone by our Group as described in the section headed “Our History, Reorganization and Corporate Structure”
“ <i>Right of First Refusal and Co-Sale Agreement</i> ”	a right of first refusal agreement and co-sale agreement dated June 15, 2012 entered into by and among the Company, the Founders, the Holding Companies and the Series A Investors as amended by an amendment agreement to the right of first refusal and co-sale agreement dated March 8, 2013 entered into by and among the parties thereto, details of which are set out in the section headed “Our History, Reorganization and Corporate Structure — Pre-[●] Investments”
“ <i>RSUs</i> ”	restricted share units granted pursuant to the RSU Scheme
“ <i>RSU Scheme</i> ”	the scheme conditionally approved and adopted by our Company on September 1, 2013 for the grant of RSUs to RSU participants, a summary of the principal terms of which is set forth in the section headed “Appendix III — Statutory and General Information — RSU Scheme”
“ <i>SAFE</i> ”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“ <i>SAIC</i> ”	the State Administration of Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)
“ <i>SAT</i> ”	the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“ <i>Second Round Pre-[●] Investors</i> ”	collectively Pineapple, Soaring Harmony, Alpaca and Prometheus

DEFINITIONS

“Series A Investors”	collectively, TA, Qiming and Ignition
“Series A Preferred Share Purchase Agreement”	the series A preferred share purchase agreement entered into by and among the Company, the Series A Investors, the Founders, the Holding Companies, Weidong, Feiyin and the Pre-Series A Investors on April 29, 2012, as amended and restated on June 15, 2012, details of which are set out in the section headed “Our History, Reorganization and Corporate Structure — Pre-[●] Investments”
“Series A Preferred Shares”	the series A preferred shares with nominal value of US\$0.0001 each issued by the Company to the Series A Investors pursuant to the Series A Preferred Share Purchase Agreement
“Share(s)”	Ordinary Share(s) and Series A Preferred Share(s), and, upon the completion of [●], Ordinary Share(s)
“Shareholder(s)”	holder(s) of our Shares
“Shareholders Agreement”	a shareholders agreement dated June 15, 2012 entered into by and among the Company, Foga Tech, Weidong, Feiyin, the Founders, the Holding Companies and the Series A Investors as amended by an amendment agreement to the shareholders agreement dated March 8, 2013 entered into by and among the parties thereto, details of which are set out in the section headed “Our History, Reorganization and Corporate Structure — Pre-[●] Investments”
“Share Restriction Agreement”	a share restriction agreement dated June 15, 2012 entered into by and among the Company, the Founders, the Holding Companies and the Series A Investors as amended by an amendment agreement to the share restriction agreement dated March 8, 2013 entered into by and among the parties thereto, details of which are set out in the section headed “Our History, Reorganization and Corporate Structure — Pre-[●] Investments”
“Soaring Harmony”	Soaring Harmony Limited (翔和有限公司), a company incorporated in the BVI on January 14, 2013. It is owned by Mr. Bainan Shou, an independent third party.
“State Council”	State Council of the PRC (中華人民共和國國務院)
“subsidiary” or “subsidiaries”	has the meaning ascribed thereto in section 2 of the Companies Ordinance
“TA”	TA FG Acquisitions, an exempted company incorporated in the Cayman Islands on April 26, 2012 with limited liability and one of the Series A Investors. TA XI, L.P., an independent third party, holds 68.20% shareholding interests in TA.
“United States,” “USA” “U.S.” or “US”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction

DEFINITIONS

“US dollar(s),” “US\$” or “USD”	United States dollars, the lawful currency of the United States
“VAT”	value-added tax; all amounts are exclusive of VAT in this document except indicated otherwise
“Wang Trust”	a discretionary trust set up by Mr. Wang of which Managecorp Limited acts as the trustee and the beneficiaries of which are Mr. Wang and certain of his family members
“Weidong”	Guangzhou Weidong Internet Technology Co., Ltd. (also known as Guangzhou Weidong Internet Technology Company Limited*) (廣州維動網絡科技有限公司), a limited company established under the laws of the PRC on January 22, 2007, the financial results of which have been consolidated and accounted for as a subsidiary of our Company by virtue of the Contractual Arrangements, and one of the PRC Operational Entities. Mr. Wang, Mr. Huang, Mr. Liao, Mr. Yang and Mr. Zhuang holds 23.75%, 41.10%, 24.70%, 0.95% and 9.50% equity interests in Weidong, respectively
“ZHUANGJG Trust”	a discretionary trust set up by Mr. Zhuang of which Managecorp Limited acts as the trustee and the beneficiaries of which are Mr. Zhuang and certain of his family members
“91wan”	our self-publishing platforms, including 91wan.com, 2918.com, 9vs.com, 915.com and 336.com
“%”	per cent

In this document:

- (a) the English names or descriptions of PRC nationals, entities, government authorities, departments, facilities, certificates, titles, laws and regulations, etc., are translations of their Chinese names. If there is any inconsistency, the Chinese names shall prevail;
- (b) unless expressly stated or otherwise required by the context, all data are as of the Latest Practicable Date; and
- (c) certain amounts and percentage figures included in this document have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

GLOSSARY

This glossary contains certain definitions and technical terms used in this document in connection with our Company and our business. As such, some terms and definitions may not correspond to standard industry definitions or usage of such terms.

“ARPG”	action role-playing games, also known as real-time combat role-playing games, in which player characters’ actions in the games are instantaneous as per the players’ input, either through a click of the mouse or hitting certain keys on the keyboard
“ARPPU”	average revenue per monthly paying user, calculated by dividing total revenue during a certain period by the number of paying players during the same period
“client-based games”	online games that require game software to be downloaded and actively installed by players before they can log on and play the games
“console games”	video games that are played through a console as opposed to a personal computer
“gross billings”	monetary value of all virtual items sold during a certain period
“item-based revenue model”	under the item-based revenue model, players can play the basic features of the games for free. Game developers and publishers generate revenues when players purchase virtual items that enhance their in-game experience
“MAUs”	monthly active users, which is the number of players who logged into a particular game in the relevant calendar month. Under this metric, a player who logged into two different games in the same month is counted as two MAUs. Similarly, a player who plays the same game on two different publishing platforms in a month would be counted as two MAUs. Average MAUs for a particular period is the average of the MAUs in each month during that period
“mobile games”	games that can be played on mobile devices. “Mobile games” in this document refer to games that can be played on smartphone and tablet devices only and do not include feature phone games
“MPUs”	monthly paying users, which is the number of paying players in the relevant calendar month. Average MPUs for a particular period is the average of the MPUs in each month during that period
“paying players”	players who purchase virtual items at least once during a certain period. If a player made a payment in our games on two separate publishing platforms or two different games published on our publishing platform in a period, the player would be counted as two unique payers for the game development business or the game publishing business, as the case may be, in that period. In addition, a

GLOSSARY

	player who plays our games on <i>9Iwan</i> and purchases virtual items will be counted as a paying player for both our game development business and our game publishing business
“ <i>retention ratio</i> ”	percentage of players that continue to be active on a platform or in a game, as the case may be, after having logged into a platform or a game for the first time
“ <i>RPGs</i> ”	role-playing games, which involve a large number of players who interact with each other in an evolving fictional world. Each player adopts the role of one or more “characters” who develop specific skill sets (such as melee combat or casting magic spells) and control the character’s actions. There are unlimited possible game scenarios where the evolution of the game world is determined by the actions of the players, and the storyline continuously evolves even while the players are offline and away from the games
“ <i>social games</i> ”	online games that can be played on social network platforms
“ <i>turn-based RPGs</i> ”	turn-based role-playing games, where the flow of combat is split into turns and each player is allowed a designated time period to formulate his or her game actions. One round is considered to be completed once every player has taken his or her turn, after which the next round begins
“ <i>users</i> ”	with respect to games, users refer to players
“ <i>virtual items</i> ”	in-game items that enhance players’ in-game experience, by, for example, enhancing the powers, abilities, attractiveness and social interaction of their characters, or enabling them to advance in the game more quickly
“ <i>webgames</i> ”	online games that can be played within a web browser with flash support and which do not require active installation of client software. Webgames and mobile games, collectively, are also known as “cloud-based games”

FORWARD-LOOKING STATEMENTS

FORWARD-LOOKING STATEMENTS CONTAINED IN THIS DOCUMENT ARE SUBJECT TO RISKS AND UNCERTAINTIES.

This document contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. The forward-looking statements are contained principally in the sections headed “Summary,” “Risk Factors,” “Industry Overview,” “Business” and “Financial Information.” These statements relate to events that involve known and unknown risks, uncertainties and other factors, including those listed under the section headed “Risk Factors,” which may cause our actual results, performance or achievements to be materially different from performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements include, without limitation, statements relating to:

- our future business development, financial condition and results of operations;
- maintaining and strengthening our position as a leading webgame developer in China;
- our relationships with other online platforms and operators through which we distribute our webgames;
- our ability to develop and promote additional popular webgames;
- developing games compatible with new mobile devices and technologies and pursuing mobile initiatives generally;
- market acceptance of our webgames;
- our ability to attract and retain players and paying players;
- competition from other webgame and mobile game operators;
- attracting and retaining qualified employees and key personnel;
- the expected growth of any change in the webgame industry in China;
- PRC government policies relating to the Internet, Internet content providers, including webgame developers and operators, Internet cafés, virtual currency and anti-fatigue measures, as well as anti-monopoly rules;
- effectively protecting our intellectual property rights and not infringing on the intellectual property rights of others; and
- general economic and business conditions in China and other countries or regions in which we operate.

The words “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “seek,” “will,” “would” and the negative of these terms and other similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. These forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of uncertainties and factors, including but not limited to:

- any changes in the laws, rules and regulations of the central and local governments in the PRC and the rules, regulations and policies of the relevant government authorities relating to all aspects of our business;
- general economic, market and business conditions in China;
- macroeconomic policies of the PRC government;
- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices;
- the competitive landscape in the webgame and mobile game industry;
- various business opportunities that we may pursue; and
- the risk factors discussed in this document as well as other factors beyond our control.

FORWARD-LOOKING STATEMENTS

Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements in this document, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this document might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this document are qualified by reference to the cautionary statements set forth in this section as well as the risks and uncertainties discussed in the section headed “Risk Factors.”

RISK FACTORS

You Should consider carefully all the information set out in this document and, in particular, the risks and uncertainties described below. The occurrence of any of the following events could harm us.

We believe that there are certain risks involved in our operations, many of which are beyond our control. These risks can be categorized into (i) risks relating to our business; (ii) risks relating to our Contractual Arrangements; (iii) risks relating to our industry; and (iv) risks relating to conducting business in the PRC. Additional risks and uncertainties presently not known to us or not expressed or implied below, or that we currently deem immaterial could also harm our business, financial condition and operating results. You should consider our business and prospects in light of the challenges we face, including the ones discussed in this section.

Risks Relating to Our Business

We have a short operating history in developing webgames and mobile games, which makes it difficult to evaluate our prospects and future financial results.

We developed and launched our first webgame in 2009. Our short operating history makes it difficult to effectively assess our future prospects. As part of our growth strategy, we intend to develop and offer new webgames and mobile games to meet the evolving needs of our players. The new webgames and mobile games we may offer in the future present further operating and marketing challenges. In addition, the markets for webgames and mobile games are highly competitive. If we fail to successfully develop and launch new webgames and mobile games in competitive markets, we may not be able to capture the growth opportunities associated with these new webgames and mobile games or recover the costs associated with developing and marketing such games, which may materially and adversely affect our future results of operations and growth strategies.

Our business could suffer if we do not successfully manage our current and future growth or maintain or enhance our monetization abilities, which involve optimizing our game portfolio, building our workforce and balancing our growth.

We have experienced rapid revenue growth since the inception of our operations. We may not be able to maintain our historical growth rates in the future. Revenue growth may slow down or even decline for a number of reasons, including a failure to attract and retain players, a failure to continuously develop new popular games, a failure to effectively market and promote our games to third-party platforms, a failure to publish popular webgames on *91wan*, decreased player spending, increasing competition, slowdown in the overall growth of the webgame and mobile game markets, the emergence of alternative business models, changes in regulatory environment or general economic conditions.

To execute our growth strategies, we anticipate that we will need to manage and optimize our current webgame and mobile game portfolio, as well as develop additional webgames and mobile games. We will also need to continue to manage, train, expand and motivate our workforce and manage our relationships with our players, publishing partners, third-party game licensors and other third-party service providers. We may not be able to efficiently or effectively implement our growth strategies or manage our growth, and any failure to do so may limit our future growth, hamper our business strategies and materially and adversely affect our financial condition and results of operations.

If our webgames do not maintain their popularity during their expected life cycle, or if we fail to develop and publish new popular webgames, or if we fail to launch our new webgames during a favorable market window, we will be unable to acquire and retain players and improve the monetization of our games, and our results of operations could be adversely impacted.

For a webgame to remain popular and continue generating revenue, we must constantly enhance or upgrade it with new features that players find attractive. Constant enhancement or upgrading requires the investment of significant resources. In addition, we cannot assure you that the changes to or introduction of new game features will be well received by our players, who may cease playing the existing webgame because of these changes.

According to iResearch, a webgame has an average life cycle of 12 to 24 months and its monetization ability will peak after a certain period of time and gradually decline afterwards. Even if we successfully extend the life cycle of some or even most of our webgames, we may not be able to maintain or increase the profitability of such

RISK FACTORS

webgames. Therefore, in addition to maintaining the profitability of our existing webgames, we must also develop new webgames that are attractive to a significant number of players, which we may not be able to do.

Furthermore, the launch timing of our new games has a significant impact on the performance and popularity of these games. If we launch our new games at the same time as other popular games developed by third parties, the competition may make it difficult to attract new players to those games and our publishing partners may commit less resources promoting our games.

Any failure to develop new webgames, launch new webgames during a favorable market window, extend the life cycle of our popular games, or any other problems in launching or operating our games may decrease the popularity of our webgames and, may harm our business, financial condition and results of operations.

We may not be able to successfully operate our own publishing platform and we are also subject to certain risks inherent to our publishing business.

We operate our own publishing platform, *91wan*, on which we publish a majority of our own webgames as well as webgames developed by third parties. If we fail to identify popular and profitable webgames and license such games from their developers on acceptable terms, the performance of *91wan* may be adversely affected. The success of games we publish also depends on our ability to acquire and maintain traffic efficiently, promote such games towards our players and provide quality player services. If we fail to do so, our business and results of operations may also be adversely affected. In addition, our publishing business benefits our game development business in various aspects, such as providing access to a large player database, a reliable platform on which we beta test our games prior to launch and a reliable source of the latest market trends and player preferences. If the success of *91wan* falls short of our expectations, our game development capabilities may in turn be adversely affected.

We are also subject to certain risks inherent to our publishing business. As *91wan* continues to grow, competition with our publishing partners may intensify, which may have a negative impact on our games published by our publishing partners. Please refer to the section headed “— Risks Relating to Our Business — We rely on third-party platforms to distribute a significant number of our webgames and our business and results of operations may be materially and adversely affected if these third-party platforms fail to fulfill their obligations to us, we fail to maintain relationships with a large number of platforms, or the platforms lose popularity among Internet players.”

If we are unable to develop games compatible with new mobile devices and technologies, we may fail to successfully capture and retain a significant portion of the growing number of players that access games through mobile devices.

Capturing a greater share of the growing number of players that access the Internet through smartphones, tablets and other mobile devices by developing new mobile games is one of our key business initiatives. We have established a mobile gaming division and launched our first mobile game in the second quarter of 2012. We also recently invested in Appionics, the owner and operator of the Animoca studio, which is a developer and publisher of cross-platform mobile apps for smartphones and tablets. The mobile games we develop may fail to prove compelling to players, manufacturers or distributors of mobile devices. Manufacturers or distributors may establish unique technical standards for their devices, and our mobile games may not work or be viewable on these devices as a result. As new mobile devices and technologies are continually being released, it is difficult to predict the problems we may encounter in developing mobile games or adapting our webgames to these devices and technologies and we may need to devote significant resources to the creation, support and maintenance of such mobile games. We may fail to capture and retain a significant portion of the growing number of players who access games through mobile devices, and we may also lose our existing players, either of which may have a material adverse effect on our business, financial condition and results of operations. In addition, if the costs

RISK FACTORS

associated with developing our mobile game business exceed revenue generated therefrom, our overall profitability will be negatively impacted.

Our data analytics capability may be harmed if we fail to properly collect, store or analyze player data.

Our game development and publishing businesses are data driven and we rely on our data analytics capability to continue developing and publishing popular games, improve player experience and eventually enhance monetization of our games. Our game development and publishing teams are required to collect and store all player behavior data in accordance to certain protocols in a timely manner. However, if they fail to collect or retain certain data, we may not have the data we need to conduct our data analytics. If there is a delay in collecting player behavior data, the data may not be able to accurately or fairly reflect the latest player behavior and will be meaningless or even misleading in our game development process. In addition, we cannot assure you that our data will not be damaged or lost due to technical errors, security breaches or hacking. Furthermore, our data analytics methodology may not be as effective as expected and fail to capture the latest market trends and player preferences. If any of the above occurs, our business may be negatively affected.

A small number of webgames have generated a majority of our revenue, and we must continue to launch webgames that attract and retain a significant number of players in order to grow our revenue and sustain our competitive position.

Historically, a small number of webgames has contributed a majority of our revenue each year and we expect that this revenue concentration will continue in the foreseeable future. Our top five webgames contributed 79%, 66%, 52% and 52% of our total revenue for 2010, 2011 and 2012 and the six months ended June 30, 2013, respectively. Our growth depends largely on our ability to consistently launch new webgames that achieve significant popularity. Each of our webgames requires significant time, engineering, marketing and other resources to develop, launch and maintain, which we do through regular updates and expansions. Further, the average time and costs associated with these efforts may increase. Our ability to successfully launch and publish webgames and attract and retain players largely depends on our ability to:

- anticipate and effectively respond to changing interests and preferences of webgame players;
- develop, sustain and expand webgames that are attractive, interesting and engaging;
- effectively market new webgames and enhancements to our existing and potential players;
- minimize launch delays and cost overruns on new webgames and game expansions;
- attract, retain and motivate talented game designers, product managers and engineers;
- anticipate and respond to changes in the competitive landscape; and
- minimize downtime and other technical difficulties.

It is difficult to consistently anticipate player demand on a large scale, particularly as we develop webgames in new genres, platforms or markets. If we do not successfully launch webgames that attract and retain a significant number of players and extend the life of our existing webgames, our business, financial condition and results of operations may be adversely affected.

The webgame and mobile game industries are highly competitive. If we are unable to compete effectively, our business, financial condition and results of operations will be materially and adversely affected.

The webgame industry is highly competitive and consists of a large number of webgame developers and publishers. In recent years, numerous competitors have entered the webgame industry in China. We expect more companies to enter the market and a wider range of webgames to be introduced to the webgame industry in China. Competition from other webgame developers or publishers, based both in China as well as overseas, is

RISK FACTORS

likely to increase in the future. Other China-based webgame developers or publishers, such as Tencent, Gamegou, 7Road, KingNet, XD Games, Gamewave and Ourpalm, client-based online game developers and publishers, such as Giant, Kingsoft, Netease.com and NetDragon, as well as international game developers, such as Activision Blizzard, Inc. and Electronic Arts Inc., are our current or potential competitors. As we expand into the mobile gaming market, we will also compete with other mobile game developers such as Gamevil, Com2uS and Glu Mobile. The webgame and mobile game industries in China are constantly evolving, and unforeseen changes in these industries may prove to be more advantageous to certain competitors than they will be to us. In particular, any of these competitors may offer products and services that provide significant improvements in performance, price, creativity or other advantages over our products, which may weaken our competitive position.

In addition, high-profile companies with significant online presences that have not yet developed webgames such as Baidu.com, Sina.com, Qihoo.com and Taobao.com, may decide to invest in the webgame industry. Some of our current and potential competitors have significant resources for developing or acquiring games. They may also be able to leverage their own highly established brands, high organic user traffic and other assets in developing their games, and have a more diversified set of revenue sources than we do. As a result, they may be less severely affected by changes in consumer preferences, regulations or other developments that may impact the webgame industry. If any of our current or future competitors are acquired by, receive investments from or enter into other strategic or commercial relationships with larger, more established and better financed companies, they may have access to significantly greater financial, marketing and game licensing and development resources.

Increased competition in the webgame and mobile game industries in China may make it more difficult for us to retain existing players and attract new players. Moreover, we may face competition from console games (that is, video games that are played on a console as opposed to a personal computer) that have previously achieved significant success in markets other than China but are yet to be permitted to sell in China due to regulatory and other reasons. If these console games are permitted to sell in China, we may face additional competition. Further, we also compete for players with various other offline games, such as arcade games and handheld games, as well as various other forms of traditional or online entertainment. If we are unable to compete effectively, our business, financial condition and results of operations may be materially and adversely affected.

We face uncertainties in the continued growth of the webgame and mobile game industries and the market acceptance of our webgames and mobile games.

The growth of the webgame and mobile game industries as well as the market acceptance of our webgames and mobile games are subject to a high degree of uncertainty. Our results of operations depend largely on factors beyond our control, including:

- the level of penetration and growth rate in the number of users of personal computers, mobile devices, the Internet and broadband in China;
- whether the webgame and mobile game industries in China will continue to grow and the rate of such growth;
- changes in consumer demographics, tastes or preferences;
- the popularity of new games and price of virtual items that we and our competitors launch and distribute;
- our ability to upgrade and improve our existing games in a timely manner to effectively extend their life cycle and maintain or expand their market share in the industry;
- the availability and popularity of other forms of entertainment, particularly social games offered on social network platforms and console games, which are already popular in many other countries and may gain popularity in China; and

RISK FACTORS

- general economic conditions and consumer sentiment that impact the level of discretionary consumer spending.

Our ability to plan for product development and distribution and promotional activities will be significantly affected by our ability to anticipate and adapt to rapid changes in consumer tastes and preferences. Webgames and mobile games are becoming increasingly popular in China. However, there is no assurance that they will continue to be popular in China or elsewhere. A decline in the popularity of webgames and mobile games would adversely affect our business prospects and results of operations. We must be able to track and respond to these changes in players' preferences in a timely and effective manner.

We may not be able to adapt to the rapidly evolving webgame and mobile game industry in China, especially to changes in technology. If we fail to anticipate or successfully implement new technologies, our games may become obsolete or uncompetitive, and our business prospects and results of operations could be materially and adversely affected.

China's webgame and mobile game industries are evolving rapidly. We constantly need to adapt to new industry trends, including changes in game player preferences, new revenue models, new game content distribution models, new technologies and new governmental regulations. We evaluate these changes as they emerge and strive to adapt our business and operations in order to maintain and strengthen our position in the industry, and our failure to do so may materially and adversely affect our business, financial condition and results of operations.

The webgame and mobile game industries are also subject to rapid changes in technology. We constantly need to anticipate the emergence of new technologies and assess their market acceptance. In addition, government authorities or industry organizations may adopt new standards that apply to game development. We also need to invest significant financial resources in product development to keep up with the pace of technological advances. However, game development is inherently uncertain, and our significant investment in technology may not generate corresponding benefits. If we fall behind in adopting new technologies or standards, our existing games may lose popularity, and our newly developed games may not be well received by our players. In addition, we may incur significant cost overruns in game development, which would materially and adversely affect our business prospects and results of operations.

Our new webgames may attract players away from our existing webgames, which may have a material adverse effect on our business, financial condition and results of operations.

Our new webgames may attract players away from our existing webgames and shrink the player base of our existing webgames, which could in turn make those existing webgames less attractive to other players, resulting in decreased revenue from our existing webgames. Players of our existing webgames may also spend less money purchasing virtual items in our new webgames than they would have spent if they had continued playing our existing webgames. The occurrence of any of the above may have a material adverse effect on our business, financial condition and results of operations.

The item-based revenue models we adopt for our webgames and mobile games may not be optimal.

All of our webgames and mobile games adopt the item-based revenue model and we have generated, and expect to continue to generate, all of our revenue through this revenue model.

We have adopted an item-based revenue model for all of our webgames and mobile games. However, it may not be the optimal revenue model for our webgames and mobile games. The item-based revenue model requires us to develop or license webgames and mobile games that encourage players to spend more time playing our games and purchase virtual items. The sale and pricing of virtual items require us to closely track players' tastes and

RISK FACTORS

preferences, specifically in-game consumption patterns, and respond quickly to changes in player preferences and consumer spending. If we fail to develop virtual items that are attractive to players or fail to price virtual items effectively to maximize ARPPU, we may not be able to effectively increase the number of paying players or maximize our revenue. In addition, the item-based revenue model may cause additional concerns with PRC regulators, who have been implementing regulations designed to reduce the amount of time that Chinese youth spend on playing online games and limit the amount of virtual currency issued by online game operators and purchased by individual players. A revenue model that does not charge by play time may be viewed by the PRC regulators as inconsistent with these goals. Please refer to the section headed “— Risks Relating to Our Industry — Additional government regulations resulting from negative publicity in China regarding webgames or otherwise may have a material adverse effect on our business, financial condition and results of operations.”

We may change the revenue model for some of our webgames if we determine that our existing revenue model is not optimal. We cannot assure you that the revenue model that we have adopted for any of our webgames will continue to be optimal, and that in the future we may need to switch our revenue model or introduce new revenue models. We may have difficulties in effectively adjusting to a new revenue model because we have adopted an item-based revenue model from inception and we do not have the experience of reassessing and revising our revenue model. A change in revenue model could have adverse consequences, including disruption to our game operations, criticism from players who have invested time and money in a webgame and may be adversely affected by such a change, decrease in the number of our players or decrease in revenue we generate from our webgames.

We rely on third-party platforms to distribute a significant number of our webgames, and our business and results of operations may be materially and adversely affected if these third-party platforms breach their obligations to us, or if we fail to maintain relationships with a sufficient number of platforms, or if the platforms lose popularity among Internet users.

In addition to our own platform, *91wan*, we publish our webgames through over 350 platforms owned and operated by third parties. We rely on these third parties to promote and publish our webgames on their platforms, record purchases and collect payments from players, maintain the security of their platforms to prevent cheating and other fraudulent activities, provide a certain portion of player services and make timely payments to us of our share of the revenues generated from our webgames. For the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, 46%, 61%, 66% and 62% of our total revenue was generated by games distributed through third-party platforms, respectively. During the same period, we received 20%, 26%, 30% and 33% of our total revenue and 37%, 39%, 44% and 49% of our total game development revenue from our five largest publishing partners, respectively. If these third-party platforms fail to effectively promote our webgames on their platforms or otherwise fulfill their obligations to us, in particular, if we are unable to collect our share of revenue from these third-party platforms in a timely manner, our business and results of operations will be adversely affected. We may be negatively impacted if these third-party platforms do not obtain or maintain relevant government licenses to publish our games. Please refer to the section headed “Regulations — Regulations Relating to Value-Added Telecommunication Business — Regulation of Licenses” for details of licensing requirements of publishing platforms. For example, in August 2012 Feiyin was fined RMB15,000 by the administrative enforcement team of the Guangzhou Culture Bureau (廣州市文化局) in an administrative proceeding for licensing one of its games to a third-party platform that did not have a webgame publishing license. This lapse occurred while we were in the process of improving our internal control as a private start-up company and did not manage to review the qualifications of all our publishing partners and relied more on the representations and warranties made by our publishing partners, including those relating to their publishing licenses, in our cooperation agreements. Disputes with third-party platforms may also arise from time to time and we cannot assure you that we will be able to resolve such disputes in a timely manner or at all, and these disputes may further divert our management’s attention and adversely affect our ability to collect our share of revenues generated from the webgames published on the relevant platforms. If our cooperation with a major third-party platform terminates for any reason, we may not be able to find a replacement in a timely manner or at all and the

RISK FACTORS

distribution of our webgames may be adversely affected. Any failure on our part to maintain good relationships with a sufficient number of platforms for the distribution of our webgames could have a material adverse effect on our business, financial condition and results of operations.

We plan to further expand *91wan* and publish more self-developed webgames on our own publishing platform, which will intensify the competition with our publishing partners. In addition, certain of our publishing partners have their own in-house game development capabilities and our other publishing partners may consider establishing such capabilities in the future. We are therefore subject to direct competition and potential conflicts of interest with our publishing partners, which may intensify in the future, and we cannot assure you that our publishing partners will always maintain a cooperative relationship with us. If our publishing partners cease or limit their committed resources to promote our games on their platforms or cease publishing our games at all, our business and results of operations may be adversely affected.

A number of platforms where we publish certain of our webgames are social platforms such as Tencent's Q-Zone. These webgames have partially benefited from a strong brand recognition, a large player base and the stickiness of the social networking websites that we use to publish these games. If any of these social websites lose their market positions or otherwise fall out of favor from Internet players, we would need to identify alternative channels for marketing, promoting and distributing our webgames, which would consume substantial resources and may not be effective.

The successful operation of our business and implementation of our growth strategies, including our ability to accommodate additional players in the future, depends upon the performance and reliability of the Internet infrastructure and fixed line and wireless telecommunications networks in China.

All of our webgames can only be accessed through Internet connection to the websites of us or our distributors. Although there are private sector Internet service providers 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. We rely on this infrastructure to provide data communications primarily through local telecommunications lines and wireless telecommunication networks. In addition, the national networks in China are connected to the Internet through international gateways controlled by the PRC government. These international gateways are the only channels through which a domestic player can connect to the Internet. They may not support the demand necessary for the continued growth in Internet usage. The PRC government has plans to develop the national information infrastructure. However, we cannot assure you that this infrastructure will be developed as planned or at all. In addition, in the event of any infrastructure disruption or failure we would have no access to alternative networks and services on a timely basis, if at all, which could have a material adverse effect on our business, financial condition and results of operations.

Errors or defects in our webgames and the proliferation of cheating programs could materially and adversely affect our business prospects and results of operations.

Our webgames may contain errors or other minor defects. In addition, parties unrelated to us have developed, and may continue to develop, Internet cheating programs that enable players to obtain unfair advantages over other players who do not use such programs. Furthermore, certain cheating programs could cause the loss of a character's superior features acquired by a player. The occurrence of errors or defects in our webgames or our failure to discover and disable cheating programs affecting the fairness of our game environment could disrupt our operations, damage our reputation and discourage our players from playing our games and purchasing virtual items. For example, we have received complaints from players regarding certain technical problems they encounter while playing our games, such as log-in and payment failures and connection interruptions. When our player service staff members receive a complaint from a game player, they will note the details of the complaint and look into the issue. If our player service staff members believe that there may exist an error or a defect in our games, we will designate certain responsible department(s) and personnel to analyze the issue and provide

RISK FACTORS

solutions. The solutions will be implemented and also reported back to the game player who made the complaint to see if he or she has further complaints or follow-up questions. If we believe the issue is not specific to a few players, we will also make in-game announcement of the issue and our solutions to keep all our players informed. No such complaint has yet subjected us to any consumer disputes, regulatory proceedings or litigations, nor has it materially and adversely affected our business and financial condition. However, we cannot assure you that we will not receive any material complaint in the future which could materially and adversely affect our business, financial condition and results of operations.

Any defects, disruptions or other problems affecting the functioning of our network infrastructure or information technology systems could materially and adversely affect our business.

The satisfactory performance and stability of our network infrastructure and information technology systems are critical to our user experience, which are in turn critical for attracting players. Any defects or problems with our network infrastructure or information technology systems could significantly disrupt our business operations. We may in the future experience website disruptions, outages and other performance problems due to a variety of factors, including:

- our growing operation will put increasing pressure on our servers and network capacities as we launch more games and increase the size of our player base;
- we may encounter problems when upgrading our systems or services, which could adversely affect the performance of the software we use to provide our services;
- we may be subject to hacking or other attacks on our network infrastructure and information technology systems;
- we rely on third-party service providers for certain key aspects of our network infrastructure and information technology systems, including the storage and maintenance of our servers and collection of online payments, and any disruptions or other problems with their services are out of our control and may be difficult for us to remedy; and
- our network infrastructure could be damaged or interrupted as a result of earthquakes, floods, fires, extreme temperatures, power loss, telecommunications failures, technical error, computer viruses and similar events.

We expect to continue making significant investments in our technology infrastructure to maintain and improve all aspects of player experience and game performance. To the extent that our disaster recovery systems are not adequate, or we do not effectively address capacity constraints, upgrade our systems as needed and continually develop our technology and network architecture to accommodate increasing traffic, our business, financial condition and results of operations may suffer. We do not maintain insurance policies covering damages to our network infrastructures or information technology systems.

We depend on our key personnel, and our business and growth prospects may be severely disrupted if we lose their services or are unable to attract new key employees.

Our future success is heavily dependent upon the continued services of our key executive officers and other key employees. In particular, we rely on the expertise, experience and leadership ability of Mr. Wang, our chairman and executive director and co-founder of our business, Mr. Liao, our executive director and co-founder of our business, Mr. Huang, our executive director and co-founder of our business, Mr. Zhuang, our executive director and co-founder of our business, Mr. Yang, our chief product officer and co-founder of our business, and Mr. Ngan King Leung Gary, our Chief Financial Officer. We also rely on a number of key technology officers and staff and our top performing game development studios for the development and operation of our webgames and to maintain our competitiveness.

RISK FACTORS

If one or more of our key personnel are unable or unwilling to continue in their present positions, we may not be able to replace them easily or at all and may incur additional expenses to recruit and train new personnel and our business may be severely disrupted, and our financial condition and results of operations could be materially and adversely affected. In addition, if any of our executive officers or key employees joins a competitor or forms a competing company, we may lose know-how, trade secrets, suppliers, players and key professionals and staff. Furthermore, since the demand and competition for talent is intense in our industry, particularly for webgame development personnel and related technical personnel, we may need to offer higher compensation and other benefits in order to attract and retain key personnel in the future, which could increase our compensation expenses. We cannot assure you that we will be able to attract or retain the key personnel necessary to implement our strategies and achieve our business objectives.

Unauthorized use of our intellectual property, including domain names, by third parties, and the expenses incurred in protecting our intellectual property rights, may adversely affect our business.

We rely on copyright, trademark, trade secret and other intellectual property law, as well as confidentiality and license agreements with our employees, licensors, business partners and others to protect our copyrights, trademarks, service marks, trade secrets and other intellectual property, all of which are critical to our success. Our employees are generally required to sign agreements acknowledging that all inventions, trade secrets, works of authorship, developments and other processes generated by them on our behalf are our property, and assigning to us any ownership rights that they may claim in those works. Despite our precautions, third parties may obtain and use intellectual property that we own or license without our consent. Unauthorized use of our intellectual property by third parties, and the expenses incurred in protecting our intellectual property rights may materially and adversely affect our business.

We have registered domain names for websites that we use in our business, such as forgame.com and 91wan.com. If we lose the ability to use the domain name of forgame.com or 91wan.com, we would be forced to incur significant expenses to market our products under a new domain name, which could substantially harm our business. In addition, our competitors could attempt to capitalize on our brand recognition by using domain names similar to ours. We may be unable to prevent third parties from acquiring and using domain names that infringe on, are similar to, or otherwise decrease the value of, our brand or our trademarks. Protecting and enforcing our rights in our domain names and determining the rights of others may require litigation, which could result in substantial costs and diversion of management attention.

While we intend to vigorously pursue our legal rights in PRC courts, the validity, enforceability and scope of protection of intellectual property in Internet-related industries are uncertain and still evolving. In particular, the laws and enforcement procedures in the PRC are uncertain and do not protect intellectual property rights in this area to the same extent as do the laws and enforcement procedures in more developed countries. Policing unauthorized use of intellectual properties is difficult and expensive. Any steps we have taken to prevent the misappropriation of our intellectual properties may be inadequate. Moreover, litigation may be necessary in the future to enforce our intellectual property rights. Future litigation could result in substantial costs and diversion of our resources, and could disrupt our business, as well as have a material adverse effect on our financial condition and results of operations.

We or our licensors may be subject to intellectual property infringement or misappropriation claims by third parties, which if determined adversely against us or our licensors, may result in significant liabilities and costs for us and have material adverse effects on our business.

We cannot be certain that in-house developed or co-developed, acquired or licensed webgames or other content posted on our websites do not and will not infringe upon patents, copyrights, trademarks or other intellectual property rights held by third parties. We published 20 self-developed and 59 licensed webgames on 91wan as of June 30, 2013. In August 2013, we received a notice of action from Beijing Shijingshan People's Court in relation to a lawsuit commenced by Beijing Wangyuan Shengtang Entertainment Limited against Weidong,

RISK FACTORS

alleging that the text of a webpage banner used to promote one of the games published by *91wan* infringed the plaintiff’s licensed trademark rights. We have subsequently received a court ruling, according to which the plaintiff has withdrawn the lawsuit in order to collect additional evidence. However, we have not received any notice of any other lawsuit commenced by the plaintiff against us as of the date of the document. Please refer to the section headed “Business — Legal Proceedings and Compliance” for details. Neither we nor our licensors had encountered any other legal claims relating to patents, copyrights, trademarks or other intellectual property rights held by third parties concerning our own games or licensed games during the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013 and the subsequent period up to the Latest Practicable Date. However, we cannot assure you that we or any of our licensors will not be perceived or alleged to infringe upon patents, copyrights, trademarks or other intellectual property rights held by third parties and become subject to legal proceedings and claims from time to time relating to the intellectual property rights of others in the future.

If we or our licensors are found to have violated the intellectual property rights of others, we may be subject to monetary damages and be enjoined from using such intellectual property, or we may incur new or additional licensing costs if we wish to continue using the infringing content, be forced to develop or license alternatives or be forced to stop operating one or more games, any of which may materially and adversely affect our business and results of operations. In addition, we may incur substantial expenses and require significant attention of management in defending ourselves against these third-party infringement claims, regardless of their merit.

In addition, we use open source softwares, including Centos, Nginx, MySQL and MongoDB, in our games and may use open source softwares in the future. From time to time, we may face claims from companies that incorporate open source software into their products, claiming ownership of, or demanding release of, the source code, the open source softwares and/or derivative works that were developed using these softwares, or otherwise seeking to enforce the terms of the applicable open source license. We have not faced any such claims during the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013 and we have complied with the license terms of these open source softwares and have not sub-licensed any source code or binary package of the open source softwares to any other party. However, we cannot assure you that such claims will not be brought against us. These claims could also result in litigation, require us to purchase a costly license or require us to devote additional research and development resources to change our games, any of which could have a negative effect on our business and results of operations.

Registration of three of our trademarks is pending.

As of the Latest Practicable Date, we had made three trademark applications in Hong Kong for three trademarks as set out in the section headed “Statutory and General Information — Further Information about the Business of Our Company — 2. Our material intellectual property rights — (a) Trademarks” in Appendix III to this document, in respect to core services that we offer in the PRC (application numbers 302518164, 302518173 and 302518182). If no oppositions or extension requests are filed against us during the three-month publication period since our applications in June 2013, the relevant registration certificates for the three trademarks are expected to be issued in October 2013. However, the timing of such application largely depends on the progress of the relevant government authority in Hong Kong, which is out of our control. Furthermore, we cannot assure you that these pending applications for trademarks will eventually be granted or that they will be granted for a specification of products or services that protects all of our normal business activities. Also, there is no assurance that our continuous use of these trademarks will not infringe intellectual property rights of any third parties. Should we fail to secure the registration of any of these trademarks under application, or are held by any court or tribunal to be infringing or have infringed any trademark or intellectual property rights of others, our business operation and reputation may be adversely affected.

Confidentiality agreements with employees and others may not adequately prevent disclosure of trade secrets and other proprietary information.

We principally rely on trade secrets to protect our technology and know-how. We have devoted substantial resources to the development of our technology and know-how. In order to protect our technology and know-

RISK FACTORS

how, we rely significantly on confidentiality provisions in relevant agreements with our employees, licensees, independent contractors and other advisors. These agreements may not effectively prevent disclosure of confidential information and may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. In addition, others may independently discover trade secrets and proprietary information, limiting our ability to assert any trade secret rights against such parties. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and failure to obtain or maintain trade secret protection could adversely affect our competitive position.

We face risks associated with the licensing of our games internationally, and if we are unable to effectively manage these risks, our ability to expand our business internationally could be impaired.

As of June 30, 2013, we licensed 20 games to game publishers in a number of overseas countries or regions. We plan to further license our existing and new games in more countries and regions.

Licensing our webgames in the international markets exposes us to a number of risks, including:

- identifying and maintaining good relations with game publishers who are knowledgeable of, and can effectively distribute and publish our webgames in, international markets;
- negotiating licensing agreements with game publishers on terms that are commercially acceptable to us, enforcing the provisions of those agreements and renewing those agreements upon expiration;
- developing and updating webgames catering to overseas markets, which involves challenges caused by languages and cultural differences and local competition;
- maintaining the reputation of our Company and our webgames, given that our webgames are published by game publishers in the international markets with different standards;
- protecting our intellectual property rights overseas and managing the related costs;
- dealing with credit risk and payment fraud, and auditing the royalties we are entitled to receive;
- complying with the different commercial and legal requirements of the international markets in which our webgames are offered, such as game content and import regulatory procedures, taxes and other restrictions and expenses; and
- managing our foreign currency risks.

In addition, our plan to continue to license our webgames in international markets may also be adversely affected by public opinion or government policies in markets in which we license our games. If we are not able to license our webgames internationally as planned, our business, financial condition and results of operations could be materially and adversely affected.

We process, store and use personal information and other data, which subjects us to governmental regulation and other legal obligations related to privacy, and our actual or perceived failure to comply with such obligations could harm our business.

We receive, store and process personal information and other player data. There are numerous laws around the world regarding privacy and the storing, sharing, use, processing, disclosure and protection of personal information and other player data on the Internet and mobile platforms, the scope of which is changing, subject to differing interpretations, and may be inconsistent between countries or conflict with other rules. It is possible that these obligations may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another and may conflict with other rules or our practices. Any failure or perceived failure by us to comply with our privacy policies, our privacy-related obligations to players or other third parties, or our privacy-related legal obligations, or any compromise of security that results in the unauthorized release or transfer of personally

RISK FACTORS

identifiable information or other player data, may result in governmental enforcement actions, litigation or public statements against us by consumer advocacy groups or others and could cause our players to lose trust in us, which could have an adverse effect on our business. Additionally, if third parties we work with, such as players, vendors or developers, violate applicable laws or our policies, such violations may also put our players' information at risk and could in turn have an adverse effect on our business.

We are subject to payments-related risks, which could adversely affect our reputation and results of operations.

We cooperate with various third-party online payment platforms such as Alipay, 99bill and Yeepay and major pre-paid card service providers in China such as Shenzhoufu to enable players on *91wan* to make payments through such payment platforms. If any of our major payment service providers were to become unable or unwilling to settle the receivable in a timely manner or at all, our liquidity could be adversely affected and we may have to write off receivables or increase provisions against bad debts. Also, if any of our major payment service providers were to become unable or unwilling to provide payment processing services, including the processing payments made with credit cards and debit cards, our business condition and results of operations could be materially and adversely affected.

We are subject to risks relating to player account abuse, human error, fraud and other illegal activities in connection with our player accounts. If our data security systems are breached or compromised, we may lose our ability to direct credit and debit card payments from our players, and we may be subject to claims for damages from our players and third parties, all of which could adversely and materially affect our reputation as well as our results of operations.

Acquisitions, investments and strategic alliances could adversely affect our business and results of operations.

We established our game development and publishing businesses through the acquisition of Feiyin and Weidong in 2009. We may in the future continue to evaluate and enter into discussions regarding a wide array of potential merger or acquisition transactions. We recently invested in Appionics, the owner and operator of the Animoca studio, which is a developer and publisher of cross-platform mobile apps for smartphones and tablets, and plan to cooperate with Appionics to distribute our mobile games overseas. We cannot assure you that we will be able to continue identifying suitable acquisition targets in the future. In addition, any transactions that we enter into could be material to our financial condition and results of operations. The process of integrating an acquired company, business, asset or technology may create unexpected operating difficulties and expenditures. The areas where we face risks include:

- significant costs of identifying and consummating acquisitions;
- diversion of management time and focus from operating our business to acquisition integration challenges;
- difficulties in integrating the management, technologies and employees of the acquired businesses;
- implementation or remediation of controls, procedures and policies at the acquired businesses;
- coordination of products and services, engineering and sales and marketing functions;
- retention of employees from the acquired businesses;
- liabilities for activities of the acquired businesses before the acquisition;
- potential significant impairment losses related to goodwill and other intangible assets acquired;
- litigation or other claims in connection with the acquired businesses;
- significant expenses in obtaining approvals for the transactions from shareholders and relevant government authorities in China;

RISK FACTORS

- in the case of foreign acquisitions, the need to integrate operations across different cultures and languages and to address the particular economic, currency, political and regulatory risks associated with specific countries; and
- failure to achieve the intended objectives, benefits or revenue-enhancing opportunities.

Our failure to address these risks or other problems encountered in connection with our future acquisitions and investments could cause us to fail to realize the anticipated benefits of such acquisitions or investments, incur unanticipated liabilities and harm our business generally. If we use our equity securities to pay for acquisitions, we may dilute the value of our Shares. If we borrow funds to finance acquisitions, such debt instruments may contain restrictive covenants that could, among other things, restrict us from distributing dividends. Such acquisitions may also generate significant amortization expenses related to intangible assets.

We may in the future enter into strategic alliances with various third parties 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 counterparties, reputation risk and an increase in expenses incurred in establishing new strategic alliances, any of which may materially and adversely affect our business. To the extent the third parties suffer negative publicity or harm to their reputations from events relating to their business, we may also suffer negative publicity or harm to our reputation by virtue of our association with such third parties.

We principally rely on dividends and other distributions on equity paid by Feidong to fund any cash and financing requirements we may have. Any limitation on Feidong's ability to make payments to us, or the tax implications of making payments to us, could have a material adverse effect on our ability to conduct our business or financial condition.

We are a Cayman Islands holding company and conduct substantially all of our operations through the PRC Operational Entities. We rely principally on dividends and other distributions on equity by Feidong, our wholly-owned subsidiary, for our cash requirements, including the funds to pay dividends and to service any debt we may incur or financing we may need for our operations. If Feidong incurs its own debt in the future, the instruments governing the debt may restrict Feidong's ability to pay dividends or make other distributions to us. Furthermore, under PRC laws and regulations, Feidong is only permitted to pay dividends out of its retained earnings, if any, determined in accordance with PRC accounting standards and regulations. Under PRC laws, Feidong is also required to set aside at least 10% of its after-tax profit based on PRC accounting standards each year to its general reserves until the cumulative amount of such reserves reaches 50% of its registered capital. These reserves are not distributable as cash dividends, loans or advances. Feidong may also allocate a portion of its after-tax profits based on PRC accounting standards, as determined by its board of directors, to its staff welfare and bonus funds, which may not be distributed to us.

As a result of these and other restrictions under PRC laws and regulations, Feidong is restricted from transferring a portion of its assets to us as dividends, loans or advances. We cannot assure you that Feidong will generate sufficient earnings and cash flows in the near future to pay dividends or otherwise distribute sufficient funds to enable us to meet our obligations, pay interest and expenses or declare dividends. Any limitation on Feidong's ability to transfer funds to us as dividends, loans or advances could materially and adversely limit our ability to grow, make investments or acquisitions that could benefit our businesses, repay debts, pay dividends, or otherwise fund and conduct our business.

In addition, under the PRC Enterprise Income Tax Law and its implementation rules, dividends generated from Feidong's business in the PRC after January 1, 2008 and payable to Foga Tech, Feidong's immediate holding company incorporated in Hong Kong, generally will be subject to a withholding tax rate of 10%. If certain conditions and requirements under the Arrangement between the Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect

RISK FACTORS

to Taxes on Income entered into between Hong Kong and the PRC are met, the withholding rate could be reduced to 5%.

In October 2009, the SAT further issued the Circular on How to Interpret and Recognize the “Beneficial Owner” in Tax Treaties (“Circular 601”) and certain other related rules. According to Circular 601, non-resident enterprises or individuals that cannot provide valid supporting documents as “beneficial owners” may not enjoy the benefits of the tax treaty. “Beneficial owners” refers to individuals, enterprises or other organizations that are normally engaged in substantive operations. These rules also set forth certain adverse factors on the recognition of a “beneficial owner,” expressly excluding “conduit companies,” or any company established for the purposes of avoiding or reducing tax obligations or transferring or accumulating profits and not engaged in actual operations such as manufacturing, sales or management, from being a “beneficial owner.” As a result, although Feidong is currently wholly owned by Foga Tech, our Hong Kong subsidiary, Foga Tech may not qualify as a beneficial owner of Feidong and we may not be able to enjoy the preferential withholding tax treatment under the tax treaty with respect to dividends paid by Feidong to Foga Tech.

PRC regulations of loans to and direct investment in PRC entities by offshore holding companies may delay or prevent us from transferring funds to Feidong.

We may transfer funds to Feidong or finance Feidong by means of shareholder loans or capital contributions. Any loans to Feidong, which is a foreign-invested enterprise, cannot exceed statutory limits based on the difference between its registered capital and investment amount, and shall be registered with SAFE or its local counterparts. Furthermore, any capital contributions we make to Feidong shall be approved by the MOFCOM or its local counterparts. We may not be able to obtain these government registrations or approvals on a timely basis, if at all. If we fail to receive such registrations or approvals, our ability to provide loans or capital contributions to Feidong may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

In addition, SAFE promulgated the Circular on the Relevant Operating Issues concerning Administration Improvement of Payment and Settlement of Foreign Currency Capital of Foreign-invested Enterprises (“Circular 142”) on August 29, 2008. Under Circular 142, registered capital of a foreign-invested company settled in RMB converted from foreign currencies may only be used within the business scope approved by the applicable governmental authority and may not be used for equity investments in the PRC. In addition, foreign-invested companies may not change how they use such capital without SAFE approval, and may not use such capital to repay RMB loans if the proceeds of such loans have not been utilized. Violations of Circular 142 may result in severe penalties, including heavy fines as set forth in the section headed “Regulations — Regulations Relating to Foreign Currency Exchange.” As a result, Circular 142 may significantly limit our ability to transfer the [●] and subsequent financings to Feidong and eventually to our PRC Operational Entities through Feidong, which may adversely affect the business expansion of our PRC Operational Entities, and we may not be able to convert [●] into RMB to invest in or acquire any other PRC companies, or establish other PRC Operational Entities in the PRC.

RISK FACTORS

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

Economic conditions in China are sensitive to global economic conditions. Since we derive, and expect to continue to derive, the significant portion of our revenue from China, our business and prospects may be affected by economic conditions in China. We rely on the spending of our players for our revenue, which may in turn depend on their level of disposable income, perceived future earnings and willingness to spend. Due to uncertain global economic conditions, our players may reduce the amount they spend on our webgames. In addition, renewed financial turmoil affecting the financial markets, banking systems or currency exchange rates may significantly restrict our ability to obtain financing in the capital markets or from financial institutions on commercially reasonable terms, or at all, which could also materially and adversely affect our business, results of operations and prospects.

We have not purchased any insurance to cover our main assets, properties and business and our limited insurance coverage could expose us to significant costs and business disruption.

We have not purchased any insurance to cover our main assets, properties and business. Further, we do not maintain business interruption insurance or key-man life insurance. Any disruption in our network infrastructure or business operations, litigation or natural disasters may result in our incurring substantial costs and the diversion of our resources. Our insurance coverage may not be sufficient to prevent us from any loss and there is no certainty that we will be able to successfully claim our losses under our current insurance policy on a timely basis, or at all. If we incur any loss that is not covered by our insurance policies, or the compensated amount is significantly less than our actual loss, our business, financial condition and results of operations could be materially and adversely affected.

The interests of our Controlling Shareholders may not align with those of our other Shareholders.

Four of our Founders, namely Mr. Wang, Mr. Huang, Mr. Liao and Mr. Zhuang established the Family Trusts and transferred by way of gift at no consideration all their respective shareholding interests in Foga Group, Foga Networks, Foga Holdings and Foga Development, which in turn hold an aggregate of 71.39% of the then-issued share capital of the Company, to Managecorp Limited, acting as trustee. The Family Trusts are discretionary trusts, the beneficiaries of which include themselves and in some cases, their respective family members. The Wang Trust, Keith Huang Trust, Hao Dong Trust and ZHUANGJG Trust were duly set up on March 15, 2013. Mr. Wang, Mr. Huang, Mr. Liao, Mr. Yang and Mr. Zhuang are our Controlling Shareholders through exercising common control over our Company, our subsidiaries and our PRC Operational Entities as confirmed by the Memorandum. With the exception of Mr. Yang, they are also the ultimate beneficial owners of the shareholding interests of Managecorp Limited held through the Family Trusts. Accordingly, it will be able to exert significant control and influence over our business and on matters of significance to us and other Shareholders by voting at the general meetings of Shareholders.

Notwithstanding that the Family Trusts are of discretionary nature and that Managecorp Limited as trustee is entitled to make decisions regarding any matters relating to the trusts at its own discretion and based on its own judgment, Managecorp Limited as trustee is bound by fiduciary duties of a trustee in making any decisions regarding corporate actions to be taken by Mr. Wang, Mr. Huang, Mr. Liao and Mr. Zhuang, and their interests may not be aligned with those of the other Shareholders. There is no assurance that Mr. Wang, Mr. Huang, Mr. Liao, Mr. Zhuang or Managecorp Limited will not prevent us from taking actions or exercising our rights under agreements to which we are a party to. When conflicts of interest arise between our Controlling Shareholders and other Shareholders, our Controlling Shareholders may prevent or delay us from entering into transactions that might be desirable to other Shareholders, such as takeovers or changes in our control or management, causing loss of opportunities on the part of other Shareholders.

RISK FACTORS

We cannot assure you that our Controlling Shareholders and Managecorp Limited will act entirely in our interest or that conflicts of interest will be resolved in our favor. The interests of our Controlling Shareholders may differ from the interests of our other Shareholders and our Controlling Shareholders are free to vote according to their interests.

We had total deficits and negative reserves during the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013.

As of December 31, 2012 and June 30, 2013, we had total deficits of RMB136.7 million and RMB342.1 million, respectively. This was primarily due to (i) the negative reserve of RMB228.4 million and RMB190.4 million, respectively, among which RMB371.9 million was other reserve resulting from the repurchase of ordinary shares in connection with the Pre-[●] Investment by the Series A Investors in June 2012; and (ii) the accumulated fair value loss of convertible redeemable preferred shares of RMB18.8 million and RMB388.2 million, respectively, as of December 31, 2012 and June 30, 2013. Assuming [●] in the year ending December 31, 2013 with [●], the estimated total fair value loss to be recorded in relation to the convertible redeemable Series A Preferred Shares for the year ending December 31, 2013 will be approximately HK\$[●] million to HK\$[●] million. Pursuant to the conversion terms set forth in the memorandum of association and articles of association, all Series A Preferred Shares will be automatically converted into Ordinary Shares upon [●]. As a result, the liabilities for the Series A Preferred Shares will be derecognized and accounted as an increase in share capital and capital reserve and we will not have total deficits or negative reserves immediately upon [●]. Please refer to the section headed “Financial Information — Shareholders’ Equity” and Notes 24 and 30 to the Accountant’s Report in Appendix I to this document. However, we cannot assure you that we will not have total deficits and negative reserves in the future resulting from similar transactions or otherwise, which will limit our ability to distribute dividends under Cayman Islands Company Law.

Risks Relating to Our Contractual Arrangements

If the PRC government finds that the agreements that establish the structure for operating our China business do not comply with PRC laws and regulations, or if these regulations or their interpretations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations.

On December 11, 2001, the State Council promulgated Regulations for the Administration of Foreign-invested Telecommunications Enterprises 《外商投資電信企業管理規定》 (the “FITE Regulations”), which were subsequently amended on September 10, 2008. Under the FITE Regulations, foreign ownership of companies that provide value-added telecommunication services, which include the operation of webgames and mobile games, is limited to 50%. In addition, a foreign investor who invests in a value-added telecommunications business in the PRC must possess prior experience in operating value-added telecommunications businesses and a proven track record of business operations overseas (“Qualification Requirement”). Currently, none of the applicable PRC laws, regulations or rules provides clear guidance or interpretation on the Qualification Requirement. Despite the lack of clear guidance or interpretation on the Qualification Requirement, we have been gradually building up our track record of overseas telecommunications business operations for the purposes of being qualified to acquire the entire equity interests of the PRC Operational Entities when the PRC laws allow foreign investors to invest in value-added telecommunications enterprises in China. Please refer to the section headed “Contractual Arrangements — Background” for detailed measures we have taken and plan to take in order to meet the Qualification Requirement. However, we cannot assure you that such measures are ultimately sufficient to comply with the Qualification Requirement. In addition, each of the Contractual Arrangements provides that Feidong and the PRC Operational Entities shall terminate the Contractual Arrangements once Feidong is allowed to hold the PRC Operational Entities’ equity interests under the PRC laws and if Feidong or its subsidiaries are able to conduct webgame and mobile game operations under the PRC laws. As a result, if the restriction on foreign ownership in companies providing value-added communications services under the current PRC laws is revoked, we may be required to unwind the Contractual Arrangements before we are in a position to comply with the Qualification Requirement.

RISK FACTORS

According to the Guidance Catalog of Industries for Foreign Investment (revised in 2011) 《外商投資產業指導目錄（2011年修訂）》 (the “Catalog”), which was promulgated and is amended from time to time jointly by MOFCOM, and the National Development and Reform Commission (the “NDRC”), the value-added telecommunications services are considered “restricted” under Section V of the Catalog and the Internet business is considered “prohibited” under Section X. In order to comply with the foreign ownership restrictions, we operate our webpage and mobile game business in China through our PRC Operational Entities, which are contractually controlled by Feidong. In addition, foreign and foreign-invested enterprises are not able to apply for the licenses required to publish webgames in China. As a Cayman Islands company, we are a foreign enterprise under PRC law, and neither we nor Feidong, our wholly-owned PRC subsidiary, are permitted to hold a license to publish webgames in China. The PRC Operational Entities hold the licenses and approvals that are required to operate our webpage and mobile game business. As a result of the Contractual Arrangements among Feidong, the PRC Operational Entities and their shareholders, Feidong is considered the primary beneficiary of the PRC Operational Entities and we consolidate the results of operations of the PRC Operational Entities in our financial statements. If Feidong or any of the PRC Operational Entities fails to obtain or maintain all applicable permits and approvals, our business and operations would be materially and adversely affected.

On July 13, 2006, the MIIT issued the Notice on Strengthening the Administration of Foreign Investment in Operating Value-added Telecommunications Business 《關於加強外商投資經營電信業務管理的通知》 (the “MIIT Notice”), which provides that any domain name or trademark used by a value-added telecom carrier shall be legally owned by such carrier or its shareholders. The MIIT Notice also provides that the operation site and facilities of a value-added telecom carrier shall be used as prescribed by operating licenses obtained by the carrier and correspond to the value-added telecom services that the carrier has been approved to provide. In addition, value-added telecom carriers are required to ensure network security. Companies that have obtained the operating licenses for value-added telecom services are required to perform a self-examination as to compliance with these requirements and report the results to the provincial branches of the MIIT. Currently the PRC Operational Entities or their shareholders own all the domain names and trademarks that we use in our operations. However, if the PRC Operational Entities or their shareholders cease to own some of the domain names and trademarks in the future, we may be in violation of the provisions of the MIIT Notice and as a result may be subject to various penalties, including fines and the discontinuation of or restrictions on our operations.

On September 28, 2009, the GAPP, together with the National Copyright Administration (國家版權局) and the National Office of Combating Pornography and Illegal Publications (全國“掃黃打非”工作辦公室), jointly issued the Notice Regarding the Consistent Implementation of the “Regulation on Three Provisions” of the State Council and the Relevant Interpretations of the State Commission Office for Public Sector Reform and the Further Strengthening of the Administration of Pre-examination and Approval of Online Games and the Examination and Approval of Imported Online Games 《關於貫徹落實國務院〈“三定”規定〉和中央編辦有關解釋，進一步加強網路遊戲前置審批和進口網路遊戲審批管理的通知》， or the GAPP Notice. Article 4 of the GAPP Notice provides that foreign investors are not permitted to invest or engage in online game operations in China through wholly-owned subsidiaries, equity joint ventures or cooperative joint ventures, and expressly prohibits foreign investors from gaining control over or participating in domestic online game operations indirectly by establishing other joint venture companies, establishing contractual arrangements or providing technical support. In the event that we, Feidong or our PRC Operational Entities are found to be in violation of the GAPP Notice, the competent government authorities would have the power to investigate and penalize such violations, including in the most serious cases suspending or revoking the relevant licenses or registrations. Please refer to the section headed “Contractual Arrangements — Legality of the Contractual Arrangements” for detailed discussion of the GAPP Notice.

In the opinion of our PRC legal advisers (i) the ownership structures of our Company, our PRC subsidiary and the PRC Operational Entities are in compliance with existing PRC laws and regulations, (ii) the Contractual Arrangements between our PRC subsidiary, on the one hand, and the PRC Operational Entities, and/or its shareholders, on the other hand, are valid, binding and enforceable, and will not result in any violation of PRC

RISK FACTORS

laws or regulations currently in effect and (iii) the business operations of our Company, our PRC subsidiary, and the PRC Operational Entities, as described in this document, are in compliance with existing PRC laws and regulations in all material aspects. However, there are substantial uncertainties regarding the interpretation and application of PRC laws and regulations, including the MITT Circular, the FITE Regulations and the relevant regulatory measures concerning the webgame industry. In addition, recent press articles have reported that certain PRC court rulings and arbitral decisions invalidated certain contractual agreements which were considered to be entered into with the intention of circumventing foreign investment restrictions in the PRC in contravention of the PRC Contract Law and the General Principles of the PRC Civil Law. Please refer to the section headed “Contractual Arrangements — Legality of the Contractual Arrangements” for detailed discussion. Accordingly, there can be no assurance that the PRC regulatory authorities that regulate the webgame industry, in particular, the MITT, the PRC courts or arbitration panels will ultimately take a view that is consistent with the opinion of our PRC legal advisers.

The relevant PRC regulatory authorities have broad discretion in determining whether a particular contractual structure violates PRC laws and regulations. If our corporate and contractual structures were deemed by the MITT or other competent authorities to be illegal, either in whole or in part, we may have to modify such structures to comply with regulatory requirements. However, we cannot assure you that we can achieve this without material disruption to our business. Further, if our corporate and contractual structure were found to be in violation of any existing or future PRC laws or regulations, the relevant regulatory authorities would have broad discretion in dealing with such violations, including:

- revoking the agreements constituting the Contractual Arrangements;
- revoking the PRC Operational Entities’ business and operating licenses;
- levying fines on us;
- confiscating any of our income that they deem to have been obtained through illegal operations;
- shutting down all or a portion of our networks and servers;
- discontinuing or restricting our operations in China;
- imposing conditions or requirements with which we may not be able to comply;
- requiring us to modify our corporate and contractual structure; and
- taking other regulatory or enforcement actions that could be harmful to our business.

Furthermore, any of the assets under the name of any record holder of equity interest in our PRC Operational Entities, including such equity interest, may be put under court custody in connection with litigation, arbitration or other judicial or dispute resolution proceedings against that record holder. We cannot be certain that the equity interest will be disposed of in accordance with the Contractual Arrangements. In addition, new PRC laws, rules and regulations may be introduced to impose additional requirements that may impose additional challenges to our corporate structure and Contractual Arrangements. Because our PRC Operational Entities contributed substantially all of our total net revenues for the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, the occurrence of any of these events could materially and adversely affect our business, financial condition and results of operations. In addition, if the imposition of any of these penalties or requirement to restructure our corporate structure causes us to lose the rights to direct the activities of our PRC Operational Entities or our right to receive their economic benefits, we would no longer be able to consolidate the financial results of the PRC Operational Entities in our financial statements.

RISK FACTORS

Our Contractual Arrangements may not be as effective in providing operational control as direct ownership and the PRC Operational Entities or their shareholders may fail to perform their obligations under our Contractual Arrangements.

Since PRC laws limit foreign equity ownership in Internet and other related businesses in China, we operate our webgame developments and distributions through the PRC Operational Entities. We have no equity ownership interests in the PRC Operational Entities and rely on the Contractual Arrangements with the PRC Operational Entities and their shareholders to control and operate these businesses. Substantially all of our revenue and cash flow are attributed to our PRC Operational Entities. The Contractual Arrangements may not be as effective as direct ownership in providing us with control over the PRC Operational Entities. Direct ownership would allow us, for example, to directly or indirectly exercise our rights as a shareholder to effect changes in the boards of directors of the PRC Operational Entities, which, in turn, could effect changes, subject to any applicable fiduciary obligations, at the management level. However, under the Contractual Arrangements, as a legal matter, if a PRC Operational Entity or its shareholders fails to perform its, his or her respective obligations under the Contractual Arrangements, we may have to incur substantial costs and expend significant resources to enforce those arrangements and resort to litigation or arbitration and rely on legal remedies under PRC laws. These remedies may include seeking specific performance or injunctive relief and claiming damages, any of which may not be effective. For example, if the shareholders of the PRC Operational Entity were to refuse to transfer their equity interest in the PRC Operational Entity to us or our designee when we exercise the call option pursuant to the Contractual Arrangements, or if they were otherwise to act in bad faith toward us, we might have to take legal action to compel them to perform their respective contractual obligations. Furthermore, uncertainties presented by the PRC legal system could impede our ability to exercise the option to acquire ownership and subject us to substantial costs.

We may lose the ability to use and enjoy assets held by our PRC Operational Entities that are important to the operation of our business if our PRC Operational Entities declare bankruptcy or become subject to a dissolution or liquidation proceeding.

Our PRC Operational Entities hold certain assets that are important to our business operations. The Contractual Arrangements with our PRC Operational Entities contain terms that specifically obligate the shareholders of the PRC Operational Entities to ensure the valid existence of the PRC Operational Entities and that the PRC Operational Entities may not be voluntarily liquidated. However, should the shareholders breach this obligation and voluntarily liquidate the PRC Operational Entities, or should the PRC Operational Entities declare bankruptcy, all or part of their assets may become subject to liens or rights of third-party creditors and we may be unable to continue some or all of our business operations, which could materially and adversely affect our business, financial condition and results of operations.

Our Contractual Arrangements may be subject to scrutiny by the PRC tax authorities and additional taxes may be imposed. A finding that we owe additional taxes could substantially reduce our consolidated net income and the value of your investment.

According to applicable PRC laws and regulations, arrangements and transactions among related parties may be subject to challenge by the PRC tax authorities, additional taxes and interest may be imposed. We would be subject to adverse tax consequences if the PRC tax authorities were to determine that transactions under the Contractual Arrangements between Feidong and the PRC Operational Entities were not conducted on an arm's-length basis as the PRC tax authorities have the authority to make special tax adjustments on the PRC Operational Entities' tax position. Moreover, in accordance with the Implementation Measures of Special Tax Adjustments (Trial Version) Guoshuifa [2009] No. 2, additional corporate income tax payable under a special tax adjustment made by the PRC tax authorities on or after January 1, 2008 shall be subject to an interest levy calculated on a daily basis.

RISK FACTORS

We will be subject to higher income tax rates and incur additional taxes as a result of the Contractual Arrangements, which may increase our tax expenses and decrease our net profit margin.

For the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, our PRC Operational Entities retained all net profits generated by them. However, under the Contractual Arrangements, which we entered into in June and July 2012 and amended and restated on September 12, 2013, all of the net income of the PRC Operational Entities shall be paid to Feidong in the form of service fees, subject to adjustments made by Feidong at its sole discretion, which are subject to a sales tax in the PRC, currently at the tax rate of 3% for value-added tax, which may change in the future.

In addition, Feidong was accredited as a "software enterprise" in June 2013 under the relevant PRC laws, regulations and rules. Under the relevant PRC tax regulations, Feidong is exempted from PRC enterprise income tax in 2013 and will enjoy a reduced income tax rate of 12.5% from 2014 to 2016. Feiyin and Weidong, our two PRC Operational Entities, were qualified as "High and New Technology Enterprises" under the EIT Law in 2010 and as a result entitled to a preferential income tax rate of 15% on their profits for the years ended December 31, 2010, 2011 and 2012. As of June 30, 2013, both Feiyin and Weidong were in the process of renewing such entitlements. We cannot assure you that Feidong's income tax rate will always be lower than that of our PRC Operational Entities. If Feidong fails to maintain its "software enterprise" qualification or renew its qualification when the relevant term expires, its income tax rate would increase to 25% and may be higher than the income tax rate of our PRC Operational Entities at that time. The Group's effective income tax rate may increase as our PRC Operational Entities' preferential income tax rate does not benefit us if they transfer all their net income to Feidong under the Contractual Arrangements, which will in turn decrease our net profit margin.

Shareholders of our PRC Operational Entities may potentially have a conflict of interest with us, and they may breach their contracts with us or cause such contracts to be amended in a manner contrary to our interests.

We conduct substantially all of our operations, and generate substantially all of our revenue, through the PRC Operational Entities. Our control over these entities is based upon the Contractual Arrangements with the PRC Operational Entities and their shareholders that allow us to control the PRC Operational Entities. These shareholders may potentially have a conflict of interest with us, and they may breach their contracts with us, if they believe it would further their own interest or if they otherwise act in bad faith. We cannot assure you that when conflicts of interest arise between us and the PRC Operational Entities, the shareholders will act completely in our interests or that the conflicts of interest will be resolved in our favor.

In addition, these shareholders may breach or cause our PRC Operational Entities to breach the Contractual Arrangements. If the PRC Operational Entities or their shareholders breach their contracts with us or otherwise have disputes with us, we may have to initiate legal proceedings, which involve significant uncertainty. Such disputes and proceedings may significantly disrupt our business operations, adversely affect our ability to control the PRC Operational Entities and otherwise result in negative publicity. We cannot assure you that the outcome of any such dispute or proceeding will be in our favor.

We depend on our PRC Operational Entities to provide certain services that are critical to our business. The breach or termination of any of these service agreements or any failure of or significant quality deterioration in these services could have a material adverse effect on our business, financial condition and results of operations.

We have engaged our PRC Operational Entities to provide certain services that are critical to our business, such as the operation of 91wan by Weidong. Since we do not directly control the PRC Operational Entities, and because we depend on the PRC Operational Entities to provide services that are critical to our business, we face certain risks with respect to our arrangements with these entities. If one of the PRC Operational Entities were to breach its obligations under any of the Contractual Arrangements, we may not be able to find a suitable

RISK FACTORS

alternative service provider or be able to establish our own webgame platform or distribution network in a legal or timely manner. Further, if Feidong commits gross negligence or a fraudulent act, the PRC Operational Entities may unilaterally terminate the Exclusive Business Cooperation Agreements prior to their expiration date and halt services that are critical to our business operations. The breach or termination of any of the Contractual Arrangements could have a material adverse effect on our business, financial condition and results of operations. Please refer to the section headed “Contractual Arrangements — Contractual Arrangements — Termination” for circumstances and conditions under which the Contractual Arrangements may be terminated by the parties thereto.

We conduct our business operation in the PRC through the PRC Operational Entities by way of the Contractual Arrangements, but certain of the terms of the Contractual Arrangements may not be enforceable under PRC laws.

All the agreements which constitute the Contractual Arrangements are governed by PRC laws and provide for the resolution of disputes through arbitration in the PRC. Accordingly, these agreements would be interpreted in accordance with PRC laws and disputes would be resolved in accordance with PRC legal procedures. The legal environment in the PRC is not as developed as in other jurisdictions and uncertainties in the PRC legal system could limit our ability to enforce the Contractual Arrangements. In the event that we are unable to enforce the Contractual Arrangements, or if we suffer significant time delays or other obstacles in the process of enforcing them, it would be very difficult to exert effective control over the PRC Operational Entities, and our ability to conduct our business and our financial condition and results of operations may be materially and adversely affected.

The Contractual Arrangements contain provisions to the effect that the arbitral body may award remedies over the shares and/or assets of the PRC Operational Entities, injunctive relief and/or winding up of the PRC Operational Entities. These agreements also contain provisions to the effect that courts of competent jurisdictions are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal. However, under PRC laws, these terms may not be enforceable. Under PRC laws, an arbitral body does not have the power to grant injunctive relief or to issue a provisional or final liquidation order for the purpose of protecting assets of or equity interests in the PRC Operational Entities in case of disputes. In addition, interim remedies or enforcement order granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in China. PRC laws do allow the arbitral body to grant an award of transfer of assets of or equity interests in the PRC Operational Entities in favor of an aggrieved party. Please refer to the section headed “Contractual Arrangements — Legality of the Contractual Arrangements” for details of the enforceability of the Contractual Arrangements. Therefore, in the event of breach of any agreements constituting the Contractual Arrangements by the PRC Operational Entities and/or their respective shareholders, and if we are unable to enforce the Contractual Arrangements, we may not be able to exert effective control over the PRC Operational Entities, which could negatively affect our ability to conduct our business.

If we exercise the option to acquire equity ownership of the PRC Operational Entities, the ownership transfer may subject us to substantial costs.

Pursuant to the Contractual Arrangements, Feidong (or its designee within our Group) has the exclusive right to purchase all or any part of the equity interests in the PRC Operational Entities from the respective shareholders for a nominal price, unless the relevant government authorities request that another amount be used as the purchase price and in which case the purchase price shall be such amount. Where the purchase price is required by the relevant government authorities to be an amount other than a nominal amount, the respective shareholders shall return the amount of purchase price they have received to Feidong. If such a transfer takes place, the competent tax authority may require Feidong to pay enterprise income tax for ownership transfer income with reference to the market value, in which case the amount of tax could be substantial.

RISK FACTORS

Risks Relating to Our Industry

The laws and regulations governing the webgame industry and related businesses in China are developing and subject to future changes. If we or any of the PRC Operational Entities fail to obtain or maintain all applicable permits and approvals, our business and operations would be materially and adversely affected.

The Internet industry, including the operation of webgames, in China is highly regulated by the PRC government. Various regulatory authorities of the central PRC government, such as the State Council, the MIIT, the SAIC, the MOC, the GAPP, the State Administration of Radio, Film and Television, and the Ministry of Public Security, are empowered to promulgate and implement regulations governing various aspects of the Internet and the webgame industry.

The PRC Operational Entities are required to obtain applicable permits or approvals from different regulatory authorities in order to provide their services. For example, an Internet content provider, or ICP, must obtain a value-added telecommunications business operation license, or ICP License, from the MIIT or its local offices in order to engage in any commercial ICP operations within China. A webgame operator must also obtain an Internet culture operation license from the MOC, an Internet publishing license from the GAPP in order to distribute games through the Internet and approval from the MIIT to provide online bulletin board services. In addition, we are providing mobile applications to mobile device players free of charge and therefore we do not think we need to obtain a separate operating license in addition to the ICP License, which we have already obtained. We believe this is in line with the current market practice. However, there can be no assurance that the competent authorities in the PRC share the same view as us or that we will not be required to apply for an operating license for our mobile applications in future. If any of the PRC Operational Entities fails to obtain or maintain any of the required permits or approvals or if our practice is later challenged by government authorities, they may also be subject to various penalties, including fines and the discontinuation of or restriction on our operations. Any such disruption in business operations would materially and adversely affect our financial condition and results of operations.

Furthermore, our PRC Operational Entities are subject to certain PRC regulations on webgame administration, which regulate, among others, game development, publishing and issuance and trading of virtual currency. In January 2011, Weidong was fined RMB20,000 by the administrative enforcement team of the Guangzhou Culture Bureau (廣州市文化局) in an administrative proceeding because one of the webgames it licensed and published solicited players to pay for the chance to win virtual items based on random selection through a lucky draw, wager or lottery and therefore violated *The Interim Measures for the Administration of Online Games* (《網絡遊戲管理暫行辦法》). We were in the process of improving our internal control as a private start-up company and did not manage to fully comply with the then newly-issued regulation. As of the date of the document, we have not been penalized by any administrative authorities for similar incidents. While we have taken measures to prevent similar incidents from occurring in the future, it may be difficult for us to monitor the activities in all webgames we are publishing. If we fail to do so, we may be subject to penalties imposed by the PRC authorities. We may also be subject to negative publicity resulting from such incidents and our reputation may be harmed.

As the webgame industry is at an early stage of development in China, new laws and regulations may be adopted in the future to address new issues that arise from time to time. If our operations do not comply with these new laws and regulations at the time they become effective, or if we fail to obtain any licenses required under these new laws and regulations, we could be subject to penalties. Also, different regulatory authorities may have different views regarding the licensing requirements for the operation of webgames and related businesses. As a result, substantial uncertainties exist regarding the interpretation and implementation of current and any future PRC laws and regulations applicable to the webgame industry and related businesses. While we believe that we comply in all material respects with all applicable PRC laws and regulations currently in effect, we cannot assure you that we will not be found in violation of any current or future PRC laws and regulations.

RISK FACTORS

Compliance with the laws or regulations governing virtual currency may result in us having to obtain additional approvals or licenses or change our current business model.

We issue game credits to players for them to exchange for virtual items to be used in our games. The issuance and use of "virtual currency" is regulated in the PRC. In January 2007, the Ministry of Public Security, the MOC, the MIIT and the GAPP jointly issued a circular regarding online gambling having implications for the use of virtual currency. To curtail webgames that involve online gambling, as well as address concerns that virtual currency could be used for money laundering or illicit trade, the circular (i) prohibits webgame operators from charging commissions in the form of virtual currency in relation to winning or losing of games; (ii) requires webgame operators to impose limits on the use of virtual currency in guessing and betting games; (iii) bans the conversion of virtual currency into real currency or property; and (iv) prohibits services that enable players to transfer virtual currency to other players. In February 2007, 14 PRC regulatory authorities jointly promulgated a circular to further strengthen the oversight of Internet cafés and webgames. Under the circular, the PBOC has authority to regulate virtual currency, including: (i) setting limits on the aggregate amount of virtual currency that can be issued by webgame operators and the amount of virtual currency that can be purchased by an individual; (ii) stipulating that virtual currency issued by webgame operators can only be used for purchasing virtual products and services within the webgames and not for purchasing tangible or physical products; (iii) requiring that the price for redemption of virtual currency shall not exceed the respective original purchase price; and (iv) banning the trading of virtual currency.

On June 4, 2009, the MOC and the MOFCOM jointly issued a notice regarding strengthening the administration of webgame virtual currency (the "Virtual Currency Notice"). The notice requires businesses that (i) issue webgame virtual currency (in the form of prepaid cards or prepayment or prepaid card points) or (ii) offer webgame virtual currency transaction services to apply for approval from the MOC within three months following the date of the notice. The notice also prohibits businesses that issue webgame virtual currency from providing services that would enable the trading of such virtual currency. The business scope in our Network Cultural Business Permit includes the issuance of virtual currency.

We believe we do not issue in-game virtual currency or offer in-game virtual currency trading services. However, we cannot assure you that the PRC regulatory authorities will not take a view contrary to ours. In that event, we may be required to cease either our game credit issuance activities or such deemed "trading service" activities and may be subject to certain penalties, including but not limited to mandatory corrective measures and fines. The occurrence of any of the foregoing could have a material adverse effect on our business and results of operations.

In addition, the Virtual Currency Notice also prohibits webgame operators from setting game features that involve the direct payment of cash or virtual currency by players for the chance to win virtual items or virtual currency based on random selection through a lucky draw, wager or lottery. The notice also prohibits game operators from issuing currency to players through means other than purchases with legal currency. It is unclear whether these restrictions would apply to certain aspects of our webgames. We cannot assure you that the PRC regulatory authorities will not take a view unfavorable to us and deem certain of our game features as prohibited by the Virtual Currency Notice, thereby subjecting us to penalties, including mandatory corrective measures and fines. The occurrence of any of the foregoing could materially and adversely affect our business and results of operations.

Additional government regulations resulting from negative publicity in China regarding webgames or otherwise may have a material adverse effect on our business, financial condition and results of operations.

The media in China has reported incidents of violent crimes or out-of-game illegal conducts by players allegedly provoked by, or committed in connection with, online games, including webgames. In addition, there have been widespread negative media reports that focus on how online games are addictive, how excessive game playing could distract students and interfere with their education and how the content of webgames could be obscene,

RISK FACTORS

superstitious or socially destabilizing. Certain non-governmental organizations may also organize protests or publicity campaigns against online game companies in order to protect youth from the risk of becoming addicted to certain webgames. The PRC government may decide to adopt more stringent policies to monitor the online gaming industry as a result of adverse public reaction to perceived addiction to such games, particularly by minors. In 2007, eight PRC government authorities, including the GAPP, the Ministry of Education and the MIIT, jointly issued a notice requiring all Chinese online game operators to adopt an "anti-fatigue compliance system" in an effort to curb addiction to online games by minors. Under the anti-fatigue compliance system, three hours or less of continuous play is defined to be "healthy," three to five hours is defined to be "fatiguing," and five hours or more is defined to be "unhealthy." Game operators, including us, are required to reduce the value of game benefits for minor players by half when those players reach the "fatigue" level, and to zero when they reach the "unhealthy" level. We have received orders from competent authorities to improve our "anti-fatigue compliance system" due to historic non-compliance. We cannot assure that any measures taken by us to prevent similar incidents from occurring in the future will be absolutely effective. In addition, webgame players in China are now required to register their identity card numbers before they can play a webgame. This system allows game operators to identify which players are minors. It is unclear whether these restrictions would be expanded to apply to adult players in the future. More stringent government regulations, including stricter anti-fatigue rules, could discourage players from playing our games, which could have a material adverse effect on our business, financial condition and results of operations.

In addition, the State Administration of Taxation announced that it may tax players on the income derived from the trading of virtual currencies at the rate of 20%. However, it is currently unclear how the tax will be collected or if there will be any effect on our players or our business.

Furthermore, similar adverse public reactions may arise and similar government policies may be adopted in other jurisdictions where we license out our webgames, which could materially and adversely affect our overseas licensing revenues.

The PRC government has tightened its regulation of Internet cafés, which are currently one of the venues for players to play online games in China. Intensified government regulation of Internet cafés could restrict our ability to maintain or increase our revenue and expand our player base.

Internet cafés are one of the places for players to play online games in China. In March 2001, the PRC government began tightening its regulation and supervision of Internet cafés. In particular, a large number of unlicensed Internet cafés have been closed. The PRC government has also imposed higher capital and facility requirements for the establishment of Internet cafés. Furthermore, the PRC government's policy, which encourages the development of a limited number of national and regional Internet café chains and discourages the establishment of independent Internet cafés, has slowed down the growth of Internet cafés. In February 2004, the government agencies in charge of Internet café licensing jointly issued a notice suspending the issuance of new Internet café licenses for a period of six months. In February 2007, 14 PRC government departments jointly issued a circular to strengthen the regulation of Internet cafés and webgames. According to the circular, local authorities were banned from issuing new Internet café licenses for the remainder of 2007. Governmental authorities may from time to time impose stricter requirements, such as the customers' age limit and hours of operation, among others, as a result of the occurrence and perception of, and the media attention on, gang fights, arson and other incidents in or related to Internet cafés.

Since some of our players play our games in Internet cafés, any reduction in the number, or slowdown in the growth, of Internet cafés in China, or any new regulatory restrictions on their operations, could limit our ability to maintain or increase our revenues and expand our player base, thereby adversely affecting our business and results of operations, as well as growth prospects.

RISK FACTORS

The PRC government may prevent us from distributing, and we may be subject to liability for, content deemed to be inappropriate.

China has enacted laws and regulations governing Internet access and the distribution of news, information or other content, as well as products and services, through the Internet. In the past, the PRC government has stopped the distribution of information through the Internet that it believes violates PRC laws. The MIIT, the GAPP and the MOC have promulgated regulations that prohibit games from being distributed through the Internet if the games contain content that is found to, among other things, propagate obscenity, gambling or violence, instigate crimes, undermine public morality or the cultural traditions of China, or compromise state security or secrets.

If any games we offer were deemed to violate any such content restrictions, we would not be able to obtain the necessary governmental approval and may not be able to continue offering the game, and we further could be subject to penalties, including confiscation of income, fines, suspension of business and revocation of our license for operating webgames, any of which could materially and adversely affect our business, financial condition and results of operations.

We may also be subject to potential liability for the unlawful actions of our players or for content we distribute on the Internet or use for the promotion of our games that is deemed inappropriate. Furthermore, we may be required to delete content that violates PRC laws and report content that we suspect may violate PRC laws. For example, in November 2011, Weidong was publicly criticized by the MOC for promoting one of the webgames it published using advertising materials that included content which was found to propagate obscenity and thus prohibited by Article 9 of *The Interim Measures for the Administration of Online Games* (《網絡遊戲管理暫行辦法》). This lapse occurred while we were in the process of improving our internal control as a private startup company and did not manage to review the contents of all licensed games and relied more on the representations and warranties made by our game licensors on the legality of their games in our cooperation agreements. As a matter of enforcement, the MOC asked its local counterparties to investigate the publicly criticized companies and, if the local culture bureaus believe the non-compliance exists, they may impose administrative fines of RMB10,000 to RMB30,000 and/or corrective measures. As of the date of the document, we have not received any notice of any investigation or administrative measures from any local culture bureau in this regard. While we have taken measures to prevent similar incidents from occurring in the future, it may be difficult for us to determine the type of content that may result in liability for us, and if we are wrong, we may be subject to penalties imposed by the PRC authorities and be prevented from operating our games or offering other services in China. We may also be subject to negative publicity resulting from such incidents and our reputation may be harmed.

The PRC government controls virtually all Internet access in China, and in general requires computers sold in China to be installed with government-designated software to censor websites deemed inappropriate by the government, which may potentially discourage or restrict the use of the Internet or our webgames by players. The regulation and censorship of information disseminated over the Internet in China may adversely affect our business and subject us to liability for information displayed on or linked to our website.

The PRC government controls virtually all Internet access in China and may occasionally block Internet access throughout the country or in certain regions due to political concerns, in particular in response to, or out of concerns for, special incidents or significant events, thereby preventing people in China, including our players, from accessing the Internet and playing our webgames.

On May 19, 2009, the MIIT issued a circular regarding the Pre-installment of Green Dam Web Filter Software on Computers. According to this circular, commencing on July 1, 2009, all computers sold in China are required to be installed with a government-designated software, called Green Dam — Youth Escort, to block "unhealthy words or pictures." However, according to media reports, such software may compromise the security of personal information. Given the controversy generated by this circular, the MIIT announced on June 30, 2009 that it would extend the deadline for the implementation of the circular. According to further media reports, the

RISK FACTORS

minister of the MIIT stated on August 13, 2009 that the PRC government will not require all computers sold in China to be installed with the filter software but that computers used in schools, Internet cafés and other public places will be required to be installed with the filter software in order to prevent young people from being harmed by unhealthy online content. It is currently unclear to what extent this circular would be implemented. If any content of our webgames is found by the filter software to contain "unhealthy words or pictures," our webgames may be blocked by the software, and as a result players will not be able to access our webgames, which would have an adverse effect on our business, financial condition and results of operations.

Currently there is no law or regulation specifically governing virtual asset property rights and therefore, it is unclear what liabilities, if any, webgame operators may have for virtual assets.

During the course of playing webgames, some virtual assets, such as special equipment, player experience grades and other features of our players' game characters, are acquired and accumulated. Such virtual assets can be important to webgame players and have monetary value and in some cases are sold among players for actual money. In practice, virtual assets can be lost for various reasons, often through unauthorized use of the game account of one player by other players and occasionally through data loss caused by a delay of network service, a network crash or hacking activities. Currently, there is no PRC law or regulation specifically governing virtual asset property rights. As a result, there is uncertainty as to who is the legal owner of virtual assets, whether and how the ownership of virtual assets is protected by law, and whether an operator of webgames such as us would have any liability to players or other interested parties (whether in contract, tort or otherwise) for the loss of virtual assets. In case of a loss of virtual assets, we may be sued by our players and held liable for damages, which may negatively affect our reputation and business, financial condition and results of operations. We have not been involved in any virtual assets related law suits. However, we cannot assure you that such law suits will not be brought against us in the future.

Based on several judgments by PRC courts regarding the liabilities of webgame operators for loss of virtual assets by players, the courts have generally required the webgame operators to return the virtual items or be liable for the loss and damage incurred therefrom.

Risks Relating to the People's Republic of China

Adverse changes in economic and political policies of the PRC government could have a material adverse effect on overall economic growth in China, which could materially and adversely affect our business.

Substantially all of our operations are conducted in China and substantially all of our revenue are sourced from China. Accordingly, our results of operations, financial condition and prospects are influenced by economic, political and legal developments in China. Economic reforms begun in the late 1970s have resulted in significant economic growth. However, any economic reform policies or measures in China may from time to time be modified or revised. China's economy differs from the economies of most developed countries in many respects, including with respect to the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. While the PRC economy has experienced significant growth in the past 20 years, growth has been uneven across different regions and among various economic sectors.

The PRC government exercises significant control over China's economic growth through strategically allocating resources, controlling the payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Since late 2003, the PRC government has implemented a number of measures, such as increasing the People's Bank of China's statutory deposit reserve ratio and imposing commercial bank lending guidelines, which have had the effect of slowing the growth of credit availability. In 2008 and 2009, however, in response to the global financial crisis, the PRC government has loosened such requirements. In response to the global financial crisis and economic downturn, the PRC government adopted various measures aimed at expanding credit and stimulating economic growth, such as decreasing the PBOC statutory deposit reserve ratio and lowering benchmark interest rates. For example, the

RISK FACTORS

PBOC decreased the statutory reserve ratio three times consecutively in December 2011, February 2012 and May 2012, respectively. It also decreased the benchmark interest rates by 25 basis points in June 2012. In particular, the PBOC decided to cut financial institutions RMB benchmark deposit and lending interest rates since July 6, 2012. The one-year benchmark deposit rate was cut by 0.25 percentage points, and year benchmark lending interest rate was cut by 0.31 percentage points.

The Chinese economy has grown significantly in the past decade. However, that growth may not continue and any slow down may have a negative effect on our business. The overall Chinese economy affects our profitability, since expenditures for games may decrease in a slowing economy. Any adverse changes in economic conditions in China, in the policies of the PRC government or in the laws and regulations in China, could have a material adverse effect on the overall economic growth of China and investment in the game industry. Such developments could adversely affect our businesses, lead to reduction in demand for our services and adversely affect our competitive position.

The PRC legal system embodies uncertainties which could limit the legal protections available to us.

The PRC legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little precedential value. In 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing general economic and business matters. The overall effect of legislation since 1979 has been a significant enhancement of the protections afforded to various forms of foreign-invested enterprises in China. Feidong is a wholly foreign-owned enterprise, or WFOE, which is an enterprise incorporated in China and wholly owned by foreign investors. It is subject to laws and regulations applicable to foreign investment in China in general and laws and regulations applicable to WFOEs in particular. However, these laws, regulations and legal requirements are constantly changing and their interpretation and enforcement involve uncertainties. These uncertainties could limit the legal protections available to us. In addition, we cannot predict the effect of future developments in the PRC legal system, particularly with regard to the Internet, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws. Furthermore, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

We may be classified as a "PRC resident enterprise" for PRC enterprise income tax purposes, which could result in our global income being subject to 25% PRC enterprise income tax.

The EIT Law provides that an enterprise established outside China whose "de facto management body" is located in China is considered a "PRC resident enterprise" and will generally be subject to the uniform 25% enterprise income tax rate, or EIT rate, on its global income. Under the implementation rules of the EIT Law, "de facto management body" is defined as the organization body that effectively exercises management and control over such aspects as the business operations, personnel, accounting and properties of the enterprise.

On April 22, 2009, the SAT released the Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies ("Circular 82") that sets out the standards and procedures for determining whether the "de facto management body" of an enterprise registered outside of the PRC and controlled by PRC enterprises or PRC enterprise groups is located within the PRC. Under Circular 82, a foreign enterprise controlled by a PRC enterprise or PRC enterprise group is considered a PRC resident enterprise if all of the following apply: (i) the senior management and core management departments in charge of daily operations are located mainly within the PRC; (ii) financial and human resources decisions are subject to determination or approval by persons or bodies in the PRC; (iii) major assets, accounting books, company seals and minutes and files of board and shareholders' meetings are located or kept within the PRC; and (iv) at least half of the enterprise's directors with voting rights or senior management reside within the PRC. Although Circular 82 explicitly provides that the above standards apply to enterprises which are registered outside the PRC and controlled by PRC enterprises or PRC enterprise groups,

RISK FACTORS

Circular 82 may reflect SAT's criteria for determining the tax residence of foreign enterprises in general. If we were treated as a PRC resident enterprise, the 25% PRC income tax on our global taxable income could materially and adversely affect our ability to satisfy any cash requirements we may have.

The heightened scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on our business operations, our acquisition or restructuring strategy or the value of your investment in us.

Pursuant to the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises ("SAT Circular 698") issued by 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 non-public 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, must 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 ("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 jurisdiction where the overseas holding company is a resident.

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 previous investments by non-resident investors in our Company, if any of such transactions were determined by the tax authorities to lack reasonable commercial purpose. As a result, we and our existing 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. We have conducted and may conduct acquisitions involving changes in corporate structures, and historically our shares were transferred by certain then shareholders to our current shareholders. We cannot assure you that the PRC tax authorities will not, at their discretion, adjust any capital gains and impose tax return filing obligations on us or require us to provide assistance for the investigation of PRC tax authorities with respect thereto. Any PRC tax imposed on a transfer of our Shares or any adjustment of such gains would cause us to incur additional costs and may have a negative impact on the value of your investment in us.

RISK FACTORS

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 the EIT Law and its implementation rules, both of which became effective on January 1, 2008, which provided the statutory rate of the enterprise income tax of 25%. Feidong, our wholly-owned PRC subsidiary, was accredited as a "software enterprise" in June 2013 under the relevant PRC laws, regulations and rules. Under the relevant PRC tax regulations, Feidong is exempted from PRC enterprise income tax in 2013 and will enjoy a reduced income tax rate of 12.5% from 2014 to 2016. The qualification as a "software enterprise" is subject to annual evaluation by the relevant authorities in China. If Feidong fails to maintain its "software enterprise" qualification or renew its qualification when the relevant term expires, its applicable corporate income tax rate would increase to 25%, 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.

You may be subject to PRC income tax on dividends from us or on any gain realized on the transfer of our Shares.

Under the EIT Law and its implementation rules, subject to any applicable tax treaty or similar arrangement between the PRC and your jurisdiction of residence that provides for a different income tax arrangement, PRC withholding tax at the rate of 10% is normally applicable to dividends from PRC sources payable to investors that are non-PRC resident enterprises, which do not have an establishment or place of business in the PRC, or which have such establishment or place of business if the relevant income is not effectively connected with the establishment or place of business. Any gain realized on the transfer of shares by such investors is subject to 10% PRC income tax if such gain is regarded as income derived from sources within the PRC unless a treaty or similar arrangement otherwise provides. Under the PRC Individual Income Tax Law and its implementation rules, dividends from sources within the PRC paid to foreign individual investors who are not PRC residents are generally subject to a PRC withholding tax at a rate of 20% and gains from PRC sources realized by such investors on the transfer of shares are generally subject to 20% PRC income tax, in each case, subject to any reduction or exemption set forth in applicable tax treaties and PRC laws.

Although substantially all of our business operations are in China, it is unclear whether dividends we pay with respect to our Shares, or the gain realized from the transfer of our Shares, would be treated as income derived from sources within the PRC and as a result be subject to PRC income tax if we are considered a PRC resident enterprise. If PRC income tax is imposed on gains realized through the transfer of our Shares or on dividends paid to our non-resident investors, the value of your investment in our Shares may be materially and adversely affected. Furthermore, our Shareholders whose jurisdictions of residence have tax treaties or arrangements with China may not qualify for benefits under such tax treaties or arrangements.

The PRC government's pilot plan to replace the business tax with a VAT may subject us to pay more taxes, which could have a material adverse effect on our financial condition and results of operations.

Pursuant to the *PRC Provisional Regulations on Business Tax*, taxpayers providing taxable services falling under the category of service industry in China are required to pay a business tax at a normal tax rate of 5% of their revenues. In November 2011, the Ministry of Finance and the State Administration of Taxation promulgated the Pilot Plan for Imposition of Value-Added Tax to Replace Business Tax. Pursuant to this plan and relevant notices, from January 1, 2012, a VAT was imposed to replace the business tax in the transport and shipping industry and some of the modern service industries in certain pilot regions, including Shanghai. Under the pilot plan, a VAT rate of 6% applies to some modern service industries. In September 2012, the Guangdong Municipal Office of SAT issued a notice stating that Guangdong would implement the pilot plan of replacing business tax with VAT in November 2012. Our PRC Operational Entities are located in Guangdong, and we have not received notice to replace business tax with VAT from the local SAT bureau as of the date of this document. However, if

RISK FACTORS

this plan is extended to apply to our businesses in the future, we may be subject to a VAT rate which is higher than the business tax rate that currently applies to us, which could harm our financial condition and results of operations.

Regulations relating to offshore investment activities by PRC residents may subject us to fines or sanctions imposed by the PRC government, including restrictions on our PRC subsidiary's abilities to pay dividends or make distributions to us and our ability to increase our investment in our PRC subsidiary.

In October 2005, the SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Corporate Financing and Roundtrip Investment Through Offshore Special Purpose Vehicles ("Circular 75"), which states that if PRC residents use assets or equity interests in their PRC entities as capital contributions to establish offshore companies or inject assets or equity interests of their PRC entities into offshore companies to raise capital overseas, they must register with local SAFE branches with respect to their overseas investments in offshore companies. They must also file amendments to their registrations if their offshore companies experience material events involving capital variation, such as changes in share capital, share transfers, mergers and acquisitions, spin-off transactions, long-term equity or debt investments or uses of assets in China to guarantee offshore obligations. Under this regulation, their failure to comply with the registration procedures set forth in such regulation may result in fines or sanctions imposed by the PRC government, including restrictions being imposed on the foreign exchange activities of the relevant PRC entity, including the payment of dividends and other distributions to its offshore parent, as well as restrictions on the capital inflow from the offshore entity to the PRC entity.

We are committed to complying with and to ensuring that our shareholders who are subject to the regulations will comply with the relevant rules. However, we cannot assure you that all of our shareholders who are PRC residents will comply with our request to make or obtain any applicable registrations or comply with other requirements required by Circular 75 or other related rules. Any future failure by any of our shareholders who is a PRC resident, or controlled by a PRC resident, to comply with relevant requirements under this regulation could subject us to fines or sanctions imposed by the PRC government, including restrictions on our PRC subsidiary's abilities to pay dividends or make distributions to us and our ability to increase our investment in our PRC subsidiary.

Fluctuations in exchange rates could result in foreign currency exchange losses.

The value of the Renminbi against the Hong Kong dollar and the U.S. dollar and other currencies fluctuates, is subject to changes resulting from the PRC government's policies and depends to a large extent on domestic and international economic and political developments as well as supply and demand in the local market. From 1994 to July 2005, the official exchange rate for the conversion of Renminbi to the U.S. dollar was generally stable. In July 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar and the Renminbi appreciated more than 20% against the U.S. dollar over the following three years. From July 2008 to June 2010, the Renminbi traded within a narrow range against the U.S. dollar. Since June 2010, the Renminbi has appreciated against the U.S. dollar, from approximately RMB6.83 per U.S. dollar to RMB6.1202 per U.S. dollar as of the Latest Practicable Date. It is difficult to predict how Renminbi exchange rates may change going forward. With an increased floating range of the Renminbi's value against foreign currencies, the Renminbi may further appreciate or depreciate significantly in value against the Hong Kong dollar and the U.S. dollar or other foreign currencies in the long-term, depending on the fluctuation of the basket of currencies against which it is currently valued, or it may be permitted to enter into a full float, which may also result in a significant appreciation or depreciation of the Renminbi against the U.S. dollar or other foreign currencies.

Certain of our assets are denominated in foreign currencies such as the U.S. dollar. Any depreciation of the Renminbi may adversely affect the value of, and any dividends payable on, our Shares in foreign currency. For the year ended December 31, 2012 and the six months ended June 30, 2013, our currency exchange loss was

RISK FACTORS

approximately RMB0.5 million and RMB0.6 million, respectively. Currently, we do not proactively manage our exchange rate risk through settlements of foreign exchange, currency derivatives and other measures. In addition, there are limited instruments available for us to reduce our foreign currency risk exposure at reasonable costs. We cannot assure you that we will be able to reduce our foreign currency risk exposure relating to our foreign currency-dominated assets. Furthermore, we are also currently required to obtain the SAFE's approval before converting significant sums of foreign currencies into Renminbi. All of these factors could materially and adversely affect our business, financial condition, results of operations and prospects, and could reduce the value of, and dividends payable on, our Shares in foreign currency terms.

We face risks related to natural disasters, health epidemics and other outbreaks of contagious diseases.

Our business could be adversely affected by natural disasters or outbreaks of epidemics. On May 12, 2008, China experienced an earthquake with a reported magnitude of 8.0 on the Richter scale in Sichuan Province, resulting in the death of tens of thousands of people. There have been recent outbreaks of avian flu in certain countries, including China. An outbreak of similar contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, particularly in Asia.

These natural disasters, outbreaks of contagious diseases, and other adverse public health developments in China or any other market in which we do business could severely disrupt our business operations by damaging our network infrastructure or information technology system or impacting the productivity of our workforce, which may adversely affect our financial condition and results of operations. We have not adopted any written contingency plans to combat any future natural disasters or outbreaks of avian flu, H1N1 flu, SARS or any other epidemic.

DIRECTORS

DIRECTORS

Name	Address	Nationality
<i>Executive Directors</i>		
Mr. WANG Dongfeng (汪東風)	Room 403 Building 6 No. 68 Changfeng South Road Luyang District Hefei Anhui Province PRC	Chinese
Mr. HUANG Weibing (黃衛兵)	Room 2407 Tianhe North Road No. 581 Tianhe District Guangzhou Guangdong Province PRC	Chinese
Mr. LIAO Dong (廖東)	Room 1102 Qingfeng South Street No. 23 Tianhe District Guangzhou Guangdong Province PRC	Chinese
Mr. ZHUANG Jieguang (莊捷廣)	Room 804 Jinhai South Street No.1 Tianhe District Guangzhou Guangdong Province PRC	Chinese
<i>Non-Executive Directors</i>		
Mr. TAN Hainan (譚海男)	Apartment 17A Harston The Repulse Bay 109 Repulse Bay Road Hong Kong	American
Mr. TUNG Hans (童士豪)	The Beacon 260 King Street Unit 1407 San Francisco, CA 94107 USA	American

DIRECTORS

Name	Address	Nationality
<i>Independent Non-Executive Directors</i>		
Mr. LEVIN Eric Joshua	Room 2802 No. 2, Lane 211, Xingfu Road Changning District Shanghai PRC	American
Ms. POON Philana Wai Yin (潘慧妍)	Flat F-1, 6th floor Block F, Villa Monte Rosa 41A Stubbs Road Hong Kong	Canadian
Mr. ZHAO Cong Richard (趙聰)	Flat D, 16/F Le Bleu Deux Block 1 12 Tung Chung Waterfront Road Coastal Skyline Tung Chung, Lantau Island Hong Kong	Singaporean
Independent Industry Consultant	Shanghai iResearch Co., Ltd Room 701, Building B, CCIG International Plaza 333 North Caoxi Road Shanghai, 200030	

CORPORATE INFORMATION

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Corporate headquarters	37/F-38/F West Hall Renfeng Building 490 Tianhe Road Guangzhou, China
Principal place of business in Hong Kong	8/F Gloucester Tower The Landmark 15 Queen's Road Central Hong Kong
Company's website	<u>www.forgame.com</u> (The contents on this website do not form part of this document)
Joint Company Secretaries	NGAN King Leung Gary (顏勁良) YUNG Mei Yee (翁美儀)
Audit and Compliance committee	LEVIN Eric Joshua (Chairman) TAN Hainan (譚海男) POON Philana Wai Yin (潘慧妍)
Remuneration committee	ZHAO Cong Richard (趙聰) (Chairman) LEVIN Eric Joshua TUNG Hans (童士豪)
Nomination committee	WANG Dongfeng (汪東風) (Chairman) ZHAO Cong Richard (趙聰) POON Philana Wai Yin (潘慧妍)
Principal bankers	China Merchants Bank, Guangzhou branch Fung Hing sub-branch Floor 1 & 6, Room 25-26 Fung Hing Square No. 67 Tianhe East Road Guangzhou China

INDUSTRY OVERVIEW

This and other sections of this document contain information relating to the PRC economics and the industry in which we operate. The information and statistics contained in this section have been derived partly from public available government and official sources. Certain information and statistics set forth in this section have been extracted from a market research report by iResearch, an independent market research agency, which we commissioned. We believe that the sources of such information and statistics are appropriate and have taken reasonable care in extracting and reproducing such information and statistics. We have no reason to believe that such information or statistics is false or misleading in any material respect or that any fact has been omitted that would render such information or statistics false or misleading in any material respect. Such information and statistics have not been independently verified by us and no representation is given as to their correctness or accuracy. Accordingly, you should not place undue reliance on such information or statistics.

Source of Information

We have extracted and derived certain information and statistics on China's Internet, webgame and mobile game industry from various governmental or other publicly available sources including data from China Internet Network Information Center, or CNNIC. Historical data and market estimates provided by the above-mentioned source are independent from our view.

In addition, we have commissioned iResearch, an international market intelligence provider and an independent third party, to conduct an analysis of the webgame and mobile game market and industry in China. The industry report dated April 15, 2013 prepared by iResearch was based on their specific knowledge of the PRC webgame and mobile game industry. We have paid a fee of RMB230,000 to iResearch in connection with its preparation of the industry report for this document. Our payment of such fee is not contingent upon the results of its analysis.

CNNIC

CNNIC is a research institution operated by the PRC government. Since 1997, CNNIC has published 32 Statistical Reports on Internet Development in China. The main research methods include: (i) Internet-user survey via a Computer-Assisted Telephone Interviewing (CATI) system; (ii) enterprise survey via telephone calls, which employs stratified random sampling, using economic census data as the basis to determine sample quantity per province and conducting random sampling based on corporate yellow page data; (iii) online survey among active Internet users via the CNNIC website and certain largest websites in China.

iResearch Report

iResearch's independent research was undertaken through both primary and secondary research conducted in China. The primary research involved in-depth interviews with industry experts, enterprises and channels. The secondary research utilized Internet-based methods for Internet research and involved comprehensive in-house research of public information for industry research, including government data and information, relevant economic data, industry data, company annual reports, quarterly reports, publications by industry experts and data from iResearch's own research database. iResearch integrates analyses from iAdTracker, an Internet advertising observation system, and iUserTracker, an Internet-user online behavior research system.

iResearch's projection on the market size of online games takes into consideration various factors including (i) historical data of market size, (ii) the public filings of major online game developers and publishers, as well as those companies' projections of their own prospective results of operations during iResearch's interviews with them; (iii) industry experts' projections; and (iv) iResearch's estimation of industry developments. iResearch's projection on the player base size is based on certain assumptions, including (i) the expected growth rate of China's economy and GDP, (ii) the level of Internet infrastructure improvement and Internet speed improvement, and takes into account other factors including historical data of player base size. The reliability of the iResearch Report may be affected by the accuracy of the foregoing assumptions and factors.

INDUSTRY OVERVIEW

China Internet Market Overview

China has the world's largest Internet user base. According to the Statistical Report on Internet Development in China published by CNNIC in July 2013, China's Internet population has experienced rapid growth and the number of Internet users increased from 137 million as of December 31, 2006 to 591 million as of June 30, 2013, representing a CAGR of 25.2%, while the Internet population in the United States was 247 million as of December 31, 2012, according to iResearch.

Internet penetration in China remains significantly lower than that in developed markets, and China's Internet user base is expected to continue growing for the foreseeable future. According to CNNIC, China's Internet penetration rate has grown from 10.5% as of December 31, 2006 to 44.1% as of June 30, 2013, while the penetration rate in the United States was 78.7% as of December 31, 2012, according to iResearch.

The Internet has gradually become one of the primary channels for distributing digital entertainment in China. Consumers are able to access audio and video content online, either by downloading content from online stores, such as Apple's iTunes, or by streaming it directly from media sites, such as Youku and Tudou, which have become increasingly popular with improvements in Internet infrastructure, rather than purchasing physical DVDs for movies or CDs. Online game is following the same trend as distribution shifts from the offline sales of software on CDs to the online downloading of client-based games and, more recently, webgames, which can be played in a browser without downloading any client software.

China Online Gaming Market Overview

Online game is one of the most popular forms of Internet digital entertainment in China. According to CNNIC, 345 million, or 58.5% of, Internet users in China played online games as of June 30, 2013. The online game user base was larger than that of microblogging (also known as weibo) and social networking sites, which amounted to 331 million and 288 million respectively, according to CNNIC.

China's online gaming market generated revenues of RMB58.3 billion in 2012, which is expected to grow to RMB105.0 billion in 2016, according to iResearch, representing a CAGR of 15.8%.

The online gaming industry in China has two major segments, namely, client-based games and webgames. In 2012, the two segments collectively accounted for approximately 96% of the total online games market share, according to iResearch. The following table illustrates the size and growth of the client-based games and webgames segments in China from 2007 to 2012:

Online Gaming Industry Revenue by Segment (RMB billions)

	For the Year Ended December 31,					
	2007	2008	2009	2010	2011	2012
Total online gaming market	12.6	21.0	28.2	36.5	47.6	58.3
<i>Growth</i>		<i>66.4%</i>	<i>34.0%</i>	<i>29.5%</i>	<i>30.4%</i>	<i>22.5%</i>
Webgames	0.1	0.7	1.8	3.4	5.3	7.6
<i>Growth</i>		<i>364.3%</i>	<i>169.2%</i>	<i>96.8%</i>	<i>53.7%</i>	<i>44.4%</i>
Client-based games	12.5	20.3	26.2	32.4	41.0	48.5
<i>Growth</i>		<i>62.2%</i>	<i>29.0%</i>	<i>23.9%</i>	<i>26.3%</i>	<i>18.5%</i>

Source: iResearch Report

Client-based games, which were introduced in China in 2000, currently represent the largest segment of online games, accounting for approximately 83% of total revenue generated by online games in 2012. Client-based

INDUSTRY OVERVIEW

games require that the specific game software be actively installed on the computers on which the game is played. According to iResearch, the client software typically ranges in size from two to four gigabytes, requiring approximately two to six hours of downloading time for an Internet user in China. The client-based game segment has been maturing, and is expected to grow at a CAGR of 13.4% from 2012 to 2016, which is lower than the industry average growth rate of 15.8% over the same period.

Webgames initially emerged in 2007 and have become the second largest segment of online games, accounting for approximately 13% of total online games market share in 2012. Webgames can be played directly from Internet browsers without actively installing client software. As a result, webgames offer players faster and more convenient access to game experiences compared to client-based games. The webgame segment has grown at a CAGR of 85.2% from 2008 to 2012, and is expected to further grow at a CAGR of 21.8% from 2012 to 2016.

There are two revenue models to monetize online games in China. Initially, the prevailing revenue model adopted for online games in China was time-based, where players were charged subscription fees based on the duration of their game-playing sessions. In 2005, an item-based business model was introduced, under which online games are free-to-play, and revenues are generated from sales of virtual items, further enhancing the in-game experience of players. Today, the item-based revenue model is the dominant revenue model in the online gaming industry, accounting for the majority of the total market, according to iResearch.

Webgame Characteristics

According to iResearch, the popularity and rapid growth of webgames in China largely result from the characteristics detailed below.

First and foremost, webgames target the mass market, while client-based games typically target hardcore players. Client-based games aim to provide outstanding sound and visual effects as well as more complex game play and plots. Webgames, on the other hand, adopt an "easy to play" philosophy, offering less complex graphic and sound effects as well as game mechanics, which are more easily engaging to mass market players. This positioning of webgames leads to several potential benefits for players, including the following:

- Client-based games usually require computer hardware with more advanced configurations in order to function properly, in addition to the need to actively install client software that is usually a multi-gigabyte download. Webgames only require an Internet connection and a web browser with flash support, regardless of where the player's physical location is. As a result, webgames have a lower entry barrier for new players as they can be played anywhere, and are better received by players who are less tech savvy and/or where computer configurations are less advanced.
- Client-based games usually require a significant time commitment from their players in order for the players to better enjoy the complex game play and plots. In contrast, webgames are easy to play and offer more flexibility to players. Webgame players generally have more control over the duration of their game sessions without compromising their game experience, which increases the appeal of webgames to a broader player base.

Secondly, webgames have significantly shorter and more flexible development cycles than client-based games. According to iResearch, because of the superior sound and visual impact as well as complex game play and plots, it typically takes two to three years to develop a client-based game from inception to commercialization, while the development of a typical webgame only takes six to 12 months. After commercialization, a webgame is continuously optimized and augmented with new content through frequent updates that are automatically loaded each time a player logs in. On the other hand, client-based games are updated less frequently, and require players to download and install separate expansion software package before they play the updated games. The short and flexible development cycle of webgames has multiple merits for game developers, such as:

- Webgames are generally more appealing to players by incorporating the latest trends and themes into game development;

INDUSTRY OVERVIEW

- Webgames can be modified and improved more easily after being launched and adapted to player preferences. For example, if an error is identified after a game is launched, webgame developers can quickly fix the error before player experience is significantly impacted, while client-based games may not be able to achieve the same in a short timeframe and without much effort and cost; and
- Webgames typically have lower upfront development costs due to a shorter development cycle and the less complex nature of the games.

According to iResearch, the major differences between webgames and client-based games are summarized in the following table:

Summary of Characteristics of Different Segments within the Online Gaming Industry

		Webgames	Client-based games
Player reach and experience	Hardware requirement	<ul style="list-style-type: none"> • Low — only requires access to flash-supported Internet browser • Does not require active installment of client software 	<ul style="list-style-type: none"> • High — superior graphic and sound quality of games demand for higher hardware configuration • Requires active installment of client software
	Engagement	<ul style="list-style-type: none"> • Anywhere with personal computers connected to the Internet 	<ul style="list-style-type: none"> • Accessed mostly at home and/or Internet café
	Time commitment	<ul style="list-style-type: none"> • Easy-to-play • Relatively shorter game play session 	<ul style="list-style-type: none"> • Players need to spend time learning the game play and plots given complexity • Longer consecutive game playing sessions to enhance experience
Product	Development cycle	<ul style="list-style-type: none"> • Typically six to 12 months 	<ul style="list-style-type: none"> • Typically two to three years
	Update frequency	<ul style="list-style-type: none"> • Continuous • Quick to react to the latest player preferences • Minimal impact to player experience when updating game content 	<ul style="list-style-type: none"> • Less frequent • Requires players to download and install separate expansion software package
	Upfront development cost	<ul style="list-style-type: none"> • Low 	<ul style="list-style-type: none"> • High

Source: iResearch Report

Webgame Value Chain Overview

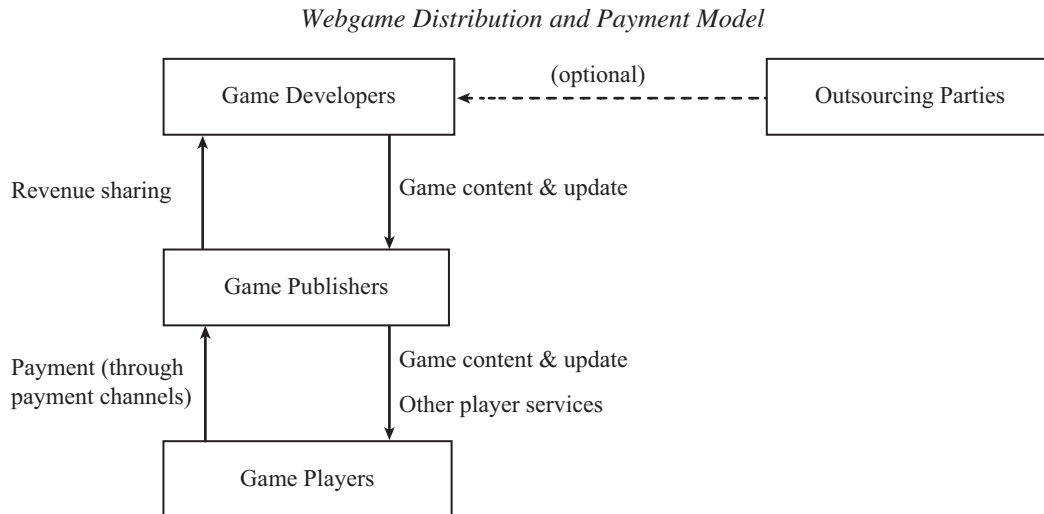
China’s webgame industry participants primarily consist of webgame developers and publishers.

- Webgame developers are responsible for developing game contents and ongoing calibration of the games and providing player services relating to in-game technical support. Developers own the intellectual property rights to the games they develop and typically license their games to publishers.

INDUSTRY OVERVIEW

- Webgame publishers are responsible for advertising, player acquisition and player services, and technical support relating to publishing platforms. They publish the games developed by webgame developers.

Webgame developers and publishers generally adopt a revenue-sharing model, in which webgame publishers collect revenues from players and share those revenues with webgame developers. The following chart illustrates the typical webgame distribution and payment model:



Most revenue sharing schemes between webgame developers and publishers in China currently allocate approximately 30% of total gross billings to developers and the remaining 70% to publishers, while in the US the split is usually 70% to developers and 30% to publishers. According to iResearch, as China’s webgame industry develops, quality webgame developers are expected to gradually gain more bargaining power over publishers and the proportion of total gross billings allocated to developers is expected to increase. For example, in China, certain publishers have recently sought to secure quality content through exclusive licensing arrangements with developers or pay a premium for the premiere launch of a webgame.

Access to Game Data

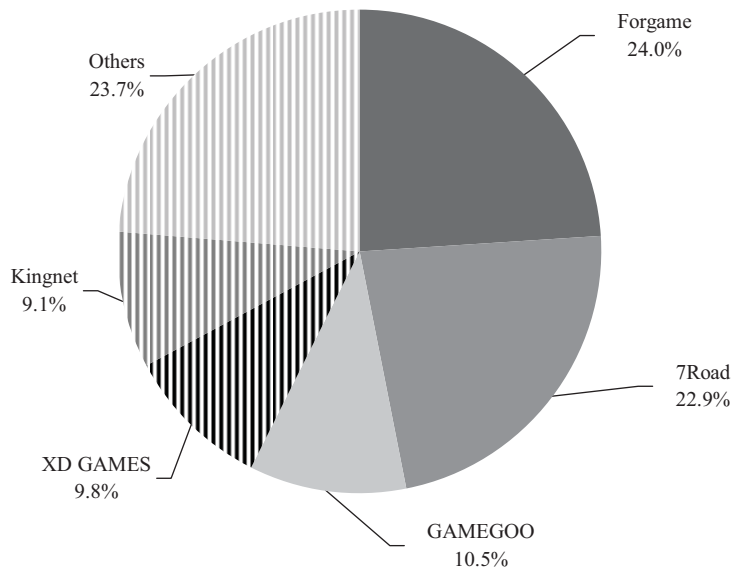
While webgame developers and publishers share the player activity data, each of them has exclusive access to certain game data. Webgame developers who host games on their own servers have exclusive real-time access to proprietary in-game behavior data, such as at which stage players purchase virtual items, which virtual items are the most popular, and at which stage of a particular in-game task leads to most attention. Developers are able to better understand players’ in-game experience through the analysis of such datapoints, and can update and design new content for the existing games as well as develop new games accordingly. Webgame publishers, on the other hand, have exclusive access to player-acquisition-related data, such as player demographics, source of traffic and advertising efficiency. Such data enable webgame publishers to conduct more customized marketing activities to drive better monetization, and more effectively optimize their player acquisition strategies. Depending on the arrangements, the player data collected by publishers may be shared with developers, to help further optimize game content and extend game life cycle.

Competitive Landscape

The webgame development market is relatively concentrated. According to iResearch, the top three game developers in China accounted for 57.4% of the industry’s total net revenue received by game developers after revenue sharing with game publishers in 2012. The aggregate gross billings of the top 15 webgames represented more than 70% gross billings of the total market in 2012.

INDUSTRY OVERVIEW

The following chart illustrates the market share of webgame developers in terms of net revenue in China in 2012:



Source: iResearch Report

The webgame development business is highly competitive due to relatively low upfront development cost and a short game development cycle. However, as players start to demand higher quality webgames with better content and graphics, some smaller game developers will be squeezed out of the market.

Webgame development business also faces challenges as it grows. Given the relatively low R&D requirements in game development, successful webgames are frequently replicated by other game developers once launched. In addition, given the “easy-to-play” approach in game design, webgames typically have a relatively short game life cycle, ranging from 12 to 24 months, although the life cycle can be significantly longer for highly popular games. It presents greater challenges to game developers, requiring them to frequently optimize games to keep players engaged and to adopt reasonable monetization strategies to enhance player loyalty.

According to iResearch, the top-ranked webgame publisher, Tencent, accounted for 28.3% of the industry’s total net revenue received by game publishers after revenue sharing with game developers in 2012 while no other publishers accounted for more than 15%. The top five publishers — Tencent, 4399, 360 Game, 37wan, and Gamewave — together accounted for 70.7% of the industry’s total net revenue in 2012.

China Mobile Game Market Overview

Users in China are increasingly using multiple devices to access the Internet. In particular, mobile devices have become an increasingly popular means to access the Internet.

The user base of smartphone mobile devices remains relatively small as compared to user base of personal computers and feature phones. However, devices such as iOS and Android-based handsets and tablets have similar functionalities to personal computers, and the user base for these devices is expected to grow rapidly. According to iResearch, the penetration rate of smartphones in China, defined as the number of smartphones in use as a percentage of all mobile devices, was 32.6% as of December 31, 2012. According to iResearch, the penetration rate of smartphones in China is expected to reach 46.2% by 2016, illustrating the significant potential for continued growth in smartphone use.

According to iResearch, the proliferation of smartphones will further drive the growth in the mobile Internet market, which presents a significant opportunity for online gaming industry participants to further extend their

INDUSTRY OVERVIEW

content reach beyond personal computers. As smartphones allow players to have real-time Internet access, mobile game developers can expand the accessibility of their games and improve player engagement by capturing time spent away from personal computers. The mobile gaming market generated an estimated revenue of RMB1.9 billion in 2012 and is expected to further grow to RMB17.8 billion in 2016, representing a CAGR of 75.5%. According to iResearch, the mobile game market has become the fastest growing market segment within the online gaming industry in the PRC from 2009 to 2012. The PRC mobile game market players mainly consisted of mobile game start-ups, as existing client-based game and webpage companies were taking initiatives to enter into this market.

Mobile Game Industry Revenue (RMB billions)

	For the Year Ended December 31,			
	2009	2010	2011	2012
Mobile game revenue (RMB billions)	0.1	0.3	0.8	1.9
<i>Growth</i>		<i>163.6%</i>	<i>179.3%</i>	<i>132.1%</i>

Source: iResearch

Given the different hardware specifications of a smartphone device compared to those of a personal computer, such as smaller screen size, limited data storage, and a limited battery lifespan, games developed for mobile devices need to adopt an “easy to play” philosophy similar to that of webgames in order to best cater to these differences. According to iResearch, there are significant commonalities shared between mobile games and webgames:

- Mobile games and webgames adopt simple game mechanics and can be easily accessed through “click-to-play.” Such features appeal to a broader player base, especially to first-time and less sophisticated players, and can better capture fragmented game playing sessions.
- Similar to webgames, mobile games have relatively short development cycles, in light of the “easy to play” philosophy. Game content is subsequently finessed through frequent updates to cater to player feedback and preferences.
- Android-based mobile games and webgames operate under similar publishing models, where mobile game developers generally license their games to a number of publishing platforms on a non-exclusive basis under revenue sharing arrangements.

Mobile game companies have adopted a revenue-sharing business model between game developers and publishing platforms that is similar to webpage companies. There are two primary smartphone operating system platforms: Apple’s iOS, and Google’s Android. Currently, the revenue sharing ratio on the iOS platform between AppStore and mobile game developers is approximately 30% and 70%, while on the Android platform it is approximately 50% and 50%, according to iResearch. The source of revenue for mobile games primarily consists of sales of in-game virtual items, as well as sales of applications and in-game advertisements.

Key players of mobile game industry include game developers and game publishers, according to iResearch. Mobile game developers consist of (i) mobile game start-ups, such as Rovio Entertainment, Supercell and Hoolai Games; (ii) traditional mobile game developers with long-term experience in feature phone game development, such as Gamevil, Gameloft and Gungho; and (iii) client-based game developers and webpage developers who have entered into mobile game development market, such as Forgegame and XD games. Mobile game publishers license mobile games from game developers and publish them on their mobile platforms. As of December 31, 2012, there were more than 30 mobile game publishers in China, including 91Assistance, 360 Mobile Assistant, UCWeb, DeNA, Ourpalm, Tencent, Punchbox and ReKoo.

INDUSTRY OVERVIEW

According to iResearch, webgame developers with innovative R&D capabilities and experience, an established player base, and data analytics are better positioned to succeed in the mobile gaming market. Given the various similarities between webgames and mobile games, webgame developers are able to leverage their R&D knowledge in developing new games tailored for mobile devices, and convert existing webgames into mobile games. This allows game developers to capture larger mindshare and enhance player engagement, where existing players can play the same games not only on their personal computers but also on their mobile devices.

Mobile games are not expected to cannibalize webgames in the short run, as webgames and mobile games currently offer distinct user experience, according to iResearch. In general, mobile games are currently more targeted to players with less time commitment, and significantly simpler than webgames due to the restriction to hardware configuration, including screen size, battery life and computing power, as well as the speed of mobile internet. However, in the future, mobile games and webgames tend to converge given that the mobile device technology continues to evolve and attractive features of webgames are increasingly being transferred from PC platforms to mobile platforms.

REGULATIONS

Our business includes developing and publishing webgames and mobile games. Our business is subject to extensive supervision and regulation by the PRC authorities. This section sets out a summary of the main laws, regulations and policies that govern our business operations.

Regulations Relating to Value-Added Telecommunication Business

Restrictions on Foreign Investment

The Telecommunications Regulations of the PRC (《中華人民共和國電信條例》) (the “Telecommunications Regulations”) implemented on September 25, 2000 provide a regulatory framework for telecommunications services providers in China. The Telecommunications Regulations require telecommunications services providers to obtain an operating license prior to the commencement of their operations. The Telecommunications Regulations categorize telecommunications services into basic telecommunications services and value-added telecommunications services. According to the Catalog of Telecommunications Business attached to the Telecommunications Regulations as amended in 2003, information services provided via fixed network, mobile network and Internet fall within the category of value-added telecommunications services.

Foreign direct investment in telecommunications companies in China is governed by the *Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (revised in 2008)* (《外商投資電信企業管理規定(2008年修訂)》), which was promulgated by the State Council on December 11, 2001 and amended on September 10, 2008. The regulations require foreign-invested value-added telecommunications enterprises in China to be established as Sino-foreign equity joint ventures, which the foreign investors may acquire up to 50% of the equity interests of such enterprise. In addition, the foreign investor who invests in a value-added telecommunications business in China must demonstrate a good track record and experience in operating a value-added telecommunications business. Moreover, foreign investors that meet these requirements must obtain approvals from the MIIT and MOFCOM, or their authorized local counterparts, which retain considerable discretion in granting approvals, for its commencement of value-added telecommunication business in China.

In July 2006, the MIIT publicly released the *Notice on Strengthening the Administration of Foreign Investment in Operating Value-added Telecommunications Business* (《信息產業部關於加強外商投資經營增值電信業務管理的通知》), (the “MIIT Notice”), pursuant to which, if any foreign investor intends to invest in telecommunications business in China, a foreign-invested telecommunications enterprise must be established and such enterprise must apply for the relevant telecommunications business operation licenses. Furthermore, under the MIIT Notice, domestic telecommunications enterprises may not rent, transfer or sell a telecommunications business operation license to foreign investors in any form, nor may they provide any resources, premises, facilities and other assistance in any form to foreign investors for their illegal operation of any telecommunications business in China. In addition, under the MIIT Notice, the Internet domain names and trademarks used by a foreign-invested value-added telecommunication service operator shall be legally owned by that operator (or its shareholders).

On September 25, 2000, the State Council promulgated the *Administrative Measures on Internet Information Services* (《互聯網信息服務管理辦法》) (the “Internet Measures”). According to the Internet Measures, it classified internet information services into commercial Internet information services and non-commercial Internet information services, and the commercial operators of Internet information services in China must obtain a value-added telecommunications license, (the “ICP License”), from the relevant government authorities. The MIIT also promulgated the *Internet Electronic Bulletin Service Administrative Measures in 2000* (《互聯網電子公告服務管理規定》) (the “BBS Measures”). The BBS Measures require Internet content providers to obtain specific approvals before they provide BBS services, which include electronic bulletin boards, electronic forums, message boards and chat rooms.

REGULATIONS

Investment activities in the PRC by foreign investors are mainly governed by the *Guidance Catalog of Industries for Foreign Investment (revised in 2011)* 《外商投資產業指導目錄 (2011年修訂)》 (the “Catalog”), which was promulgated and is amended from time to time jointly by MOFCOM and the NDRC. The Catalog divides industries into four categories in terms of foreign investment, which are “encouraged,” “restricted,” “prohibited” and all industries not listed under one of these categories are deemed to be “permitted.” According to the Catalog, the webpage business that the Company currently operates falls under value-added telecommunications services and Internet cultural businesses, which are under “restricted” and “prohibited” categories, respectively.

Regulation of Licenses

Online game operators are required to hold a variety of permits and licenses, which, among others, include:

- **ICP License** 《中華人民共和國增值電信業務經營許可證》). Under current PRC laws and regulations, including the Telecommunications Regulations and the Internet Measures, a commercial operator of Internet content provision services must obtain a value-added telecommunications business operating license for Internet content provision from the appropriate telecommunications authorities in order to carry on any commercial Internet content provision operations in China. All online game publishing platforms in the PRC are required to obtain such licenses.
- **Network Cultural Business Permit** 《網絡文化經營許可證》). With respect to the online gaming industry in China, since online games fall within the definition of “Internet culture products” under the *Provisional Regulations for the Administration of Online Culture* 《互聯網文化管理暫行規定》 (the “Online Culture Regulations”), which were issued by the MOC and took effect on April 1, 2011 and replaced the *Provisional Regulations for the Administration of Online Culture* which had been in effect since 2003, a commercial operator of online games must, in addition to the ICP License, obtain an Internet culture operation license from the appropriate culture administrative authorities for its operation of online games. All online game publishing platforms in the PRC are required to obtain such licenses.
- **Internet Publication License** 《互聯網出版許可證》). GAPP and the MIIT jointly impose a license requirement for any company that intends to engage in Internet publication. Internet publication is defined as any act by an Internet content provider to select, edit and process content or programs and to make such content or programs publicly available on the Internet. According to *The Tentative Measures for Internet Publication Administration* 《互聯網出版管理暫行規定》 (the “Internet Publication Measures”), which were jointly promulgated by the GAPP and the MIIT and took effect in 2002 and other relevant regulations, provision of online games is deemed to be an Internet publication activity. Therefore, an Internet content provider, such as an online game developer, needs to obtain an Internet publication license in order to engage in Internet publication.

Regulations Relating to Online Games and Cultural Products

Operating Permits for Online Games

The Online Culture Regulations which were issued by the MOC and took effect on April 1, 2011 and replaced the Provisional Regulations for the Administration of Online Culture which had been in effect since 2003, apply to entities engaging in activities related to “online cultural products,” which include cultural products that are produced specifically for Internet use, such as online music and entertainment, online games, online plays, online performances, online works of art and web animation, and other online cultural products that through technical means, produce or reproduce music, entertainment, games, plays and other art works for Internet dissemination. Under the Online Culture Regulations, commercial entities are required to apply to the relevant local branch of the MOC for an Online Culture Operating Permit if they engage in the production, duplication, importation, release or broadcasting of online cultural products; the dissemination of online cultural products on the Internet or the transmission of such products via Internet or mobile phone networks to player terminals, such as computers, phones, television sets and gaming consoles, or Internet surfing service sites such as Internet cafés; or the holding of exhibition or contests related to online cultural products.

REGULATIONS

The Interim Measures for the Administration of Online Games (《網絡遊戲管理暫行辦法》) (the “Online Game Measures”), issued by the MOC and which took effect on August 1, 2010, regulate a broad range of activities related to the online games business, including the development and production of online games, the operation of online games, the issuance of virtual currencies used for online games, and virtual currency trading services. The Online Game Measures provide that any entity that is engaged in online game operations must obtain an Online Culture Operating Permit, and require the content of an imported online game to be examined and approved by the MOC prior to the launch of the game and the content of a domestic online game must be filed within 30 days of its launch with the MOC. The Online Game Measures also request online game operators to protect the interests of online players and specify certain terms that must be included in the service agreements between online game operators and the players of their online games. *The Notice of the Ministry of Culture on the Implementation of the Interim Measures for the Administration of Online Games* (《文化部關於貫徹實施〈網絡遊戲管理暫行辦法〉的通知》) issued by the MOC and which took effect in August 2010 specify entities regulated by the Online Game Measures and procedures related to the MOC’s review of the content of online games, and emphasizes the protection of minors playing online games and requests online game operators to promote real-name registration by their players.

The Rules for the Administration of Electronic Publications (《電子出版物出版管理規定》) (the “Electronic Publication Rules”), promulgated in February 2008 by the GAPP, regulate the production, publication and importation of electronic publications in the PRC and outline a licensing system for business operations involving electronic publication.

The Internet Publication Measures impose a license requirement for any company that intends to engage in Internet publication, which is defined as any act by an Internet content provider to select, edit and process content or programs and to make such content or programs publicly available on the Internet. As the provision of web-based games is deemed to be an Internet publication activity, a web-based game operator must obtain an Internet Publication License and a publication number for each of its web-based games in operation in order to make those games directly and publicly available in the PRC.

The Notice on Interpretation of the State Commission Office for Public Sector Reform on Several Provisions relating to Animation, Online Game and Comprehensive Law Enforcement in Culture Market in the ‘Three Provisions’ jointly promulgated by the MOC, the State Administration of Radio Film and Television, or the SARFT, and the GAPP (《關於印發〈中央編辦對文化部、廣電總局、新聞出版總署〈“三定”規定〉中有關動漫、網路遊戲和文化市場綜合執法的部分條文的解釋〉的通知》), which was issued by the State Commission Office for Public Sector Reform (a division of the State Council) which became effective on September 7, 2009, provides that the GAPP will have responsibility for the examination and approval of online games to be uploaded on the Internet and that, after such upload, online games will be administered by the MOC.

The Notice Regarding the Consistent Implementation of the “Regulation on Three Provisions” of the State Council and the Relevant Interpretations of the State Commission Office for Public Sector Reform and the Further Strengthening of the Administration of Pre-examination and Approval of Online Games and the Examination and Approval of Imported Online Games (《關於貫徹落實國務院〈“三定”規定〉和中央編辦有關解釋，進一步加強網路遊戲前置審批和進口網路遊戲審批管理的通知》), (the “GAPP Notice”), promulgated by the GAPP, together with the National Copyright Administration and the National Office of Combating Pornography and Illegal Publications, on September 28, 2009, provides, among other things, that foreign investors are not permitted to invest or engage in online game operations in China through wholly-owned subsidiaries, equity joint ventures or cooperative joint ventures, and expressly prohibits foreign investors from gaining control over or participating in domestic online game operations indirectly by establishing other joint venture companies, establishing contractual arrangements or providing technical support. Serious violation of the GAPP Notice will result in suspension or revocation of relevant licenses and registrations.

REGULATIONS

Examination of Online Game Content

The Notice Regarding Improving and Strengthening the Administration of Online Game Content (《文化部關於改進和加強網路遊戲內容管理工作的通知》) (the “Online Game Content Notice”), issued by the MOC in November 2009, requests online game operators to improve and adapt their game models by (i) mitigating the predominance of the “upgrade by monster fighting” model, (ii) limiting the use of the “player killing” model (where one player’s character attempts to kill another player’s character), (iii) limiting in-game marriages among players, and (iv) improving their compliance with legal requirements for the registration of minors and game time limits.

The Notice Regarding the Strengthening of Online Game Content Censorship (《文化部關於加強網路遊戲產品內容審查工作的通知》), issued by the MOC in 2004, mandates the establishment of a committee under the MOC to screen the content of imported online games and requires that the content of all imported online games be approved by the MOC. *The Notice Regarding Purifying Online Games* (《關於淨化網路遊戲工作的通知》), further promulgated by the MOC, the MIIT and other governmental authorities in June 2005, emphasize the prevention of online game products and relevant operations which contain illegal content such as obscenity, gambling, superstition, illegal transactions and information that threatens state security.

Virtual Currency and Virtual Items

The Notice on the Reinforcement of the Administration of Internet Cafés and Online Games (《關於進一步加強網吧及網路遊戲管理工作的通知》) (the “Internet Cafés Notice”) jointly issued by the MOC, the PBOC and other governmental authorities in February 2007 with the goal of strengthening the administration of virtual currency in online games and to avoid any adverse impact on the PRC economy and financial system, places strict limits on the total amount of virtual currency issued by online game operators and the amount purchased by individual players and requires a clear division between virtual transactions and real transactions carried out by way of electronic commerce. The Internet Cafés Notice further provides that virtual currency should only be used to purchase virtual items and prohibits any resale of virtual currency.

The Notice on Strengthening the Administration of Online Game Virtual Currency (the “Virtual Currency Notice”) (《關於加強網路遊戲虛擬貨幣管理工作的通知》) jointly issued by the MOC and the MOFCOM in June 2009, defines the meaning of the term “virtual currency” and places a set of restrictions on the trading and issuance of virtual currency. The Virtual Currency Notice also states that online game operators are not allowed to give out virtual items or virtual currency through lottery-base activities, such as lucky draws, betting or random computer sampling, in exchange for players’ cash or virtual money. *The Filing Guidelines on Online Game Virtual Currency Issuing Enterprise and Online Game Virtual Currency Trading Enterprise* (《“網路遊戲虛擬貨幣發行企業”、“網路遊戲虛擬貨幣交易企業”申報指南》) issued by the MOC in July 2009, defines the meanings of “online game virtual currency issuing enterprise” and “online game virtual currency trading enterprise” and stipulates that a single company may not be engaged in being an “issuing enterprise” and a “trading enterprise” at the same time.

Regulations Relating to Intellectual Property

Patent Law

According to the *Patent Law of the PRC (Revised in 2008)* (《中華人民共和國專利法(2008年修正)》), the State Intellectual Property Office is responsible for administering patents in the PRC. The patent administration departments of provincial, autonomous region or municipal governments are responsible for administering patents within their respective jurisdictions. The Chinese patent system adopts a “first come, first file” principle, which means, where more than one person files a patent application for the same invention, a patent will be granted to the person who files the application first. To be patentable, invention or utility models must meet three criteria: novelty, inventiveness and practicability. A patent is valid for twenty years in the case of an invention

REGULATIONS

and ten years in the case of utility models and designs. A third-party player must obtain consent or a proper license from the patent owner to use the patent. Otherwise, the use constitutes an infringement of the patent rights.

Trademark Law

Trademarks are protected by the *Trademark Law of the PRC (Revised in 2001)* (《中華人民共和國商標法（2001年修正）》) which was adopted in 1982 and subsequently amended in 1993 and 2001 respectively as well as the Implementation Regulation of the PRC Trademark Law adopted by the State Council in 2002. The Trademark Office under the SAIC handles trademark registrations and grants a term of ten years to registered trademarks which may be renewed for a consecutive ten-year period upon request by the trademark owner. A trademark registrant may license its registered trademark to another party by entering into a trademark license contract. Trademark license agreements must be filed with the Trademark Office for record. As with trademarks, the PRC Trademark Law has adopted a “first come, first file” principle with respect to trademark registration. Where a trademark for which a registration application has been made is identical or similar to another trademark which has already been registered or been subject to a preliminary examination and approval for use on the same kind of or similar commodities or services, the application for registration of such trademark may be rejected. Any person applying for the registration of a trademark may not prejudice the existing right first obtained by others, nor may any person register in advance a trademark that has already been used by another party and has already gained a “sufficient degree of reputation” through such party’s use.

Copyright Law

The *Copyright Law of the PRC (Revised in 2010)* (《中華人民共和國著作權法（2010年修訂）》) (the “Copyright Law”) provides that Chinese citizens, legal persons, or other organizations shall, whether published or not, enjoy copyright in their works, which include, among others, works of literature, art, natural science, social science, engineering technology and computer software. The copyright owner enjoys various kinds of rights, including right of publication, right of authorship and right of reproduction.

The Computer Software Copyright Registration Measures (《計算機軟件著作權登記辦法》) (the “Software Copyright Measures”) regulate registrations of software copyright, exclusive licensing contracts for software copyright and transfer contracts. The National Copyright Administration of China shall be the competent authority for the nationwide administration of software copyright registration and the Copyright Protection Center of China (the “CPCC”), is designated as the software registration authority. The CPCC shall grant registration certificates to the Computer Software Copyright applicants which conform to the provisions of both the Software Copyright Measures and *the Computer Software Protection Regulations* (《計算機軟件保護條例》).

Provisions of the Supreme People’s Court on Certain Issues Related to the Application of Law in the Trial of Civil Cases Involving Disputes over Infringement of the Right of Dissemination through Information Networks (《最高人民法院關於審理侵害信息網絡傳播權民事糾紛案件適用法律若干問題的規定》) provide that web players or web service providers who create works, performances or audio-video products, for which others have the right of dissemination through information networks or are available on any information network without authorization shall be deemed to have infringed upon the right of dissemination through information networks.

Domain Names

The MIIT promulgated its *Administrative Measures on China Internet Domain Name* (《中國互聯網域名管理辦法》) (the “Domain Name Measures”) in 2004. According to the Domain Name Measures, the MIIT is in charge of the administration of PRC Internet domain names. The domain name services follow a “first come, first file” principle. Applicants for registration of domain names shall provide their true, accurate and complete information of such domain names to and enter into registration agreements with domain

REGULATIONS

name registration service institutions. The applicants will become the holder of such domain names upon the completion of the registration procedure.

Software Products

The Measures Concerning Software Products Administration (《軟件產品管理辦法》) issued by the MIIT (the "Software Measures") which became effective in April 2009 and replaced measures which had been in effect since 2000, permit software developers and producers to sell or license their software products independently or through agents, and software products developed in the PRC can be registered with the local provincial government authorities in charge of the software industry and filed with the MIIT. Upon registration, the software products are granted registration certificates which are valid for five years and may be renewed upon expiration. Under policies promulgated by the State Council, software products developed in the PRC which satisfy the requirements of the Software Measures and have been registered and filed in accordance with the Software Measures may enjoy certain types of preferential treatment. State Council policies provide that the MIIT and other relevant departments may supervise and inspect the development, production, sale, import and export of software products in the PRC.

Regulations Relating to Wholly Foreign-Owned Enterprises

Under the *Wholly Foreign-Owned Enterprise Law of the PRC* (《中華人民共和國外資企業法》) promulgated and which took effect on October 31, 2000 and the *Detailed Implementing Rules for the Wholly Foreign-Owned Enterprise Law of the People's Republic China* (《中華人民共和國外資企業法》) promulgated and which took effect on April 12, 2001, an application for establishing a wholly foreign-owned enterprise ("WFOE"), shall be subject to examination and approval by the Ministry of Foreign Trade and Economic Cooperation of the PRC ("MOFTEC") before the approval certificate is issued. Within 90 days of the date of receipt of an application, the examination and approval authority shall decide whether or not to grant the approval. After application for the establishment of a WFOE is approved by the Examination and Approval Authority, the foreign investors shall, within 30 days of the date of receipt of the approval certificate, submit registration to and collect the business license from the administrative authority for industry and commerce.

Regulation Relating to Foreign Currency Exchange

Foreign Currency Exchange Control

Under the *PRC Foreign Currency Administration Rules* (《中華人民共和國外匯管理條例》) promulgated in 1996 and revised in 1997 and further amended in 2008 and various regulations issued by the SAFE and other relevant PRC government authorities, Renminbi is convertible into other currencies for the purpose of current account items, such as trade related receipts and payments, payment of interest and dividends. The conversion of Renminbi into other currencies and remittance of the converted foreign currency outside the PRC for the purpose of capital account items, such as direct equity investments, loans and repatriation of investment, requires the prior approval from the SAFE or its local office. Payments for transactions that take place within the PRC must be made in Renminbi. Unless otherwise approved, PRC companies may repatriate foreign currency payments received from abroad or retain the same abroad. Foreign-invested enterprises may retain foreign exchange in accounts with designated foreign exchange banks under the current account items subject to a cap set by the SAFE or its local office. Foreign exchange proceeds under the current accounts may be either retained or sold to a financial institution engaging in settlement and sale of foreign exchange pursuant to relevant rules and regulations of the State. For foreign exchange proceeds under the capital accounts, approval from the SAFE is required for its retention or sale to a financial institution engaging in settlement and sale of foreign exchange, except where such approval is not required under the relevant rules and regulations of the State.

REGULATIONS

Offshore Investment by PRC Residents

Under the *Circular of the State Administration of Foreign Exchange on Issues Concerning the Regulation of Foreign Exchange in Equity Finance and Return Investments by Domestic Residents through Offshore Special Purpose Vehicles* (《國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》) issued by the SAFE and effective in 2005, prior registration with the local SAFE branch is required for PRC residents to establish or to control an offshore special purpose vehicle ("SPV") which is defined as offshore enterprises directly established or indirectly controlled by PRC residents for offshore equity financing driven purposes with the enterprise assets or interests they hold in China. An amendment to registration or subsequent filing with the local SAFE branch by such PRC resident is also required for the injection of equity interests or assets of an onshore enterprise into the SPV or the offshore equity financing of the SPV, or any other material change involving a change in the capital of the offshore company. Since May 2007, the SAFE has issued guidance to its local branches from time to time with respect to the procedures for SAFE registration under Circular 75. Such guidance included the Notice of SAFE on Further Improving and Adjusting the Foreign Exchange Administration Policies on Direct Investments (《國家外匯管理局關於進一步改進和調整直接投資外匯管理政策的通知》), or Circular 59, which was effective commencing December 17, 2012.

Under the relevant rules, failure to comply with the registration procedures set forth in Circular 75 may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including the payment of dividends and other distributions to its offshore parent or affiliate, and may also subject relevant PRC residents to penalties under PRC foreign exchange administration regulations. PRC residents who control the Company from time to time are required to register with the SAFE in connection with their investments in the Company.

Regulation on Taxation

Enterprise Income Tax

On March 16, 2007, the National People's Congress promulgated *The Law of the PRC on Enterprise Income Tax* (《中華人民共和國企業所得稅法》) and on December 6, 2007, the State Council enacted *The Regulations for the Implementation of the Law on Enterprise Income Tax* (《中華人民共和國企業所得稅法實施條例》) (collectively, the "EIT Law"). The EIT Law came into effect on January 1, 2008. According to the EIT Law, taxpayers consist of resident enterprises and non-resident enterprises. Resident enterprises are defined as enterprises that are established in China in accordance with PRC laws, or that are established in accordance with the laws of foreign countries but whose actual or de facto control is administered from within the PRC. Non-resident enterprises are defined as enterprises that are set up in accordance with the laws of foreign countries and whose actual administration is conducted outside the PRC, but have established institutions or premises in the PRC, or have no such established institutions or premises but have income generated from inside the PRC. Under the EIT Law and relevant implementing regulations, a uniform corporate income tax rate of 25% is applicable. However, if non-resident enterprises have not formed permanent establishments or premises in the PRC, or if they have formed permanent establishment institutions or premises in the PRC but there is no actual relationship between the relevant income derived in the PRC and the established institutions or premises set up by them, enterprise income tax is set at the rate of 10% for their income sourced from inside the PRC.

The EIT Law provides that certain high and new technology enterprises are entitled to a reduced enterprise income tax rate of 15%. According to the *Administrative Measures for the Determination of High and New Tech Enterprises (No. 172 [2008] of the Ministry of Science and Technology)* (《高新技術企業認定管理辦法 (國科發火[2008]172號)》), a high and new tech enterprise may apply for the tax benefits under the EIT Law, the RIEITL, the *Law of the People's Republic of China on the Administration of Tax Collection* and the *Detailed Rules on the Implementation of the Law of the People's Republic of China on the Administration of Tax Collection*. Once an enterprise obtains the high and new tech enterprise qualification, it may apply for the tax reduction or exemption to the competent tax authorities.

REGULATIONS

The Circular on Taxation Policies for Further Encouraging the Development of the Software and Integrated Circuit Industries (No.27 [2012] of the Ministry of Finance and the State Administration of Taxation) (《關於進一步鼓勵軟件產業和集成電路產業發展企業所得稅政策的通知》(財稅[2012]27號)), which was promulgated by the Ministry of Finance and the State Administration of Taxation and became effective on January 1, 2011, provides that newly established integrated circuit design enterprises and eligible software enterprises, upon certification, shall be exempt from the enterprise income tax for the first two years of the preferential period, and shall be levied thereon at half of the statutory rate of 25% for the next three years until the expiration of the preferential period. The preferential period starts from the first profitable year before December 31, 2017.

Value-added Tax and Business Tax

The Provisional Regulations of the PRC on Value-added Tax (《中華人民共和國增值稅暫行條例》) were promulgated by the State Council on December 13, 1993 and came into effect on January 1, 1994 which were subsequently amended on November 10, 2008 and came into effect on January 1, 2009. *The Detailed Rules for the Implementation of the Provisional Regulations of the PRC on Value-added Tax (Revised in 2011)* (《中華人民共和國增值稅暫行條例實施細則(2011年修訂)》) were promulgated by the Ministry of Finance and State Administration of Taxation on December 15, 2008 which were subsequently amended and came into effect on November 1, 2011 (collectively, the "VAT Law"). According to the VAT Law, all enterprises and individuals engaged in the sale of goods, the provision of processing, repair and replacement services, and the importation of goods within the territory of the PRC must pay value-added tax. For general VAT taxpayers selling or importing goods other than those specifically listed in the VAT Law, the value-added tax rate is 17%.

Pursuant to *The Provisional Regulations of the PRC on Business Tax* (《中華人民共和國營業稅暫行條例》), which became effective on January 1, 1994 and were subsequently amended on November 10, 2008 and became effective on January 1, 2009, and its implementation rules, all institutions and individuals providing taxable services, transferring intangible assets or selling real estate within the PRC must pay business tax. The scope of services which constitute taxable services and the rates of business tax are prescribed in the List of Items and Rates of Business Tax (營業稅稅目稅率表) attached to the regulation.

On January 1, 2012, the Chinese State Council officially launched a pilot VAT reform program (the "Pilot Program"), applicable to businesses in selected industries. Businesses in the Pilot Program would pay VAT instead of business tax. The Pilot Program initially applied only to transportation industry and "modern service industries" (the "Pilot Industries") in Shanghai. The research and development and technical services, information technology services included in the Pilot Industries are subject to the VAT tax rate of 6%. Subsequently, the Pilot Program has been expanded to eight additional regions, including, among others, Beijing and Guangdong province, and nationwide to the designated pilot industry.

Regulations on Employment and Social Security

Employment Laws

The Labor Contract Law of the PRC (《中華人民共和國勞動合同法》) ("Labor Contract Law"), which was implemented on January 1, 2008 and amended on December 28, 2012, is primarily aimed at regulating employee/ employer rights and obligations, including matters with respect to the establishment, performance and termination of labor contracts. Pursuant to the Labor Contract Law, labor contracts shall be concluded in writing if labor relationships are to be or have been established between enterprises or institutions and the laborers. Enterprises and institutions are forbidden to force laborers to work beyond the time limit and employers shall pay laborers for overtime work in accordance with national regulations. In addition, labor wages shall not be lower than local standards on minimum wages and shall be paid to laborers timely. In addition, according to the Labor Contract Law, (i) employers must pay laborers double income in circumstances where within one year an employer fails to enter into an employment contract that is more than a month but less than a year from the date

REGULATIONS

of employment. Where such period exceeds one year, the parties are deemed to have entered into a labor contract with an "unfixed term"; (ii) employees who fulfill certain criteria, including having worked for the same employer for ten years or more, may demand that the employer execute a labor contract with them with an unfixed term; (iii) employees must adhere to regulations in the labor contracts concerning commercial confidentiality and non-competition; (iv) an upper limit not exceeding the cost of training supplied to the employee has been set as the amount of compensation an employer may seek for an employee's breach of the provisions concerning term of services in the labor contract; (v) employees may terminate their employment contracts with their employers if their employers fail to make social insurance contributions in accordance with the law; (vi) employers who demand money or property from employees as guarantee or otherwise may be subject to a fine of RMB2,000 per employee as maximum penalty; and (vii) employers who intentionally deprive employees of any part of their salary must, in addition to their full salary, pay such employees compensation ranging from 50% to 100% of the amount of salary so deprived if they fail to pay the salary deprived within a certain period by the labor administration authorities.

According to the *Labor Law of the PRC* (《中華人民共和國勞動法》) promulgated on July 5, 1994 and effective on January 1, 1995, enterprises and institutions shall establish and improve their system of workplace safety and sanitation, strictly abide by state rules and standards on workplace safety, educate laborers in labor safety and sanitation in the PRC. Labor safety and sanitation facilities shall comply with state-fixed standards. Enterprises and institutions shall provide laborers with a safe workplace and sanitation conditions which are in compliance with state stipulations and the relevant articles of labor protection.

Social Insurance and Housing Funds

As required under *The Regulation of Insurance for Labor Injury* (《工傷保險條例》) implemented on January 1, 2004, *The Provisional Measures for Maternity Insurance of Employees of Corporations* (《企業生育保險試行辦法》) implemented on January 1, 1995, *The Decisions on the Establishment of a Unified Program for Old-Aged Pension Insurance of the State Council* (《國務院關於建立統一的企業職工養老保險制度的決定》) issued on July 16, 1997, *The Decisions on the Establishment of the Medical Insurance Program for Urban Workers of the State Council* (《國務院關於建立城鎮職工基本醫療保險制度的決定》) promulgated on December 14, 1998, *The Unemployment Insurance Measures* (《失業保險條例》) promulgated on January 22, 1999 and *The Social Insurance Law of the PRC* (《中華人民共和國社會保險法》) implemented on July 1, 2011, enterprises are obliged to provide their employees in the PRC with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, labor injury insurance and medical insurance.

In accordance with *The Regulations on the Management of Housing Funds* (《住房公積金管理條例》) which was promulgated by the State in 1999 and amended in 2002, enterprises must register at the competent managing centre for housing funds and upon the examination by such managing centre of housing funds, complete procedures for opening an account at the relevant bank for the deposit of employees' housing funds. Enterprises are also required to pay and deposit housing funds in full and on time.

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

OUR HISTORY

Our Group’s history can be traced back to 2009 when our five Founders, Mr. Wang, Mr. Huang, Mr. Liao, Mr. Yang and Mr. Zhuang, who are also currently our Executive Directors or senior management, acquired Feiyin and Weidong with their cash savings.

To cope with our rapid business expansion and meet market demands, in 2012, our Founders used their cash savings to establish Jieyou in the PRC to further develop our game development business. Currently, Feiyin and Jieyou primarily focus on game development, with Feiyin on ARPGs and Jieyou on turn-based RPGs, while Weidong primarily focuses on game publishing with a nationwide network which hosts multiple webgame players playing online games simultaneously.

Since December 2009, we have successfully developed and launched multiple award-winning webgames. We have also built and now operate a nationwide game publishing platform, *91wan*, which hosts players in playing webgames developed by us and other webgame developers.

OUR BUSINESS MILESTONES

The following table summarizes various key milestones in the development of our business:

Year	Milestone
September 2009	<ul style="list-style-type: none">Our Founders acquired 100% equity interests in Feiyin and Weidong to conduct game development and game platform operation
December 2009	<ul style="list-style-type: none"><i>Ming Dynasty</i> was awarded “The Best Webgame of 2009” in the 7th China International Cyberculture Exposition. It was launched in August 2009 and is the first game we officially launched
December 2010	<ul style="list-style-type: none"><i>91wan</i> was awarded “China’s Top 10 Best Webgame Publishing Platform” by Internet Society of China (中國互聯網協會) and China Investment (中國投資)
April 2011	<ul style="list-style-type: none">Feiyin was awarded “The Best Webgame Developing Company in 2010” in the 4th China Webgame Summit
July 2011	<ul style="list-style-type: none">We were incorporated in the Cayman Islands<i>91wan</i> was awarded “The Top 10 Game Operating Platforms” by Baidu Game Billboard (百度遊戲風雲榜)
August 2011	<ul style="list-style-type: none">Foga Tech was incorporated in Hong Kong as a holding company of our subsidiaries and PRC Operational Entities
November 2011	<ul style="list-style-type: none"><i>91wan</i> was awarded “The Top 10 Popular Webgames among Webgame Players” and “The Webgame Developers’ Most Favored Network” at the 2nd China Original Webgame Summit Meeting
January 2012	<ul style="list-style-type: none">Feiyin was named by Forbes China as one of the “2012 Forbes China Private Companies with the Highest Potential”
March 2012	<ul style="list-style-type: none">Hongkong Ledong, a wholly-owned subsidiary of Foga Tech, was incorporated in Hong Kong as a holding company to manage our overseas businessRegistered players of <i>91wan</i> reached 100 million
April 2012	<ul style="list-style-type: none">《凡人修真II》(translated as “<i>Soul Guardian II</i>”) was awarded “The Most Innovative Webgame in 2011” at the 5th China Webgame and Mobile Game Summit

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Year	Milestone
May 2012	<ul style="list-style-type: none">• Our first mobile game 《風雲天下OL》 (translated as “<i>The Era of Storms</i>”) was launched
June 2012	<ul style="list-style-type: none">• The Series A Investors invested in us
July 2012	<ul style="list-style-type: none">• 《真王》 (translated as “<i>True King</i>”) was awarded “2012 Most Innovative Game” by Tencent QQ• <i>91wan</i> was awarded “The Top 10 Game Operating Platforms” by Baidu Game Billboard (百度遊戲風雲榜)
September 2012	<ul style="list-style-type: none">• Feiyin was selected as one of China’s Cultural Export Focus Enterprises in the year 2011-2012, which was awarded by various PRC government authorities, including MOFCOM and the Ministry of Finance of the PRC
December 2012	<ul style="list-style-type: none">• One of our game developing studios was awarded the “Webgame Developing Team Award” by China Quality Developer Review Committee of China Game Developer Association• 《醉西遊》 (translated as “<i>Charmed Westward Journey</i>”) was awarded “China’s Most Valued Webgame in 2012” at the 3rd China Original Webgame Summit Meeting
January 2013	<ul style="list-style-type: none">• 《凡人修真II》 (translated as “<i>Soul Guardian II</i>”) was awarded “2012 Top 10 Popular Webgames” at the China Game Industry Annual Conference
March 2013	<ul style="list-style-type: none">• 《醉西遊》 (translated as “<i>Charmed Westward Journey</i>”) was awarded “2012 Quality Webgame (Golden Finger Prize)” at the China Game Industry Annual Conference
March/April 2013	<ul style="list-style-type: none">• Second Round Pre-[●] Investors invested in us
April 2013	<ul style="list-style-type: none">• We acquired a minority interest in Appionics, the owner and operator of the Animoca studio, to expand into the mobile and overseas market

We had successfully developed over 30 easy-to-access, highly engaging and popular games as of June 30, 2013. Our own publishing platform, *91wan*, published 79 self-developed and licensed games and had attracted over 179 million registered players as of June 30, 2013.

OUR GROUP’S ESTABLISHMENT

Acquisition of Feiyin

Feiyin primarily engages in the development of games with a forte in ARPG genre with realistic graphics style. It was incorporated in the PRC on April 12, 2004 by its founders, Mr. Hu Xian Hua and Mr. Liu Yong Xin, who are independent third parties. Since its incorporation, a number of equity transfers took place among certain PRC individuals.

On September 21, 2009, with a view of venturing into the business of game development and game platform operation, Mr. Huang and Mr. Lin Shaomeng (an independent third party and trustee on behalf of Mr. Wang, Mr. Liao, Mr. Yang and Mr. Zhuang) each acquired 50% equity interest in Feiyin from the then shareholders, who are independent third parties, at a total consideration of RMB10,000,000. The consideration was determined based on the then registered capital of Feiyin of RMB10,000,000 and contributed by our Founders using their cash savings. On March 2, 2010, Mr. Wang, Mr. Liao, Mr. Yang and Mr. Zhuang on the other hand and Mr. Huang and Mr. Lin Shaomeng on the other hand entered into a supplemental agreement to the trust arrangement pursuant to which Mr. Lin Shaomeng transferred legal ownership of 1% of the equity interests in Feiyin to Mr. Huang. Following this transfer, Feiyin was held in trust, on behalf of the Founders, 51% and 49%

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

by Mr. Huang and Mr. Lin Shaomeng, respectively, and the beneficial interests of Feiyin remained unchanged. On December 24, 2010, Mr. Lin Shaomeng transferred his legal ownership of 49% equity interests in Feiyin to Mr. Luo Haitao (an independent third party). On the same day, the trust arrangement with Mr. Huang and Mr. Lin Shaomeng as trustees was terminated and a trust arrangement was set up with Mr. Huang and Mr. Luo Haitao holding 58.9% equity interests in trust on behalf of Mr. Wang, Mr. Liao, Mr. Yang and Mr. Zhuang. According to our PRC legal advisers, no regulatory approval for the acquisition and the trust arrangements was required. At the time the acquisition of Feiyin was completed, Feiyin had a net asset value of RMB12,723,000. In addition, Feiyin had hired approximately 30 game development personnel and had developed two webgames, namely 明朝時代 (translated as "Ming Dynasty") and 射雕傳 (translated as "The Legend of the Condors"), which were launched in August 2009 and December 2009, respectively. As a result, Feiyin was beneficially owned by Mr. Wang as to 23.75%, Mr. Huang as to 41.10%, Mr. Liao as to 24.70%, Mr. Yang as to 0.95% and Mr. Zhuang as to 9.50%, respectively.

On May 12, 2011, the trust arrangement with Mr. Huang and Mr. Luo Haitao was terminated and Mr. Wang, Mr. Huang, Mr. Liao, Mr. Yang and Mr. Zhuang became the legal registered shareholders of Feiyin, holding 23.75%, 41.10%, 24.70%, 0.95% and 9.50% equity interests, respectively.

Acquisition of Weidong

Weidong primarily focuses on operating game platform to host multiple webgame players playing online games simultaneously. It was incorporated in the PRC on January 22, 2007 by its founders, Ms. Wu Weiwei and Mr. Yang Yunfei. Mr. Yang Yunfei is an independent third party. Ms. Wu Weiwei is the wife of Mr. Liao. At the time of its incorporation, Ms. Wu Weiwei and Mr. Yang Yunfei held 90% and 10% equity interests, respectively, in Weidong. Since its incorporation, a number of equity transfers took place among certain PRC individuals.

As of September 1, 2009, Ms. Wu Weiwei and Ms. Liao Xiqin held 90% and 10% equity interests in Weidong, respectively. Ms. Liao Xiqin is the sister of Mr. Liao. On September 1, 2009, Ms. Wu and Ms. Liao entered into an agreement to transfer 100% equity interests in Weidong to our Founders for a total cash consideration of RMB10,000,000. The consideration was determined based on the registered capital of Weidong and paid by our Founders using their respective cash savings. According to our PRC legal advisers no regulatory approval for the acquisition was required. At the time the acquisition of Weidong was completed, Weidong had a net asset value of RMB7,831,000. In addition, Weidong had hired approximately 20 game development personnel and had published two webgames, namely 明朝時代 (translated as "Ming Dynasty") and 熱血三國 (translated as "The Tale of Three Kingdoms"). Upon completion of the transfer, Mr. Wang, Mr. Huang, Mr. Liao, Mr. Yang and Mr. Zhuang acquired 23.75%, 41.10%, 24.70%, 0.95% and 9.50% equity interests, respectively, in Weidong. At the same time, for administrative convenience, the Founders entered into a trust arrangement with Ms. Wu and Ms. Liao whereby Ms. Wu and Ms. Liao agreed to hold on trust, collectively 100% equity interests in Weidong on behalf of the Founders.

On May 12, 2011, the trust arrangement was terminated and Mr. Wang, Mr. Huang, Mr. Liao, Mr. Yang and Mr. Zhuang became the legal registered shareholders of Weidong, holding 23.75%, 41.10%, 24.70%, 0.95% and 9.50% equity interests, respectively.

The reasons that the Founders entered into trust arrangements with the then existing shareholders of Feiyin and Weidong were based on commercial considerations. Given that the principal operations of Feiyin and Weidong were in Guangzhou but the Founders (except for Mr. Huang) were unable to manage the business of Feiyin and Weidong in Guangzhou on a daily basis, in order for Feiyin and Weidong to operate efficiently and conduct day-to-day administrative matters in a timely manner, the Founders decided to hold the equity interests in Feiyin and Weidong by way of trust arrangements. Further, in order to prevent other competitors in the market from targeting Feiyin and Weidong as a potential major threat because they were under common control of the

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Founders, the Founders decided to hold their equity interests in Feiyin and Weidong through different trustees to make it less easy for the competitors to identify the beneficial owners of Feiyin and Weidong. The Founders terminated the trust arrangements in Feiyin and Weidong subsequently as the business operations of Feiyin and Weidong gradually became more established and the Founders intended to streamline the corporate structure of Feiyin and Weidong to increase administrative efficiency and to prepare for [●]. Our PRC legal advisers have confirmed that the trust arrangements and their subsequent termination were in compliance with the laws and regulations of the PRC and the reasons for entering into such trust arrangements do not violate any applicable PRC laws.

Establishment of Jieyou

Jieyou primarily engages in the development of games with a focus on the turn-based genres with cartoon style graphics. It was incorporated in the PRC on June 7, 2012 for the purpose of developing software products and, in particular, webgames. At the time of its incorporation, Mr. Wang, Mr. Huang, Mr. Liao, Mr. Yang and Mr. Zhuang held 23.75%, 41.10%, 24.70%, 0.95% and 9.50% equity interests in Jieyou, respectively.

On July 5, 2012, transfers of equity interests in Jieyou took place among the Founders:

- Mr. Huang transferred 28.73% equity interests to Mr. Zhuang for a cash consideration of RMB2,873,000;
- Mr. Liao transferred 7.57% equity interests to Mr. Zhuang for a cash consideration of RMB757,000; and
- Mr. Wang transferred 2.81% equity interests to Mr. Zhuang for a cash consideration of RMB281,000.

The above transfers were conducted in order to increase the equity interests of Mr. Zhuang in Jieyou upon his appointment as the chief executive officer of Jieyou. The cash consideration paid for each transfer was determined based on the then-registered capital of Jieyou and funded by Mr. Zhuang using his cash savings. Upon the completion of the equity transfers, Mr. Wang, Mr. Huang, Mr. Liao, Mr. Yang and Mr. Zhuang held 20.94%, 12.37%, 17.13%, 0.95% and 48.61% equity interests in Jieyou, respectively.

OUR GROUP'S REORGANIZATION

In order to comply with the relevant PRC laws and regulations while availing ourselves of international capital markets and maintaining effective control over all our operations in the PRC, our Group commenced a series of offshore and onshore reorganization activities from July 2011 onwards.

1. Incorporation of the Holding Companies and Establishment of the Company

On July 26, 2011, our Company was incorporated in the Cayman Islands as an exempted company with limited liability. Immediately after our incorporation, we issued 2,373, 4,110, 2,470, 95 and 950 ordinary shares to each of our Founders through their respective 100% owned offshore entities, namely Foga Group, Foga Networks, Foga Holdings, Foga Internet Development and Foga Development, representing 23.75%, 41.10%, 24.70%, 0.95% and 9.50% shareholding interests in the Company, respectively.

2. Establishment of Our Hong Kong Subsidiaries

Foga Tech is our wholly-owned subsidiary incorporated in Hong Kong on August 9, 2011. It was established as a holding company of our subsidiaries and the PRC Operational Entities. Since the date of incorporation and up to the Latest Practicable Date, we held 100% shareholding interests in Foga Tech.

Hongkong Ledong is a wholly-owned subsidiary of Foga Tech and was incorporated in Hong Kong on March 22, 2012. It was established as a holding company to manage our overseas business. Since the date of incorporation and up to the Latest Practicable Date, Foga Tech held 100% shareholding interests in Hongkong Ledong.

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

3. *Establishment of Feidong*

Feidong is the direct wholly-owned subsidiary of Foga Tech and was incorporated as a wholly-foreign owned enterprise in the PRC on June 13, 2012. It was established to carry out the business of computer software and hardware development and to provide related technical information services.

4. *Contractual Arrangements*

In order to comply with relevant PRC laws and regulations and maintain effective control over all of our operations, in June and July 2012, Feidong entered into a series of Contractual Arrangements with the PRC Operational Entities and their respective shareholders, who are also our Founders. Through these Contractual Arrangements, the Group is able to gain effective control over, and receive all the economic benefits generated by these PRC Operational Entities. Please refer to the section headed “Contractual Arrangements” for details of the Contractual Arrangements. Since the date of incorporation and up to the Latest Practicable Date, Foga Tech held 100% equity interests in Feidong.

5. *Transfer of Shares from Foga Networks to Longling Capital Ltd and Baolink Capital Ltd*

Our Founders entered into the Cooperation Agreement with the Pre-Series A Investors who are independent third parties, at the time when the Founders acquired Feiyin and Weidong in September 2009. Ms. Wang Baoshan, one of the Pre-Series A Investors, is an individual who engages in investments in Internet-related businesses. During her search for investment targets in 2009, she was introduced to the Founders and their webpage business in Feiyin and Weidong, and decided to offer assistance to the Founders in the business expansion of Feiyin and Weidong in exchange for investment return. The other Pre-Series A Investor, Mr. Wang Po Tsan, the brother of Ms. Wang Baoshan, jointly invested in us by entering into the Cooperation Agreement with us in 2009. Pursuant to the Cooperation Agreement, the Pre-Series A Investors agreed to assist in the business expansion of Feiyin and Weidong by introducing and liaising with potential business partners, game developers and marketing agencies for our Founders during the year of 2009. In return, the Founders promised to grant 24% of the equity interests in a future offshore entity to them when such entity is set up. They made use of their market knowledge and business network to introduce various publishing platforms, webpage development and publishing personnel to us. Their assistance was particularly important to us at that time as our business was still in the early stage of development. With their assistance, our business was able to transit smoothly from a start-up stage to a relatively more advanced stage.

Pursuant to the Cooperation Agreement, on September 15, 2011, Foga Networks transferred 1,600 and 800 Ordinary Shares representing 16% and 8% (24% in aggregate) shareholding interests in us to Longling Capital Ltd, and Baolink Capital Ltd, the two 100% owned offshore entities set up by the Pre-Series A Investors, respectively, for a nominal cash consideration of US\$1.00 each.

On May 15, 2012, for administrative convenience, Longling Capital Ltd and Baolink Capital Ltd transferred the 1,600 and 800 Ordinary Shares back to Foga Networks for a nominal cash consideration of US\$1.00 each, for Foga Networks to hold such interests on trust and on behalf of Longling Capital Ltd and Baolink Capital Ltd.

6. *Issue of Series A Preferred Shares and the First Share Split*

On April 29, 2012, we entered into the Series A Preferred Share Purchase Agreement with, among others, the Series A Investors, whereby the Series A Investors made an aggregate investment of US\$68,800,000 in the Company. Please refer to the section below headed — “Pre-[●] Investments” for details.

On June 15, 2012, the Series A Preferred Share Purchase Agreement was amended and restated, and we underwent a share split whereby one Ordinary Share of par value of US\$1.00 was split into 1,000

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Ordinary Shares of par value of US\$0.001 each and one Series A Preferred Share of par value of US\$1.00 was split into 1,000 Series A Preferred Shares of par value of US\$0.001 each. Upon the completion of the share split, our authorized share capital was US\$50,000 divided into 47,094,056 Ordinary Shares of par value of US\$0.001 each and 2,905,944 Series A Preferred Shares of par value of US\$0.001 each. Our issued share capital was US\$7,600 divided into 7,600,000 Ordinary Shares of US\$0.001 each.

Immediately subsequent to the share split, we issued and allotted a total of 2,905,944 Series A Preferred Shares to the Series A Investors for a total cash consideration of US\$68,800,000. The consideration was determined based on arm's length negotiation. Upon [●], the Series A Preferred Shares will be automatically converted into Ordinary Shares of the Company on a one-to-one basis without the payment of any additional consideration.

7. *Repurchase of Shares from Foga Networks on behalf of Longling Capital Ltd and Baolink Capital Ltd*

Given the desire of the Pre-Series A Investors to exit the Company, pursuant to the Series A Preferred Share Purchase Agreement, on June 15, 2012, we applied US\$58,800,000 out of the consideration received from the Series A Investors and repurchased the 2,400 Ordinary Shares (or 2,400,000 Ordinary Shares after the share split) representing 24% shareholding interests in us held by Foga Networks on behalf of Longling Capital Ltd and Baolink Capital Ltd. The repurchase price was determined based on arm's length negotiation with the Pre-Series A Investors. The repurchased Shares were cancelled immediately. According to the Company's Cayman Islands legal advisers, the Cayman aspects of such repurchase was carried out in full compliance with Cayman Islands Company Law, the Articles of Association and other applicable rules and regulations, in each case, as such laws were in effect at the relevant time.

The difference between the repurchase price and the par value of the relevant share capital was recognized as a reduction of reserve which resulted in negative amount in the other reserve account in our financial statements for the year ended December 31, 2012. Please refer to the section headed "Financial Information — Shareholders' Equity" for details.

8. *Gift of Shareholding Interests in the Company to Mr. Zhuang and Mr. Yang from the Other Founders*

Pursuant to an agreement of gift of equity interests entered into among the Founders on December 31, 2011, as a reward to Mr. Zhuang and Mr. Yang for their service and contribution to the business of the Group, the other three Founders transferred 1,250 Ordinary Shares and 5 Ordinary Shares at zero consideration to Mr. Zhuang and Mr. Yang, respectively, through their respective offshore entities. These transfers took place immediately subsequent to the allotment of Series A Preferred Shares on June 15, 2012 and the first share split. Upon completion of such transfers, the shareholding interests of Foga Development and Foga Internet Development in the Company increased from 950,000 Ordinary Shares to 2,200,000 Ordinary Shares and 95,000 Ordinary Shares to 100,000 Ordinary Shares, respectively.

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

The table below illustrates the changes in shareholdings resulting from the first share split, allotment of Series A Preferred Shares and share transfers that took place on June 15, 2012:

	Prior to the First Share Split on June 15, 2012		Upon First Share Split on June 15, 2012		Allotment of Series A Preferred Shares		Share Transfers on June 15, 2012		
	Number of Shares	Percentage	Number of Shares	Change in Shareholdings	Number of Shares	Change in Shareholdings	Number of Shares	Percentage	Approximate Percentage
Foga Group	2,375 Ordinary Shares	31.25%	2,375,000 Ordinary Shares	—	2,375,000 Ordinary Shares	- 170,000 Ordinary Shares	2,200,000 Ordinary Shares		Approximately 20.94%
						- 5,000 Ordinary Shares			
Foga Networks . . .	1,710 Ordinary Shares ⁽¹⁾	22.50%	1,710,000 Ordinary Shares	—	1,710,000 Ordinary Shares	-410,000 Ordinary Shares	1,300,000 Ordinary Shares		Approximately 12.37%
Foga Holdings . . .	2,470 Ordinary Shares	32.50%	2,470,000 Ordinary Shares	—	2,470,000 Ordinary Shares	- 670,000 Ordinary Shares	1,800,000 Ordinary Shares		Approximately 17.13%
Foga Development	950 Ordinary Shares	12.50%	950,000 Ordinary Shares	—	950,000 Ordinary Shares	+ 170,000 Ordinary Shares	2,200,000 Ordinary Shares		Approximately 20.94%
						+ 670,000 Ordinary Shares			
						+410,000 Ordinary Shares			
Foga Internet Development	95 Ordinary Shares	1.25%	95,000 Ordinary Shares	—	95,000 Ordinary Shares	+ 5,000 Ordinary Shares	100,000 Ordinary Shares		Approximately 0.95%
TA	—	—	—	+ 2,111,695 Series A Preferred Shares	2,111,695 Series A Preferred Shares	—	2,111,695 Series A Preferred Shares		Approximately 20.10%
Qiming Venture Partners III, L.P.	—	—	—	+ 589,707 Series A Preferred Shares	589,707 Series A Preferred Shares	—	589,707 Series A Preferred Shares		Approximately 5.61%
Qiming Managing Directors Fund III, L.P.	—	—	—	+ 18,587 Series A Preferred Shares	18,587 Series A Preferred Shares	—	18,587 Series A Preferred Shares		Approximately 0.18%
Ignition Growth Capital I, L.P. . . .	—	—	—	+ 184,025 Series A Preferred Shares	184,025 Series A Preferred Shares	—	184,025 Series A Preferred Shares		Approximately 1.75%
Ignition Growth Capital Managing Directors Fund I, LLC	—	—	—	+ 1,930 Series A Preferred Shares	1,930 Series A Preferred Shares	—	1,930 Series A Preferred Shares		Approximately 0.02%
	7,600 Ordinary Shares	100%	7,600,000 Ordinary Shares	+2,905,944 Series A Preferred Shares	7,600,000 Ordinary Shares 2,905,944 Series A Preferred Shares	—	7,600,000 Ordinary Shares 2,905,944 Series A Preferred Shares		Approximately 100%

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Note:

- (1) The 1,710 Ordinary Shares owned by Foga Networks prior to the share split does not include the 1,600 and 800 Ordinary Shares that were transferred from Longling Capital Ltd and Baolink Capital Ltd to Foga Networks, respectively, on May 15, 2012 and subsequently repurchased by the Company on June 15, 2012.

9. *Second Share Split*

On August 21, 2012, we underwent another share split whereby one Ordinary Share of par value of US\$0.001 was split into ten Ordinary Shares of par value of US\$0.0001 each, and one Series A Preferred Share of par value of US\$0.001 was split into ten Series A Preferred Shares of par value of US\$0.0001 each. Upon the completion of the share split, our authorized share capital was US\$50,000 divided into 470,940,560 Ordinary Shares of par value of US\$0.0001 each and 29,059,440 Series A Preferred Shares of par value of US\$0.0001 each. Upon the completion of the share split, our shareholding structure was:

	Number of Shares	Shareholding Interest
Foga Group	22,000,000 Ordinary Shares	Approximately 20.94%
Foga Networks	13,000,000 Ordinary Shares	Approximately 12.37%
Foga Holdings	18,000,000 Ordinary Shares	Approximately 17.13%
Foga Development	22,000,000 Ordinary Shares	Approximately 20.94%
Foga Internet Development	1,000,000 Ordinary Shares	Approximately 0.95%
TA	21,116,950 Series A Preferred Shares	Approximately 20.10%
Qiming Venture Partners III, L.P.	5,897,070 Series A Preferred Shares	Approximately 5.61%
Qiming Managing Directors Fund III, L.P.	185,870 Series A Preferred Shares	Approximately 0.18%
Ignition Growth Capital I, L.P.	1,840,250 Series A Preferred Shares	Approximately 1.75%
Ignition Growth Capital Managing Directors Fund I, LLC	19,300 Series A Preferred Shares	Approximately 0.02%
	76,000,000 Ordinary Shares	Approximately
	29,059,440 Series A Preferred Shares	100%

10. *Pre-[●] Share Option Scheme*

The Pre-[●] Share Option Scheme was adopted on October 31, 2012, and was amended and restated on September 1, 2013. A summary of the principal terms of the Pre-[●] Share Option Scheme is set forth in the section headed “Appendix III — Statutory and General Information — Pre-[●] Share Option Scheme.”

11. *Establishment of Family Trusts*

On March 15, 2013, each of Mr. Wang, Mr. Huang, Mr. Liao and Mr. Zhuang, as the settlor and protector, established Family Trusts with Managecorp Limited acting as the trustee. On the same day, Mr. Wang, Mr. Huang, Mr. Liao and Mr. Zhuang transferred 100% shareholding interests in their respective Holding Companies, by way of gift at zero consideration to Managecorp Limited. Pursuant to

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

the Family Trusts, Managecorp Limited holds the shares on trust for the benefit of Mr. Wang, Mr. Huang, Mr. Liao and Mr. Zhuang and in some cases certain of their respective family members.

12. *Pre-[●] Investments by Second Round Pre-[●] Investors*

Pineapple, Soaring Harmony, Alpaca and Prometheus acquired approximately 1.05%, 3.15%, 1.05% and 1.05% shareholding interests in the Company for a consideration of US\$4,000,000, US\$12,000,000, US\$4,000,000 and US\$4,000,000, respectively, from Foga Holdings, Foga Networks and Foga Development. The share transfers to Pineapple, Soaring Harmony, Alpaca and Prometheus were completed on March 27, 2013, March 28, 2013, March 28, 2013 and April 2, 2013 respectively. Please refer to the section headed "Pre-[●] Investments" for details.

Our PRC legal advisers, have advised us that the onshore reorganization has obtained all relevant approvals from the relevant authorities in the PRC and that the onshore reorganization complies with the relevant laws and regulations in the PRC. Our Founders completed the necessary No.75 Notice registration regarding offshore investment by PRC residents on July 17, 2012.

HISTORICAL COMMON CONTROL OF OUR COMPANY AND OUR PRC OPERATIONAL ENTITIES

Historically, our Founders were the ultimate owners of the Group and operated the game business through the PRC Operational Entities. On January 5, 2013, they executed a Memorandum confirming their previous oral agreement to exercise common control over our Company, our subsidiaries and our PRC Operational Entities and the conduct of business by such entities. Please refer to the section headed "Relationships with Our Controlling Shareholders" for details.

PRE-[●] INVESTMENTS

There have been two rounds of Pre-[●] Investments in the Company. The first round of Pre-[●] Investments was undertaken by the Series A Investors and was completed on June 15, 2012. The second round of Pre-[●] Investments was undertaken by the Second Round Pre-[●] Investors and with their respective investment completed on March 27, 2013, March 28, 2013, March 28, 2013 and April 2, 2013.

Pre-[●] Investment by the Series A Investors

Overview of the Pre-[●] Investment by the Series A Investors

We entered into the Series A Preferred Share Purchase Agreement on April 29, 2012, which was then amended and restated on June 15, 2012, with, *among others*, the Series A Investors. Pursuant to the Series A Preferred Share Purchase Agreement, the Series A Investors, subject to certain conditions, agreed to subscribe for a total number of 2,905,944 Series A Preferred Shares for an aggregate consideration of US\$68,800,000. As a closing condition to the Series A Preferred Share Purchase Agreement, we, our Founders and the Series A Investors, *among others*, entered into the Shareholders Agreement, the Right of First Refusal and Co-Sale Agreement and the Share Restriction Agreement on June 15, 2012, each of which was subsequently amended on March 8, 2013.

Upon completion of the Series A Preferred Share Purchase Agreement on June 15, 2012, TA, Qiming and Ignition held 20.10%, 5.79% and 1.77%, in Series A Preferred Shares in us, respectively.

The fair value change associated with the issuance of Series A Preferred Shares was recognized as fair value loss of convertible redeemable preferred shares in our Consolidated Statement of Comprehensive (Loss)/Income. Please refer to the section headed "Financial Information — Shareholders' Equity" for details.

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Principal Terms of the Pre-[●] Investment by the Series A Investors

The below table summarizes the principal terms of the Pre-[●] Investment by the Series A Investors:

Name of Series A Investors	TA FG Acquisitions Qiming Venture Partners III, L.P. Qiming Managing Directors Fund III, L.P. Ignition Growth Capital I, L.P. Ignition Growth Capital Managing Directors Fund I, LLC
Date of Investment	June 15, 2012
Amount of Consideration Paid	US\$68,800,000
Payment Date of Consideration	June 15, 2012
Cost per Series A Preferred Share Paid by Each Series A Investor	US\$23.676
Basis of Determination of the Consideration	based on arm's length negotiations between the Series A Investors, the Company and our Founders after taking into consideration the timing of the subscription and the illiquidity of our Shares as a private company when the Series A Preferred Share Purchase Agreement was entered into.
Use of Proceeds	US\$58,800,000 was used for the repurchase of the Ordinary Shares then beneficially owned by the Pre-Series A Investors and US\$10,000,000 was used for general working capital purposes and other purposes mutually agreed by us and the Series A Investors. As of June 30, 2013, the net proceeds from the Pre-[●] Investment by the Series A Investors had not been fully utilized.
Lock-up	any Shares held by the Series A Investors at [●] are subject to a lock-up period of one hundred eighty (180) days from the date of this document.
Voting Rights	the Series A Preferred Shares carry voting rights
Special Rights	the holders of Series A Preferred Shares have been granted the following rights, each of which will be automatically terminated upon the completion of [●]: <ul style="list-style-type: none">• <i>Registration Rights.</i> We granted holders of the Series A Preferred Shares customary registration rights, including demand registration rights, piggyback registration rights and Form F-3 registration rights.• <i>Right of First Refusal.</i> If any of our Founders proposes to transfer any of his equity securities in us (the "Offered Shares"), we shall have the right of first refusal to purchase all the Offered Shares on the terms and conditions stated in the

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

transfer notice given by the transferring Founder. If we have not taken up the Offered Shares, the Series A Investors have a right of first refusal to purchase the Offered Shares on a pro rata basis based on their respective shareholding.

- *Tag Along Right.* If we and the Series A Investors do not exercise the respective rights of first refusal as to all of the Offered Shares, the Series A Investors have the tag along right to participate in such sale of the Offered Shares by the transferring Founder on the terms and conditions set forth in the transfer notice given by the transferring Founder.
- *Preemptive Right.* If we issue new equity securities, holders of the Series A Preferred Shares have a preemptive right to subscribe for the new equity securities on a pro rata basis based on their respective shareholding.
- *Information and Inspection Rights.* The holders of the Series A Preferred Shares are entitled to have access to our financial and accounting information and other books and records.
- *Board Appointment Right.* TA is entitled to appoint two directors to the Board and Qiming is entitled to appoint one director to the Board. The board composition of our Subsidiaries shall be the same or similar to that of the Board. In addition, each Series A Investor has the right to appoint one observer so long as it holds any Series A Preferred Shares or Ordinary Shares issued upon conversion of Series A Preferred Shares.
- *Veto Rights.* The Group has provided covenants not to take certain actions without the prior written approval by holders of at least a majority of the outstanding Series A Preferred Shares ("Preferred Holders Majority"). These matters include, among others:
 - amendment or change of the rights, preferences, privileges or powers of, or the restrictions applicable to the Series A Preferred Shares;
 - creation, authorization or issuance of new equity securities;
 - any amendment or modification to any of the charter documents of any member of our Group;
 - any related party transaction;
 - liquidation, winding up, dissolution, reorganization or arrangement of any member of our Group under any law relating to bankruptcy or reorganization or relief of debtors or appointment of a receiver, trustee or other similar official;
 - any change of the size or composition of the board;
 - any investment in, or divestiture or sale by any member of our Group of an interest in another person; and

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- sale, transfer, lease, assignment, incurrence of any lien, parting with or disposal by any member of our Group, whether directly or indirectly, of any property, assets or business of such member of our Group other than in the ordinary course of business.
- *Dividends Preference.* Each holder of a Series A Preferred Share shall be entitled to dividends at the rate of 5% of the issue price per annum per Series A Preferred Share prior and in preference to other classes of shares of the Company when it is declared by the Board or at redemption. Such dividends shall be cumulative and compound annually and shall accrue on a daily basis.
- *Liquidation Preference.* In the event of any liquidation, dissolution or winding up of the Company, the holders of Series A Preferred Shares will be entitled to receive in preference to the holders of other classes of shares of the Company, a liquidation preference per share equal to 100% of the issue price of the Series A Preferred Shares, plus all accrued but unpaid dividends on such Series A Preferred Shares (“Series A Preference Amount”).
- *Redemption Rights.* At any time after the earliest of the third anniversary of the issuance date of the Series A Preferred Shares or the date that there is a material breach under any Transaction Documents (i.e. the Series A Preferred Share Purchase Agreement, the Shareholders’ Agreement, the Right of First Refusal and Co-Sale Agreement, the Contractual Arrangements, the Share Restriction Agreement, the management rights letters giving the Series A Investors certain consultation rights and information rights, the indemnification agreements, to indemnify the Series A Investors’ nominee directors’ potential liabilities in their capacity as directors and the memorandum and articles of association of the Company) by us or other parties to the Transaction Documents, where the Preferred Holders Majority vote for a redemption, the Series A Investors have a right to require the Company to redeem all outstanding Series A Preferred Shares at a price equal to 150% of the issuance price plus any accrued but unpaid dividends. Upon the completion of [●], all the Series A Preferred Shares will automatically convert into Ordinary Shares. Please refer to the below paragraph — “Conversion rights — Automatic conversion.” As such, the redemption rights, together with all the other special rights granted to the Series A Investors, will automatically terminate upon completion of [●]. As of the Latest Practicable Date, no such redemption right had been exercised.
- *Conversion Rights.* The Series A Preferred Shares were convertible at the then effective “Series A Conversion Price,” which shall initially be the issue price of the Series A Preferred Shares, resulting in an initial conversion ratio for the Series A Preferred Shares of 1:1, and shall be subject to adjustment and readjustment from time to time as provided in our then effective memorandum of association and articles of association. The holders of the Series A Preferred Shares shall

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

have the rights described below with respect to the conversion of Series A Preferred Shares to Ordinary Shares of the Company:

- *Optional Conversion.* Any Series A Preferred Share may, at the option of the holder thereof, be converted at any time without the payment of additional consideration into fully-paid and non assessable ordinary shares based on the then effective Series A Conversion Price.
- *Automatic Conversion.* Each Series A Preferred Share shall automatically be converted without the payment of any additional consideration into fully-paid and non assessable Ordinary Shares based on the then effective Series A Conversion Price upon the earlier of (i) the closing of [●], or (ii) the date specified by written consent or agreement of the Preferred Holders Majority. Upon the occurrence of an event of automatic conversion, all holders of Series A Preferred Shares to be automatically converted will be given at least ten days prior written notice of the date fixed.
- *Adjustment of Conversion Price.* The conversion price of the Series A Preferred Shares is subject to customary adjustment events such as share splits and combinations, reorganizations, mergers, consolidations, reclassifications, exchanges, substitutions, dividends distribution and dilutive issuance, including, in the event of an issuance of new securities (subject to certain carve-outs, for example, Ordinary Shares issued in accordance with an employee share option plan approved by the Preferred Holders Majority, equity securities pursuant to an [●] and Ordinary Shares issued upon the conversion of Series A Preferred Shares) for a consideration per Ordinary Share received by us (net of any selling concessions, discounts or commissions) less than the conversion price of Series A Preferred Shares in effect immediately prior to such issue, such conversion price of Series A Preferred Shares shall be reduced, concurrently with such issue, to a price determined as set forth below:

$$NCP = OCP \times (OS + (NP/OCP))/(OS + NS)$$

where:

NCP = the new conversion price of Series A Preferred Shares;

OCP = the conversion price of Series A Preferred Shares in effect immediately before the issuance of the new securities;

OS = the total outstanding Ordinary Shares immediately before the issuance of the new securities plus the total Ordinary Shares issuable upon conversion of the outstanding convertible securities and exercise of outstanding options;

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

NP = the total consideration received for the issuance or sale of the new securities; and

NS = the number of new securities issued or sold or deemed issued or sold.

To elaborate the calculation of the conversion price adjustment formula,

- (1) (NP/OCP) means the total consideration received for the issuance or sale of new securities to be divided by the then existing conversion price;
- (2) (OS+(NP/OCP)) means adding up (i) the total outstanding Ordinary Shares before the issuance of the new securities and the total Ordinary Shares issuable upon conversion of the outstanding convertible securities and exercise of outstanding options; and (ii) (1);
- (3) (OS+NS) means adding up (i) the total outstanding Ordinary Shares before the issuance of the new securities and the total Ordinary Shares issuable upon conversion of the outstanding convertible securities and exercise of outstanding options; and (ii) the number of new securities issued or sold or deemed issued or sold.

As such, the existing conversion price of Series A Preferred Shares shall be adjusted by the ratio of (2):(3) to give the new conversion price.

An adjustment to the Series A Conversion Price may be waived by Preferred Holders Majority.

All the Series A Preferred Shares were converted into fully-paid and non assessable Ordinary Shares without the payment of any additional consideration upon completion of [●].

- *Restricted Shares.* The shares (the "Restricted Shares") of the Company held by our Founders on June 15, 2012 are put on escrow and made subject to a vesting schedule whereby 20% of the Restricted Shares shall vest upon the closing of the Series A Preferred Share Purchase Agreement, and 20% of the Restricted Shares shall vest on each of the first, second, third and fourth anniversaries of the closing of the Series A Preferred Share Purchase Agreement so long as the founder is continuously an employee of a member of our Group. All Restricted Shares shall vest upon the completion of [●].

Information Regarding TA, Qiming and Ignition

TA Associates is a private equity firm founded in 1968. The investment partnerships ("Funds") managed by TA Associates invest in private companies in various industries, such as technology, financial and business services, healthcare and consumer industries, in the world. Three Funds managed by TA Associates are shareholders in

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

TA. These Funds include TA XI, L.P., an independent third party, holds 68.20% of the shareholding interest in TA. The remaining 31.80% shareholding interest in TA is held by the other two TA Funds which are also independent third parties. TA Associates, and the Funds managed by TA Associates are an independent third party (other than being our Shareholder).

Qiming Venture Partners is a venture capital group focusing on investments in companies in the media and Internet, information technology, consumer and retail, healthcare and clean technology sectors across China. The beneficial owners of Qiming include 85 limited partners, each of whom owns less than 10% in the respective funds and are all independent third parties. Qiming is an independent third party (other than being our Shareholder).

Ignition is the growth capital arm of a global fund group focusing on investments in the technology, communications, consumer and healthcare sectors. The beneficial owners of Ignition include 61 limited partners, each of whom owns less than 10% in the respective funds and are all independent third parties. Ignition is an independent third party (other than being our Shareholder).

Our Directors are of the view that the Company can benefit from the Series A Investors' commitment to the Company and their investments demonstrate their confidence in our Group's operation and serve as an endorsement of our Company's performance, strength and prospects.

Pre-[●] Investments by the Second Round Pre-[●] Investors

Pre-[●] Investment by Pineapple

We entered into a share purchase agreement with Foga Holdings, Foga Networks and Pineapple on March 20, 2013, whereby Foga Holdings and Foga Networks transferred 552,255 Ordinary Shares and 552,255 Ordinary Shares, respectively, to Pineapple for a total consideration of US\$4,000,000, resulting in Pineapple holding 1,104,510 Ordinary Shares, representing approximately 1.05% of our then-issued share capital. The share transfer was completed on March 27, 2013.

Pre-[●] Investment by Soaring Harmony

We entered into a share purchase agreement with Foga Holdings, Foga Networks and Soaring Harmony on March 26, 2013, whereby Foga Holdings and Foga Networks transferred 2,209,020 Ordinary Shares and 1,104,510 Ordinary Shares, respectively, to Soaring Harmony for a total consideration of US\$12,000,000, resulting in Soaring Harmony holding 3,313,530 Ordinary Shares, representing approximately 3.15% of our then-issued share capital. The share transfer was completed on March 28, 2013.

Pre-[●] Investment by Alpaca

We entered into a share purchase agreement with Foga Holdings, Foga Networks and Alpaca on March 26, 2013, whereby Foga Holdings and Foga Networks transferred 552,255 Ordinary Shares and 552,255 Ordinary Shares, respectively, to Alpaca for a total consideration of US\$4,000,000, resulting in Alpaca holding 1,104,510 Ordinary Shares, representing approximately 1.05% of our then-issued share capital. The share transfer was completed on March 28, 2013.

Pre-[●] Investment by Prometheus

We entered into a share purchase agreement with Foga Development and Prometheus on March 28, 2013, whereby Foga Development transferred 1,104,510 Ordinary Shares to Prometheus for a total consideration of US\$4,000,000, resulting in Prometheus holding 1,104,510 Ordinary Shares, representing approximately 1.05% of our then-issued share capital. The share transfer was completed on April 2, 2013.

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Principal Terms of the Pre-[●] Investments by the Second Round Pre-[●] Investors

The following table summarizes the principal terms of the Pre-[●] Investments by the Second Round Pre-[●] Investors:

Name of Pre [●] Investor	Date of Share Purchase Agreement	Amount of Consideration Paid	Payment Date of Consideration	Cost per Share Paid by Each Pre-[●] Investor
Pineapple	March 20, 2013	US\$ 4,000,000	March 27, 2013	US\$3.62
Soaring Harmony	March 26, 2013	US\$12,000,000	March 28, 2013	US\$3.62
Alpaca	March 26, 2013	US\$ 4,000,000	March 28, 2013	US\$3.62
Prometheus	March 28, 2013	US\$ 4,000,000	April 2, 2013	US\$3.62
Basis of determination of the consideration:	based on arm’s length negotiation between the parties after taking into consideration the timing of the share transfer and the illiquidity of our Shares as a private company when the share purchase agreements were entered into.			
Use of Proceeds:	the Company did not receive any proceeds in connection with the sale since the Shares purchased by the Second Round Pre-[●] Investors are shares held by our shareholders.			
Lock-up:	any Shares held by Pineapple, Soaring Harmony, Alpaca and Prometheus at [●] are subject to a lock-up period of six months after [●].			
Special rights:	No special rights were granted to Pineapple, Soaring Harmony, Alpaca and Prometheus.			

Information Regarding Pineapple, Soaring Harmony, Alpaca and Prometheus

Pineapple is an investment holding company owned by Mr. Tom Hwang and his wife, Ms. Nancy Tsai, as to 50.10% and 49.90%, respectively. Pineapple is an independent third party (other than being our Shareholder).

Soaring Harmony is an investment holding company wholly-owned by Mr. Bainan Shou. Soaring Harmony is an independent third party (other than being our Shareholder).

Alpaca is an investment holding company wholly-owned by Mr. Zhiming Zhu. Alpaca is an independent third party (other than being our Shareholder).

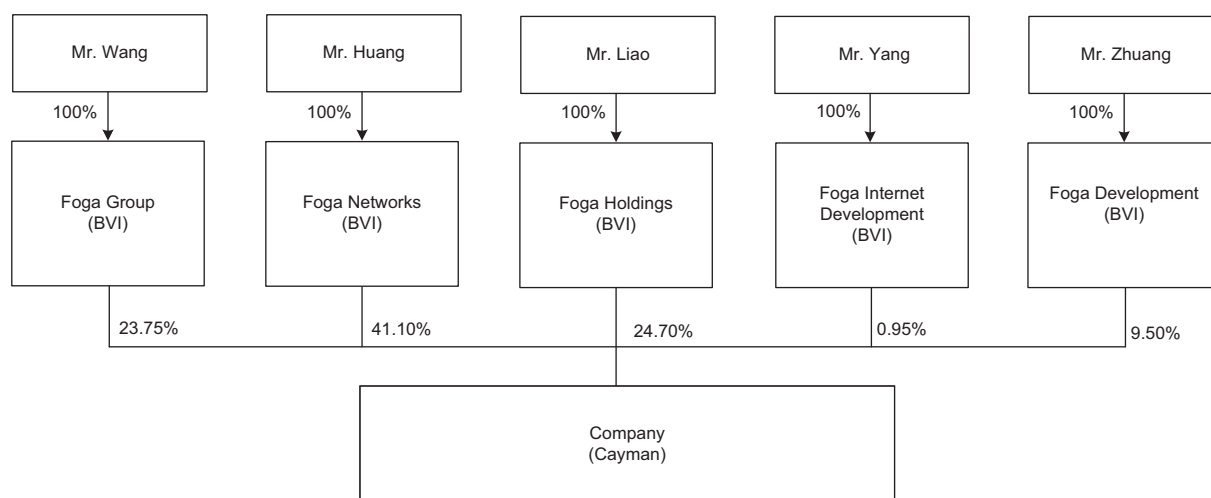
Prometheus is a private equity fund with focus on investments in companies of the Greater China region and invests mainly in start-up and growth-stage companies which have the potential to become leaders of their own sectors. Its focused sectors include energy conservation and environmental protection, new material, clean-tech, medical devices and service, retail and consumer, modern agriculture and high-end manufacturing, etc. Prometheus is wholly owned by Mr. Wang Sicong. Prometheus is an independent third party (other than being our Shareholder).

Our Directors are of the view that the Company can benefit from the commitment of Pineapple, Soaring Harmony, Alpaca and Prometheus to the Company, and can leverage on their local knowledge and network to enhance the strategic business model of the Group.

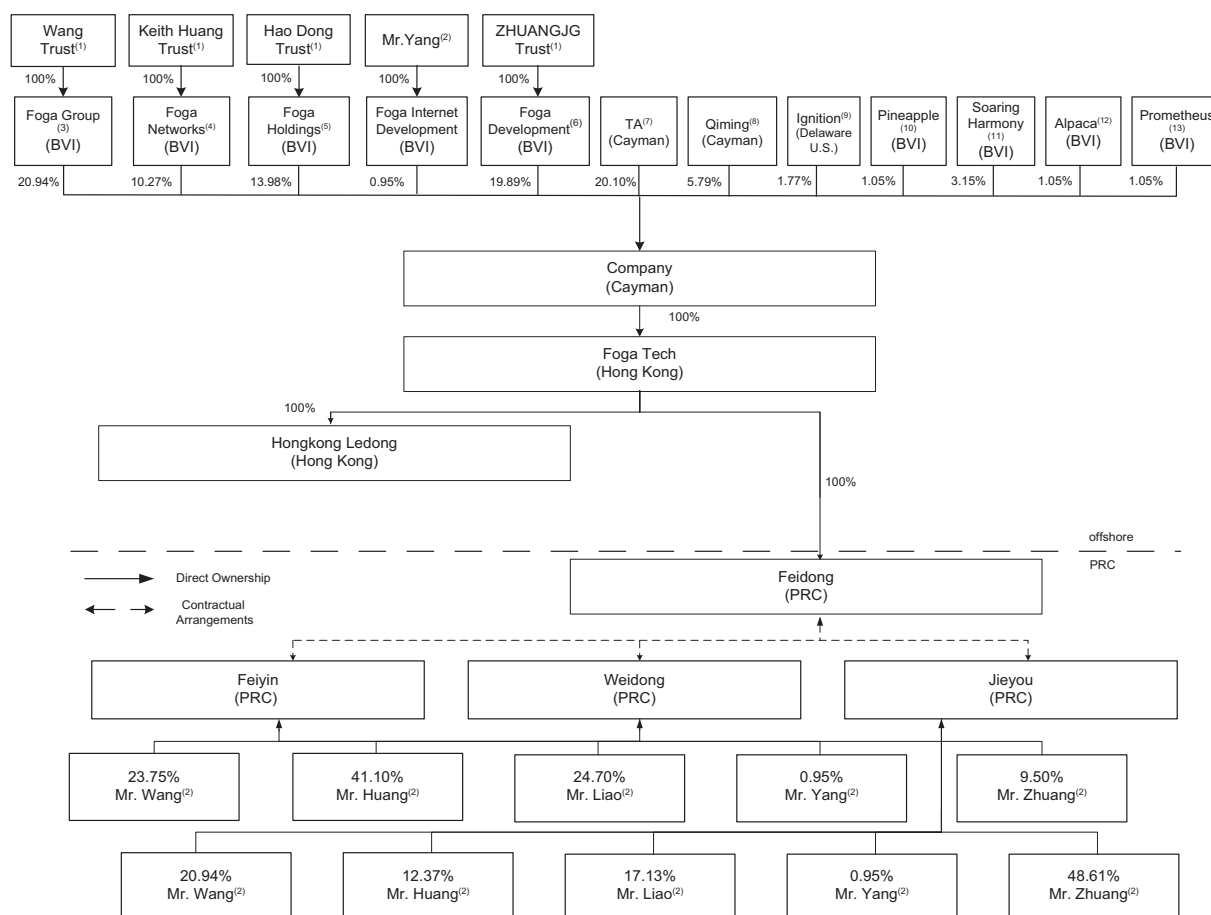
OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

SHAREHOLDING AND GROUP STRUCTURE

The following chart shows our Group structure before the Reorganization:



The following chart shows our Group structure after the Reorganization, the completion of the Pre-[●] Investments:



Notes:

(1) The entire share capital of Foga Group, Foga Networks, Foga Holdings and Foga Development are wholly owned by Managecorp Limited as the trustee of the Wang Trust, Keith Huang Trust, Hao Dong Trust and ZHUANGJG Trust, respectively. The Family Trusts are discretionary trusts set up by Mr. Wang, Mr. Huang, Mr. Liao and Mr. Zhuang, respectively, for the benefit of themselves in each respective trust, and in some cases for certain of their respective family members.

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- (2) Mr. Wang, Mr. Huang, Mr. Liao, Mr. Yang and Mr. Zhuang are our Founders. Mr. Wang, Mr. Huang, Mr. Liao, Mr. Yang and Mr. Zhuang exercised common control over our Company, our subsidiaries and our PRC Operational Entities pursuant to the Memorandum. Save as disclosed in this document, Mr. Wang, Mr. Huang, Mr. Liao, Mr. Yang and Mr. Zhuang are not related to each other.
- (3) Foga Group is wholly owned by Managecorp Limited as the trustee of the Wang Trust. The Wang Trust is a discretionary trust set up on March 15, 2013 by Mr. Wang as settlor and protector and Managecorp Limited as trustee. The beneficiary objects of the Wang Trust include Mr. Wang and certain of his family members.
- (4) Foga Networks is wholly owned by Managecorp Limited as the trustee of the Keith Huang Trust. The Keith Huang Trust is a discretionary trust set up on March 15, 2013 by Mr. Huang as settlor and protector, and Managecorp Limited as trustee. The beneficiary objects of the Keith Huang Trust include Mr. Huang and certain of his family members.
- (5) Foga Holdings is wholly owned by Managecorp Limited as the trustee of the Hao Dong Trust. The Hao Dong Trust is a discretionary trust set up on March 15, 2013 by Mr. Liao as settlor and protector, and Managecorp Limited as trustee. The beneficiary object of the Hao Dong Trust is Mr. Liao himself.
- (6) Foga Development is wholly owned by Managecorp Limited as the trustee of the ZHUANGJG Trust. The ZHUANGJG Trust is a discretionary trust set up on March 15, 2013 by Mr. Zhuang as settlor and protector, and Managecorp Limited as trustee. The beneficiary objects of the ZHUANGJG Trust include Mr. Zhuang and certain of his family members.
- (7) TA is an exempted company incorporated in the Cayman Islands on April 26, 2012 with limited liability. It is a wholly-owned subsidiary of TA Associates, a private equity firm. It holds 20.10% interest in us. TA is an independent third party (other than being our Shareholder).
- (8) Qiming holds an aggregate of 5.79% interest in us through Qiming Venture Partners III, L.P. and Qiming Managing Directors Fund III, L.P.; both are exempted limited partnerships registered in the Cayman Islands on May 6, 2011. Qiming is an independent third party (other than being our Shareholder).
- (9) Ignition holds an aggregate of 1.77% interest in us through Ignition Growth Capital I, L.P., a limited partnership formed in the State of Delaware on September 12, 2007, and Ignition Growth Capital Managing Directors Fund I, LLC., a limited liability company formed in the State of Delaware on September 11, 2007. Qiming and Ignition are affiliated entities. Ignition is an independent third party (other than being our Shareholder).
- (10) Pineapple is a company incorporated in the BVI on April 11, 1997. Mr. Tom Hwang and his wife, Ms. Nancy Tsai each owns 50.10% and 49.90% of Pineapple, respectively. It holds 1.05% interest in us. Pineapple is an independent third party (other than being our Shareholder).
- (11) Soaring Harmony is a company incorporated in the BVI on January 14, 2013. Soaring Harmony is wholly owned by Mr. Shou Bainan. It holds 3.15% interest in us. Soaring Harmony is an independent third party (other than being our Shareholder).
- (12) Alpaca is a company incorporated in the BVI on April 1, 2008. Alpaca is wholly owned by Mr. Zhu Zhiming. It holds 1.05% interest in us. Alpaca is an independent third party (other than being our Shareholder).
- (13) Prometheus is a company incorporated in the BVI on February 4, 2013. Prometheus is wholly owned by Mr. Wang Sicong. It holds 1.05% interest in us. Prometheus is an independent third party (other than being our Shareholder).

BUSINESS

Overview

We are a leading developer and publisher of webgames in China with a fast-growing mobile games business. We were the No.1 webgame developer in China, with a 24% market share of net revenue from webgame development industry in 2012, according to iResearch, an independent research institution. We had successfully developed and launched over 30 easy-to-access, highly engaging and popular games as of June 30, 2013. Our publishing platform, *91wan*, published 79 self-developed and licensed webgames and had attracted over 179 million registered players as of June 30, 2013. This integrated business model creates synergies that improve our overall performance.

Webgames and mobile games present significant opportunities for us. The webgame and mobile game markets in China reached RMB7.6 billion and RMB1.9 billion, respectively, in gross billings in 2012, and are expected to continue to grow rapidly at a 21.8% CAGR and 75.5% CAGR, respectively, through 2016, according to iResearch. Please refer to the section headed “Industry Overview — Source of Information — iResearch Report” for the basis of iResearch’s projections. The rapid growth of webgames and mobile games is driven by a number of factors, including the relative ease of access of these games, short development cycle of such games that allow developers to capture the latest trends in games, and frequent updates to address player feedback and preferences. Leveraging our popular game franchises and proprietary game analytics engine, we believe we are well positioned to seize this enormous market opportunity.

We are passionate about games. Our creative and talented game development studios, supported by our proprietary game analytics engine, have continually developed and launched successful games. Our webgames adopt an item-based revenue model, which provides free access for our players and allows them to purchase virtual items for upgrades or a better in-game experience. In 2011, the first and second halves of 2012, respectively, five, five and four out of the top 15 webgames in China in terms of gross billings were developed by us, more than any other webgame developer in China. The popularity of our games is further demonstrated by the approximately 24 million total MAUs across all our games and all publishing channels in June 2013. Given the similarities between webgames and mobile games, we believe that we will be able to leverage our proprietary game development capabilities to further expand into the mobile game market. We developed and launched our first mobile game for Android and iOS platforms in the second quarter of 2012. We are also developing mobile games that leverage elements of our successful webgames, as well as new genres of mobile games. We continue to build a robust pipeline of new games and as of June 30, 2013, we expected to commence beta testing of at least five webgames and six mobile games by the end of 2013 and at least 12 webgames and 12 mobile games in 2014, respectively.

Our webgames can be played on our own publishing platform, *91wan*, as well as through an extensive network of more than 350 publishing partners, including popular websites operated by Tencent, Qihoo360, YY and 4399. This extensive network reduces our dependence on any particular partner, with no single publishing partner accounting for more than 15% of our game development revenue for each of 2010, 2011 and 2012 and our largest publishing partner accounting for approximately 20% of our game development revenue for the six months ended June 30, 2013. As of June 30, 2013, we published 59 licensed games on *91wan* that have been carefully selected to complement our own portfolio and attract new players to our platform. The combination of our own popular games and licensed games, and our community features, generate strong user traffic on *91wan*, with approximately 7.5 million average MAUs for the six months ended June 30, 2013.

Our expertise and scale of operations, both as a game developer and game publisher, differentiates us from our competitors. As a publisher, we have access to data relating to player demographics, sources of user traffic, and those relating to player behavior, including retention ratios, ARPPU and the conversion rate of non-paying players to paying players, for all the games that are published on our platform. Our proprietary game analytics engine enables us to analyze in-game activity on a real-time basis to optimize and update our games promptly. We use *91wan* to beta test our games and collect player data and feedback before launching new games on our publishing partners’ platforms. This enables us to tailor our games for our target audience and to attract

BUSINESS

publishing partners to feature our games. We believe this data-driven approach, complemented by our creative game development studios, is key to our success.

We have grown rapidly during the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013. For the three-year period ended December 31, 2012, our revenue increased from RMB95.1 million in 2010 to RMB776.6 million in 2012, representing a CAGR of 185.8%, while our game development revenue increased from RMB49.7 million in 2010 to RMB540.7 million in 2012, representing a CAGR of 229.8% and our game publishing revenue increased from RMB45.4 million in 2010 to RMB235.9 million in 2012, representing a CAGR of 128.0%. Our revenue increased 65% from RMB347.1 million for the six months ended June 30, 2012 to RMB573.7 million for the six months ended June 30, 2013, while our game development revenue increased 64% from RMB231.6 million for the six months ended June 30, 2012 to RMB379.5 million for the six months ended June 30, 2013 and our game publishing revenue increased 68% from RMB115.6 million for the six months ended June 30, 2012 to RMB194.3 million for the six months ended June 30, 2013. For the three-year period ended December 31, 2012, our net cash generated from operating activities increased from RMB26.8 million in 2010 to RMB299.6 million in 2012, representing a CAGR of 234.4%. We have improved our financial performance from an adjusted net loss of RMB40.4 million in 2010 to an adjusted net profit of RMB240.0 million in 2012 and an adjusted net profit of RMB153.6 million for the six months ended June 30, 2013. Please refer to the section headed “Financial Information — Other Financial Measures.”

Our Strengths

We believe that the following strengths are key to our continued success and represent significant competitive barriers.

A Market Leader in China’s Webgame Industry with Differentiated Business Model Integrating Development and Publishing

As a leading developer and publisher of webgames in China, our integrated business model creates synergies that improve our overall performance. Our publishing platform, *91wan*, provides us access to a wealth of real-time data, including player demographics, sources of user traffic, and those relating to player behavior, including retention ratio, ARPPU and conversion rate of non-paying players to paying players. Supported by our proprietary game analytics engine, such data is used in our game development and has been important to our track record of enhancing our games in operation and launching new commercially successful titles. Our game development studios also use *91wan* to beta test and optimize our own games and collect player data and feedback before launching such games on our publishing partners’ platforms. This optimization process improves the quality of our games and appeal to players, thereby further enhancing our relationship with publishing partners as our games perform better after optimization. This process is a virtuous cycle — our successful games feed useful data to our database which provides insights to the game development studio to further improve our existing games and create new successful games. Our publishing business also benefits from our integrated business model as the popular games that we consistently develop and publish on *91wan* help *91wan* attract and retain players. Our integrated business model also allows us to diversify our sources of revenues. For the six months ended June 30, 2013, our revenue contribution from game development and game publishing was 66% and 34%, respectively.

Strong In-house Game Development Expertise with a Track Record of Successful Games and Robust Pipeline

Anchored by our core game development talent, substantially all of whom have been with us since our early days as a startup, we have established leading in-house game development expertise. We approach game development and optimization as both an art and a science. We actively monitor the latest trends relating to entertainment and popular culture, including the latest popular online literature, to develop games with themes and storylines that attract players. All of the elements in our games, such as the storyline, progression of player characters’ attributes, artwork and pricing of virtual items, are carefully analyzed as part of our data-driven development

BUSINESS

process. We have built a proprietary game analytics engine to monitor player behavior and feedback in order to evaluate the performance of our games on a real-time basis. This allows us to promptly calibrate and update our games to optimize game experience.

As a result of our data-driven development process, complemented by the creativity, talent and expertise of our teams as well as the core IPs owned by our game development studios, we are able to continually develop and launch new successful titles, including sequel titles. We believe that we have a quick development cycle that provides us a competitive advantage to adapt to changing market conditions and players' preferences. As of June 30, 2013, we had developed and launched over 30 webgames, many of which are highly popular. In 2011, the first and second halves of 2012, respectively, five, five and four out of the top 15 webgames in China in terms of gross billings were developed by us, more than any other game developer.

We believe that our track record of launching successful games and proven ability to optimize games in real-time give us greater visibility of our games' popularity, thereby making us an attractive partner for game publishers. We possess a robust development pipeline of webgames and mobile games. As of June 30, 2013, we expected to commence beta testing of at least five webgames and six mobile games by the end of 2013 and at least 12 webgames and 12 mobile games in 2014, respectively.

Leading Publishing Platform

Our publishing platform, *91wan*, is a leading publishing platform in China with over 179 million registered players as of June 30, 2013. We published 79 popular self-developed and licensed webgames on *91wan* as of June 30, 2013. To maintain and enhance *91wan*'s position as a leading publishing platform in China, we select popular licensed games that complement our own portfolio. We closely analyze market and industry trends in search of the latest, most popular games.

To maintain and expand the scale of our platform, we have committed significant marketing and promotional resources, including online performance-based advertisements, to broaden our player base. We track and analyze these activities in real-time in order to optimize the effectiveness of our marketing and promotion activities. We also focus on providing high-quality player service, building a highly interactive and informative online game community, and organizing attractive in-game and out-of-game activities, to increase the player stickiness of *91wan*. Our focus on player experience, enjoyment and service has contributed to our improving conversion rate of non-paying players to paying players, thereby improving the monetization of our platform.

As a result of our efforts, *91wan* is gaining a greater mind share among players. *91wan* was named as one of the "Top 10 Game Operating Platforms" by Baidu Game Billboard (百度遊戲風雲榜) in both 2011 and 2012. We increased our average MAUs from 2.7 million in 2010 to 5.2 million in 2012 and further to 7.5 million for the six months ended June 30, 2013.

Large Game Portfolio and Diversified Publishing Network

With the creativity of our game development studios and insights into player preferences, we had developed a large game portfolio of over 30 webgames as of June 30, 2013, reflecting the latest player preferences, spanning genres such as turn-based RPGs, ARPGs, strategy games and action fighting games with themes focusing on Chinese myths, fantasy and history. For the six months ended June 30, 2013, no single self-developed game contributed more than 20% of our total revenue, while the top five self-developed games contributed approximately 52%, as compared to approximately 52% in 2012, approximately 66% in 2011 and approximately 79% in 2010. The mix of the top five self-developed games during the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013 differs from period to period as we continued to launch new, popular games. In addition, we have launched our first mobile game, *The Era of Storms*, which has been well received by players, generating monthly gross billings of over RMB14 million in August 2013.

BUSINESS

We also have diversified publishing partners, with no single publishing partner accounting for more than 15% of our game development revenue in each of 2010, 2011 and 2012 and our largest publishing partner accounting for approximately 20% of our game development revenue for the six months ended June 30, 2013. As of June 30, 2013, we had an extensive network of over 350 publishing partners, which covers substantially all of China’s webgame population. Our key publishing partners are some of the most visited game publishing platforms in China, enabling us to tap into a large and diversified player base. The massive traffic of our publishing partners allows us to ramp up our games quickly to attract more players within a shorter period of time, which allows for a quicker path to a healthy return on our investment in each game.

Collaborative Culture Led by a Stable Management Team

Our collaborative culture and stable management team are the foundation of our success. Our openness and the information sharing among our game development teams promote collective learning and sharpen our competitiveness. All of our game development teams have access to the data analytics engine. We reward creativity, teamwork and performance through our competitive incentive plan. This culture has produced a number of prolific and stable game development studios. We believe our collegial working environment and performance-oriented incentive plan promote team loyalty. All of our Founders and substantially all of our core game development talent have been with us since our early days as a startup, and are actively involved in our business and continue to play an instrumental role in our success.

Our Strategies

We aim to execute the following strategies to further engage our increasing number of players in our games and improve monetization of our games:

Continue to Broaden Our Game Portfolio and Drive Monetization

We will continue to develop and launch more fun and exciting webgame titles that engage mainstream players. We seek to diversify our game portfolio by launching new products in diverse genres to capture broader segments of the game population in China. We plan to do this by leveraging the creativity of our team and our data-driven development process and continuing to invest in our in-house game development by hiring more engineers.

We plan to continue to drive monetization by enhancing player engagement, extending the life cycle of our games, and improving our in-game monetization mechanisms, through, for example, frequently updating our games with new features and contents and introducing new, attractive virtual items based on the data generated from our proprietary game analytics engine. This enables us to enhance player experiences while optimizing our monetization capability.

Expand Our Leading Publishing Platform

We intend to expand our own publishing platform, *91wan*, by increasing the MAUs and the number of high-quality and popular games published on the platform. We will continue to devote considerable resources in targeted marketing and promotions through multiple online channels. We plan to increase *91wan*’s player stickiness and organic traffic by hosting the official websites of most of our games on *91wan*, further enhancing our player service, expanding our VIP customer base, and further improving our customer loyalty programs. We intend to closely analyze the market in search of the latest themes and storylines and identify the most popular games to complement our portfolio and attract and retain paying players.

BUSINESS

Continue to Enhance Our Technology and Proprietary Game Analytics Engine

Our technology and proprietary game analytics engine are critical to the success of our game development and publishing. Our game development and publishing teams collect relevant in-game data and feed useful data to the engine which provides insights to the game development studio to further improve our existing games and create new, successful games. We plan to continue to make significant investments in game development to further refine our proprietary game analytics engine, thereby further improving our in-house game development capabilities.

Further Expand into the Mobile Game Market

Given the similarities between webgames and mobile games, we believe that we will be able to leverage our proprietary game development capabilities to further expand into the mobile game market. We developed and launched our first mobile game, *The Era of Storms*, in the second quarter of 2012, which generated monthly gross billings of over RMB14 million in August 2013. We will continue to invest in game development, acquire game intellectual property, and invest in mobile game studios. We recently invested in Appionics, the owner and operator of the Animoca studio, which is a developer and publisher of cross-platform mobile apps for smartphones and tablets for a global audience. We plan to cooperate with Appionics to distribute our mobile games overseas. We also plan to continue developing mobile games that leverage elements of our successful webgames. We are also developing a number of non role-playing mobile games such as card games, tower defense games and match-3 puzzle games to diversify our mobile game portfolio. Furthermore, we plan to leverage our experience in publishing webgames to engage in mobile game publishing business and publish both self-developed mobile games and licensed or acquired mobile games in the future.

Broaden Reach into International Markets

We aim to expand our operations to capture market opportunities in the international markets. We have licensed our games to local publishing partners in Hong Kong, Macau, Taiwan, Japan, South Korea, Singapore, Malaysia, Thailand, Vietnam and the United States. For the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, we generated 3%, 6%, 10% and 7% of our revenue outside of the PRC, respectively. We plan to further expand our international operations by customizing existing games to target overseas audience as well as developing new games based on the cultural background and demographics of each relevant market. We are also establishing and developing overseas subsidiaries and offices to support our international expansion and cooperate with Appionics to distribute our mobile games overseas.

Pursue Strategic Acquisitions and Partnerships

We plan to expand our business through organic growth and strategic acquisitions and partnerships. We intend to selectively invest in or enter into strategic partnership with complementary game developers to broaden our game genres and player reach, with a particular focus on mobile games, exemplified by our recent investment in Appionics. We also plan to acquire mobile game licenses and intellectual properties, or invest in or acquire mobile game publishers. We also intend to establish partnerships with industry leaders, such as media companies, that complement our business.

BUSINESS

Our Businesses

Our businesses primarily include game development and game publishing and we generate revenues from both segments. The following table sets forth a breakdown of our segment revenue for the periods indicated:

	For the Year Ended December 31,						For the Six Months Ended June 30,			
	2010		2011		2012		2012		2013	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
Segment Revenue										
— Game development . . .	49,701	52.3	252,016	65.6	540,749	69.6	231,564	66.7	379,482	66.1
— Game publishing	45,377	47.7	131,993	34.4	235,900	30.4	115,558	33.3	194,266	33.9
Total	95,078	100.0	384,009	100.0	776,649	100.0	347,122	100.0	573,748	100.0

We closely monitor player preferences and market trends and develop innovative webgames and mobile games. As of June 30, 2013, we had developed and launched over 30 webgames across various themes and genres that reflect the latest player preferences, of which nine were among the top 15 webgames in China in terms of gross billings during different periods, more than any other webgame developer. We also operate a sizable publishing platform, *9Iwan*, on which we publish our own webgames as well as licensed webgames. As of June 30, 2013, we published 20 self-developed and 59 licensed webgames on *9Iwan*, which had over 179 million registered players. The meaningful scale of both our development and publishing businesses enables us to build a sizable proprietary player behavior database that we use to develop and optimize our games.

Our Game Development Business

We develop webgames and mobile games that appeal to mainstream players. Unlike traditional online client-based games, webgames can be played without active installation of client software and can be accessed through any computer with an Internet connection and equipped with a flash-enabled browser. As a result, they are becoming increasingly popular as they can be played anywhere and in more frequent and shorter sessions. We have also developed and launched games that can be played on mobile devices such as smartphones and tablets, which will further enable players to utilize fragmented time to play our games anytime and anywhere.

In order to generate creative ideas and designs of our new games, we actively monitor the latest trends related to entertainment and popular culture through various channels, including the latest ranking of online literature and ranking of popular keywords on mainstream search engines. We also leverage our existing IPs or build on existing source codes to develop sequel games.

Our games are free to play. We generate revenues when players purchase virtual items that enhance their in-game experience, such as accelerating their advancement in the game and improving their characters' visual appearance.

BUSINESS

We have continually launched new popular games during the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013 while maintaining the popularity of our existing games. The following table sets forth the breakdown of our game development revenue by existing games and new games launched during the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013:

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2010	2011	2012	2012	2013
Existing games					
Number of games	2	5	12	13	22
Revenue (RMB in millions) . . .	16.9	161.5	445.1	221.8	317.7
New games					
Number of games	4	8	12	4	12
Revenue (RMB in millions) . . .	29.5	87.0	81.8	7.3	57.5

The mix of the top five self-developed games during the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013 differs from period to period as we continued to launch new popular games. For the six months ended June 30, 2013, no single self-developed game contributed more than 20% of our total revenues, while the top five self-developed games contributed approximately 52%, as compared to approximately 52% in 2012, approximately 66% in 2011 and approximately 79% in 2010. The following table sets forth our top five self-developed games by revenue contribution during the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013:

	For the Year Ended December 31,						For the Six Months Ended June 30,				
	2010			2011			2012			2013	
Webgame	Revenue (RMB'000)	% of Revenue	Webgame	Revenue (RMB'000)	% of Revenue	Webgame	Revenue (RMB'000)	% of Revenue	Webgame	Revenue (RMB'000)	% of Revenue
1. <i>Tale of the Dragon Tomb</i>	24,315	25.6	<i>Soul Guardian I</i>	65,881	17.2	<i>Soul Guardian II</i>	235,917	30.4	<i>Charmed Westward Journey</i>	97,524	17.0
2. <i>Ming Dynasty</i>	21,761	22.9	<i>Fantasy Immortal</i>	56,392	14.7	<i>The Ninth Heaven</i>	44,692	5.8	<i>Soul Guardian II</i>	91,636	16.0
3. <i>Soul Guardian I</i>	14,533	15.3	<i>Generals Saga</i>	44,948	11.7	<i>Charmed Westward Journey</i>	43,205	5.6	<i>Conquest of the Universe</i>	45,132	7.9
4. <i>Generals Saga</i>	11,998	12.6	<i>Legend of Chaos</i>	43,309	11.3	<i>Heroes Online</i>	40,558	5.2	<i>True King</i>	41,410	7.2
5. <i>Fantasy Immortal</i>	2,244	2.4	<i>Ming Dynasty</i>	41,379	10.8	<i>True King</i>	38,289	4.9	<i>The Era of Storms</i>	25,167	4.4
Total	74,851	78.7		251,908	65.6		402,661	51.8		300,869	52.4

Webgames

We have developed webgames with vivid graphics and rich content that have improved on the simpler graphics and content of first generation webgames. We believe certain of our webgames compare favorably to client-based games in terms of graphics and content.

Most of our games are role-playing games (“RPGs”). We launched our first turn-based role-playing game in 2009. RPGs enable a large number of players to assume role-playing characters and simultaneously interact with one another in a virtual world, which continues to exist and evolve while the player is away from the game. Our games can be played by thousands of players simultaneously on one server. We also develop action role-playing games (“ARPGs”) and launched our first ARPG in 2011. We believe ARPGs, where combat within the games is carried out in real time, enhance player engagement and stickiness and encourage purchases of virtual items. We have also developed other types of webgames, such as strategy games and action fighting games, to diversify our game portfolio and cater to the different demands and preferences of players.

BUSINESS

We have developed a large portfolio of games spanning genres such as turn-based RPGs, ARPGs, strategy games and action fighting games with themes focusing on Chinese myths, fantasy and history. As of June 30, 2013, we had launched 35 self-developed webgames. The following table sets forth certain information relating to these self-developed games, and those games that were ranked among the top 15 webgames in terms of gross billings in China in 2011, the first and second halves of 2012 are highlighted in grey:

Title (English Translation)	Genre	Launch Date ⁽¹⁾	Status	Exclusive Publishing Arrangement ⁽²⁾
1. 明朝時代 (Ming Dynasty)	Strategy game	Third Quarter of 2009	In Operation	
2. 射雕傳 (Legend of the Condors)	Turn-based RPG	Fourth Quarter of 2009	Phased Out ⁽³⁾	
3. 盤龍神墓記 (Tale of the Dragon Tomb)	Turn-based RPG	First Quarter of 2010	Phased Out ⁽³⁾	
4. 凡人修真 I (Soul Guardian I)	Turn-based RPG	Second Quarter of 2010	In Operation	
5. 夢幻修仙 (Fantasy Immortal)	Turn-based RPG	Fourth Quarter of 2010	In Operation	
6. 鬥法修仙傳 (The Archmages)	Turn-based RPG	Fourth Quarter of 2010	In Operation	
7. 戰將風雲 (Generals Saga)	ARPG	First Quarter of 2011	In Operation	
8. 洪荒神話 (Legend of Chaos)	ARPG	First Quarter of 2011	In Operation	
9. 九天仙夢 (The Ninth Heaven)	ARPG	Second Quarter of 2011	In Operation	
10. 遠古封神 (The Ancient Giants)	ARPG	Third Quarter of 2011	In Operation	
11. 江湖令 (The Chaotic Order)	Turn-based RPG	Fourth Quarter of 2011	Phased Out ⁽³⁾	
12. 凡人修真 II (Soul Guardian II)	ARPG	Fourth Quarter of 2011	In Operation	
13. 英雄王座 (Heroes Online)	ARPG	Fourth Quarter of 2011	In Operation	✓
14. 真王 (True King)	ARPG	Fourth Quarter of 2011	In Operation	✓
15. 黃金海岸 (Golden Seashore)	Action Fighting	Second Quarter of 2012	Phased Out ⁽³⁾	✓
16. 遮天 (The Dark Age)	ARPG	Second Quarter of 2012	In Operation	
17. 仙神傳 (Tale of Immortals)	Turn-based RPG	Second Quarter of 2012	In Operation	✓
18. 夢幻飛仙 (Fantasy Immortal II: Ascension)	Turn-based RPG	Third Quarter of 2012	In Operation	
19. 百鍊成仙 (The Hundred Trials)	ARPG	Third Quarter of 2012	In Operation	
20. 醉西遊 (Charmed Westward Journey)	ARPG	Third Quarter of 2012	In Operation	
21. 傾世情緣 (Fate and Destiny)	Turn-based RPG	Fourth Quarter of 2012	In Operation	
22. 斬仙錄 (The Godslayer)	Turn-based RPG	Fourth Quarter of 2012	In Operation	
23. 神印 (The God's Seal)	ARPG	Fourth Quarter of 2012	In Operation	✓
24. 凡人仙夢 (Guardian's Dream)	ARPG	Fourth Quarter of 2012	In Operation	✓
25. 創世三國 (Creation of Three Kingdoms)	ARPG	Fourth Quarter of 2012	In Operation	✓
26. 夢回仙境 (A Dream in Fairyland)	Turn-based RPG	First Quarter of 2013	In Operation	✓
27. 憶三國 (Memoirs of Three Kingdoms)	ARPG	First Quarter of 2013	In Operation	✓
28. 天下唯仙 (The Only Immortal)	ARPG	First Quarter of 2013	In Operation	✓
29. 鬥破乾坤 (Conquest of the Universe)	ARPG	First Quarter of 2013	In Operation	
30. 霸域 (Conquerors)	Turn-based RPG	First Quarter of 2013	In Operation	
31. 遮天 2 (The Dark Age II)	ARPG	Second Quarter of 2013	In Operation	
32. 戰將傳說 (Generals Legend)	ARPG	Second Quarter of 2013	In Operation	✓
33. 軒轅飛仙 (The Yellow Emperor)	ARPG	Second Quarter of 2013	In Operation	✓
34. 古劍奇俠 (Ancient Swordsman)	ARPG	Second Quarter of 2013	In Operation	
35. 鬥聖 (Fighting Saints)	ARPG	Second Quarter of 2013	In Operation	

BUSINESS

Notes:

- (1) We consider a game to be “launched” when five or more publishing partners begin operating the game on their platforms under non-exclusive publishing arrangements or one publishing partner begins operating the game on its platform under an exclusive publishing arrangement.
- (2) We grant exclusive licenses to publish certain games to selected publishing partners on a case-by-case basis, which are beta tested on such publishing partners’ platforms instead of *91wan*. Please refer to the section headed “— Our Game Development Business — Publishing Partners.”
- (3) We consider a self-developed game to be “phased out” when such game ceases to be operated on any platform. We consider a licensed game to be “phased out” when such game ceases to generate revenue on *91wan*. Pursuant to the cooperation agreements with publishing partners, we work with our publishing partners to (1) give prior notice to players and (2) encourage players to consume all the game credits before the phase out, therefore, the unused game credits are minimal. As our publishing partners may have different strategies in engaging players, some publishing partners may allow players to convert the unused game credits for players’ usage in other games operated by them. For games published on *91wan*, we give prior notice to players of any upcoming phase out of such games. All unused game credits can be transferred to other games published on *91wan* upon request of players. Any unused virtual items of our phased out games published on all platforms will be cancelled. *Legend of the Condors* and *Tale of the Dragon Tomb* were published on platforms of our publishing partners and *91wan*.

Some of our most successful games are described below:

Ming Dynasty



Launched in the third quarter of 2009, *Ming Dynasty* was our first strategy game. Set in the Ming Dynasty, players can raise and maintain an army, govern the empire, fight and repel invaders and defend their homeland. *Ming Dynasty* is currently published on over 50 platforms in China, Hong Kong, Macau, Taiwan, the United States, Singapore and Malaysia. *Ming Dynasty* was awarded “The Best Webgame of 2009” in the Seventh China International Cyberculture Exposition in December 2009.

Soul Guardian I



Launched in the second quarter of 2010, *Soul Guardian I* is a turn-based RPG based on immortality myths. Players can join one of three factions, *Heavenly Way*, *Nine Phantoms* and *Celestial Palace*, and choose a profession, such as *swordsman*, *puppet master*, *yin yang practitioner*, *phantom* and *Taoist master*. *Soul Guardian I* encourages players to embark upon adventures by slaying enemies with magic, building mythical gardens,

BUSINESS

contesting landmarks, sailing the seas, handling manuscripts and engaging in mass competitions. *Soul Guardian I* is currently published in China, Hong Kong, Macau, Taiwan, South Korea, Singapore and Malaysia.

Soul Guardian II



Leveraging on the success of *Soul Guardian I*, we developed and launched its sequel, *Soul Guardian II*, in November 2011. *Soul Guardian II* is a real-time combat ARPG based on immortality myths and a sequel of *Soul Guardian I*. Players can choose from the three major schools, *Happiness*, *Star* and *Sky*, and the major professions, *Souls of Martial Art*, *Wings of Imagination*, *Guards of Law* and *Secrets of Heaven*, to create unique characters. Players’ equipment and strengths can be upgraded by completing various missions and slaying enemies with magic. *Soul Guardian II* is currently published on over 160 platforms in China, Hong Kong, Macau, Taiwan, South Korea, Singapore, Malaysia, Thailand and Vietnam. *Soul Guardian II* was awarded “The Most Innovative Webgame in 2011” by the Fifth China Webgame and Mobile Game Summit in April 2012 and “2012 Top 10 Popular Webgames” by the China Game Industry Annual Conference in January 2013.

True King



Launched in the fourth quarter of 2011, *True King* was our first webgame licensed exclusively to Tencent. The game is set in China’s Warring States period, when the *Qin*, *Zhao*, *Qi* and *Chu* states were vying for dominance. Players can choose to become a *warrior*, *archer* or *mage*, and develop their characters as they fight to unify China. Since its launch, *True King* has consistently ranked among Tencent’s top 10 most popular webgames. Furthermore, in July 2012, *True King* was awarded “2012 Most Innovative Game” by Tencent QQ.

BUSINESS

Fantasy Immortal



Launched in the fourth quarter of 2010, *Fantasy Immortal* is a turn-based RPG, the setting and storyline of which are based on Taoist myths. Players can choose from three main factions, *paradise*, *lord of demons*, and *transcendence*, and five main professions, *brahma*, *golden quill*, *martial hero*, *Taoist master* and *asura*. Players can experience innovative in-game features, including customization of player equipment, training and fusion of magical weapons, mastery of all five main professions, and other innovative modes based on Chinese folklore. In addition to the main storyline and side quests, players can complete daily quests, recurring missions and raid and transport missions, as well as engage in treasure hunts. *Fantasy Immortal* is currently being published in China, Hong Kong, Macau, Taiwan, Thailand, Vietnam and South Korea.

Fantasy Immortal II: Ascension



Fantasy Immortal II: Ascension is a cartoon-style turn-based RPG launched in the third quarter of 2012 and a sequel of *Fantasy Immortal*. Players can select from five classes, *heavenly deity*, *Taoist master*, *phantom*, *flying quill* and *celestial elder*, and engage in a variety of activities, such as conquering enemies and competing on the top player ranks. *Fantasy Immortal II: Ascension* has numerous unique in-game features, such as battle, fashion, equipment and spirit beast. *Fantasy Immortal II: Ascension* is currently published in China, Taiwan, Vietnam, Thailand, Malaysia and South Korea.

BUSINESS

Charmed Westward Journey



Launched in the third quarter of 2012, *Charmed Westward Journey* is an ARPG based on *Journey to the West*, one of the four major classical Chinese novels. Players can select from three different factions, *Kunlun*, *Penglai* and *Fairyland*, and three different professions, *Heavenly General*, *Celestial Elder* and *Demon*. Players can upgrade their character's attributes and equipment by participating in the main storyline and completing tasks. *Charmed Westward Journey* is currently published in seven countries and regions, including China, Hong Kong, Macau, Taiwan, Thailand, South Korea, Vietnam and Indonesia. *Charmed Westward Journey* was awarded "China's Most Valuable Webgame 2012" at the Third China Original Webgame Summit Meeting in December 2012 and "2012 Quality Webgame (Golden Finger Prize)" at the China Game Industry Annual Conference in March 2013.

As of June 30, 2013, we expected to commence beta testing of at least five webgames by the end of 2013 and at least 12 webgames in 2014, respectively.

Mobile Games

Given the similarities between webgames and mobile games, we believe that we will be able to leverage our proprietary game development capabilities, including intellectual properties, game genres, game development talents and data analytics engine, in developing new mobile games. We have formed a dedicated mobile game division with expertise and experience in mobile game development to focus on this fast-growing market. No specific government approval other than for webgame development is required in the PRC to develop mobile games. Mr. Wang, our chief executive officer, leads our mobile game business. He has extensive experience in various online entertainment industries, including online music, e-magazines and webgames. We believe that this experience will prove beneficial to the development and operation of our mobile game business given the similarities in business models between the online music, e-magazine, webgame and mobile game industries, such as similar content development processes and the necessity of cooperating with a large network of business partners, including publishing platforms and payment channels. By the end of 2014, we expect to involve 15% to 20% of our game development staff in mobile game development. As with our webgame business, we adopt the item-based revenue model in our mobile game business and our mobile game revenue is primarily generated from the sale of virtual items.

We launched our first mobile game, *The Era of Storms*, on Android and iOS platforms in the second quarter of 2012, which is a strategy war game based on *Romance of the Three Kingdoms*, one of the four major classical Chinese novels. Players assume the role of commander in chief and rule over their own countries, developing cities and fortifications, building up armies and conquering enemies. *The Era of Storms* has been well received, generating monthly gross billings of over RMB14 million in August 2013 and ranked among top five most downloaded mobile games on Anzhi marketplace, a popular Android marketplace in China, in March 2013 and was awarded "Game of the Year" of 2012 by *Anzhi.com*.

BUSINESS



We are developing mobile games that leverage elements of our successful webgames. Building mobile games on established webgames will enhance the loyalty of our existing webgame players while attracting new mobile players by leveraging our proven success. We are also developing a number of non role-playing mobile games such as card games, tower defense games and match-3 puzzle games to diversify our mobile game portfolio.

We plan to continue to invest in game development, acquire intellectual property, and invest in mobile game studios. We recently made a minority investment in Appionics, the owner and operator of the Animoca studio, which is a developer and publisher of cross-platform mobile apps for smartphones and tablets for a global audience, and plan to cooperate with Appionics to distribute our mobile games overseas. Appionics has published over 350 innovative games across multiple mobile platforms including iOS and Android, which have been downloaded approximately 170 million times globally as of July 31, 2013. Appionics was named one of the PocketGamer.biz Top 50 Mobile Developers of 2013, and won two Gold Awards at the Hong Kong ICT Awards 2013 for Best Business and Best Digital Entertainment Software. We plan to develop mobile games adapted for international markets and leverage Appionics' rich experience in publishing mobile apps in overseas markets such as the United States, Europe, Korea, Japan and Asia. Details of this investment are set forth in Note 18 to the Accountant's Report in Appendix I to this document.

We believe that we are well positioned to sustain our mobile game business and maintain our market position in the highly competitive mobile game market as we continue to (i) capitalize on our proprietary game analytics capabilities and the intellectual properties of our existing successful games to develop popular games, (ii) develop and maintain a large game portfolio so as to reduce product concentration risks, and (iii) maintain long-term relationships with a large number of publishing partners so as to reduce channel concentration risks. We also plan to leverage our experience in publishing webgames to engage in mobile game publishing business and publish both self-developed mobile games and licensed or acquired mobile games in the future.

In webgame market, we target players who prefer to play games that are more flexible in terms of each session's duration relative to client-based games. Most of the webgames we launched are action or turn-based role-playing games, which prove to be the most popular genre for this specific target audience. In mobile game market, we target an even broader audience with more diversified demographics who play games for five to 30 minutes on average per session on their mobile devices. As a result, we believe that our webgames and mobile games complement rather than compete with each other, as they cater to different types of gaming entertainment needs even though the overall target audience pool may overlap with each other. Furthermore, as a webgame and mobile game developer, we work in two distinctly different ecosystems, and have not observed any direct competition between the webgame publishers and mobile game publishers.

As of June 30, 2013, we had three mobile games in operation. As of June 30, 2013, we expected to commence beta testing of at least six mobile games by the end of 2013 and at least 12 mobile games in 2014, respectively.

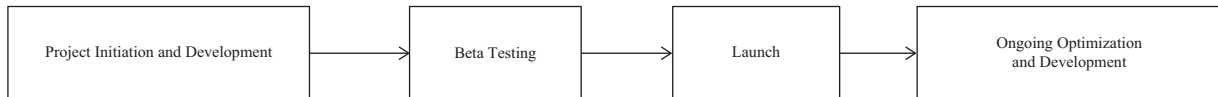
BUSINESS

Proprietary Game Analytics Engine

We have built a proprietary game analytics engine that is central to our game development process. Our game analytics engine tracks, analyzes and reports certain game data we have as a game developer and game publisher. As a game developer, we have access to in-game behavior metrics and player activity data. As a game publisher, we also have access to player demographics, source of traffic and advertising efficiency data of all games beta tested or published on *91wan*. We perform a comprehensive correlation analysis of player demographics, paying patterns and in-game behavior to generate insights into player behavior and preferences that are used by our game development studios to develop and optimize our games. We believe our proprietary game analytics engine is a critical resource for ensuring game quality, maximizing success, understanding player behavior, enhancing the quality of the player experience and optimizing the monetization potential.

Game Development and Optimization Process

We have strong in-house game development capabilities. Our game development process can be divided into four general stages as set forth in the chart below. The first three stages usually take eight to ten months, while the final stage is ongoing until a game is phased out. Throughout the process, our proprietary game analytics engine plays a crucial role in supporting our core decision making.



- **Project Initiation and Development**

In formulating a new game, we typically incorporate the analysis of the latest trends relating to entertainment and popular culture through a variety of datapoints such as the latest ranking of online literature and ranking of popular keywords on mainstream search engines. We then conduct an in-depth feasibility study assisted by our proprietary game analytics engine and form a project team to formulate a new game development plan. In addition to developing games with new themes, we also leverage our existing popular IPs or build on existing source codes to develop sequel games, such as *Soul Guardian* and *Soul Guardian II*, and *Fantasy Immortal* and *Fantasy Immortal II: Ascension*, which we believe allows us to introduce sequel games more quickly and manage our game development risks.

This stage usually takes four to nine months and concludes with a version of a new game for beta testing.

- **Beta Testing**

We go through a few rounds of internal tests to resolve all major technological issues and software bugs that may exist in the test version of the game. We subsequently put the new game into trial operations on *91wan* or platforms of publishing partners, continually monitoring and analyzing player behavior in order to optimize monetization potential. Our mobile games are beta tested on various mobile platforms.

During beta testing, we capture, monitor and analyze player activity on a daily basis through our proprietary game analytics engine. For an RPG, the time players spend on different areas of the in-game environment and the purchase and consumption patterns of virtual items are captured by the engine. The correlation of these two behavioral patterns is further analyzed to generate additional insights to optimize the game, for instance, through introduction of new items.

At this point the new game is not considered “launched” even though it may have commenced generating revenues. If there are major issues that cannot be resolved or if certain operating metrics are significantly below expectation, the game project may return to its development phase for further development or in some situations, abandoned. This stage usually takes two to three months.

BUSINESS

- Launch

We consider a game to be “launched” when five or more publishing partners begin operating the game on their platforms under non-exclusive publishing arrangements or one publishing partner begins operating the game on its platform under an exclusive publishing arrangement.

During this stage, apart from launching a mass marketing campaign for the new webpage through our own publishing platform, *9Iwan*, we also license the webpage to our publishing partners. Our mobile games are launched and published on various mobile platforms. After launch, we continue to closely monitor the player data to help us improve the new games.

- Ongoing Optimization and Development

We continually monitor and analyze player behavior and virtual item purchase and consumption patterns in our games. We believe a fair and competitive game environment is crucial to the success of a game because players are only willing to purchase virtual items in games that they perceive as fair and in which there is a clear path for advancement. Therefore, we endeavor to maintain fair competition in our games and avoid creating an imbalanced game that only favors high paying players.

Leveraging on our proprietary game analytics engine, we continue to optimize the games on a real-time basis and roll out new contents periodically. We also organize in-game events to strengthen our game communities, generate more interest in our games, as well as to increase monetization. As a result of our effort in ongoing optimization and development, the average MPUs for our games increased significantly from approximately 69,000 in 2010 to approximately 758,000 for the six months ended June 30, 2013, and the ARPPU for our games also increased from RMB60 in 2010 to RMB83 for the six months ended June 30, 2013. We believe our games typically have a longer life cycle than the industry average of 12 to 24 months as a result of our ongoing optimization and development. For example, *Ming Dynasty*, the first game we launched in 2009, continues to generate monthly gross billings of approximately 7% of its peak monthly gross billings in June 2013.

As of December 31, 2010, 2011 and 2012 and June 30, 2013, we had approximately 280, 650, 1,400 and 1,450 game development personnel, respectively. Most of our software programmers and testing engineers have university or post-graduate degrees. We plan to continue to expand our game development team by recruiting from top universities in China.

Revenue Model and Pricing

We use the item-based revenue model for all of our games. Under the item-based revenue model, players can play the basic features of the games for free. We generate revenues when players purchase virtual items that enhance their in-game experience by, for example, enhancing the powers, abilities, attractiveness and social interaction of their characters, or enabling them to advance in the game more quickly. Certain of our virtual items such as VIP cards have a fixed expiry date while others do not. We issue game credits which are purchased by players and subsequently exchanged for virtual items within our games. Our game development revenue consists of (i) our share of revenue generated by the games we develop and publish on the platforms of our publishing partners and collected by these publishing partners, (ii) a certain percentage of revenue generated by the games we develop and publish on *9Iwan* and (iii) licensing revenue received from our publishing partners and technical support income from third-party game developers.

We determine the price of each virtual item, generally based on an analysis of certain benchmarks, such as the extent of advantage that the virtual item brings to the player’s character, the level of demand for the virtual item and the price of similar virtual items offered in other webgames. The prices of virtual items in our games vary widely. Under the cooperation agreements with our publishing partners, we, as the game developer, have the sole discretion in determining the price of in-game virtual items. We adopt consistent pricing strategies for virtual

BUSINESS

items in our games published on *91wan* and the platforms of our publishing partners. We also allow third-party publishing platforms to offer marketing discounts on virtual items to players with our prior consent. For our own games, we maintain a database that tracks the number and price of each virtual item sold as well as player behavior in response to the launch of a virtual item. Therefore, for our games published by our publishing partners, we are able to track the number and standard prices of game credits and virtual items sold in our games. Pursuant to the cooperation agreements with our publishing partners, game credits are translated into monetary value at a pre-agreed ratio. Therefore, we can calculate the gross billings from our sales record of game credits at their standard prices and verify our publishing partners' gross billings record upon settlement. We do not track the marketing discounts offered by our publishing partners as they bear the costs of such marketing discounts while our share of revenue remains unaffected. We adjust the pricing of certain virtual items based on consumption patterns and other factors and provide discounts for virtual items under certain circumstances such as promotions.

Publishing Partners

In addition to our own publishing platform, we publish most of our games in cooperation with third-party platform operators. We had 79, 131, 321 and 380 publishing partners as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively. Our games can be played on popular websites such as those operated by Tencent, Qihoo360, YY and 4399. We have established and maintained long-term business relationships with our major publishing partners and the high quality of our games has attracted their commitment to prioritize resources in publishing our games on their platforms. Before we launch a new game, we evaluate different publishing partners to decide which partners are most suitable in terms of user traffic, user base and certain other factors so as to maximize the gross billings of our new game.

For each game that is published on a publishing partner's platform, we enter into a separate cooperation agreement with that partner, granting it the right to publish, promote, distribute and service the game in specified territories. Our publishing partners are responsible for collecting payments from players and sharing gross billings generated from our games with us. This percentage is negotiated on a game-by-game basis, and may vary from game to game and publisher to publisher, factoring in a number of factors, including but not limited to the country or region where the game is being published, the scale of the publisher's platform, the allocation of the cost of maintaining servers that host the games and the amount of gross billings. Currently, approximately 20% to 40% of the gross billings generated from our self-developed games published by our publishing partners are attributed to us as game developers and approximately 60% to 80% are attributed to our publishing partners.

Payments from our publishing partners to us are usually settled on a monthly basis. Our sales department checks our records of virtual item sales against the records of gross billings of our publishing partners at the beginning of the following month and both parties agree on the billing records. Our sales department subsequently asks our finance department to issue invoices to our publishing partners accordingly and collects our portion of revenue sharing.

Under the cooperation agreements:

- our publishing partners are responsible for the sales and marketing of our games as well as certain that do not require in-game technical support aspects of player service;
- we provide our publishing partners content updates and on-going technical support for the operations of our games, as well as preventing, detecting and resolving in-game cheating and hacking activities;
- we obtain and maintain the relevant intellectual property rights to our games. Our publishing partners are entitled to terminate the agreements if we fail to obtain and maintain the intellectual property rights and qualifications pertaining to our games, and we are responsible for all monetary damages caused, including direct damages, indirect damages and all reasonable expenses related to the compensation of any damages;
- our publishing partners obtain and maintain, or have confirmed to be in the process of obtaining, the relevant publishing licenses. We are entitled to terminate the agreement if our publishing partners fail to do

BUSINESS

so and our publishing partners are responsible for all monetary damages caused, including direct damages, indirect damages and all reasonable expenses related to the compensation of any damages;

- we have the sole discretion to determine the prices of in-game virtual items;
- each party agrees to keep certain information confidential and not disclose that information without the consent of the other party;
- the cooperation agreements are renewable upon mutual agreement; and
- we generally have broad termination rights, such as if a publishing partner promotes our games under a different name or grant virtual items to players for testing purposes without our prior authorization.

As of the Latest Practicable Date, substantially all of our publishing partners had obtained Network Cultural Business Permits (《網絡文化經營許可證》).

We generally grant non-exclusive licenses to our publishing partners. We may, however, grant exclusive licenses to publish certain games to selected publishing partners on a case-by-case basis. For exclusive licenses, we usually charge an upfront licensing fee in addition to receiving our portion of revenue under the revenue sharing arrangement. As of June 30, 2013, 11 games were published under exclusive licenses with our publishing partners.

While our games are mainly published in China, we have international publishing partners operating our games overseas. We license our games to publishing partners in international markets, including Hong Kong, Macau, Taiwan, Japan, South Korea, Singapore, Malaysia, Thailand, Vietnam and the United States. All of our overseas revenues were generated from revenue sharing and licensing fees of our games licensed to international publishing partners during the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013. We expect our overseas game development revenue will continue to contribute a meaningful portion of our total revenue.

Our five largest third-party publishing partners for each of the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013 accounted for approximately 20%, 26%, 30% and 33% of our total revenue during those periods, respectively. Our largest publishing partner for each of the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013 accounted for approximately 5%, 8%, 9% and 13% of our total revenue during those periods, respectively.

As of June 30, 2013, none of the Directors, their associates or any shareholders of the Company (who or which to the knowledge of the Directors owned more than 5% of the Company's issued share capital) had any interest in any of our five largest publishing partners.

Our Game Publishing Business

Our Own Publishing Platform

We operate our own publishing platform, *91wan*, an online webpage platform that uses broadband connections, large server clusters, encryption and compression to stream game content to players' devices. *91wan* has grown rapidly since its establishment in 2007, attracting approximately 7.5 million average MAUs for the six months ended June 30, 2013, compared to approximately 5.2 million, 3.6 million and 2.7 million average MAUs for the years ended December 31, 2012, 2011 and 2010, respectively. The average MPUs of games published on *91wan* increased significantly from approximately 30,000 for the year ended December 31, 2010 to approximately 115,000 for the six months ended June 30, 2013 and the ARPPU of such games increased from RMB125 for the year ended December 31, 2010 to RMB282 for the six months ended June 30, 2013. As of June 30, 2013, *91wan* had approximately 179 million registered players, compared to approximately 141 million, 88 million and 47 million registered players as of December 31, 2012, 2011 and 2010, respectively. *91wan* was named as one of the "Top 10 Game Operating Platforms" by Baidu Game Billboard (百度遊戲風雲榜) in both 2011 and 2012.

BUSINESS

We published 20 self-developed and 59 licensed webgames on *91wan* as of June 30, 2013. For each game published on *91wan*, we create a dedicated webpage that provides detailed game information as well as a forum for players. Please refer to the section headed “Financial Information — Description of Selected Income Statement Line Items — Revenue” for the contribution of our self-developed games and licensed games to our game publishing revenue.

Our *91wan* team meets with third-party game developers from time to time to identify quality games which we may consider licensing and publishing on *91wan*. When selecting licensed games, we consider whether such games complement our own portfolio. We also select games that we believe are well received and may attract more players to our platform. Our own sizeable publishing platform enables us to compile a comprehensive, proprietary player behavior database to support our data-driven approach to game development. *91wan* also serves as a valuable platform on which we can beta test our games, enabling us to optimize our games according to player data and feedbacks prior to launch, enabling us to more successfully promote our games to our publishing partners.

Revenue Sharing

For our own games published on *91wan*, the gross billings received from such games are shared between our game development business and game publishing business, in a proportion similar to the arrangement with third-party licensees. Currently, approximately 20% to 40% of the gross billings generated from our licensed games are attributed to our game licensors as game developers and approximately 60% to 80% are attributed to us as game publishers. For each licensed games we publish on *91wan*, we enter into a cooperation agreement with the game developer. The terms of these cooperation agreements are similar to the cooperation agreements we enter into with our publishing partners for our own games. Please refer to the section headed “Business — Our Businesses — Our Game Development Business — Publishing Partners” for details of the cooperation agreements.

For the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, 66%, 63%, 52% and 52%, respectively, of our game publishing revenues were generated from operating our own games, and 34%, 37%, 48% and 48%, respectively, from operating games developed by third parties.

Our five largest game licensors for each of the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013 accounted for approximately 21%, 11%, 13% and 12% of our total revenue during those periods, respectively. Our five largest licensors in 2010 and 2011 included a licensor and business partner of us, who had the right to license a game co-developed by us and such licensor. As agreed between us and such licensor, we own the intellectual property right of the game while the licensor has the right to license the game to all publishing platforms in the PRC, including *91wan*. When the licensor licensed the game to *91wan*, the publishing revenue received by *91wan* after revenue sharing was recognized as revenue from a licensor. Such arrangement commenced in June 2009 and ceased in March 2011. Our largest game licensor for each of the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013 accounted for approximately 9%, 3%, 6% and 7% of our total revenue during those periods, respectively.

As of June 30, 2013, none of the Directors, their associates or any shareholders of the Company (who to the knowledge of the Directors owned more than 5% of the Company’s issued share capital) had any interest in any of our five largest game licensors.

Payment Channels

Players on *91wan* can purchase game credits of games published on *91wan* through their player accounts with us, which can be used to exchange for virtual items offered in such games. Players can credit their accounts through online banking transfers or pre-paid cards. We cooperate with major online payment platforms in China such as Alipay, 99bill, Yeepay and major pre-paid card service providers in China such as Shenzhoufu.

BUSINESS

Marketing and Promotion

We focus most of our marketing and promotional efforts, including online performance-based advertisements, to generate user traffic for *91wan* and promote games published on *91wan* by placing online performance-based advertisements on search engines, video, music, literature and game websites in China. We monitor and analyze the effectiveness of our marketing efforts real-time in order to optimize the effectiveness of our marketing and promotion activities. We also increase *91wan*'s player stickiness and organic traffic by building a highly interactive and informative online game community and through customer loyalty programs. As of June 30, 2013, we had a dedicated marketing team of 19 employees.

We also work closely with publishing partners to limit the conflicts of launch schedules of our new webgames with the other new games they publish. From time to time, we also cooperate with our publishing partners for game promotion, purchase for single players, and exclusive interviews of top players. For example, we organized an online “beauty contest” for players of one of our most popular cartoon-styled games, *Fantasy Immortal II: Ascension*, to improve user stickiness and promote player interaction.

As a result of our marketing and promotion efforts, *91wan*'s registered players significantly increased from approximately 47 million as of December 31, 2010 to approximately 179 million as of June 30, 2013.

Technology and Network Infrastructure

Our advanced technologies, built on the foundation of over 30 successful game launches, allow us to efficiently and effectively address the technical challenges associated with game development. Typically our developed games have the following features:

- *Operational Scalability.* Due to our proprietary software technologies, we are able to host more players concurrently online within a single server, which enables more players to interact simultaneously to promote player stickiness of our games.
- *Transmission Efficiency.* Our proprietary optimized communication protocol can minimize bandwidth consumption between players and servers. As a result, players experience reduced latency, thereby improving their experience.
- *Cross-server Flexibility.* We embed flexibility in the code base of our games to enable players in different servers to interact with each other. As a result, we can reduce the number of server mergers that would require suspension of game operations that negatively impacts player experience.
- *Real-time Updates.* We have developed a proprietary update module which enables us to process game updates without suspending servers, thereby reducing disruption.

We have built an extensive network infrastructure to fully support our operations. As of June 30, 2013, we maintained 4,038 servers, most of which are located in third-party Internet data centers (“IDCs”) in 14 major cities in China and Taiwan. Our network infrastructure is administered by 50 full-time engineers who handle system and hardware operation and maintenance. Our network infrastructure brings us not only scalability but also cyber security:

- *Scalability.* Our self-developed cloud computing architecture enables high performance and linear scalability of our systems. We are able to create multiple groups of virtual game servers base using a single physical server which improves the flexibility of our game operations.
- *Stability:* Our high availability data system ensures that back-up servers are connected into our network within minutes once master servers experience technical difficulties. In addition, our internally developed operation and maintenance system closely and constantly monitors the usage of resources such as CPU, memory and network, repairs common technical issues and alerts relevant game development teams of unusual technical difficulties. As a result, our game operations are highly stable.

BUSINESS

- *Security:* We have engaged the highest level of firewall services for commercial players from our IDC service providers to safeguard against sophisticated cyber-attacks, including the professional Anti-DDoS system. Moreover, all of our player data are encrypted and saved in at least two different places within our internal servers rather than client-based servers, protected by access control, and further backed up in our long-distance disaster recovery system, so as to minimize the possibility of data loss.

During the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013 and the subsequent period up to the Latest Practicable Date, we had not experienced any material network disruptions or incidents of hacker attacks.

Player Service

We provide high-quality player service and are responsive to the needs of our players on our own publishing platform, *91wan*. When our players make service inquiries, one of our player service representatives acts as the initial point of contact and, if the inquiry involves game-related technical problems, liaises with a member of our game development teams. We investigate and address irregularities in game operation reported by players, including eliminating cheating programs that are used by players to enable their game characters to acquire superior in-game capabilities. Typical requests handled by us include addressing problems in adding value to player accounts, retrieving forgotten passwords, recovering lost player accounts, and other game-related questions. Our player service is provided through call centers and online player service, including online forums and in-game player service. VIP players (who achieve a certain amount of spending on our games) also have access to more personalized player service, including more value-added account management services. We have a player service team of more than 100 employees dedicated to servicing players on *91wan*.

For our games published on our publishing partners' platforms, we as game developer provide certain player services to players jointly with the publishing partners. If our players experience game-related technical problems, our game development teams, upon request of our publishing partners, quickly respond to our players' inquiries and solve the technical problems from the back end.

Pursuant to relevant rules, we are required to disclose the percentage of revenue attributable to our five highest paying players if such percentage account for more than 30% of our total revenue. Due to the nature of our business, our five highest paying players generate substantially less than 30% of our total revenue. As of June 30, 2013, none of the Directors, their associates or any shareholders of the Company (who or which to the knowledge of the Directors owned more than 5% of the Company's issued share capital) had any interest in any of our five highest paying players.

Procurement and Suppliers

Our suppliers include primarily (i) server hosting and bandwidth leasing companies, (ii) outsourcing parties who provide technical and/or graphic services during our game development process and (iii) third-party payment channels.

Server Hosting and Bandwidth Leasing

We select our server hosting and bandwidth vendors through bidding processes, and have regularly engaged several vendors during the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013 with relatively stable prices. We typically enter into server hosting or bandwidth leasing agreements with our vendors, for initial terms ranging from one to two years, which are typically automatically renewable upon expiry unless one party notifies the other party otherwise in writing prior to expiry. Under the server hosting or bandwidth leasing agreements:

- vendors provide server hosting or bandwidth services on a 24-hour basis and prepare technical reports from time to time;
- we generally pay fixed service fees to these vendors on a monthly basis;

BUSINESS

- vendors maintain the equipment provided by us in good condition;
- we are entitled to use IP addresses distributed by the vendors, subject to the relevant PRC laws and regulations concerning internet security;
- each party agrees to keep confidential information and not disclose such information without written consent of the other party; and
- we are entitled to terminate the agreements if the vendors fail to meet certain service standards.

Outsourcing Research and Development Parties

We have maintained long-term relationships with most of our outsourcing research and development parties, which enables them to better understand our expectations and demands, minimizes their work delays and also enhances our bargaining power. Since outsourcing parties only contribute to a certain part of our game development work, we consider the games involving outsourcing work as self-developed and own the relevant intellectual property rights. We typically enter into outsourcing service agreements for the outsourcing service, with terms ranging from one month to five years. Under the outsourcing service agreements:

- outsourcing parties provide research and development proposals to us and complete their work according to the agreed work schedule;
- we generally pay fixed service fees upfront or progress payment according to the payment schedule incurred by the outsourcing parties, and/or share the gross billings generated from jointly developed games on a monthly basis;
- we own the intellectual property rights related to the games developed under these agreements;
- outsourcing parties agree not to delegate any obligations to third parties without our consent;
- outsourcing parties agree to keep certain information confidential, including documentary information and technical information; and
- games researched and developed by outsourcing parties should not be subject to any infringement claims relating to patents, copyrights, trademarks or other intellectual property rights held by third parties and the outsourcing parties are liable for all legal consequences caused by these claims.

Payment Channels

We engage third-party payment channels for our game publishing business. We typically enter into payment service agreements with payment channels, for initial terms ranging from one to two years, which are typically automatically renewable upon expiry unless one party notifies the other party otherwise in writing prior to expiration. The handling fees charged by payment channels typically range from approximately 0.4% to 10% of transaction amounts. During the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, over 90% of *9Iwan's* gross billings were collected through payment channels with handling fees of less than 10% of transaction amounts.

Under the payment service agreements:

- payment channels are responsible for providing us with electronic payment services on a secure, stable and convenient basis;
- payment channels are responsible for arranging necessary training and technical support when issues arise;
- payment channels charge us handling fees at an agreed percentage of transaction amounts settled through such channels, which are directly deducted by the payment channels from the transaction amounts; settlements with payment channels occur on a real-time basis;

BUSINESS

- we are prohibited from permitting third parties, directly or indirectly, to use the payment systems without the consent of the channels;
- we agree to comply with all relevant PRC laws and regulations during the course of using the payment systems; and
- each party agrees to keep certain information confidential, including transaction information, bank account information, technical information and operational information, and shall not disclose this information without written consent of the other party.

Charges from our five largest suppliers for each of 2010, 2011 and 2012 and the six months ended June 30, 2013 accounted for approximately 77%, 56%, 31% and 47% of our cost of revenue during those periods, respectively. Our largest supplier for each of 2010, 2011 and 2012 and the six months ended June 30, 2013 accounted for approximately 35%, 34%, 8% and 23% of our cost of revenue during those periods, respectively.

As of June 30, 2013, none of the Directors, their associates or any shareholders of the Company (who or which to the knowledge of the Directors owned more than 5% of the Company's issued share capital) had any interest in any of our five largest suppliers.

Competition

We compete primarily with other game developers and publishers in China, including webgame developers and publishers such as Tencent, Gamegoo, 7Road, KingNet, XD Games, Gamewave and Ourpalm, and client-based game developers and publishers such as Giant, Kingsoft, Netease.com and NetDragon. Certain of these game publishers are also our partners in publishing our games during our ordinary course of business. We also compete with other private companies in China devoted to game development or operation, many of which are backed by venture capital funds and international competitors. Though the entry barriers of webgame development are relatively low, we believe our proprietary data analytical capabilities and strong relationship with major publishing platforms enable us to develop the most popular webgames.

Competition may also come from international game developers and operators, such as Activision Blizzard, Inc. and Electronic Arts Inc. We believe that domestic game developers and operators, including us, are likely to have a competitive advantage over international competitors entering the China market, as those companies are likely to lack operational infrastructure in China and content localization experience for the China market. We cannot assure you, however, that this competitive advantage will continue to exist, particularly if international competitors establish joint ventures, form alliances with or acquire domestic game developers and operators. As we are expanding into the mobile game market, we also compete with other mobile game developers such as Gamevil, Com2uS and Glu Mobile.

In addition, we also compete for players against various offline games, such as console games, arcade games and handheld games, as well as various other forms of traditional or online entertainment.

Since we license certain of our games internationally, we also compete with international game developers in overseas market. The competition in overseas market is highly intensive as we are competing with game developers all over the world, in particular, those in Japan and South Korea which have built strong reputations in the online gaming industry.

The market for webgame development is relatively concentrated with increasing competition in recent years, while the market for webgame publishing is relatively fragmented. We compete primarily on the basis of the quality or features of our webgames, our operational infrastructure and expertise, the strength of our product management approach, and the services we offer that enhance our players' experience. According to iResearch, we were the largest webgame developer in China by net revenue with a market share of 24% and developed five,

BUSINESS

five and four out of the top 15 webgames in China in terms of gross billings in 2011 and the first and second halves of 2012, respectively.

Intellectual Property

We recognize the importance of intellectual property rights to our business and are committed to the development and protection of our intellectual property rights. We rely on copyright, trademark and other intellectual property law, as well as confidentiality and license agreements with our employees, suppliers, publishing partners and others to protect our intellectual property rights. Our employees are generally required to enter into a standard employment contract, which includes a clause acknowledging that all inventions, trade secrets, developments and other processes generated by them on our behalf are our property, and assigning to us any ownership rights that they may claim in those works. Despite our precautions, it may be possible for third parties to obtain and use intellectual property that we own or license without our consent. Unauthorized use of our intellectual property by third parties, and the expenses incurred in protecting our intellectual property rights, may adversely affect our business.

As of the Latest Practicable Date, we owned or licensed 44 registered domain names, including our official website and domain names registered in connection with each of the games we offer. All of our domain names are either held by, or licensed by our PRC Operational Entities. We generally renew our domain name registrations once every year and applications for their renewal are usually approximately one to three months prior to their expiration. Under normal circumstances, the domain name registrations take effect immediately after the payment of renewal fees. If any of our domain name registrations cannot be renewed for whatever reason, the domain name registrar may deregister the relevant domain name.

As of the Latest Practicable Date, we owned 119 software copyrights, each of which we have registered with the State Copyright Bureau of the PRC. As of the Latest Practicable Date, we owned or licensed 120 trademarks, each in various categories and is registered with China Trademark Office. In addition, we had 134 trademark applications, each in various categories, pending with China Trademark Office as of the Latest Practicable Date. We have also filed applications to register certain trademarks in a number of other jurisdictions, including Hong Kong. We believe we have registered all necessary intellectual property rights for our games offered overseas.

As of the Latest Practicable Date, we had one patent registered with the State Intellectual Property Office of China.

We have properly completed the registration of all online games we develop or publish with the GAPP except for eight games, the applications for registration of which have been duly filed with the GAPP. Our PRC legal advisers, have advised us that there is no substantial legal obstacle in completing the registration of the eight games with the GAPP.

Other than the Wangyuan Lawsuit as disclosed below, we did not have any dispute or any other pending legal proceedings of intellectual property rights with third parties during the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013. Please refer to the section headed “— Legal Proceedings and Compliance” for details of the Wangyuan Lawsuit.

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

BUSINESS

Employees

As of June 30, 2013, we had 1,899 full-time employees, the vast majority of whom are based in Guangzhou. The following table sets forth the number of our employees by function as of June 30, 2013:

	Number of Employees	% of Total
Game development	1,456	76.7%
Publishing	247	13.0%
Sales and marketing	19	1.0%
General and administration	177	9.3%
Total	<u>1,899</u>	<u>100%</u>

We have established long-term cooperative relationships with top universities in southern China and recruited top graduates from these universities. We provide intensive customized training to our new hires, all of whom will be designated to mentors, i.e. experienced employees in relevant teams or departments, who provide them with constant on-the-job training.

As required by PRC regulations, we participate in various employee benefit plans that are organized by municipal and provincial governments, including housing, pension, medical and unemployment benefit plans. We are required under PRC law to make contributions to the employee benefit plans at specified percentages of the salaries, bonuses and certain allowances of our employees, up to a maximum amount specified by the local government from time to time. Bonuses are generally discretionary and based on the overall performance of our business. We also grant share options and plan to grant RSUs to our employees to incentivize their contributions to our growth and development. We incurred staff costs of approximately RMB23.6 million, RMB68.2 million, RMB200.0 million and RMB161.4 million for the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, respectively, representing 24.8%, 17.8%, 25.8% and 28.1%, of our total revenue for those periods. The total amount of contributions we made for employee benefit plans for the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013 were approximately RMB1.0 million, RMB5.9 million, RMB16.8 million and RMB11.8 million, respectively.

We have established an employee association that represents employees with respect to the promulgation of by-laws and internal protocols. Such employee representative conference does not represent employees for the purpose of collective bargaining. We believe that we maintain a good working relationship with our employees and we did not experience any significant labor disputes or any difficulty in recruiting staff for our operations during the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013.

We enter into a standard employment contract with most of our executive officers, managers and employees. These contracts typically include a confidentiality provision effective during and up to one year after their employment with us.

Insurance

We maintain the social insurance for our employees in the PRC in accordance with the applicable laws of the PRC and requirements from the competent local authorities, of which the insurance premium is borne by us and the employees in a specific proportion regulated by the relevant PRC laws.

We have not yet taken out any insurance to cover our main business operations in both the PRC and the overseas markets in line with the market practice. We do not maintain business interruption insurance, key-man life insurance, insurance policies covering damages to our network infrastructures or information technology systems

BUSINESS

or any insurance policies for our properties. We do not maintain insurance policies against risks relating to the Contractual Arrangements either.

During the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, we did not experience any insurance claims in relation to our business. Please refer to the section headed “Risk Factors — Risks Relating to Our Business — We have not purchased any insurance to cover our main assets, properties and business and our limited insurance coverage could expose us to significant costs and business disruption” for details.

Taxation

Our Company, our subsidiaries incorporated in Hong Kong do not enjoy any tax benefits.

Feidong, our wholly-owned PRC subsidiary, was accredited as a “software enterprise” in June 2013 under the relevant PRC laws and regulations. As a result, Feidong is exempted from PRC enterprise income tax in 2013 and will enjoy a reduced income tax rate of 12.5% from 2014 to 2016.

Weidong and Feiying, our two PRC Operational Entities, were qualified as “High and New Technology Enterprises” under the EIT Law in 2010 and as a result entitled to a preferential income tax rate of 15% on their profits for the years ended December 31, 2010, 2011 and 2012. As of June 30, 2013, they were in the process of renewing such entitlements by applying to the relevant government authorities. We expect them to be qualified as “High and New Technology Enterprises” by the end of 2013 and continue to enjoy the preferential tax rate. According to relevant laws and regulations promulgated by the SAT that have been in effect since 2008, enterprises engaged in research and development activities are entitled to claim 150% of their research and development expenses incurred as tax deductible expenses when determining their tax assessable profits for that year. We have made our best estimate for such deduction to be claimed for the PRC Operational Entities in ascertaining their assessable profits during the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013.

Please refer to the section headed “Financial Information — Description of Selected Income Statement Line Items — Income Tax” for details.

Properties

We lease certain properties in China in connection with our business operations. These properties are used for non-property activities and are principally used as our office premises for our operations. They are located in Guangzhou and Beijing, China.

As of the Latest Practicable Date, we leased a total of 16 properties with an aggregate gross floor area (“GFA”) of approximately 27,288 square meters, each ranging from a GFA of approximately 139 square meters to 12,000 square meters, and with a lease expiry date ranging from September 2013 to April 2018. As of the Latest Practicable Date, we did not own any property.

Out of the 16 leased properties, six of the relevant leases have not been registered. According to our PRC legal advisers registration is not a mandatory condition for the validity of the lease agreements and the absence of such registration will not affect the legality of the lease agreements or impede our use of the relevant properties. The lack of lease registration may subject the company to an administrative penalty of up to RMB10,000 for each non-registered lease. In addition, we are of the view that we can relocate to other comparable properties, if necessary, without any material adverse effect on our operations and financial conditions.

As of June 30, 2013, each of our property interests has a carrying amount below 15% of our consolidated assets.

BUSINESS

Legal Proceedings and Compliance

We may be subject to legal proceedings, investigations and claims relating to the conduct of our business from time to time. We may also initiate legal proceedings in order to protect our contractual and property rights.

We are not currently a party to, nor are we aware of, any legal, arbitral or administrative proceedings, investigations or claims. We have not experienced any non-compliance which, in the opinion of our management, is likely to have a material adverse effect on our business, financial condition or results of operations. Further, we had not encountered any material claim, complaint or dispute in relation to the operations or phase-out of our games during the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013 and the subsequent period up to the Latest Practicable Date. Our PRC legal advisers, had advised us that, during the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013 and the subsequent period up to the Latest Practicable Date, we had complied with applicable PRC laws and regulations in all material respects and were not subject to any material administrative penalties for any non-compliance with the PRC laws. With respect to our overseas business, we had complied with the relevant overseas laws and regulations in material aspects during the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013 and the subsequent period up to the Latest Practicable Date.

In August 2013, we received a notice of action from Beijing Shijingshan People’s Court in relation to a lawsuit commenced by Beijing Wangyuan Shengtang Entertainment Limited (“Wangyuan”) against Weidong, alleging that the text in a webpage banner used to promote one of the games published by *91wan* infringed the plaintiff’s licensed trademark rights (the “Wangyuan Lawsuit”). The damage sought by Wangyuan in the statement of claim under the Wangyuan Lawsuit is RMB200,000, which, together with the relevant legal cost, represents our maximum financial exposure in the Wangyuan Lawsuit. Weidong intends to file a dispute of jurisdiction and move the Wangyuan Lawsuit from Beijing to Guangzhou and subsequently file a defense in due course. As advised by Guangdong Tongyee Law Firm, our legal advisers in respect of the Wangyuan Lawsuit, (i) the text in question appeared as part of the general text content of the webpage banner and was not used for trademark purpose; (ii) the plaintiff is not the owner or exclusive licensee of the subject trademarks and has not been authorized by the owner to initiate the lawsuit and hence does not have the right to initiate the lawsuit; (iii) there is no evidence to support the damages claimed by the plaintiff; and (iv) the Wangyuan Lawsuit should be dismissed for trial because Beijing Shijingshan People’s court does not have personal jurisdiction over the case. We have subsequently received a court ruling, according to which the plaintiff has withdrawn the lawsuit in order to collect additional evidence. However, we have not received any notice of any other lawsuit commenced by the plaintiff against us as of the date of the document. Based on the foregoing, our Directors are of the view that the Wangyuan Lawsuit will not have any material adverse effect on our business and financial condition. Subsequent to the Wangyuan Litigation, we have further enhanced our internal control measures in relation to intellectual property rights. Our in-house legal counsel reviews game contents and game-related marketing materials before launch to ensure no infringement of third parties’ intellectual properties. Please refer to the section headed “— Risk Management — Internal control risk management — System, policies and measures” for details of our international control measures in relation to intellectual property rights.

During the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, we have had incidents of non-compliance relating to our game development and publishing businesses during the process of improving our internal control as a private start-up company:

- In August 2012, Feiyin was fined RMB15,000 by the administrative enforcement team of the Guangzhou Culture Bureau (廣州市文化局) in an administrative proceeding for licensing one of its games to a third-party platform that did not have a Network Cultural Business Permit. This lapse occurred while we were in the process of improving our internal control as a private start-up company and did not manage to review qualifications of all our publishing partners and relied more on the representations and warranties made by

BUSINESS

our publishing partners, including those relating to their publishing licenses, in our cooperation agreements. Please refer to the section headed “Regulations — Regulations Relating to Value-Added Telecommunication Business — Regulation of Licenses” for details of licensing requirements of publishing platforms. Please refer to the section headed “Risk Factors — Risks Relating to Our Business — We rely on third-party platforms to distribute a significant number of our webgames and our business and results of operations may be materially and adversely affected if these third-party platforms fail to fulfill their obligations to us, or if we fail to maintain relationships with a sufficient number of platforms, or if the platforms lose popularity among Internet users.”

- In November 2011, Weidong was publicly criticized by the MOC for promoting one of the webgames it published using advertising materials that included content which was found to propagate obscenity and thus prohibited by Article 9 of *The Interim Measures for the Administration of Online Games* (《網絡遊戲管理暫行辦法》). This lapse occurred while we were in the process of improving our internal control as a private start-up company and did not manage to review the contents of all licensed games and relied more on the representations and warranties made by our game licensors on the legality of their games in our cooperation agreements. As a matter of enforcement, the MOC asked its local counterparties to investigate the publicly criticized companies and, if the local culture bureaus believe the non-compliance exists, they may impose administrative fines of RMB10,000 to RMB30,000 and/or corrective measures if necessary. As of the date of the document, we have not received any notice of any investigation or administrative measures from any local culture bureau in this regard. Please refer to the section headed “Risk Factors — Risks Relating to Our Industry — The PRC government may prevent us from distributing, and we may be subject to liability for, content deemed to be inappropriate.”
- In January 2011, Weidong was fined RMB20,000 by the administrative enforcement team of the Guangzhou Culture Bureau (廣州市文化局) in an administrative proceeding because one of the webgames it licensed and published solicited players to pay for the chance to win virtual items based on random selection through a lucky draw, wager or lottery and therefore violated *The Interim Measures for the Administration of Online Games* (《網絡遊戲管理暫行辦法》). This lapse occurred while we were in the process of improving our internal control as a private start-up company and did not manage to fully comply with the then newly-issued regulation. As of the date of the document, we have not been penalized by any administrative authorities for similar incidents. Please refer to the section headed “Risk Factors — Risks Relating to Our Industry — The laws and regulations governing the webgame industry and related businesses in China are developing and subject to future changes. If we or any of the PRC Operational Entities fail to obtain or maintain all applicable permits and approvals, our business and operations would be materially and adversely affected.”

Our Directors are of the view that none of these non-compliance incidents had a material adverse effect on our business, financial condition or results of operations. We have adopted internal control measures to prevent similar future occurrences, including our internal review of the status of intellectual property rights of our own games and the games we plan to license from third-party game developers and the required licenses of our publishing partners, before we enter into any cooperation agreements with publishing partners or third-party game developers.

Risk Management

We are devoted to establishing risk management and internal control systems consisting of an organizational framework, policies, procedures and risk management methods that we consider to be appropriate for our business operations, and we are dedicated to continuously improving these systems. We have in place a comprehensive group-wide risk management framework and a dynamic risk monitoring system.

We have established control system over various aspects of our operations, including company level, information system, human resources, revenue and accounts receivable, procurement and accounts payable, fixed assets, cash

BUSINESS

management, remuneration management, game development expense and financial reporting. We have detailed manual which sets forth the focus of risk control for each of the above-mentioned aspects. We are constantly monitoring the effectiveness of our risk management system.

The following are major risks we encounter in our operations and accordingly we adopt the following risk management policies and measures:

Human Resource Risk Management

We rely on our employees in our game development and publishing businesses. The demand and competition for talent is intense in our industry, particularly if we suffer from employee loss, our game development and publishing businesses could be adversely affected. In addition, if our key employees join a competitor or forms a competing company, we may lose know-how, trade secrets, suppliers, players and key professionals and staff. We may not be able to replace them easily or at all and may incur additional expenses to recruit and train new personnel. It is also important that our employees' technical skills and capability are adequate. If our staff are not adequately trained to ensure they have the necessary skills and knowledge to carry out their work, our operations will be adversely affected.

Further, we also require our staff to maintain high integrity, moral and ethical standard. The character of our staff is very important to ensure that our operations are in compliance with the applicable laws and regulations. Any legal or regulatory non-compliance, conflict of interests or other unethical conducts engaged by our staff will cause material adverse impact on our reputation. During the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013 and the subsequent period up to the Latest Practicable Date, there was no illegal or unethical conduct from our staff that resulted in any legal claim.

System, Policies and Measures

We provide regular technical trainings to our staff on game development skills including trainings on three dimensional animation drawing skills and updates on industry trends that are relevant to our game development staff's day-to-day work. Through these trainings, we ensure our staff's skill set is up-to-date and satisfies our requirement. In addition to technical trainings, we also provide trainings on various specialized areas, including legal, financial, publication, for our employees in relevant departments.

We have in place an Employee Handbook which is approved by our management and distributed to all our employees. The Employee Handbook contains code of conduct that each employee has to comply with, including anti-corruption and prohibition against illegal acts. The Employee Handbook also contains guidelines on how employees can report to the Company regarding any violations of the Employee Handbook. We provide trainings to employees to explain the guidelines contained in the Employee Handbook.

Our Group has in place a system to safeguard against any corruption acts within our Group. We have issued a guideline to our staff to explain potential corruption conducts and made known to them our anti-corruption policy. We have also implemented a reporting channel for any corruption acts within our Group and our staff are also made aware of such reporting channel. If an employee is aware of any corruption conduct within our Group, he or she can make an anonymous report to our internal audit department. Our internal audit department will investigate on incidents reported and will adopt appropriate measures.

Internal Control Risk Management

Insufficiency in internal control system may increase our operational costs, adversely affect our ability to develop and cause inefficiency in operations.

BUSINESS

System, Policies and Measures

We have comprehensive systems to maintain adequate internal control on the company level, information systems, sales payment collection, fixed assets, capital, remuneration, contract management, research and development (including proper protection of intellectual property rights). For each area, we maintain policies providing guidelines on internal control, assign staff to implement the policies and have in place supervision mechanism. We also provide regular trainings on implementation of the policies. There are in place channels to escalate any major risks or issues encountered across internal control areas.

In the PRC market, the games and the relevant advertisements we develop and publish are subject to inspections and reviews by local branches of the MOC, or the local culture bureaus. If a local culture bureau considers any aspects of our self-developed or licensed games to be in violation of the relevant PRC rules and regulations, we may be fined and/or ordered to delete the non-compliant content of the games or the relevant game advertisements. In overseas markets, our games and our game publishers are subject to local rules and regulations with respect to intellectual property compliance. Other than the above, we are subject to third-party claims in the PRC and abroad for intellectual property infringements involving the games we develop and publish.

To ensure our self-developed games are in compliance with local rules and regulations and third-party rights, our legal department actively participates in the project initiation of our game development by conducting legal risk analysis on various aspects of the proposed games. For example, if the theme of a game is adapted from a copyrighted work, our legal department ensures that we obtain the consent from the author of the copyrighted work. The legal department also requires the art design team to conduct market searches to ensure our game design is different from the game design of similar genre developed by other game developers. In the event of any intellectual property disputes with a third party, our legal department negotiates to amicably settle the disputes. Our legal department also ensures that our games do not contain inappropriate contents, are duly copyrighted, registered for software product certificates, and timely filed for record with the local culture bureaus. Before we enter into any cooperation agreement with a game publisher, our legal department reviews their qualifications and ensure that they have the requisite publishing licenses.

For the licensed games and game-related advertisements that we publish on *91wan*, we limit our exposure to intellectual property non-compliances or infringement claims by contractual arrangements. Under the cooperation agreements between us and the game licensors, the game licensors must (i) ensure that their games do not violate any PRC rules and regulations, (ii) hold all necessary legal titles to the games, and (iii) maintain all necessary qualifications and governmental approvals to license the games. If we are subject to administrative proceedings or third-party claims due to the game licensors’ breach of the abovementioned covenants, we are entitled to ask the game licensors to (i) correct the non-compliant or the infringing content, and (ii) reimburse any administrative fines we pay to the local culture bureaus or any damages we pay to any third parties, as well as any cost incurred by us in connection with such non-compliance or infringement, pursuant to the cooperation agreements. If the game licensors fail to take remedial measures, we are entitled to terminate the cooperation agreements and remove such games and advertisements from *91wan*. Our legal department conducts reviews as to the qualifications and required licenses of the game developers before we enter into any cooperation agreement with them.

Our in-house legal counsel, who is experienced in intellectual property practice and has been with our Group for more than two years, supervises our legal department in carrying out its intellectual property compliance and risk control responsibilities. Our internal control department reviews the decision of the legal department and monitors, among other things, the performance of the cooperation agreements with respect to intellectual property compliance.

We have adopted the “360 Degrees Risk Management and Internal Control Policy,” which contains detailed guidelines on internal control policies and procedures on sales revenue, cost audit and expense management. We

BUSINESS

have also adopted Guidelines on Authorization to clarify the authority and responsibility of each of our important management positions in areas such as business strategy, market operations, financial control, capital and human resources, whereby we ensure a clear delineation of management responsibility.

Our management also conduct regular review on the Group's financial condition and risks assessment to identify internal control risks and issues in relation to the Group's strategic development.

In addition, each PRC Operational Entity holds meetings to increase communication and collaboration within the Group to ensure efficient operations. In accordance with our business needs, the business department of each PRC Operational Entity collects and analyses business data including market and industry updates, suppliers and working capital, and reports such information to the management. The management then decide on appropriate measures to be taken.

Information Risk Management

As a game developer and publisher, our business involves substantial amount of player data and other related information. Resources have to be devoted for collection, storage and use of player data to ensure that player data is protected and leakage and loss of data is avoided. Any leakage or loss of player data may adversely affect our reputation, and if material, may subject us to potential legal liability. During the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013 and the subsequent period up to the Latest Practicable Date, we did not experience any information leakage that resulted in any legal claim.

System, Policies and Measures

We believe we have implemented adequate measures in player data protection. Our information technology department is responsible for ensuring that collection, storage and use of player data is in compliance with our internal rules and the applicable laws and regulations. It also supervises the protection of data privacy. The department consists of approximately 21 employees, all of whom possess tertiary education qualification. Our information technology supervisors have more than three years of experience in information technology area and data protection, while our information technology controller has more than ten years of relevant experience. We provide trainings to our information technology staff to enhance their technical skills and conduct regular reviews of their performance. Further, our information technology department holds weekly meetings to review the information technology operation, assess work progress and make plans for upcoming work streams.

Our player data is contained in our centralized data centre, maintained by our information technology department. In addition, we have in place a data back-up system through which our player data is stored in various secured systems to reduce any risk of data loss or leakage. Please refer to the section headed "— Technology and Network Infrastructure" for details.

We adopted the Information and Communications Management Regulations, under which our Group communicates, collects and analyzes important information via weekly and monthly management meetings. During such meetings, the management discusses the information technology risks faced by the Company and the necessary risk management measures to be implemented. Further, our Information Technology Internal Control Manual regulates the information technology processing and computer operations, in order to manage risks involved in our day-to-day management of information technology. Also, our staff are required to sign confidentiality agreements, under which the staff confirm their compliance with policies and regulations regarding personal data privacy protection.

BUSINESS

Financial Reporting Risk Management

Any non-compliance with accounting policies may cause inaccuracy in financial statements. If so, the financial statements prepared may not fairly reflect the Group's financial condition and management decisions and company's strategies may also be impacted.

System, Policies and Measures

We undertake four steps to manage financial reporting risks: (1) adoption of accounting policies, (2) staff trainings, (3) implementation of policies, and (4) review of implementation results. Our finance department formulates our accounting policies. We provide regular trainings to our finance department staff to ensure they understand our accounting policies. We have in place a set of book closing guidelines in relation to the preparation of monthly management accounts. Our finance department reviews the management accounts prepared based on the guidelines.

As of June 30, 2013, our finance department consisted of 34 employees. It is headed by our Financial Controller who has more than ten years of experience in financial reporting.

Risks Management Committee, Experience and Qualification and Board Oversight

We established an Audit and Compliance Committee on September 1, 2013, the primary duties of which are to assist our Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of our Group, overseeing the audit process and performing other duties and responsibilities as assigned by our Board. The Audit and Compliance Committee consists of two independent non-executive Directors being Ms. Poon Philana Wai Yin and Mr. Levin Eric Joshua and, one non-executive Director being Mr. Tan Hainan. The Audit and Compliance Committee is chaired by Mr. Levin Eric Joshua. Please refer to the section headed "Directors and Senior Management — Board Committees — Audit and Compliance Committee" for details of qualification and experiences of the Committee members.

We also have in place an internal audit department which is headed by an internal audit manager who has approximately six years of experience in internal control and audit. According to the internal audit policy, the internal audit department is primarily responsible for reviewing the effectiveness of the Group's internal control functions and reporting to the Board on any issues identified. They meet up regularly to discuss any internal control issues faced by the Group and the corresponding measures to implement. The meetings are recorded in minutes which are sent to the Board for review. In the event that any material internal control issues arise, the department will escalate it promptly to the Board such that appropriate actions can be taken in a timely manner. The internal audit policy is approved by the Board and is reviewed regularly by the Board. Any substantial amendment of the policy will have to be approved by the Board. The internal audit department reports to the Audit and Compliance Committee to ensure that any issues identified will be escalated to the Committee on a timely basis. Where the Committee considers necessary, it will discuss and report any internal audit issues to the Board.

Ongoing Measures to Monitor the Implementation of Risk Management Policies

We have adopted measures to ensure our ongoing monitoring of the implementation of risk management policies by relevant staff is adequate. We constantly review the implementation of our risk management policies and measures and ensure our policies and implementation are effective and sufficient.

BUSINESS

Licenses and Permits

Our PRC legal advisers have advised us that, during the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013 and the subsequent period up to the Latest Practicable Date, we had obtained all requisite licenses, approvals and permits from the relevant government authorities that are material for our business operations in China and such licences, approvals and permits remained in full effect, and no circumstances existed that would render their revocation or cancellation. Our PRC legal advisers also advised us that there is no legal impediment to renew such licenses, approvals and permits. The following table sets forth details of our material licenses and permits:

License/Permit	Holder	Granting Authority	Grant Date	Expiry Date
Internet Content Provider License	Feiyin	Guangdong Communications Administration (廣東省通信管理局)	April 19, 2010	May 27, 2014
License of Value-added Telecommunication Business (Internet Content Provider License)	Weidong	Guangdong Communications Administration (廣東省通信管理局)	April 9, 2012	April 9, 2017
	Jieyou	Guangdong Communications Administration (廣東省通信管理局)	August 22, 2012	August 22, 2017
Network Cultural Business Permit	Feiyin	Guangdong Department of Culture (廣東省文化廳)	May 7, 2012	May 7, 2015
	Weidong	Guangdong Department of Culture (廣東省文化廳)	April 6, 2012	April 6, 2015
	Jieyou	Guangdong Department of Culture (廣東省文化廳)	July 2, 2012	July 2, 2015
Internet Publication License	Feiyin	GAPP	March 20, 2012	March 20, 2016
	Jieyou	GAPP	February 5, 2013	December 31, 2014
High and New Technology Enterprise Confirmation Certificate	Feiyin	Guangdong Department of Science and Technology (廣東省科學技術廳) Guangdong Department of Finance (廣東省財政廳) Guangdong Department of State Administration of Taxation (廣東省國家稅務局) Guangdong Department of Local Taxation (廣東省地方稅務局)	September 26, 2010	September 26, 2013

BUSINESS

<u>License/Permit</u>	<u>Holder</u>	<u>Granting Authority</u>	<u>Grant Date</u>	<u>Expiry Date</u>
	Weidong	Guangdong Department of Science and Technology (廣東省科學技術廳) Guangdong Department of Finance (廣東省財政廳) Guangdong Department of State Administration of Taxation (廣東省國家稅務局) Guangdong Department of Local Taxation (廣東省地方稅務局)	September 26, 2010	September 26, 2013
Software Enterprise Confirmation Certificate	Feidong	Guangdong Economic and Information Commission (廣東省經濟和信息化委員會)	June 28, 2013	N/A

BUSINESS

Awards and Recognition

During the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, we have received various awards and recognition in respect of the quality and popularity of our products and services, among which include the following:

<u>Award/Recognition</u>	<u>Award Date</u>	<u>Awarding Institution/Authority</u>	<u>Entity/Product</u>
The Best Webgame of 2009 . . .	December 2009	7th China International Cyberculture Exposition	<i>Ming Dynasty</i>
China's Top 10 Best Webgame Publishing Platform	December 2010	Internet Society of China, China Investment	<i>91wan</i>
The Top 10 Game Operating Platforms	July 2011	Baidu Game Billboard (百度遊戲風雲榜)	<i>91wan</i>
2012 Forbes China Private Companies with the Highest Potential	January 2012	Forbes China	Feiyin
The Most Innovative Webgame in 2011	April 2012	5th China Webgame and Mobile Game Summit	<i>Soul Guardian II</i>
2012 Most Innovative Game . .	July 2012	Tencent QQ	<i>True King</i>
The Top 10 Game Operating Platforms	July 2012	Baidu Game Billboard (百度遊戲風雲榜)	<i>91wan</i>
China's Most Valued Webgame in 2012	December 2012	3rd China Original Webgame Summit Meeting	<i>Charmed Westward Journey</i>
2012 Top 10 Popular Webgames	January 2013	China Game Industry Annual Conference	<i>Soul Guardian II</i>
2012 Quality Webgame (Golden Finger Prize)	March 2013	China Game Industry Annual Conference	<i>Charmed Westward Journey</i>

CONTRACTUAL ARRANGEMENTS

Background

We develop webgames and mobile games and publish webgames in the PRC. The operating entities in the Group are Feiyin, Weidong and Jieyou (collectively, the “PRC Operational Entities”), each of which was incorporated under the PRC laws. To comply with the relevant PRC laws, our webgame and mobile game businesses are directly conducted by the PRC Operational Entities. Feidong in turn supervises the business operations of each of the PRC Operational Entities and derives the economic benefits from the PRC Operational Entities. The PRC Operational Entities hold the requisite PRC permits, licenses and approvals for developing games and operating a nationwide platform to host multiple players playing simultaneously. Most of our intellectual property rights, including software copyrights, trademarks, patents and domain names, are held by the PRC Operational Entities and as confirmed by our PRC legal advisers, they have obtained the online cultural operating permits from the MOC’s local counterparts. In addition, the PRC Operational Entities hold certain licenses and permits that are essential to the operation of our business, such as the ICP License, the Network Cultural Business Permit and the Internet Publication License.

Investment activities in the PRC by foreign investors are mainly governed by the Guidance Catalog of Industries for Foreign Investment (the “Catalog”), which was promulgated and is amended from time to time jointly by the MOFCOM and the NDRC. The Catalog divides industries into four categories in terms of foreign investment, including “encouraged,” “restricted” and “prohibited,” and all industries not listed under any of these categories are deemed to be “permitted.” As confirmed by our PRC legal advisers, according to the Catalog, the webgame business and mobile game business that the Company currently operates falls into the value-added telecommunications services and the Internet cultural business, which are considered “restricted” and “prohibited,” respectively.

On December 11, 2001, the State Council promulgated the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises 《外商投資電信企業管理規定》 (the “FITE Regulations”), which were amended on September 10, 2008. According to the FITE Regulations, foreign investors are not allowed to hold more than 50% of the equity interests of a company providing value-added telecommunications services, including ICP services. In addition, a foreign investor who invests in a value-added telecommunications business in the PRC must possess prior experience in operating value-added telecommunications businesses and a proven track record of business operations overseas (“Qualification Requirement”). Currently none of the applicable PRC laws, regulations or rules provides clear guidance or interpretation on the Qualification Requirement. The MIIT has issued a guidance memorandum on the application requirement for establishing foreign-invested value-added telecommunications enterprises in the PRC. According to this guidance memorandum, an applicant is required to provide, among other things, the applicant’s annual reports for past three years, proof of Qualification Requirement and business development plan. The guidance memorandum does not provide any further guidance on the proof, record or document required to support the proof satisfying the Qualification Requirement. Further, this guidance memorandum does not purport to provide an exhaustive list on the application requirement. Our PRC legal advisers have advised us that (i) this guidance memorandum has no legal or regulatory effect under the PRC laws and (ii) no applicable PRC laws, regulations or rules have provided clear guidance or interpretation on the Qualification Requirement.

Despite the lack of clear guidance or interpretation on the Qualification Requirement, we have been gradually building up our track record of overseas telecommunications business operations for the purposes of being qualified, as early as possible, to acquire the entire equity interests of the PRC Operational Entities when the PRC laws allow foreign investors to invest in value-added telecommunications enterprises in China. We are in the process of expanding our overseas value-added telecommunications business through our overseas subsidiaries. Currently, our overseas telecommunications business is primarily being operated by our Hong Kong subsidiaries. We recently invested through Ledong, one of our Hong Kong subsidiaries, in Appionics, the owner and operator of the Animoca studio, a developer and publisher of cross-platform mobile applications for smartphones and tablets, and we plan to cooperate with Appionics to distribute our mobile games overseas. Foga

CONTRACTUAL ARRANGEMENTS

Tech, our other Hong Kong subsidiary, serves as our vehicle to arrange for offshore financing and engage professional parties to facilitate the provision of professional services to our Group. Moreover, we plan to strengthen our international business penetration and establish more overseas offices to support our international expansion. While Hongkong Ledong will remain as our offshore investment vehicle, Foga Tech will focus on international business operations and potential overseas acquisitions. Foga Tech will be responsible for (i) analysis and assessment of overseas business opportunities, (ii) soliciting game titles for us to publish in the overseas markets, and (iii) negotiating, executing and implementing licensing arrangements with Appionics. As a result, Foga Tech will become the primary entity in our Group to enter into international licensing agreements with overseas game developers and publishing partners, as well as to hold overseas game intellectual properties. Foga Tech will also be responsible for identifying suitable acquisition targets and execution of investments or acquisitions of webgame and mobile game studios. After [●], Foga Tech will set up a physical office in Hong Kong for our personnel focused on international business development. We will, as applicable, disclose the progress of our overseas expansion plans and any updates to the Qualification Requirement in our annual and interim reports.

On July 13, 2006, the MIIT issued the Notice on Strengthening the Administration of Foreign Investment in Operating Value-added Telecommunications Business 《關於加強外商投資經營增值電信業務管理的通知》 (the “MIIT Notice”). The MIIT Notice further strengthened regulation over foreign investment in value-added telecommunication services, including prohibiting domestic telecommunication service providers from leasing, transferring or selling telecommunication business operating licenses to any foreign investor in any form, or requiring domain names and trademarks used by any value-added telecommunication service providers to be held by either the holder of the ICP License or shareholders of such ICP License holder. Furthermore, domestic telecommunication service providers are prohibited from providing any resources, premises, facilities and other assistance in any form to foreign investors for their illegal operation of any telecommunications businesses in China. If the ICP License holder fails to comply with the requirements in the MIIT Notice and fails to remedy its non-compliance within a specified period of time, the MIIT or its local branches may take measures against such license holder, including revoking its ICP License.

Because foreign investment in the industry in which we currently operate is subject to certain restrictions under current PRC laws and regulations, we determined that it was not viable for the Company to hold the PRC Operational Entities directly through equity ownership. Instead, we decided that, in line with common practice in industries in the PRC subject to foreign investment restrictions, the Company would gain effective control over, and receive all the economic benefits generated by the business currently operated by the PRC Operational Entities through a series of Contractual Arrangements between Feidong, the Company’s wholly-owned subsidiary on the one hand, and the PRC Operational Entities and their respective shareholders on the other hand. The Contractual Arrangements allow the PRC Operational Entities’ financials and results of operations to be consolidated into our financials and results of operations under IFRS as if they were wholly-owned subsidiaries of our Group.

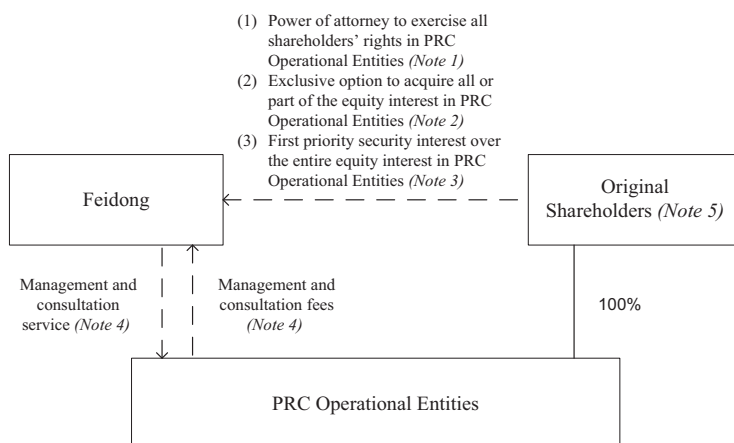
In order to comply with PRC laws and regulations while availing ourselves to international capital markets and maintaining effective control over all of its operations, we commenced a series of reorganization activities in July 2011. Pursuant to the reorganization, the Company became the indirect holding company of Feidong and the Contractual Arrangements were entered into in June and July 2012 and amended and restated on [September 12], 2013, whereby Feidong acquired effective control over the financial and operational policies of the PRC Operational Entities and became entitled to all the economic benefits derived from the operations of the PRC Operational Entities through the Contractual Arrangements. We believe that the Contractual Arrangements are narrowly tailored as they are used to enable the Group to conduct businesses in industries that are subject to foreign investment restrictions. Our Directors believe that the Contractual Arrangements are fair and reasonable because (i) the Contractual Arrangements were freely negotiated and entered into by Feidong and the PRC Operational Entities; (ii) by entering into the Exclusive Business Cooperation Agreement with Feidong, which is a subsidiary of the Company, the PRC Operational Entities will enjoy better economic and technical support

CONTRACTUAL ARRANGEMENTS

from us, as well as better market reputation after [●], and (iii) a number of other companies use similar arrangements to accomplish the same purpose. We confirm the PRC Operational Entities will only engage in webgame and mobile game businesses in the PRC which are subject to foreign investment restrictions under the relevant laws and regulations. Please refer to the section headed “Our History, Reorganization and Corporate Structure” for more details of the Reorganization.

Contractual Arrangements

The following simplified diagram illustrates the flow of economic benefits from the PRC Operational Entities to our Group stipulated under the Contractual Arrangements:



Note :

1. Please refer to the section headed “Contractual Arrangements – Powers of Attorney” of this document for details.
2. Please refer to the section headed “Contractual Arrangements – Exclusive Option Agreements” of this document for details.
3. Please refer to the section headed “Contractual Arrangements – Share Pledge Agreements” of this document for details.
4. Please refer to the section headed “Contractual Arrangements – Exclusive Business Cooperation Agreements” of this document for details.
5. Original Shareholders are the Founders. Please refer to the section headed “Definitions” of this document for details of the Founders.
6. “-----” denotes direct legal and beneficial ownership in the equity interest and “----->” denotes contractual relationship.

Exclusive Option Agreements

Each of the PRC Operational Entities and their respective shareholders entered into exclusive option agreements with Feidong in June and July 2012, which were amended and restated on [September 12,] 2013 (the “Exclusive Option Agreements”), pursuant to which Feidong (or its designee within our Group) has an irrevocable and exclusive right to purchase from the respective shareholders all or any part of their equity interests in the PRC Operational Entities for a nominal price, unless the relevant government authorities request that another amount be used as the purchase price and in which case the purchase price shall be such amount. Where the purchase price is required by the relevant government authorities to be an amount other than a nominal amount, the Founders shall return the amount of purchase price they have received to Feidong. At Feidong’s request, the relevant shareholders will promptly and unconditionally transfer their respective equity interests to Feidong (or its designee within our Group) after Feidong exercises its purchase right. These agreements are for an initial term of ten years and automatically renew upon expiry until Feidong delivers a confirmation letter specifying the renewal term. In order to prevent the flow of the assets and value of the PRC Operational Entities to their respective shareholders, during the terms of the Exclusive Option Agreements, none of the assets of the PRC Operational Entities are to be sold, transferred or otherwise disposed of without the written consent of Feidong.

CONTRACTUAL ARRANGEMENTS

In addition, the PRC Operational Entities are not allowed to make any distributions to their registered shareholders without the prior written consent of Feidong. In the event that the registered shareholders of the PRC Operational Entities receive any profit distribution or dividend from the PRC Operational Entities, the registered shareholders must immediately pay or transfer such amount to Feidong (or its designee within our Group). If Feidong exercises this option, all or any part of the equity interests of the PRC Operational Entities acquired would be transferred to Feidong and the benefits of equity ownership would flow to the Company and our shareholders.

The Company's PRC legal advisers have advised us that the Exclusive Option Agreements are legal, valid and binding on the parties and are enforceable under applicable PRC laws and regulations, except for the provisions that the arbitral body may grant injunctive relief or directly issue liquidation order against the PRC Operational Entities, which may not be enforceable under PRC laws. Since the PRC Operational Entities are not state-owned enterprises, the PRC Operational Entities are able to enter into contracts with Feidong or its designee to provide for the acquisition of the equity interests in and/or assets of the PRC Operational Entities by Feidong or its designee for a nominal price or pre-determined amount without being subject to any examination, approval or valuation procedures. In addition, Feidong or its designee can exercise its option to purchase the equity interests in and/or assets of the PRC Operational Entities for a nominal price or a pre-determined amount in accordance with the relevant procedures stipulated in the Exclusive Option Agreements.

Exclusive Business Cooperation Agreements

Each of the PRC Operational Entities entered into exclusive business cooperation agreements with Feidong on June 21, 2012, which were amended and restated on [September 12,] 2013 (the "Exclusive Business Cooperation Agreements"), pursuant to which each of the PRC Operational Entities agreed to engage Feidong as its exclusive provider of business support, technical and consulting services, including network support, business consultations, intellectual property development, equipment leasing, marketing consultancy, system integration, product research and development and system maintenance, in exchange for a monthly service fee. Under these arrangements, the service fee, subject to Feidong's adjustment, is equal to 100% of the net income of the PRC Operational Entities and may also include accumulated earnings of the PRC Operational Entities from previous financial periods. As of June 30, 2013, the accumulated earnings of the PRC Operational Entities amounted to RMB269.3 million. Feidong may adjust the service fee at its sole discretion so as to allow the PRC Operational Entities to retain sufficient working capital to carry out any growth plan. Any decision to charge the PRC Operational Entities at a lower service fee will be made by Feidong's directors, who will consider the business plans and budgets of the PRC Operational Entities such as the number and expected performance of games in the development pipelines, the potential headcount and salary increase, performance and costs and expenses of the PRC Operational Entities in previous financial periods as well as the needs of Feidong and the Group as a whole for its growth and development. In addition, our Independent Non-executive Directors will supervise the performance of the Contractual Arrangements to ensure that any discretion exercised during the performance of the Contractual Arrangements is in the best interests of the Company and our Shareholders as a whole. Since the PRC Operational Entities' funding requirements are satisfied by their residual operating cash after paying the service fee to Feidong, we do not expect to transfer any net proceeds from [●] to the PRC Operational Entities. The Company's PRC legal advisers are of the opinion that such payment of service fees is not subject to any legal or regulatory requirements in the PRC and does not violate any PRC laws.

Under the Exclusive Business Cooperation Agreements, Feidong is the exclusive provider of business support, technical and consulting services, including network support, business consultations, marketing consultancy and other services to the PRC Operational Entities in exchange for a monthly service fee. In line with the services it provides, Feidong currently has employed over 50 research and development personnel primarily providing technical services to the PRC Operational Entities, and over 30 personnel with business management experiences

CONTRACTUAL ARRANGEMENTS

primarily providing business consultations and other similar services to the PRC Operational Entities. In addition, Feidong’s primary operating assets are network and IT facilities and equipment, which support its provision of services to the PRC Operational Entities under the Exclusive Business Cooperation Agreements.

The primary obligation of Feidong is the provision of services to the PRC Operational Entities. Both Feidong and the PRC Operational Entities have control measures in place, which primarily include the control measures with respect to accounts payables and receivables, which require the review and approval by the relevant department(s) to confirm the services provided by Feidong and received by the PRC Operational Entities periodically. Further, to ensure that Feidong will not engage in online game publishing or any other restricted business in the PRC, Feidong has set up an internal control process, which requires the senior staff members of relevant departments to review the business to be entered into by Feidong. In addition, Feidong’s legal department will review business contracts to be entered into by Feidong to ensure compliance with the PRC laws, regulations and rules.

Intellectual property rights are developed during the normal course of business of the PRC Operational Entities since their daily operations involve, among other things, research and development and game development. Pursuant to the Exclusive Business Cooperation Agreements, Feidong has the exclusive and proprietary rights to all intellectual properties developed by the PRC Operational Entities, given Feidong provides supervisory services to the PRC Operational Entities. The Exclusive Business Cooperation Agreements provide that part of the economic benefits generated by the PRC Operational Entities will be intellectual properties developed or created during the normal business operation of the PRC Operational Entities. The service provided by Feidong typically includes designing the overall structure of the game and providing core technical services, such as programming, while the PRC Operational Entities execute the ideas and supplement with details, such as art designing and text editing, and intellectual properties are developed in the process. As a recently-established company, Feidong is still in the process of developing its business, building up its game development personnel and increasing its operation size. As a result, Feidong has provided relatively limited services to the PRC Operational Entities under the Contractual Arrangements so far, and thus most of the intellectual property rights of the Group are held by the PRC Operational Entities. All intellectual property rights currently held by Feidong were either purchased from independent third parties by Feidong or developed by Feidong’s own game development personnel. Going forward, as Feidong becomes more established and provides more services to the PRC Operational Entities, and as the existing business partners of the PRC Operational Entities become more familiar with Feidong, we expect more intellectual property rights to be held by Feidong. Though we do not intend to transfer any existing intellectual property rights held by the PRC Operational Entities to Feidong, the PRC Operational Entities are required under the Contractual Arrangements to obtain Feidong’s prior written consent before they transfer, assign or dispose of any of their intellectual properties to any third party. Our PRC legal advisers are of the opinion that (i) such provision relating to the intellectual properties will not result in these agreements being challenged by the relevant government authorities in the PRC; (ii) it is legal for Feidong to hold the intellectual property rights in relation to the Group’s games; and (iii) that the PRC Operational Entities are in full compliance with the requirements of the Administrative Measures for the Licensing of Telecommunication Business Operations (《電信業務經營許可管理辦法》) and the Circular of the Ministry of Information Industry on Intensifying the Administration of Foreign Investment in Value-added Telecommunications Services (《信息產業部關於加強外商投資經營電信業務管理的通知》). The Exclusive Business Cooperation Agreements are for an initial term of ten years and may be extended by Feidong for a term determined by Feidong.

Share Pledge Agreements

Each of the PRC Operational Entities, its respective shareholders and Feidong entered into share pledge agreements in July 2012, which were amended and restated on [September 12,] 2013 (the “Share Pledge Agreements”). Under the Share Pledge Agreements, the shareholders of the PRC Operational Entities pledged all of their respective equity interests in the PRC Operational Entities to Feidong as collateral security for all of their

CONTRACTUAL ARRANGEMENTS

payments due to Feidong and to secure performance of their obligations under the Exclusive Business Cooperation Agreements. The Share Pledge Agreements do not terminate until all obligations of the PRC Operational Entities and their respective shareholders are satisfied in full and until Feidong exercises its exclusive options to purchase the entire equity interests in the PRC Operational Entities pursuant to the terms of the Exclusive Option Agreements when it is permitted to do so under the applicable PRC laws. In addition, under the Exclusive Option Agreements, none of the shareholders of the PRC Operational Entities may transfer or permit the encumbrance of any of his equity interests in the PRC Operational Entities without Feidong's prior written consent. Furthermore, under the Exclusive Business Cooperation Agreements, Feidong is entitled to retain and exercise physical control of company seals and certificates that are crucial to the daily operations of the PRC Operational Entities, which further strengthens the protection of Feidong's interests over the PRC Operational Entities under the Contractual Arrangements. Should an event of default (as provided in the Share Pledge Agreements) occur, unless it is successfully resolved to Feidong's satisfaction within 30 days of notice, Feidong may demand that the shareholders of the PRC Operational Entities immediately pay all outstanding payments due under the Exclusive Business Cooperation Agreements, repay any loans and make all other payments due to it, and/or dispose of the pledged equity interests and use the proceeds to repay any outstanding payments due to Feidong. Our PRC legal advisers confirm that the Share Pledge Agreements have been duly registered with the relevant PRC legal authority pursuant to PRC laws and regulations.

Powers of Attorney

Each of the shareholders of the PRC Operational Entities executed an irrevocable power of attorney in June and July 2012, which were amended and restated on [September 12,] 2013 (the "Powers of Attorney"), appointing Feidong as its exclusive agent and attorney to act on their behalf on all matters concerning the PRC Operational Entities and to exercise all of their rights as registered shareholders of the PRC Operational Entities. These rights include the right to propose, convene and attend shareholders' meetings, the right to sell, transfer, pledge or dispose of shares, the right to exercise shareholders' voting rights and to appoint the legal representative (chairperson), the director, supervisor, the chief executive officer (general manager) and other senior management members of the PRC Operational Entities. As a result of the Powers of Attorney, the Company, through Feidong, is able to exercise management control over the activities that most significantly impact the economic performance of the PRC Operational Entities. On [September 12], 2013, the Powers of Attorney were further revised and supplemented to the effect that (i) the authorized person can also be a director of Feidong's successor (including a liquidator replacing Feidong's director), (ii) the authorized person is entitled to sign minutes, file documents with the relevant companies registry and exercise voting rights on the winding up of any of the PRC Operational Entities on behalf of its respective shareholders, and (iii) the shareholders of the PRC Operational Entities undertake to cause the PRC Operational Entities to transfer all assets obtained after the winding up of the PRC Operational Entities to Feidong at nil consideration or a lowest price permissible by the then applicable laws. The amendments to the Powers of Attorney grant our Directors, successors including a liquidator the power to exercise all rights of the shareholders of the PRC Operational Entities. The shareholders of the PRC Operational Entities shall terminate the Powers of Attorney once Feidong is allowed to directly hold the equity interests in the PRC Operational Entities under the PRC laws and Feidong or its subsidiary are allowed to conduct webpage and mobile game operations under PRC laws.

Dispute Resolution

Each of the Contractual Arrangements stipulates that the parties shall negotiate in good faith to resolve the dispute in the event of any dispute with respect to the construction and performance of the provisions. In the event the parties fail to reach an agreement on the resolution of such a dispute within 30 days after any party's request for resolution of the dispute through negotiations, any party may submit the relevant dispute to the China International Economic and Trade Arbitration Commission for arbitration, in accordance with the then effective arbitration rules. The arbitration shall be conducted in Beijing, and the language used during arbitration shall be

CONTRACTUAL ARRANGEMENTS

Chinese. The arbitration ruling shall be final and binding on all parties. Any party shall have the right to apply to the courts with competent jurisdiction for enforcement of arbitration rulings after the arbitration rulings come into force.

They also provide that the arbitral tribunal may award remedies over the shares or land assets of the PRC Operational Entities, injunctive relief (e.g. for the conduct of business or to compel the transfer of assets) or order the winding up of the PRC Operational Entities; and the courts of Hong Kong and the Cayman Islands (being the place of incorporation of the Company) also have jurisdiction for the grant and/or enforcement of the arbitral award and the interim remedies against the shares or properties of the PRC Operational Entities.

However, our PRC legal advisers have advised that the tribunal normally would not grant such kind of injunctive relief or winding up order of the PRC Operational Entities under the PRC laws. For instance, the arbitral tribunal has no power to grant such injunctive relief, nor will it be able to order the winding up of the PRC Operational Entities pursuant to the current PRC laws. In addition, interim remedies or enforcement order granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in China.

Succession

The provisions set out in the Contractual Arrangements are also binding on the successors of the shareholders of the PRC Operational Entities, as if the successor was a signing party to the Contractual Arrangements. Although the Contractual Arrangements do not specify the identity of successors to such shareholders, under the succession law of the PRC, the statutory successors include the spouse, children, parents, brothers, sisters, paternal grandparents and the maternal grandparents and any breach by the successors would be deemed to be a breach of the Contractual Arrangements. In case of a breach, Feidong can enforce its right against the successors. Pursuant to the amended and restated Contractual Arrangements, any inheritor of the respective shareholders of the PRC Operational Entities shall inherit any and all rights and obligations of the registered shareholders under the Contractual Arrangements as a result of their death, as if the inheritor was a signing party to such Contractual Arrangements.

Further, each of the shareholders of the PRC Operational Entities executed an irrevocable undertaking on January 25, 2013 pursuant to which the shareholders undertake, in the event of death or any other event which causes the inability of the shareholder to perform their day-to-day obligations, to transfer all of the equity interests, including rights and obligations in the PRC Operational Entities held by the relevant shareholder without consideration to an individual or legal entity designated by Feidong under applicable PRC law. The undertaking further provides that in the event of divorce of the shareholder (i) any equity interests held by the relevant shareholder over the PRC Operational Entities will not fall within the scope of his community properties; (ii) any management decisions made by the relevant shareholders will not be subject to the influence of his spouse; (iii) the relevant shareholder shall take any and all appropriate actions to ensure the implementation of the Contractual Arrangements; and (iv) the relevant shareholder shall not take any actions that are in conflict with the purpose and intention of the Contractual Arrangements or the instructions of Feidong.

In addition, the spouses of each of the respective shareholders executed an irrevocable undertaking on January 25, 2013 whereby the spouses expressly and irrevocably (i) acknowledge that any equity interests held by the shareholders do not fall within the scope of their community properties; (ii) they will not have any claim on the interests of the PRC Operational Entities obtained through the Contractual Arrangements; (iii) they have never and will not participate in the operation or management of the PRC Operational Entities.

Therefore, our PRC legal advisers are of the view that (i) the Contractual Arrangements provide protection to the Group even in the event of death of the shareholders of the PRC Operational Entities; and (ii) the death of the such shareholders would not affect the validity of the Contractual Arrangements, and Feidong can enforce its right under the Contractual Arrangements against the successors of such shareholders.

CONTRACTUAL ARRANGEMENTS

Arrangements to Address Potential Conflicts of Interests

The shareholders of the PRC Operational Entities undertake that during the period that the Contractual Arrangements remain effective, (i) unless otherwise agreed to by Feidong in writing, the relevant shareholder would not, directly or indirectly (either on his own account or through any natural person or legal entity) participate, or be interested, or engage in, acquire or hold (in each case whether as a shareholder, partner, agent, employee or otherwise) any business which is or may potentially be in competition with the businesses of the PRC Operational Entities or any of its affiliates; and (ii) any of his actions or omissions would not lead to any conflict of interest between him and Feidong (including but not limited to its shareholders). Furthermore, in the event of the occurrence of a conflict of interests (where Feidong has the sole absolute discretion to determine whether such conflict arises), he agrees to take any appropriate actions as instructed by Feidong.

Loss Sharing

None of the agreements constituting the Contractual Arrangements provide that the Company or its wholly-owned PRC subsidiary, Feidong, is obligated to share the losses of the PRC Operational Entities or provide financial support to the PRC Operational Entities. Further, each of the PRC Operational Entities is a limited liability company and shall be solely liable for its own debts and losses with assets and properties owned by it. Under PRC laws and regulations, the Company or Feidong, as the primary beneficiary of the PRC Operational Entities, is not expressly required to share the losses of the PRC Operational Entities or provide financial support to the PRC Operational Entities. Despite the foregoing, given that the Group conducts its businesses in the PRC through the PRC Operational Entities which hold the requisite PRC licenses and approvals, and that the PRC Operational Entities' financial condition and results of operations are consolidated into the Group's financial condition and results of operations under the applicable accounting principles, the Company's business, financial condition and results of operations would be adversely affected if the PRC Operational Entities suffer losses.

However, as provided in the Exclusive Option Agreements, without the prior written consent of Feidong, the PRC Operational Entities (i) shall not sell, transfer, pledge or dispose of in any manner any of its assets; (ii) execute any material contract, except the contracts in the ordinary course of business in excess of RMB100,000; (iii) merge, consolidate with, acquire or invest in any person, and/or cause or permit the PRC Operational Entities to sell assets with a value higher than RMB 100,000; (iv) provide any loan, credit or guarantees in any form to any third party, or allow any third party create any other security interest on its assets or equity; (v) shall not incur, inherit, guarantee or allow any debt that is not incurred in the ordinary course of business; (vi) shall not enter into any consolidation or merger with any third party, or acquire or invest in any third party; (vii) shall not increase or reduce its registered capital, or alter the structure of the registered capital in any other way. Therefore, due to the relevant restrictive provisions in the agreements, the potential adverse effect on Feidong and the Company in the event of any loss suffered from the PRC Operational Entities can be limited to certain extent.

Liquidation

Pursuant to the Exclusive Option Agreements, in the event of a mandatory liquidation required by the laws of PRC, the relevant PRC Operational Entities shall sell all of its assets and any residual interest through a non-reciprocal transfer to the extent permitted by the laws of PRC to Feidong or another qualifying entity designated by Feidong, at the lowest selling price permitted by applicable laws of the PRC. Any obligation for Feidong to pay the PRC Operational Entities as a result of such transaction shall be waived by the PRC Operational Entities or any proceeds from such transaction shall be paid to Feidong or the qualifying entity designated by Feidong in partial satisfaction of the service fees under the Exclusive Business Cooperation Agreements, as applicable under the then current laws of the PRC. Accordingly, in a winding up of the PRC Operational Entities, a liquidator may seize the assets of the PRC Operational Entities through Feidong based on the Contractual Arrangements for the benefit of the Company's creditors/shareholders.

CONTRACTUAL ARRANGEMENTS

Pursuant to the Exclusive Option Agreements, each of Feidong or its designee within our Group has an irrevocable and exclusive right to purchase from the respective registered shareholders all or any part of their equity interests in the PRC Operational Entities for a nominal price, unless the relevant government authorities request that another amount be used as the purchase price and in which case the purchase price shall be such amount. Where the purchase price is required by the relevant government authorities to be an amount other than a nominal amount, the Founders shall return the amount of purchase price they have received to Feidong. Through exercising such option at the time when PRC laws allow webpage or mobile game businesses to be operated by a foreign invested company such as Feidong, all equity interests of the PRC Operational Entities will be transferred by the respective registered shareholders to Feidong. As a result of the aforementioned share transfer, the relevant Share Pledge Agreement(s) and Power(s) of Attorney will be terminated simultaneously since the respective registered shareholders will not hold any equity interests in the PRC Operational Entities.

Termination

Each of the Contractual Arrangements provides that Feidong and the PRC Operational Entities shall terminate the Contractual Arrangements once Feidong is allowed to hold the PRC Operational Entities' equity interests under the PRC laws and if Feidong or its subsidiaries are able to conduct webpage and mobile game operations under the PRC laws. In addition, pursuant to the Exclusive Business Cooperation Agreements, Feidong has the unilateral right to terminate these agreements at any time by providing 30 days' advance written notice to the PRC Operational Entities. The PRC Operational Entities are not permitted to terminate the Exclusive Business Cooperation Agreements unless Feidong commits gross negligence or a fraudulent act against it. If any of the PRC Operational Entities believes that Feidong has committed such an act, it must immediately notify Feidong in writing, following which Feidong has 30 days to rectify the situation before the PRC Operational Entities may terminate the Exclusive Business Cooperation Agreement.

Insurance

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

Company's Confirmation

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

Legality of the Contractual Arrangements

Feidong's right to deal with the pledged equity interest in the PRC Operational Entities under the Share Pledge Agreements and its option to acquire the equity interest in the PRC Operational Entities under the Exclusive Option Agreements are confined to be carried out in a manner as permitted by the relevant PRC laws. Further, the pledge created under the Share Pledge Agreements shall only become effective upon such pledge having been duly registered in Feidong's register of members and with the relevant Administration for Industry and Commerce of the PRC. Based on the above, our PRC legal advisers, are of the opinion that the Contractual Arrangements are narrowly tailored to minimize the potential conflict with relevant PRC laws and regulations.

Our PRC legal advisers are also of the opinion that:

- (a) each of Feidong and the PRC Operational Entities is an independent legal entity which is duly incorporated, and their respective establishment is valid, effective and complies with the relevant PRC laws; each of Feidong and the PRC Operational Entities has also obtained all necessary approvals and completed all registration procedures as required by the applicable PRC laws and regulations and has the capacity to carry out business operations in accordance with their respective license;

CONTRACTUAL ARRANGEMENTS

- (b) each of the agreements under the Contractual Arrangements is legal, valid and binding on the parties thereto;
- (c) each of the agreements under the Contractual Arrangements does not violate any provisions of the articles of association of the PRC Operational Entities;
- (d) the Contractual Arrangements do not require any approvals from the PRC governmental authorities, except that the Share Pledge Agreements are subject to registration requirement with the relevant Administration of Industry and Commerce, registration of which have been duly completed;
- (e) no approvals or confirmation on the validity and legality of the agreements under the Contractual Arrangements was required from any authorities in the PRC;
- (f) the Contractual Arrangements are in full compliance with and enforceable under applicable PRC laws and regulations, except that the Contractual Arrangements provide that the arbitral body may award remedies over the shares and/or assets of the PRC Operational Entities, injunctive relief and/or winding up of the PRC Operational Entities, and that courts of competent jurisdictions are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal, while under PRC laws, an arbitral body has no power to grant injunctive relief and may not directly issue a provisional or final liquidation order for the purpose of protecting assets of or equity interests in the PRC Operational Entities in case of disputes. In addition, interim remedies or enforcement orders granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in China; and
- (g) the consummation of the [●] is not a violation of the Rules on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors 《關於外國投資者併購境內企業的規定》, which was adopted by six PRC regulatory agencies, including MOFCOM and the China Securities Regulatory Commission, and effective since September 2006.

Notwithstanding the foregoing, our PRC legal advisers conducted an interview with Guangdong Department of Culture (廣東省文化廳) in March 2013, who provided oral confirmation that they have no objection to the Contractual Arrangements and that the Contractual Arrangements do not violate any PRC laws or regulations concerning online game operations.

In accordance with Article 3 of Online Game Measures and Article 2 of Interpretation of the State Commission Office for Public Sector Reform on Several Provisions relating to Animation, Online Game and Comprehensive Law Enforcement in Culture Market in the 'Three Provisions' jointly promulgated by the MOC, the State Administration of Radio Film and Television (SARFT) and the General Administration of Press and Publication of the PRC (GAPP) 《中央編辦對文化部、廣電總局、新聞出版總署 ("三定" 規定) 中有關動漫、網路遊戲和文化市場綜合執法的部分條文的解釋》 (the "Interpretation") issued by the State Commission Office for Public Sector Reform (a division of the State Council) effective from September 7, 2009, MOC is the competent government authority for the administration of online games in the PRC. Articles 6 and 7 of Online Game Measures provide that a company engaged in online game business shall be equipped with certain conditions and obtain the Network Cultural Business Permit 《網絡文化經營許可證》 from the relevant provincial level branch of MOC. Articles 29-35 of Online Game Measures and Article 2 of the Interpretation also provide that the county-level and upper-level branches of the MOC, together with their affiliates, have the authority to enforce online game regulations and impose penalties on online game companies that violate the relevant regulations or rules.

Feidong and our PRC Operational Entities are all located in Guangzhou, Guangdong Province and engage in the online game development or publishing businesses. Therefore, according to the aforementioned regulations, Guangdong Department of Culture (廣東省文化廳) is the competent government authority to administer the online game business of the Company in the PRC. As confirmed by our PRC legal advisers, Guangdong

CONTRACTUAL ARRANGEMENTS

Department of Culture (廣東省文化廳) is responsible for the review, approval and issuance of the Network Cultural Business Permits and the general administration of online game companies in Guangdong Province.

On September 28, 2009, the GAPP, together with the National Copyright Administration and the National Office of Combating Pornography and Illegal Publications, jointly issued the Notice Regarding the Consistent Implementation of the "Regulation on Three Provisions" of the State Council and the Relevant Interpretations of the State Commission Office for Public Sector Reform and the Further Strengthening of the Administration of Pre-examination and Approval of Online Games and the Examination and Approval of Imported Online Games (《關於貫徹落實國務院〈“三定”規定〉和中央編辦有關解釋，進一步加強網路遊戲前置審批和進口網路遊戲審批管理的通知》), or the GAPP Notice. Article 4 of the GAPP Notice provides that foreign investors are not permitted to invest or engage in online game operations in China through wholly-owned subsidiaries, equity joint ventures or cooperative joint ventures, and expressly prohibits foreign investors from gaining control over or participating in domestic online game operations indirectly by establishing other joint venture companies, establishing contractual arrangements or providing technical support.

Our PRC legal advisers interviewed Guangdong Press and Publication Bureau (廣東省新聞出版局), the local branch of the GAPP, in August 2013 with respect to the GAPP Notice and its implementation status. Based on the interview, our PRC legal advisers are of the view that the adoption of the Contractual Arrangements does not constitute a breach or violation of the GAPP Notice in the view of the government authorities competent to regulate the online gaming industry in the PRC and will not result in any administrative proceedings or penalties on us based on the following reasons:

- (i) according to the Regulation on the Main Functions, Internal Organization and Staffing of the GAPP (《“三定”規定》) issued by the General Office of the State Council on July 11, 2008, the GAPP is authorized to review and approve publication of online games before launch on the Internet, while the MOC is authorized to administer and regulate the overall online gaming industry;
- (ii) according to the Notice on Interpretation of the State Commission Office for Public Sector Reform on Several Provisions relating to Animation, Online Game and Comprehensive Law Enforcement in Culture Market in the "Three Provisions" jointly promulgated by the MOC, the State Administration of Radio Film and Television, or the SARFT, and the GAPP (《關於印發〈中央編辦對文化部、廣電總局、新聞出版總署“三定”規定中有關動漫、網路遊戲和文化市場綜合執法的部分條文的解釋〉的通知》), which was issued by the State Commission Office for Public Sector Reform (a division of the State Council) and became effective on September 7, 2009, after an online game is launched on the Internet, the MOC has the sole regulatory authority, and that even if an online game is launched on the Internet without prior approval of the GAPP, the MOC (instead of the GAPP) has the direct authority for investigation and enforcement;
- (iii) no implementation rule or interpretation on Article 4 of the GAPP Notice has been issued by the GAPP or any other PRC regulatory authority. In practice, Guangdong Press and Publication Bureau has never, individually or collectively with other PRC regulatory authorities, imposed any administrative proceedings or penalties on any online game company under Article 4 of the GAPP Notice. Guangdong Press and Publication Bureau defers to Guangdong Department of Culture (廣東省文化廳), who has the regulatory authority to regulate the online gaming industry in Guangdong, as to whether our Contractual Arrangements violate the relevant PRC laws and regulations on foreign investment in online gaming industry; and
- (iv) Guangdong Department of Culture (廣東省文化廳) confirmed to our PRC legal advisers, during an interview in March 2013 that they have no objection to our Contractual Arrangements and that our Contractual Arrangements do not violate any PRC laws or regulations concerning online game operations.

CONTRACTUAL ARRANGEMENTS

Guangdong Press and Publication Bureau has also confirmed during the interview that our online game operations in the PRC are in compliance with its regulatory requirements and it will not impose any administrative proceedings or penalties on us as a result of the adoption of the Contractual Arrangements. Please refer to the section headed “Risk Factors — Risks Relating to Our Contractual Arrangements — If the PRC government finds that the agreements that establish the structure for operating our China business do not comply with PRC laws and regulations, or if these regulations or their interpretations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations.”

Based on the above analysis and advice from our PRC legal advisers the Directors are of the view that the Contractual Arrangements are not likely to be challenged by the relevant authorities in the PRC. The [●] are of the view that Guangdong Department of Culture (廣東省文化廳) and the personnel consulted in the interview are competent and authorized to interpret the relevant laws, regulations and rules of the PRC in respect of the Contractual Arrangements for the industry in which the Company operates its business and make the abovementioned oral confirmation. We are also advised by our PRC legal advisers that the transfer of economic benefits from the PRC Operational Entities to Feidong, and the pledging of the entire equity interest in the PRC Operational Entities to Feidong under the Contractual Arrangements would not be deemed a violation of the relevant PRC laws and regulations. Our PRC legal advisers are of the opinion that the Contractual Arrangements will not be challenged by the PRC tax authorities or other government authorities, provided that Feidong and the PRC Operational Entities implement the Contractual Arrangements in accordance with the terms therein, unless the PRC tax authorities determine that such transactions are not conducted on an arm’s length basis. Please refer to the section headed “Risk Factors — Risks Relating to Our Contractual Arrangements — Our Contractual Arrangements may be subject to scrutiny by the PRC tax authorities and additional taxes may be imposed. A finding that we have additional tax payment obligations could substantially reduce our consolidated net income and the value of your investment.”

We are aware of recent press articles reporting that certain PRC court rulings and arbitral decisions have invalidated certain agreements which were deemed to be for the intention of circumventing foreign investment restrictions in the PRC, holding that the agreements violated the prohibition against “concealing an illegitimate purpose under the guise of legitimate acts” set out in Article 52 of the PRC Contract Law and the General Principles of the PRC Civil Law. It has been further reported that these court rulings and arbitral decisions may increase (i) the possibility of the PRC courts and/or arbitration panels taking similar actions against contractual structures commonly adopted by foreign investors to engage in restricted businesses in the PRC and (ii) the incentive for shareholders of PRC operational entities under such contractual structures to renege on their contractual obligations. Pursuant to Article 52 of the PRC Contract Law, a contract is void under any of the following five circumstances: (i) the contract is concluded through the use of fraud or coercion by one party and thereby damages the interest of the State; (ii) malicious collusion is conducted to damage the interest of the State, a collective unit or a third party; (iii) the contract damages the public interest; (iv) an illegitimate purpose is concealed under the guise of legitimate acts; or (v) the contract violates the mandatory provisions of the laws and administrative regulations. Our PRC legal advisers are of the view that the relevant terms of our Contractual Arrangements do not fall within any of the aforementioned five circumstances, and in particular, would not be deemed as “concealing an illegitimate purpose under the guise of legitimate acts” under Article 52 of the PRC Contract Law, and do not violate the provisions of the PRC Contract Law or the General Principles of the PRC Civil Law.

Please refer to the section headed “Business — Legal proceedings and compliance” for details of the compliance history of our Group.

CONTRACTUAL ARRANGEMENTS

Accounting Aspects of the Contractual Arrangements

Consolidation of Financial Results of the PRC Operational Entities

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

Under the Exclusive Business Cooperation Agreements entered into by and among Feidong and each of the PRC Operational Entities, it was agreed that, in consideration of the services provided by Feidong, each of the PRC Operational Entities will pay monthly service fees to Feidong. The service fee, subject to Feidong's adjustment, is equal to 100% of the net income of the PRC Operational Entities and may also include accumulated earnings of the PRC Operational Entities from previous financial periods. Feidong may adjust the service fee at its sole discretion and allow the PRC Operational Entities to retain sufficient working capital to carry out any growth plans. The PRC Operational Entities shall deliver to Feidong their management accounts and operating statistics for such month. Accordingly, Feidong has the ability, at its sole discretion, to extract substantially all of the economic benefit of the PRC Operational Entities through the Exclusive Business Cooperation Agreements.

In addition, under the Exclusive Option Agreements among the parties, Feidong has absolute control over the distribution of dividends or any other amounts to the shareholders of the PRC Operational Entities as Feidong's prior written consent is required and Feidong can request for immediate distribution of profits to be made.

Further, under the Powers of Attorney, Feidong assumes all rights as shareholder and exercises control over the PRC Operational Entities, including the right to propose, convene and attend shareholders' meetings, the right to sell, transfer, pledge or dispose of shares, the right to exercise shareholders' voting rights and to appoint the legal representative (chairperson), the director, supervisor, the chief executive officer (general manager) and other senior management members of the PRC Operational Entities. As a result of these agreements, the Company has obtained control of the PRC Operational Entities through Feidong and, under the Company's sole discretion, can receive substantially all of the economic interest returns generated by the PRC Operational Entities. Accordingly, the PRC Operational Entities' results of operations, assets and liabilities, and cash flows are consolidated into the Company's financial statements.

In this regard, our accountant has issued unqualified opinion on our Group's consolidated financial information for the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, which include the financial results of the PRC Operational Entities being consolidated into our Group's financial information as if they were our Group's subsidiaries, is included in the Accountant's Report in Appendix I of this document.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

On March 15, 2013, Mr. Wang, Mr. Huang, Mr. Liao and Mr. Zhuang, as the settlor and protector established the Wang Trust, Keith Huang Trust, Hao Dong Trust and ZHUANGJG Trust, respectively, with Managecorp Limited acting as the trustee. On the same day, Mr. Wang, Mr. Huang, Mr. Liao and Mr. Zhuang transferred by way of gift at no consideration to Managecorp Limited all their shareholding interests in Foga Group, Foga Networks, Foga Holdings and Foga Development, which in turn held approximately 20.94%, 12.37%, 17.13% and 20.94% (in aggregate, approximately 71.39%), respectively, of the then-issued share capital of the Company. Pursuant to the Family Trusts, Managecorp Limited holds the shares on trust for the benefit of Mr. Wang, Mr. Huang, Mr. Liao and Mr. Zhuang and certain of their respective family members, as the case may be. Please refer to the section headed "Our History and Reorganization—Establishment of Family Trusts" for details of the Family Trusts.

Foga Group, Foga Networks, Foga Holdings, Foga Internet Development and Foga Development were established by Mr. Wang, Mr. Huang, Mr. Liao, Mr. Yang and Mr. Zhuang (together, our "Controlling Shareholders") respectively. The Controlling Shareholders have been jointly managing our Group during the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013 and the voting rights held by our Controlling Shareholders in our Company, our subsidiaries and our PRC Operational Entities, were exercised collectively by them or through the companies controlled by them (by and on behalf of each of them).

Our Founders were the ultimate owners of the Group and operated the game business through the PRC Operational Entities. On January 5, 2013, Mr. Wang, Mr. Huang, Mr. Liao, Mr. Yang and Mr. Zhuang executed the Memorandum, where among other things, they confirmed:

- (i) the previous oral agreement entered into by our Controlling Shareholders upon their acquisition of equity interests in Feiyin and Weidong in September 2009 to exercise common control over Feiyin and Weidong at that time and subsequently our Company, our subsidiaries and our PRC Operational Entities. Our PRC legal advisers have advised us that the previous oral agreement is legal, valid and enforceable under the applicable PRC laws and regulations;
- (ii) that during the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, each party in their capacities as shareholders exercised common control over our Company, our subsidiaries and our PRC Operational Entities where they cooperated with each other to reach consensus on all important corporate decisions relating to our operations at the shareholders and board levels;
- (iii) that each party has, either themselves or through their respective representatives, participated in shareholders meetings and board meetings on important operational and financial decisions regarding our Company, our subsidiaries and our PRC Operational Entities, and they have reached a unanimous decision on every occasion;
- (iv) in the event there was any difference in opinion concerning material issues of our Company, our subsidiaries and our PRC Operational Entities, each Controlling Shareholder has, either themselves or through their respective representatives, together engaged in thorough discussion which took into account the views of every party and ultimately reached a final, unanimous decision which was then adopted and implemented according to the relevant resolutions;
- (v) that during the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013 to the Latest Practicable Date, no party had raised any objection or disputes regarding the subject matter of the Memorandum;

In addition, the Controlling Shareholders also confirmed that the common control over the Group would continue from the date of the Memorandum except where the following occur:

- an offshore listing of interests in our Company, or any entity with interest in our subsidiaries or our PRC Operational Entities; or
- a material change in the ownership of the equity interests in our Company, our subsidiaries or our PRC Operational Entities,

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

upon the occurrence of which the parties to the Memorandum will revisit the common control arrangement, and will enter into an agreement to re-confirm their common control arrangement as they see fit. The parties confirm that they do not intend to exercise any common control over the Group after [●] and accordingly, the common control arrangement will automatically lapse upon [●].

Our PRC legal advisers have advised us that the Memorandum is legal, valid and enforceable under the applicable PRC laws and regulations.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

As of the Latest Practicable Date, none of our Controlling Shareholders were engaged or had interests, in any business which, directly or indirectly, competes or may compete with our Group’s business, i.e. business of game development and game platform operation, which is discloseable under [●]. Our Founders have each given a non-compete undertaking to us and the Series A Investors whereby each of the Founders undertakes, for so long as he is a director, officer, employee or holds any equity interests directly or indirectly in our Group, for two years after he ceases to be a director, officer, employee or holder of any equity interests in our Group, not to (i) own, manage, engage, operate, control, do business with, maintain any interest in or participate in the ownership, management, operation or control of any business that is related to the business of our Group or otherwise competes with our Group (the “Restricted Business”), provided that such restriction does not prohibit the Founders from acquiring, directly or indirectly, less than 1% of the outstanding share capital of any publicly traded company engaged in a Restricted Business; (ii) solicit any person who is or has been at any time a customer of the Group for offering goods or services similar to or competing with those offered by our Group, or solicit any person who is or has been at any time a supplier, licensor or customer of our Group for the purpose of inducing any such person to terminate its business relationship with our Group; or (iii) solicit or entice away or endeavor to solicit or entice away any director, officer, consultant or employee of our Group. Our Directors do not expect that there will be any significant transactions between our Group and our Controlling Shareholders upon or shortly after [●]. Our Directors believe that our Group is capable of carrying on its business independent of our Controlling Shareholders without unduly relying upon them, taking into consideration the following factors:

Operational Independence

We do not rely on our Controlling Shareholders for our supply, business development, staffing or marketing and sales activities. We have our own headcount of employees for our operations and management for human resources.

We have independent access to suppliers and customers and an independent management team to handle our day-to-day operations. We are also in possession of all relevant licenses necessary to carry on and operate our business and we have sufficient operational capacity in terms of capital and employees to operate independently. Our Directors are of the view that there is no operational dependence by us on our Controlling Shareholders.

Management Independence

Our Board of Directors consists of nine Directors, of whom four are Executive Directors, two are Non-executive Directors and three are Independent Non-executive Directors. Please refer to the section headed “Directors and Senior Management” for details. Mr. Wang, Mr. Huang, Mr. Liao and Mr. Zhuang are our Executive Directors while Mr. Yang is a member of our senior management and together are our Controlling Shareholders.

None of our Directors or senior management members holds any position in any of the companies in which our Controlling Shareholders are interested other than those within our Group.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

We consider that our Board and senior management will function independently from our Controlling Shareholders because:

- (i) each Director is aware of his fiduciary duties as a Director which require, among other things, that he acts for the benefit and in the best interest of our Company and does not allow any conflict between his duties as a Director and his personal interests;
- (ii) the three Independent Non-executive Directors have extensive experience in different areas and have been appointed in accordance with the requirements under the relevant rules to ensure that the decision of the Board are made only after due consideration of independent and impartial opinions;
- (iii) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates (“Conflicting Transaction”), the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions, and shall not be counted in forming quorum. The interested Director(s) shall not attend any independent board committee meetings comprising our Independent Non-executive Directors only. In the event that there is a Conflicting Transaction which shall be submitted to our Independent Non-executive Directors for their consideration and approval, they shall have extensive experience and knowledge to oversee such a Conflicting Transaction from different aspects;
- (iv) our Company has also established internal control mechanism to identify related party transactions to ensure that our Controlling Shareholders or Directors with conflicting interests in a proposed transaction will abstain from voting on the relevant resolutions;
- (v) in order to allow the non-conflicting members of the Board to function properly with the necessary professional advice, our Company will engage a third party professional adviser to advise the Board when necessary, depending on the nature and significance of any proposed transactions to be entered into between our Group and our Directors or their respective associates.

Having considered the above factors, our Directors are satisfied that they are able to perform their roles in our Company independently and manage the business of the Group independently from our Controlling Shareholders after [●].

Financial Independence

Our Group has an independent financial system and make financial decisions according to our own business needs.

Our Directors confirmed that as of the Latest Practicable Date, none of our Controlling Shareholders or their respective associates had provided any loans, guarantees or pledge to our Group.

Our Directors confirm that we will not rely on our Controlling Shareholders for financing after [●] as we expect that our working capital will be funded by the proceeds from [●] and cash flow from operations.

Based on the above reasons, our Company considered there is no financial dependence on our Controlling Shareholders.

CORPORATE GOVERNANCE

Our Company has adopted the [●] and will comply with the code provisions in the [●]. The [●] sets out principles of good corporate governance in relation to, among other matters, directors, the chairman and chief executive officer, board composition, the appointment, re-election and removal of directors, their responsibilities and remuneration and communications with shareholders.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Our Company is also required to comply with [●], which provides, among other matters, prohibitions on directors' dealings in securities and protection of minority shareholders' rights.

Our Directors are therefore satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interest between our Group and our Controlling Shareholders, and to protect minority shareholders' rights after [●].

Our Company is committed to the view that our Board should include a balanced composition of Executive and Non-executive Directors (including Independent Non-executive Directors) so that there is a strong independent element on our Board which can effectively exercise independent judgment. Our Independent Non-executive Directors, details of whom are set out in the section headed "Directors and Senior Management," individually and together possess the requisite knowledge and experience to be a member of our Board. All of our Independent Non-executive Directors are experienced and will provide impartial and professional advice to protect the interest of our minority Shareholders.

CONFIRMATION

Except as disclosed above, as of the Latest Practicable Date, neither our Controlling Shareholders nor any of our Directors were interested in the business of game development and game platform operation, other than our Group, which, competes or is likely to compete, either directly or indirectly, with our Group's business and which requires disclosure pursuant to the relevant rules.

DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Our Board of Directors consists of nine Directors, of whom four are Executive Directors, two are Non-executive Directors and three are Independent Non-executive Directors. Our Board is responsible and has general powers for the management and conduct of our business. The table below shows certain information in respect of the members of the Board of Directors of our Company:

Name	Age	Position/Title	Date of Appointment	Role and Responsibility
<i>Executive Directors</i>				
WANG Dongfeng (汪東風)	37	Chairman and Executive Director	July 26, 2011	In charge of the overall development, operation and management of the Company’s business
HUANG Weibing (黃衛兵)	33	Executive Director	June 15, 2012	In charge of managing research and development
LIAO Dong (廖東)	27	Executive Director	June 15, 2012	In charge of the operations and marketing of the Company
ZHUANG Jieguang (莊捷廣)	31	Executive Director	June 15, 2012	In charge of managing research and development
<i>Non-executive Directors</i>				
TAN Hainan (譚海男)	35	Non-executive Director	June 15, 2012	Supervises the management of the Company
TUNG Hans (童士豪)	43	Non-executive Director	June 15, 2012	Supervises the management of the Company
<i>Independent Non-executive Directors</i>				
LEVIN Eric Joshua	50	Independent Non-executive Director	November 1, 2012	Supervises the management of the Company
POON Philana Wai Yin (潘慧妍)	45	Independent Non-executive Director	September 1, 2013	Supervises the management of the Company
ZHAO Cong Richard (趙聰)	63	Independent Non-executive Director	September 1, 2013	Supervises the management of the Company

EXECUTIVE DIRECTORS

WANG Dongfeng (汪東風), aged 37, co-founded the Group in September 2009 and was appointed as our Chairman and Executive Director on July 26, 2011. Since Mr. Wang acquired interests in Feiyin and Weidong, he has been involved in our management in the capacity as a shareholder by making important management decisions. Mr. Wang has also been the Chief Executive Officer of our Company since July 2011 and was appointed as the Company’s [●] on February 4, 2013. He is responsible for the overall corporate development and strategic management of the Company’s business and participates in making the Group’s key strategic and operational decisions. In addition, Mr. Wang also sits on the boards of various

DIRECTORS AND SENIOR MANAGEMENT

companies within the Group, including acting as chairman of Foga Tech since August 2011. He also has been serving as Executive Director of our PRC Operational Entities, namely Feiyin and Weidong since May 2011 and Jieyou since June 2012 where he is mainly responsible for overseeing the overall development of the companies and formulating corporate and business strategies.

Mr. Wang has more than 12 years of experience in technology-oriented companies. From January 2005 to October 2008, he was the chief executive officer of ZCOM (北京智通無限科技有限公司) where he was responsible for carrying out the strategies and policies established by ZCOM. Prior to that, he was also the business director of Beijing Feixing Network Music Software Development Co., Ltd (北京飛行網音樂軟件開發有限公司) from April 2000 to August 2004 where he was involved in the operations of the business.

Mr. Wang graduated from Beijing Construction University, the PRC (北京建設大學) in July 1998 where he obtained a college diploma in international trade and global economics. Mr. Wang is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

HUANG Weibing (黃衛兵) (alias: **HUANG Kai** (黃凱)), aged 33, was nominated as co-president of the Company in July 2011 and was appointed as our Executive Director on June 15, 2012. Mr. Huang co-founded the Group in September 2009. Mr. Huang is responsible for managing the research and development of the Company and has more than three years of experience in the webgame industry with the Group. He is also responsible for the overall management of Feiyin, one of the Group's game development brands. In addition, he focuses on leading the Group's business development, in terms of the expansion and maintenance of the Group's publishing network. Mr. Huang was involved in the Group since 2006 through Feiyin where he assumed the position of project manager in Feiyin from October 2006 to September 2009, legal representative and executive director from September 2009 to May 2011, and chief executive officer since May 2011. He was also appointed as director of Foga Tech in June 2012.

Prior to joining the Group, Mr. Huang served as marketing manager of ZCOM (北京智通無限科技有限公司) from September 2005 to October 2006 where he was responsible for product sales. He also took up the role as a programmer in Guangzhou Aochuang Information Technology Co. Ltd* (廣州市奧創信息技術有限公司) from August 2004 to August 2005.

Mr. Huang was awarded a bachelor of engineering degree from Northeast Petroleum University, the PRC (formerly known as Daqing Petroleum Institute) (東北石油大學), with a computer science and technology major in July 2003. Mr. Huang is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

LIAO Dong (廖東), aged 27, was nominated as co-president of the Company in July 2011 and was appointed as our Executive Director on June 15, 2012. Mr. Liao co-founded the Group in September 2009. Mr. Liao is responsible for the operation of the group's game publishing platform, *9Iwan*, as well as the marketing of our Group's games. He also plays an important role in the expansion of our licensed game portfolio through collaborating with high-quality third-party developers. In addition, he has taken up various roles in the Group, namely the chief executive officer of Weidong since January 2007, the executive director of Feidong since June 2012 and the director of Foga Tech since June 2012.

Mr. Liao is also the founder of Foshan Jiyichuang Network Technology Co., Ltd* (佛山市極易創網絡技術有限公司) where he served as general manager from January 2005 to December 2006 and was responsible for overseeing the company's operations in Internet products sales and marketing, such as for Interactive Voice Response (IVR) software.

Mr. Liao graduated from Jiangxi Province Boyang County First Secondary School* (江西省波陽縣第一中學) in June 2001. Mr. Liao is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

DIRECTORS AND SENIOR MANAGEMENT

ZHUANG Jieguang (莊捷廣), aged 31, co-founded the Group in September 2009 and was appointed as our Executive Director and co-president on June 15, 2012. He is responsible for the overall management of Jieyou. In addition, he plays a significant role in setting the strategic direction of the Group's research and development process. Mr. Zhuang has also been serving as a director of Foga Tech since June 2012 and supervisor of Weidong since May 2011. From June 2011 to June 2012, Mr. Zhuang was the consultant of Feiyin where he provided general advice on research.

He has more than four years of experience in the webgame industry. From April 2008 to June 2012, he worked in Guangzhou Jieyou Information Technology Co. Ltd (廣州捷遊信息科技有限公司), a former related-party of the Company until July 2011, where he was responsible for managing the research and development as general manager of the company.

Mr. Zhuang graduated from South China Normal University (華南師範大學), the PRC where he was awarded a college diploma in E-commerce in July 2004. Mr. Zhuang is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

NON-EXECUTIVE DIRECTORS

TAN Hainan (譚海男), aged 35, was appointed as our Non-executive Director on June 15, 2012.

Mr. Tan works for TA Associates Asia Pacific Ltd., where he previously worked in the Menlo Park, California office and was relocated to Hong Kong as director of the China Division since May 2012, where he focuses on investments in growth companies in the PRC. Prior to joining TA Associates Asia Pacific Ltd., he was an associate consultant in Bain & Company, Inc. from August 2004 to July 2006, and was an associate in Crimson Investment SV, LLC from August 2006 to August 2007. From August 2007 to May 2011, he served as vice president of Summit Partners and became the director of Business Development in China from May 2011 where he led the firm's Asia Pacific practice and was responsible for managing transactions in the region. Prior to joining the Group from January 2008 to March 2011, he also served as the non-executive director of Announce Media, a company which provides Internet services.

From September 1999 to June 2004, Mr. Tan attended Northwestern University, Illinois, U.S., where he obtained a concurrent bachelor of arts in economics and Chinese culture and language, and masters of arts in economics. Mr. Tan is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

TUNG Hans (童士豪), aged 43, was appointed as our Non-executive Director on June 15, 2012.

Mr. Tung was a partner of Qiming Weichuang Venture Capital Management (Shanghai) Co., Ltd from September 2007 to May 2011, where he focused on Internet and consumer industry investments. He was promoted to serve as a managing partner of Qiming Cayman, Ltd. and Qiming Weichuang Venture Capital Management (Beijing) Co., Ltd and became the managing director and a member of the investment committee of Qiming Corporate GP III, Ltd., the general partner of Qiming GP III, L.P. (the general partner of Qiming Venture Partners III, L.P.) and Qiming Managing Directors Fund III, L.P. (all the entities mentioned above are also known as the affiliates of "Qiming Venture Partners") in June 2011. He resigned from his positions at the various Qiming entities in July 2013 which became effective on August 31, 2013. Mr. Tung started his career at Merrill Lynch (now known as Bank of America Merrill Lynch) as an analyst from July 1993 to June 1996. He was a founding member of Taipei-based Crimson Asia Capital (亞洲昆仲私募投資公司) from July 1996 to March 1999; of HelloAsia, a pan-Asia focused consumer Internet start-up headquartered in Silicon Valley, from April 1999 to August 2000; and of Asia2B (亞洲匯商網絡控股有限公司), a Hong Kong and Mainland China based e-marketplace backed by leading conglomerates in the region from September 2000 to May 2001. Prior to joining Qiming Venture Partners, he initiated Bessemer Venture Partners' China investment practice from January 2005 to September 2007.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Tung obtained a bachelor of science in industrial engineering from Stanford University, California, U.S. in June, 1995. Mr. Tung is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

Independent Non-executive Directors

LEVIN Eric Joshua, aged 50, was appointed as an Independent Non-executive Director on November 1, 2012.

He has been the financial director of Ecolab (China) Investment Co. Ltd since October 2012, responsible for providing financial advice and overseeing the financial aspects of the company. Mr. Levin also has extensive experience in financial planning of companies. From May 1988 to December 2001, he worked in the Home Box Office, Inc. ("HBO"), New York, a subsidiary of Time Warner, during which time he was responsible for financial planning of the company and was promoted to become the chief financial officer from January 2001 to December 2001 where he led the financial team of HBO. Thereafter and until 2011, he took up various roles in companies in the media and publishing industry. He was the co-founder and chief executive officer of City on Demand, LLC. From 2009 to 2011, Mr. Levin worked at the SCMP Group Limited (HKSE Stock Code: 583), a company listed on the Hong Kong Stock Exchange, as the chief financial officer, where he formulated strategies and established the corporate direction of the company to manage the financial performance of the SCMP Group, and assumed the role as a board member in The Post Publishing Public Company Limited (Stock Code: POST), a company listed on the Stock Exchange of Thailand in Bangkok, which publishes newspapers and magazines.

Mr. Levin obtained a bachelor degree in science, majoring in electrical engineering from the University of Pennsylvania, Philadelphia, U.S. in May 1984 and a master degree in business administration, majoring in finance and economics, from the University of Chicago Business School in March 1988. Save as disclosed herein, Mr. Levin is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

POON Philana Wai Yin (潘慧妍), aged 45, was appointed as an Independent Non-Executive Director on September 1, 2013.

Ms. Poon has been the group company secretary of PCCW Limited (HKSE Stock Code: 0008) (電訊盈科有限公司) ("PCCW"), a Hong Kong based company which holds interests in telecommunications, media, IT solutions, property development and investment, and other businesses, since August 2012, and was previously the group general counsel from February 2004 to November 2011 and company secretary from February 2007 to November 2011 of PCCW. She has also been the group general counsel and company secretary of the HKT Trust and HKT Limited (HKSE Stock Code: 6823) ("HKT"), a Hong Kong based telecommunications service provider majority owned by PCCW since its listing in November 2011 as Hong Kong's first listed investment trust. Ms. Poon is primarily responsible for legal and secretarial matters of the PCCW and HKT Groups. She has over 15 years of post-qualification experience in both private practice and as in-house counsel. Ms. Poon has held various senior positions within the PCCW Group since she joined Hong Kong Telecommunications Limited in March 1998.

In November 1989, Ms. Poon graduated from the University of Toronto, Canada, where she obtained a bachelor of commerce degree. In May 1992, she was awarded a doctor of law degree with specialization in international legal affairs from Cornell University, New York, U.S. Ms. Poon has been serving as an independent non-executive director of AZ Electronic Materials S.A. (ticker: AZEM), a company listed on the London Stock Exchange, since June 2012. Save as disclosed herein, Ms. Poon is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

ZHAO Cong, Richard (趙聰), aged 63, was appointed as an Independent Non-Executive Director on September 1, 2013.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Zhao has been serving as the managing director of Yangtze Ventures Management Limited (長江流域創業管理有限公司) since March 2002. Mr. Zhao has over 20 years of experience in managing and investing in businesses based in Hong Kong and China. From March 2000 to February 2001, he served as a vice president of the venture capital arm of PCCW Limited (HKSE Stock Code: 0008) (電訊盈科有限公司) stationed in Beijing, PRC, where he assisted in completing a number of key investments. From October 1995 to March 2000, Mr. Zhao served as the chief adviser to the president and chief executive officer of China Investment Group Ltd (中國投資集團有限公司), where he was responsible for providing analysis on political and economic issues and investment opportunities in China. From April 1992 to January 1995, he served as the general manager of the China Division of China Strategic Holdings Limited (HKSE Stock Code: 0235) (中策集團有限公司), where he assisted in the completion of numerous joint ventures in China. Prior to that, Mr. Zhao also served as a deputy general manager and a director at Power View Development Ltd. (權景發展有限公司) between 1988 to 1991; a trading manager and a director at Reliance Agency Ltd. (信誼代理有限公司) between 1986 to 1988; and a trading manager and a director at High & Mighty Co. Ltd. (高豪企業有限公司) between July 1983 to July 1986.

Mr. Zhao currently serves as a director in three management service companies, namely Viscon Limited since July 1994, The Yangtze Ventures Management (HK) Limited since March 2002, Yangtze Capital Advisory Limited since June 2007 and an investment holding company, namely Ecoplast Technologies Inc since November 2009. Mr. Zhao also served as a non-executive director of CIG Yangtze Ports PLC (HKSE Stock Code: 8233) (中國基建港口有限公司) from November 2003 to January 2007. In addition, he was admitted as a fellow by the Hong Kong Institute of Directors in July 2006. Save as disclosed herein, Mr. Zhao is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

Save as disclosed above, there was no other matter with respect to the appointment of our Directors that needs to be brought to the attention of our Shareholders.

SENIOR MANAGEMENT

Our senior management is responsible for the day-to-day management of our business. The table below shows certain information in respect of the senior management of our Company:

<u>Name</u>	<u>Age</u>	<u>Position/Title</u>	<u>Date of Appointment</u>
YANG Tao (楊韜)	37	Chief Product Officer	June 15, 2012
NGAN King Leung Gary (顏勁良)	29	Chief Financial Officer	May 1, 2012

YANG Tao (楊韜), aged 37, was appointed as our chief product officer on June 15, 2012. He joined the Group in June 2010 through Feiyin where he was the game producer until November 2011. From December 2011 onwards, he became the vice president where he was in charge of overseeing the development of webgames and products of our Group. Mr. Yang is primarily responsible for the research and development of webgame products at our Company and drives the planning and selection of the genres, features and design of our webgames. Mr. Yang possesses management and development experience in the webgame industry, which is underpinned by his work in pioneering the Company's 凡人修真 (translated as "Soul Guardian") flagship webgame series.

Prior to joining the Group, he was the deputy general manager of Beijing Internet Vision Technology Co. Ltd (北京互聯視通科技有限公司) from July 2007 to August 2008 where he was responsible for managing the research and development of the company.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Yang graduated from Capital University of Economics (首都經濟貿易大學) where he was awarded a college diploma in economics information management in July 1998. Mr. Yang is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

NGAN King Leung Gary (顏勁良), CFA, aged 29, was appointed as our chief financial officer on May 1, 2012 and as our joint company secretary on February 4, 2013. He oversees the corporate finance, investor relations and financial management of our Group, and is also responsible for our Group’s strategy planning and implementation.

Mr. Ngan possesses extensive knowledge in the Internet industry. Prior to joining our Group, he was a director and the head of Hong Kong and China Internet research at UBS AG, where he worked from July 2006 to April 2012. Mr. Ngan graduated from the Wharton School, University of Pennsylvania, U.S., obtaining a Bachelor of Science in Economics degree in June 2006. Mr. Ngan is a CFA charterholder.

Mr. Ngan is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

JOINT COMPANY SECRETARIES

NGAN King Leung Gary and YUNG Mei Yee are our joint company secretaries.

NGAN King Leung Gary (顏勁良), aged 29 is one of our senior management. Please refer to the section headed “— Senior Management — NGAN King Leung Gary” for his biography.

YUNG Mei Yee (翁美儀), is a senior manager of KCS Hong Kong Limited. She has over 20 years of experience in company secretarial field and was appointed as our joint company secretary on February 4, 2013. She has extensive knowledge and experience in dealing with corporate governance, regulatory and compliance affairs of listed companies. She is currently joint company secretary of L’Occitane International S.A. (HKSE stock code: 00973) and China Galaxy Securities Co., Ltd. (HKSE stock code: 06881), both companies are listed on the Hong Kong Stock Exchange. She is a fellow member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom. She holds a Bachelor of Laws degree awarded by the University of London, obtained a Bachelor of Arts degree in Accountancy awarded by City Polytechnic of Hong Kong and completed a Master of Arts in Language and Law in City University of Hong Kong.

BOARD COMMITTEES

We have established the following committees in our Board of Directors: an Audit and Compliance committee, a Remuneration Committee and a Nomination Committee. The committees operate in accordance with terms of reference established by our Board of Directors.

Audit and Compliance Committee

The Company established an Audit and Compliance committee on September 1, 2013. The Audit and Compliance committee consists of two independent non-executive Directors being Mr. Levin Eric Joshua and Ms. Poon Philana Wai Yin, and one non-executive Director being Mr. Tan Hainan. The chairman of the Audit and Compliance committee is Mr. Levin Eric Joshua, who holds the appropriate professional qualifications as required under the relevant rules. The primary duties of the Audit and Compliance committee are to assist our Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of our Group, overseeing the audit process and performing other duties and responsibilities as assigned by our Board.

DIRECTORS AND SENIOR MANAGEMENT

Remuneration Committee

The Company established a Remuneration Committee on September 1, 2013. The Remuneration Committee consists of two independent non-executive Directors being Mr. Zhao Cong Richard and Mr. Levin Eric Joshua, and one non-executive Director being Mr. Tung Hans. The Remuneration Committee is chaired by Mr. Zhao Cong Richard, an independent non-executive Director. The primary duties of the Remuneration Committee include but not limited to, the following: (i) making recommendations to the Board on our policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration; (ii) determining the specific remuneration packages of all Directors and senior management; and (iii) reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

Nomination Committee

The Company established a Nomination Committee on September 1, 2013. The Nomination Committee consists of two independent non-executive Directors being Mr. Zhao Cong Richard and Ms. Poon Philana Wai Yin, and one executive Director being Mr. Wang Dongfeng. The chairman of the Nomination Committee is Mr. Wang Dongfeng. The primary functions of the Nomination Committee include, without limitation, reviewing the structure, size and composition of the Board of Directors, assessing the independence of independent non-executive Directors and making recommendations to the Board on matters relating to the appointment of Directors.

COMPENSATION OF DIRECTORS AND MANAGEMENT

Our Directors receive compensation in the form of salaries and other benefits-in-kind (including share options, RSUs, other benefits), including our Company's contribution to the pension scheme on their behalf. We determine the salaries of our Directors based on each Director's qualification, position and seniority.

No remuneration was paid to our Directors before July 2011 as they were not appointed yet. The aggregate amount of remuneration (including salaries, fees, share options, allowances, other benefits and contributions to pension schemes) which were paid to our Directors for the period from July 2011 to December 2011, the year ended December 31, 2012 and the six months ended June 30, 2013 were approximately RMB0.1 million, RMB1.2 million and RMB2.2 million, respectively.

The aggregate amount of remuneration (including salaries, share options, allowances, bonuses, other benefits and contributions to pension schemes), which were paid by our Group to our five highest paid individuals for the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013 were approximately RMB1.4 million, RMB1.9 million, RMB18.0 million and RMB22.2 million, respectively.

As required by PRC regulations, we participate in a defined contribution retirement scheme administered and operated by the local municipal government. The employees covered by the scheme include our Directors, members of the senior management and other employees of the Group. We contributed approximately RMB0.3 million, RMB1.9 million and RMB5.8 million for the years ended December 31, 2010, 2011 and 2012 and approximately RMB4.0 million for the six months ended June 30, 2013 into the defined contribution retirement scheme.

It is estimated that remuneration equivalent to approximately RMB[4.7 million] in aggregate will be paid and granted to our Directors by us in respect of the financial year ending December 31, 2013 under arrangements in force at the date of this document.

DIRECTORS AND SENIOR MANAGEMENT

No remuneration was paid to our Directors or the five highest paid individuals as an inducement to join, or upon joining, our Group. No compensation was paid to, or receivable by, our Directors or past Directors for the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013 for the loss of office as director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group. None of our Directors waived any emoluments during the same period.

PRE-[●] SHARE OPTION SCHEME

Our Company adopted the Pre-[●] Share Option Scheme on October 31, 2012, and it was amended and restated on September 1, 2013. It is a share incentive scheme and was established to recognize and reward the contribution of the Directors, members of the senior management, employees and other eligible participants (as defined under the scheme) to the growth and development of our Group and the [●]. As of the Latest Practicable Date, 6,303,497 options were granted to certain directors, senior management and Other Grantees. A summary of the principal terms of the Pre-[●] Share Option Scheme and further details of each of the Directors, members of the senior management's interests and Other Grantee(s) who have the right to subscribe for more than 1 million Shares under the Pre-[●] Share Option Scheme are set forth in the section headed "Appendix III — Statutory and General Information — Pre-[●] Share Option Scheme."

POST-[●] SHARE OPTION SCHEME

The Post-[●] Share Option Scheme was adopted pursuant to the written resolutions of the Shareholders of our Company passed on September 1, 2013. The purpose of the Post-[●] Share Option Scheme is to reward Directors, members of the senior management, employees and other eligible participants defined under the scheme for their past contribution to the success of the Group, and to provide incentives to them to further contribute to the Group. This will be in accordance with relevant rules and regulations. Further details of the Post-[●] Share Option Scheme are set forth in the section headed "Appendix III — Statutory and General Information — Post-[●] Share Option Scheme."

RSU SCHEME

The RSU Scheme was conditionally adopted pursuant to the written resolutions of the Shareholders of our Company passed on September 1, 2013. The purpose of the RSU Scheme is to reward participants defined under the RSU Scheme for their past contribution to the success of the Group, and to provide incentives to them to further contribute to the Group. Further details of the RSU Scheme are set forth in the section headed "Appendix III — Statutory and General Information — RSU Scheme."

DIRECTOR'S INTEREST

Save as disclosed in this document, each of our Directors (i) did not hold other positions in our Company or other members of our Group as of the Latest Practicable Date; (ii) had no other relationship with any Directors, senior management or substantial or controlling shareholders of our Company as of the Latest Practicable Date; and (iii) did not hold any other directorships in listed public companies in the three years prior to the Latest Practicable Date.

SHARE CAPITAL

AUTHORIZED AND ISSUED SHARE CAPITAL

The following is a description of the authorized and issued share capital of our Company as of the Latest Practicable Date:

As of the Latest Practicable Date

	US\$
Authorized Share Capital:	
500,000,000 Shares of US\$0.0001 each divided into 470,940,560 Ordinary Shares of US\$0.0001 each and 29,059,440 Series A Preferred Shares of US\$0.0001 each	50,000
Issued Share Capital:	
76,000,000 Ordinary Shares of US\$0.0001 each	7,600
29,059,440 Series A Preferred Shares of US\$0.0001 each	2,905.944

FINANCIAL INFORMATION

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

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

OVERVIEW

We are a leading developer and publisher of webgames in China with a fast growing mobile game business. We were the No.1 webgame developer in China, with a 24% market share of net revenue from webgame development industry in 2012, according to iResearch. We have successfully developed and launched over 30 easy-to-access, highly engaging and popular games. In 2011, the first and second halves of 2012, respectively, five, five and four out of the top 15 webgames in China in terms of gross billings were developed by us, more than any other webgame developers in China. Our publishing platform, *91wan*, published 79 self-developed and licensed webgames and had attracted over 179 million registered players as of June 30, 2013. Please refer to the section headed “Business” for detailed discussion of our business.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

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

General Conditions Affecting the Online Gaming Industry in China

Our results of operations are affected by general conditions typically affecting the online gaming industry in China, including the overall economic condition, the increasing use of the Internet, the regulatory environment, and the demand for webgames and mobile games. The online gaming industry in China, particularly the webgame and mobile game industries, has a relatively short history and has experienced rapid growth in the past. Please refer to the section headed “Industry Overview” for details. Changes in the factors that lead to growth in the online gaming industry would have a significant impact on our business and prospects. For example, we rely on the spending of our players for our revenue, which may in turn depend on their level of disposable income, perceived future earnings and willingness to spend. Due to uncertain global economic conditions, our players may reduce the amount they spend on our webgames and mobile games. Please refer to the section headed “Risk Factors — Risks Relating to Our Industry.”

Competition

Competition with other game developers and publishers also affects our results of operations. The webgame and mobile game industries are highly competitive in China. We compete primarily with other webgame and mobile game developers and publishers in China as well as in the international market. In addition, we also compete for players with various offline games, such as console games, arcade games and handheld games, as well as various other forms of traditional or online entertainment. The proliferation of the number of game developers and the available games in the market has placed significant pressure on the timing of our new game launches, the cost of marketing our games, and attracting new and retaining existing players. Our results of operations will be

FINANCIAL INFORMATION

affected if there is any change in player sentiment and greater competition from other webgame and mobile game developers and publishers.

Continued Popularity of Our Games

The popularity of our games drives the growth of our player base, which is a key component in driving the sales and consumption of our virtual items, and hence our revenue. In order to further grow our player base, we need to maintain the quality of new games we develop and continue launching popular games to meet game player preferences. We also must continually upgrade and enhance our existing games to incentivize players to purchase virtual items in our games and expand the games’ life cycle so as to extend the monetization period.

Ability to Expand Our Publishing Platform, *91wan*

The growth of our game publishing revenue depends on our ability to expand the player base on *91wan*. The popularity of the games we publish on *91wan* is also essential to the financial performance of our game publishing business. To sustain and expand *91wan*’s success, we need to continually source popular licensed games. In addition, our selling and marketing expenses are directly related to promoting and marketing the webgames published on *91wan* to generate user traffic. Our selling and marketing expenses increased significantly during the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013 as a result of the general increase in the unit cost of the online advertising costs in China. Our results of operations will be negatively affected if our marketing efforts are not as effective as we expect.

Monetization of Our Players

Our business depends on our ability to monetize our player base. All of our games are free to play and we generate revenues from the sale of virtual items for the upgrade or better in-game experience. Therefore, while we need to increase the MAUs on *91wan* and players for our webgames, it is more important for us to either convert non-paying players into paying players or to improve the average spending per player to grow our revenue. Our ability to better analyze the player behavior and to explore new ways to monetize is critical to our business and results of operations.

Revenue Sharing Arrangement

In both our game development business and game publishing business, we have revenue sharing arrangements with third-party platforms or developers. We publish our webgames through over 350 platforms operated by our publishing partners in addition to our own publishing platform, *91wan*. We published 59 licensed webgames on *91wan* as of June 30, 2013. We generally enter into separate agreements for each of such games licensed to or from third parties and negotiate the percentage of the revenue sharing on a case-by-case basis. The terms of the revenue sharing arrangement for the agreements entered into or renewed in each particular year would have a significant impact on our results of operations.

BASIS OF PRESENTATION

Our Company, previously known as Foga Holdings Limited, was incorporated in the Cayman Islands on July 26, 2011 as an exempted company with limited liability. The Company is an investment holding company and its subsidiaries are principally engaged in developing, licensing and operating online games (the “business”) in the PRC.

Prior to the incorporation of the Company and completion of the Reorganization, our business was carried out by our PRC Operational Entities, which were under the control of the Controlling Shareholders. Pursuant to the Reorganization, our PRC Operational Entities and the business were under the effective control of Feidong and the Company ultimately through the Contractual Arrangements. The Company had not been involved in any

FINANCIAL INFORMATION

other business prior to the Reorganization and its operations do not meet the definition of a business. The Reorganization is merely a reorganization of our business and does not result in any changes in the substance or management of our business or the Controlling Shareholders before and after the Reorganization. Accordingly, the financial information of the companies now comprising the Group is presented using the carrying value of our business for all periods presented.

The consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements of the Group for the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013 have been prepared on a consolidated basis and include the results of operations of the companies now comprising the Group for the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013 as if the current group structure had been in existence throughout the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013. The consolidated balance sheets of the Group as of December 31, 2010, 2011 and 2012 and June 30, 2013 have been prepared to include the assets and liabilities of the companies comprising the Group as of the respective dates as if the current group structure had been in existence as of those dates or since their respective dates of acquisition, incorporation or establishment, as the case may be, where they did not exist at those dates. All intra-group transactions and balances between group companies have been eliminated on consolidation.

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

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

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

Revenue Recognition

We primarily derive revenue from (i) the sales of virtual items in games published on our own publishing platform as well as on platforms of our publishing partners, licensing arrangements and provision of technical support services from the cooperation with certain platforms or other game developers ("game development") and (ii) the provision of online game publishing service ("game publishing") through cooperation with game developers to paying players. Our revenue is net of sales tax and related surcharges.

Our games are free to play and players pay for virtual items for a better in-game experience. Players purchase our game credits ("paying players") through the platform's own charging system and use the game credits to exchange for virtual items. Paying players usually exchange their game credits for virtual items shortly after the purchases. There is no expiry date on our game credits. The monetary value of the virtual items sold are shared between developers and platforms, which is pre-determined in a revenue sharing arrangement. Platforms collect the payment and remit the cash to developers according to the revenue sharing arrangement.

(a) Game Development Revenue

Our game development revenue is generated from the sale of virtual items. Upon the sales of virtual items, we typically have an implied obligation to provide the service which enables the virtual items to be displayed and used in our games. As a result, the monetary value of our virtual items initially purchased by players is

FINANCIAL INFORMATION

recorded as deferred revenues. Such revenues are recognized only when the services have been rendered. To determine when services have been rendered to respective paying players, we categorize our virtual items into two types:

- Consumable virtual items, such as energy drink and temporary speed boosters, represent items that will be extinguished shortly after consumption by a specific game player action. The paying players will not continue to benefit from the virtual items thereafter. Revenue is recognized (as a release from deferred revenue) when the items are consumed.
- Durable virtual items, such as weapons and clothes, represent items that are accessible and beneficial to a paying player over an extended period of time. Revenue is recognized ratably over the average playing period of the paying player ("player relationship period"), which represents the best estimate of the average life of durable virtual items for the applicable game and was typically a few months for most of our games during the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013.

We determine the player relationship period on a game-by-game and platform-by-platform basis by tracking the player data, such as log-in data and purchase record. If there is insufficient player data to determine the player relationship period, such as in the case of a newly launched game, we estimate the player relationship period based on other similar types of games we or third parties develop, taking into account of the game profile, the target audience and the appeal to paying players of different demographics, until the newly launched game establishes its own track record, which is normally up to 12 months after launch. We re-assess the player relationship period semi-annually. Our IT Manager and Finance Manager are jointly responsible for the estimation and evaluation of the player relationship period. If we are not able to differentiate revenue attributable to durable virtual items from that from consumable virtual items in a specific game, we recognize revenue from both durable and consumable virtual items for that game ratably over the player relationship period.

For revenues relating to our games that are published on third-party platforms, we are the primary obligor because we take the primary responsibilities in the delivery of game experience to the paying players. However, we are not able to make a reasonable estimate of the gross revenue generated from our games published on third-party platforms because the actual prices paid by individual paying players may be lower than the standard prices of virtual items with the balance being subsidized by the publishing platforms and we do not track or bear such marketing discounts. As such, we are not able to make a reasonable estimate of the gross revenue amount (i.e. the actual prices paid by the paying players). Accordingly, we record a net revenue to the extent of the amounts received and receivable from third party platforms under a pre-agreed revenue sharing arrangement when the services are rendered. Segment revenue for game development is recorded net of the portion of revenue sharing with third-party publishing partners and *91wan*, which reflects the way that our management reviews and evaluates the performance of our game development segment.

For revenue derived from mobile games, we follow the revenue recognition policies of webgames since the operations of the two types of games are similar during the Relevant Periods.

We also derive revenue from licensing and technical support service on a game-by-game basis. Licensing revenue is primarily derived from cooperation with overseas publishing partners and recognized on a straight-line basis over the licensing period. Technical support revenue is recognized when technical support services are rendered.

(b) Game Publishing Revenue

We publish games on our own publishing platform, *91wan*. Similar to our games published in platforms of our publishing partners, the games published on *91wan* are free to play and players pay for virtual items for better in-game experience.

FINANCIAL INFORMATION

We derive our game publishing revenue primarily from revenue sharing arrangements with game developers. The games published on *91wan* are hosted, maintained and updated by game developers, and we mainly provide access to *91wan* and limited after-sale basic technical support to paying players. We have evaluated and determined *91wan* is not the primary obligor in the services rendered to paying players by a publisher. We believe that our implied obligation to the game developers corresponds to the game developers' implied obligation to provide the service which enables the virtual items to be displayed and used in the game. Accordingly, as a publisher, we record the revenues net of the portion of revenues shared with game developers.

We adopt a policy to recognize revenues for both consumable and durable items in licensed games over the player relationship period on a game-by-game basis by tracking the player data, such as log-in data and purchase record. When we publish a new game, we estimate the player relationship period based on other similar types of games developed by us or third parties, taking into account the game profile, the target audience and the appeal to players of different demographics, until the new game establishes its own track record, which is normally up to 12 months after launch. We re-assess the player relationship period semi-annually. Our IT Manager and Finance Manager are jointly responsible for the estimation and evaluation of the player relationship period. For our self-developed games published on *91wan*, we adopt the revenue recognition policy as described in the section headed "— Game development revenue."

Staff Costs

For our game development business, staff costs are incurred in the development of new games and the ongoing optimization of existing games after launch. Staff costs of our game development business are research and development expenses in nature and are not directly attributable to our game development revenue generation. As such, no staff costs are allocated to cost of revenue for our game development business.

For our game publishing business, staff costs are incurred for operation, maintenance and provision of player service of our publishing platform, *91wan*. Staff costs are directly attributable to the operation of *91wan* and therefore recognized as cost of revenue for our game publishing business.

Our Directors are of the view that our revenue recognition and staff cost policies are in line with industry practice.

Share-based Payments

(a) Equity-settled Share-based Payments Transactions

Mr. Wang, Mr. Huang and Mr. Liao transferred some of their interests in our business to Mr. Zhuang and Mr. Yang in 2011 in return for their services to us. These shares were fully vested in 2011. We also operate an equity-settled share-based compensation plan, the Pre-[●] Share Option Scheme, under which we receive services from employees or other service providers as consideration for our equity instruments (options). The fair value of the services received in exchange for the grant of the equity instruments (options) is recognized as expense.

In terms of share options and shares awarded to employees, the total amount to be expensed is determined by reference to the fair value of the equity instruments (options) granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions; and
- including the impact of any non-vesting conditions.

In terms of share options and shares awarded to counterparties other than employees, the total amount to be expensed is determined by reference to the fair value of the service unless such fair value could not be estimated

FINANCIAL INFORMATION

reliably. In such case, the expense will be measured indirectly by reference to the fair value of the equity instruments granted at the date when such counterparties render services.

Non-market performance and service conditions are included in assumptions about the number of options and shares that are expected to vest. The total expense is recognized over the vesting period over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognizing the expense during the period between service commencement period and grant date.

At the end of each reporting period, we revise estimates of the number of options and shares that are expected to vest based on the non-marketing performance and service conditions. We recognize the impact of the revision to original estimates, if any, in the profit or loss, with a corresponding adjustment to equity.

When the options are exercised, we issue new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

(b) Share-based Payments Transactions Among Group Entities

The Company's grant of the Shares to Mr. Zhuang and Mr. Yang, and options over our equity instruments to the employees or other service providers of the our subsidiaries is treated as a capital contribution. The fair value of consulting and employee services received, measured by reference to the grant date fair value, is recognized over the vesting period as an increase to investments in our subsidiaries, with a corresponding credit to equity in the separate financial statements of the Company.

Current and Deferred Income Tax

Our tax expenses comprise current income tax charges and recognized deferred income tax.

Our current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where we and our subsidiaries operate and generate taxable income.

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

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

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

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

FINANCIAL INFORMATION

Shareholders' Equity

Our ordinary shares are classified as equity. Convertible redeemable preferred shares are classified as liabilities. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases our equity share capital (treasury share), the considerations paid, including any directly attributable incremental costs, are deducted from equity attributable to our equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs) is included in equity attributable to our equity holders.

Convertible Redeemable Preferred Shares

Our convertible redeemable preferred shares are redeemable upon the occurrence of certain future events and can be converted into our ordinary shares at any time at the option of the holders or automatically converted to our ordinary shares upon the occurrence of our [●] or as agreed upon by a majority of the holders.

We designated the convertible redeemable preferred shares as financial liabilities at fair value through profit or loss. They are initially recognized at fair value. Any directly attributable transaction costs are recognized as finance costs in the consolidated statements of comprehensive income.

Subsequent to initial recognition, the convertible redeemable preferred shares are carried at fair value with changes in fair value recognized in the profit or loss.

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

DESCRIPTION OF SELECTED INCOME STATEMENT LINE ITEMS

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

Revenue

We generate revenues from two business segments: game development and game publishing.

Game Development. Our game development revenue consists of (i) our share of revenue generated from the sales of virtual items in the games we develop and publish on the platforms of our publishing partners and collected by these publishing partners, (ii) a certain percentage of revenue generated from the sales of virtual items in the games we develop and publish on *9Iwan* and collected by *9Iwan*, and (iii) licensing revenue from our publishing partners and technical support income from third-party game developers. Fees received from our publishing partners or by *9Iwan* which have not been fully recognized are recorded as deferred revenue on our consolidated balance sheet, to be recognized in accordance with our revenue recognition policy.

Game Publishing. Our game publishing revenue consists of (i) a pre-agreed percentage for *9Iwan* of revenue generated from the sales of virtual items in licensed games published on *9Iwan* and collected by *9Iwan*, and (ii) a certain percentage of revenue from the sales of virtual items related to the games we develop and publish on *9Iwan*.

FINANCIAL INFORMATION

The following table sets forth, for the periods indicated, our revenue breakdown by segment:

	For the Year Ended December 31,						For the Six Months Ended June 30,			
	2010		2011		2012		2012		2013	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(unaudited)			
Segment Revenue										
— Game development										
— Games published on <i>91wan</i> ⁽¹⁾⁽²⁾	5,734	6.0	18,151	4.7	30,166	3.9	13,002	3.7	24,178	4.2
— Games published by publishing partners ⁽³⁾	41,274	43.4	229,290	59.7	473,293	60.9	209,580	60.4	334,882	58.4
— Others ⁽⁴⁾	2,693	2.8	4,575	1.2	37,290	4.8	8,982	2.6	20,422	3.6
Subtotal	49,701	52.3	252,016	65.6	540,749	69.6	231,564	66.7	379,482	66.1
— Game publishing										
— Self-developed games ⁽⁵⁾⁽²⁾	30,137	31.7	83,149	21.7	123,110	15.9	53,910	15.5	100,278	17.5
— Licensed games ⁽⁶⁾	15,240	16.0	48,844	12.7	112,790	14.5	61,648	17.8	93,988	16.4
Subtotal	45,377	47.7	131,993	34.4	235,900	30.4	115,558	33.3	194,266	33.9
Total	95,078	100.0	384,009	100.0	776,649	100.0	347,122	100.0	573,748	100.0

Notes:

- (1) Refer to self-developed games published on *91wan*.
- (2) Revenue generated from self-developed games published on *91wan* involves both our game development business and game publishing business and is therefore split between game development segment and game publishing segment and recognized respectively. The revenue sharing percentage between our game development segment and game publishing segment is approximately 20% and 80%, respectively, which is in line with the market practice.
- (3) Refer to self-developed games published on platforms of publishing partners.
- (4) Include licensing revenue and revenue from technical support services.
- (5) Refer to self-developed games published on *91wan*.
- (6) Refer to licensed games published on *91wan*. Game publishing revenue generated by licensed games does not include the revenue generated from a co-developed game licensed by a business partner to *91wan*, under the arrangement of which we own the intellectual property right of the game while the licensor has the right to license the game to all publishing platforms in the PRC, including *91wan*. Please refer to the section headed “Business — Our Game Publishing Business — Revenue Sharing” for details. Since we consider a game self-developed if we own the intellectual property right of such game, the revenue generated from this co-developed game is recognized as game publishing revenue generated by self-developed games, rather than game publishing revenue generated by licensed games.

All of the games we develop or publish adopt the item-based revenue model where the games are free-to-play and we generate revenues through the sale of virtual items that enhance the game-playing experience.

Our revenue is affected by the following key metrics:

- *Monthly Paying Users.* Monthly paying users, or MPUs, refer to (i) in our game development business, the number of paying players for the games we develop in the relevant calendar month; and (ii) in our game publishing business, the number of paying players for the games published on *91wan* in the relevant calendar month. The average MPUs for both the games we developed and the games published on *91wan* increased significantly from 2010 to the six months ended June 30, 2013, and are directly affected by (i) the number of games we have developed and launched in the relevant period and (ii) the popularity of these games.
- *Average Revenue Per Monthly Paying User.* We use average revenue per monthly paying user, or ARPPU, which is calculated as (i) in our game development business, the game development revenue divided by the number of the average MPUs for the games we develop in any given period; and (ii) in our game publishing business, the game publishing revenue divided by the number of the average MPUs for the games published on *91wan* in any given period. The ARPPU for both the games we developed and the games published on *91wan* increased from 2010 to 2011, primarily because we developed and published more popular games in 2011 and the monetization ability of both the games we developed and the games

FINANCIAL INFORMATION

we published was improved in 2011. The ARPPU for both the games we developed and published in 2012 remained stable as compared to that in 2011, despite an increase in the number of average MPUs in 2012. The ARPPU for our self-developed games for the six months ended June 30, 2013 decreased as compared to that for the six months ended June 30, 2012, primarily because the ARPPU of our new games were at a lower level during the early stage of their game life cycle, which we expect to gradually increase when the average in-game spending by the new players of our new games ramps up. Such decrease was also attributable to the fact that we were expanding our user base and increasing average MPUs of our games and it takes time for new players to increase their in-game spending. The ARPPU for the games we published for the six months ended June 30, 2013 remained stable as compared to that for the six months ended June 30, 2012.

The following tables set forth the related operating data as of the dates or for the periods indicated:

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2010	2011	2012	2012	2013
Game Development:					
Average MPUs (in thousands) ⁽¹⁾	69	240	518	382	758
ARPPU (RMB)	60	88	87	101	83
Game Publishing:					
Registered players (in thousands)	47,395	88,163	141,147	117,028	179,088
Average MPUs (in thousands) ⁽¹⁾	30	40	71	67	115
ARPPU (RMB)	125	274	278	289	282

Note:

(1) The numbers do not eliminate the duplicated calculation of the paying players of our own games published on *91wan*.

	As of December 31,			As of June 30,	
	2010	2011	2012	2012	2013
Self-developed games	6	13	24	17	34
— Published both on <i>91wan</i> and by publishing partners	6	11	16	12	20
— Published only by publishing partners	0	2	8	5	14
Games published on <i>91wan</i>	17	37	65	61	79
— Self-developed	6	11	16	12	20
— Licensed	11	26	49	49	59

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2010	2011	2012	2012	2013
Phased-out games	3	4	15	6	19
— Self-developed	0	1	1	0	2
— Licensed	3	3	14	6	17

For the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, our revenue generated from the PRC amounted RMB92.0 million, RMB360.4 million, RMB700.3 million and RMB534.1 million, respectively, while our revenue generated outside of the PRC amounted RMB3.1 million, RMB23.6 million, RMB76.4 million and RMB39.6 million, respectively.

Cost of Revenue

Our cost of revenue primarily comprises server and bandwidth costs, salary and compensation expense, revenue sharing fees to subcontracted game developers and others. For the three years ended December 31, 2010, 2011

FINANCIAL INFORMATION

and 2012 and the six months ended June 30, 2013, our cost of revenue represented 57.5%, 17.9%, 10.2% and 11.2% of our revenue, respectively.

The following table sets forth, for the periods indicated, our segment cost of revenue by amount and as a percentage of segment cost of revenue:

	For the Year Ended December 31,						For the Six Months Ended June 30,			
	2010		2011		2012		2012		2013	
	(% of Segment Cost of Revenue)	(RMB'000)	(% of Segment Cost of Revenue)	(RMB'000)	(% of Segment Cost of Revenue)	(RMB'000)	(% of Segment Cost of Revenue)	(RMB'000)	(% of Segment Cost of Revenue)	(RMB'000)
Cost of Revenue by Segment										
— Game development	45,335	100.0	44,714	100.0	40,556	100.0	14,189	100.0	42,906	100.0
— Server and bandwidth costs	3,789	8.4	10,552	23.6	24,242	59.8	10,306	72.6	17,846	41.6
— Fees paid to outsourcing parties	40,439	89.2	30,604	68.4	6,365	15.7	1,348	9.5	16,832	39.2
— Others	1,107	2.4	3,558	8.0	9,949	24.5	2,535	17.9	8,228	19.2
— Game publishing	9,366	100.0	24,116	100.0	38,532	100.0	16,784	100.0	21,211	100.0
— Server and bandwidth costs	2,157	23.0	6,633	27.5	9,239	24.0	4,135	24.6	4,310	20.3
— Salary and compensation	3,951	42.2	10,535	43.7	16,282	42.3	7,024	41.9	10,108	47.7
— Others	3,258	34.8	6,948	28.8	13,011	33.8	5,625	33.5	6,793	32.0
Total	54,701		68,830		79,088		30,973		64,117	

Game Development. Our cost of revenue for game development segment consists of server and bandwidth costs related to our game development business, fees paid to outsourcing parties and others.

Server and bandwidth costs are the fees we pay to service providers for telecommunications services for bandwidth and to Internet data centers with whom we host our servers. We recognize server and bandwidth costs related to our game development business in our cost of revenue for game development segment. We expect our bandwidth and server hosting costs related to our game development business to increase as a result of an increased need for bandwidth and server hosting services to support the growth in the number of our players when we develop and launch more games.

We outsource certain game development work to third-party service providers and share revenues generated from the games they help to develop after launch, which are recorded as fees paid to outsourcing parties. We benefited from these co-development arrangements as they allowed our game development teams to focus on the core development process. However, as our webpage business expanded, we have increasingly leveraged our in-house webpage development team for the entire game development process and as such, fees paid to outsourcing parties will not be a material part of our cost of revenue. We may continue outsourcing certain game development work, particularly with respect to our mobile game development business, which will increase our fees paid to outsourcing parties in the future.

Our other cost of revenue for game development segment primarily comprises (i) depreciation of the servers we have purchased for our game development business and (ii) amortization of intangible assets which relates to the intellectual property rights of the games we have acquired from third parties, such as *Fantasy Immortal II: Ascension*.

Game Publishing. Our cost of revenue for game publishing segment consists of server and bandwidth costs related to our game publishing business, salary and compensation and others.

FINANCIAL INFORMATION

Server and bandwidth costs are the fees we pay to service providers for telecommunications services for bandwidth and to Internet data centers with whom we host our servers. We recognize server and bandwidth costs related to our game publishing business in our cost of revenue for game publishing segment. We expect our bandwidth and server hosting costs related to game publishing business to increase as a result of an increased need for bandwidth and server hosting services to support the growth in the number of players on *91wan*.

Salary and compensation represent the personnel cost for the operation, maintenance and provision of player service of our publishing platform, *91wan*.

Our other cost of revenue for game publishing segment primarily comprises (i) channel cost, which represents the handling fees we pay to third-party payment channels for our game publishing business, and (ii) depreciation of the servers we have purchased for our game publishing business.

Gross Profit

Gross profit represents the excess of revenue over cost of revenue. The following tables set out our gross profit and gross profit margin by segment for the periods indicated:

	For the Year Ended December 31,						For the Six Months Ended June 30,								
	2010		2011		2012		2012		2013						
	(RMB'000)	Gross Profit (%) Margin	(RMB'000)	Gross Profit (%) Margin	(RMB'000)	Gross Profit (%) Margin	(RMB'000)	Gross Profit (%) Margin	(RMB'000)	Gross Profit (%) Margin					
Gross Profit by Segment:	(unaudited)														
— Game Development	4,366	10.8	8.8%	207,302	65.8	82.3%	500,193	71.7	92.5%	217,375	68.8	93.9%	336,576	66.0	88.7%
— Game Publishing	36,011	89.2	79.4%	107,877	34.2	81.7%	197,368	28.3	83.7%	98,774	31.2	85.5%	173,055	34.0	89.1%
Total	<u>40,377</u>	<u>100.0</u>		<u>315,179</u>	<u>100.0</u>		<u>697,561</u>	<u>100.0</u>		<u>316,149</u>	<u>100.0</u>		<u>509,631</u>	<u>100.0</u>	

Selling and Marketing Expenses

Our selling and marketing expenses are primarily related to our publishing business, mainly comprising advertisement costs incurred to generate user traffic for *91wan* and promote games published thereon by placing online advertisements on search engines, video, music, literature and game websites in China. For the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, our selling and marketing expenses represented 28.0%, 15.5%, 23.0% and 27.7% of our revenue, respectively.

Administrative Expenses

Our administrative expenses primarily comprise salaries, benefits and share-based compensation expenses for our senior management and administration staff, professional service fees, and other miscellaneous administrative expenses. For the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, our administrative expenses represented 7.5%, 32.7%, 4.7% and 8.2% of our revenue, respectively. Our administrative expenses in 2011 included a one-off share-based compensation expense of RMB97.1 million in connection with share grants to Mr. Zhuang and Mr. Yang.

Research and Development Expenses

Our research and development expenses are primarily related to our game development business, mainly comprising (i) the expenses incurred in connection with game development and ongoing optimization, primarily salaries and benefits paid to our game development teams, and (ii) game development outsourcing costs, primarily research and development fees we pay to outsourcing parties before launch of the games they help develop. In order to develop a robust pipeline of new games, we need to invest a significant amount of resources

FINANCIAL INFORMATION

on game development. For the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, our research and development expenses represented 49.4%, 23.4%, 25.8% and 24.6% of our revenue, respectively. Our research and development expenses are often incurred several quarters before we begin to generate revenues. In addition, we may not always be successful in generating an acceptable return on our research and development investments. As a result, our operating margin could be adversely affected by our increased investments in research and development.

Other Income

Our other income consists of interest income from our bank deposits and government grants received by our PRC Operational Entities. For the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, our other income represented 0.03%, 0.1%, 0.4% and 0.3% of our revenue, respectively.

Other Losses

Our other losses consist of currency exchange loss and loss on disposal of property and equipment such as servers and computers. For the two years ended December 31, 2011 and 2012 and the six months ended June 30, 2013, our other losses represented 0.03%, 0.1% and 0.1% of our revenue, respectively. There was no other loss for the year ended December 31, 2010.

Finance (Costs)/Income

Our finance costs represent the transaction cost of the issuance of convertible redeemable preferred shares in June 2012. For the year ended December 31, 2012, our finance costs represented 0.5% of our revenue. We have not incurred any finance cost for interest bearing indebtedness during the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013. Our finance income represents interest income on a short-term investment as part of our cash management strategy, which is a RMB-denominated structured deposit with a maturity period of 90 days. The minimum deposit amount is RMB100 million and neither us or the bank has the right to terminate the investment before maturity. The annual interest rate of such deposit is guaranteed at the rate of 2.7% and linked to commodity prices, floating within the range of 2.7% to 3.9%. The principal is also guaranteed and will be repaid to us together with the interest upon maturity. For the six months ended June 30, 2013, our finance income represented 0.3% of our revenue.

Fair Value Loss of Convertible Redeemable Preferred Shares

Our fair value loss of convertible redeemable preferred shares represents changes in fair value of Series A Preferred Shares issued in June 2012. For the year ended December 31, 2012 and the six months ended June 30, 2013, our fair value loss of convertible redeemable preferred shares represented 2.4% and 64.4% of our revenue, respectively. The estimated total fair value loss to be recorded in relation to the convertible redeemable Series A Preferred Shares in the year ending December 31, 2013 will be approximately HK\$[●] million to HK\$[●] million. Prior to [●], the Series A Preferred Shares are not traded in an active market and the fair value at respective reporting dates is determined using valuation techniques. Please refer to Note 30 to the Accountant's Report in Appendix I to this document for details of the key assumptions of the valuations. Upon [●], the Series A Preferred Shares will be automatically converted to Ordinary Shares of the Company on one-to-one basis.

Income Tax

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

FINANCIAL INFORMATION

Hong Kong. Our subsidiaries incorporated in Hong Kong were subject to a profits tax at the rates of 16.5% for 2011 and 2012 and the six months ended June 30, 2013. No provision for Hong Kong profits tax was made as we had no estimated assessable profits arising in Hong Kong during the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013.

PRC. Jieyou has been subject to an income tax rate of 25% on its estimated assessable profits since its inception in June 2012. In 2010, Feiyin and Weidong were qualified as “High and New Technology Enterprises” under the EIT Law and as a result entitled to a preferential income tax rate of 15% on their estimated assessable profits for the years ended December 31, 2010, 2011 and 2012. As of June 30, 2013, both Feiyin and Weidong were in the process of renewing such entitlements by applying to the relevant government authorities. We expect them to be qualified as “High and New Technology Enterprises” by the end of 2013 and continue to enjoy the preferential tax rate. Feidong, our wholly-owned PRC subsidiary, was subject to an income tax of 25% for the period from its inception in June 2012 to December 31, 2012. However, in June 2013, it was accredited as a “software enterprise” under the relevant PRC laws and regulations. As a result, Feidong is exempted from PRC enterprise income tax in 2013 and will enjoy a reduced income tax rate of 12.5% from 2014 to 2016.

According to relevant laws and regulations promulgated by the SAT that have been in effect since 2008, enterprises engaging in research and development activities are entitled to claim 150% of their research and development expenses incurred as tax deductible expenses when determining their assessable profits for that year. We have made our best estimate for such deduction to be claimed for the PRC Operational Entities in ascertaining their assessable profits during the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013.

Pursuant to the EIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the PRC effective from January 1, 2008. A lower withholding tax rate may be applied if there is a tax arrangement between the PRC and the jurisdiction of the foreign investors. As we do not have any plan to distribute the retained earnings in our PRC subsidiary, no deferred income tax liability on withholding tax was accrued as of June 30, 2013.

OTHER FINANCIAL MEASURES

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

Adjusted Net Profit/(Loss)

We define adjusted net profit/(loss) as net income or loss excluding share-based compensation, fair value change of preferred shares and finance cost relating to the issuance of preferred shares. Adjusted net profit/(loss) eliminates the effect of non-cash share-based compensation expenses and non-cash fair value change of preferred shares which have been and may continue to be significant recurring factors in our business prior to the completion of [●], as well as the expenses relating to the one-time issuance of preferred shares. The term of adjusted net profit/(loss) is not defined under IFRS. The use of adjusted net profit/(loss) has material limitations as an analytical tool, as adjusted net profit/(loss) does not include all items that impact our net loss or income for the year/period.

Adjusted EBITDA

Adjusted EBITDA, as we present it, represents net income or loss before income taxes, interest income and finance income, depreciation and amortization, further adjusted to exclude share-based compensation expense, fair value change of preferred shares and other one-off finance cost relating to the issuance of preferred shares.

FINANCIAL INFORMATION

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

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

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2010	2011	2012	2012	2013
	(RMB'000)				
(Loss)/profit for the year/period	(40,384)	17,849	217,617	122,236	(243,347)
Add:				(unaudited)	
Share-based compensation	—	97,089	—	—	27,489
Fair value change of preferred shares	—	—	18,769	—	369,446
Finance cost relating to the issuance of preferred shares	—	—	3,645	3,645	—
Adjusted net (loss)/profit (unaudited)	(40,384)	114,938	240,031	125,881	153,588
Add:					
Depreciation and amortization	1,804	6,660	14,731	4,989	12,261
Interest income and finance income	(24)	(282)	(1,144)	(443)	(3,661)
Income tax	(26)	22,664	43,560	25,791	39,409
Adjusted EBITDA (unaudited)	(38,630)	143,980	297,178	156,218	201,597

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

FINANCIAL INFORMATION

RESULTS OF OPERATIONS

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

	For the Year Ended December 31,						For the Six Months Ended June 30,			
	% of 2010 Revenue		% of 2011 Revenue		% of 2012 Revenue		% of 2012 Revenue		% of 2013 Revenue	
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Revenue	95,078	100.0	384,009	100.0	776,649	100.0	347,122	100.0	573,748	100.0
Game development	49,701	52.3	252,016	65.6	540,749	69.6	231,564	66.7	379,482	66.1
Game publishing	45,377	47.7	131,993	34.4	235,900	30.4	115,558	33.3	194,266	33.9
Cost of revenue	(54,701)	(57.5)	(68,830)	(17.9)	(79,088)	(10.2)	(30,973)	(8.9)	(64,117)	(11.2)
Game development	(45,335)	(47.7)	(44,714)	(11.6)	(40,556)	(5.2)	(14,189)	(4.1)	(42,906)	(7.5)
Game publishing	(9,366)	(9.9)	(24,116)	(6.3)	(38,532)	(5.0)	(16,784)	(4.8)	(21,211)	(3.7)
Gross profit	40,377	42.5	315,179	82.1	697,561	89.8	316,149	91.1	509,631	88.8
Game development	4,366	4.6	207,302	54.0	500,193	64.4	217,375	62.6	336,576	58.7
Game publishing	36,011	37.9	107,877	28.1	197,368	25.4	98,774	28.5	173,055	30.2
Selling and marketing expenses	(26,636)	(28.0)	(59,464)	(15.5)	(178,726)	(23.0)	(78,778)	(22.7)	(158,945)	(27.7)
Administrative expenses ⁽¹⁾ . .	(7,178)	(7.5)	(125,697)	(32.7)	(36,462)	(4.7)	(12,953)	(3.7)	(46,854)	(8.2)
Research and development expenses	(46,997)	(49.4)	(89,845)	(23.4)	(200,624)	(25.8)	(74,284)	(21.4)	(141,252)	(24.6)
Other income	24	—	463	0.1	2,788	0.4	1,943	0.6	1,766	0.3
Other losses	—	—	(123)	—	(946)	(0.1)	(405)	(0.1)	(744)	(0.1)
Operating (loss)/profit	(40,410)	(42.5)	40,513	10.6	283,591	36.5	151,672	43.7	163,602	28.5
Finance (costs)/income	—	—	—	—	(3,645)	(0.5)	(3,645)	(1.1)	1,906	0.3
Fair value loss of convertible redeemable preferred shares	—	—	—	—	(18,769)	(2.4)	—	—	(369,446)	(64.4)
(Loss)/profit before income tax	(40,410)	(42.5)	40,513	10.6	261,177	33.6	148,027	42.6	(203,938)	(35.5)
Income tax credit/(expense)	26	—	(22,664)	(5.9)	(43,560)	(5.6)	(25,791)	(7.4)	(39,409)	(6.9)
(Loss)/profit for the year/period	(40,384)	(42.5)	17,849	4.6	217,617	28.0	122,236	35.2	(243,347)	(42.4)
Item that will not be reclassified subsequently to profit or loss Currency translation differences	—	—	—	—	2,654	0.3	—	—	10,432	1.8
Total comprehensive (loss)/ income for the year/ period	(40,384)	(42.5)	17,849	4.6	220,271	28.4	122,236	35.2	(232,915)	(40.6)
Other financial data										
Adjusted net (loss)/profit ⁽²⁾ (unaudited)	(40,384)	(42.5)	114,938	29.9	240,031	30.9	125,881	36.3	153,588	26.8

Notes:

- (1) Our administrative expenses in 2011 includes the share-based compensation expenses of RMB97.1 million.
- (2) Please refer to the section headed "— Other Financial Measures."

Six Months Ended June 30, 2013 Compared with the Six Months Ended June 30, 2012

Revenue. Our revenue for the six months ended June 30, 2013 was RMB573.7 million, a 65.3% increase from RMB347.1 million for the six months ended June 30, 2012.

Game Development. Our game development revenue for the six months ended June 30, 2013 was RMB379.5 million, a 63.9% increase from RMB231.6 million for the six months ended June 30, 2012. The

FINANCIAL INFORMATION

increase in our game development revenue was primarily due to the increase in the number of average MPUs from approximately 382,000 for the six months ended June 30, 2012 to approximately 758,000 for the six months ended June 30, 2013, partially offset by the decrease in the ARPPU from RMB101 for the six months ended June 30, 2012 to RMB83 for the six months ended June 30, 2013, primarily due to a change in the mix of our existing and new games that contributed to our game development revenue during the six months ended June 30, 2013 as compared to the six months ended June 30, 2012. ARPPU of new games are typically lower at the early stages of their life cycles as compared to ARPPU of existing games. The increase in the number of average MPUs was primarily because (i) we launched 12 new games for the six months ended June 30, 2013, including *Conquest of the Universe*, *A Dream in Fairyland* and *Conquerors*, which generated revenue of RMB57.5 million for the six months ended June 30, 2013; and (ii) our 22 existing successful games, such as *True King* and *Charmed Westward Journey*, continued to attract more paying players for the six months ended June 30, 2013 compared to the six months ended June 30, 2012 and generated revenue of RMB317.7 million for the six months ended June 30, 2013. Please refer to the section headed "Business — Our Businesses— Our Game Development Business" for details of key new games and existing games during the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013. Our revenue generated from licensing fees paid by our publishing partners for the six months ended June 30, 2013 was RMB13.7 million, a 53.1% increase from RMB9.0 million for the six months ended June 30, 2012. Our revenue generated from our technical support services to third-party game developers for the six months ended June 30, 2013 was RMB6.7 million, as compared to nil for the six months ended June 30, 2012. As of June 30, 2013, we had 34 self-developed games in operation, out of which 20 were published both on *91wan* and by our publishing partners and 14 were only published by our publishing partners. As of June 30, 2012, we had 17 self-developed games in operation, out of which 12 were published both on *91wan* and by our publishing partners and five were only published by our publishing partners. For the six months ended June 30, 2013, two self-developed games were phased out, while no self-developed game was phased out for the six months ended June 30, 2012.

Game Publishing. Our game publishing revenue for the six months ended June 30, 2013 was RMB194.3 million, a 68.1% increase from RMB115.6 million for the six months ended June 30, 2012. The increase in our game publishing revenue was primarily due to the increase in the average MPUs from approximately 67,000 for the six months ended June 30, 2012 to approximately 115,000 for the six months ended June 30, 2013, partially offset by the decrease in the ARPPU from RMB289 for the six months ended June 30, 2012 to RMB282 for the six months ended June 30, 2013, primarily because the ARPPU of certain of our licensed games decreased. The increase in the number of average MPUs was primarily because (i) we were able to broaden our player base on *91wan* through targeted marketing and promotional campaigns; (ii) we continued to provide high-quality player service to increase the number of paying players; and (iii) we were able to license more popular games from third-party developers and publish more successful self-developed games on *91wan*, which helped increase the organic growth of our player base and the number of paying players. Our game publishing revenue generated by our own games for the six months ended June 30, 2013 was RMB100.3 million, a 86.0% increase from RMB53.9 million for the six months ended June 30, 2012. Our game publishing revenue generated by licensed games for the six months ended June 30, 2013 was RMB94.0 million, a 52.5% increase from RMB61.6 million for the six months ended June 30, 2012. As of June 30, 2013, *91wan* published 20 self-developed games and 59 licensed games, as compared to 12 self-developed games and 49 licensed games as of June 30, 2012. For the six months ended June 30, 2013, 17 licensed games were phased out, as compared to six licensed games for the six months ended June 30, 2012.

Cost of Revenue. Our cost of revenue for the six months ended June 30, 2013 was RMB64.1 million, a 107.0% increase from RMB31.0 million for the six months ended June 30, 2012.

Game Development. Our cost of revenue for game development segment for the six months ended June 30, 2013 was RMB42.9 million, a 202.4% increase from RMB14.2 million for the six months ended June 30, 2012. The increase was primarily due to the increase in fees paid to outsourcing parties from RMB1.3 million to RMB16.8 million as well as in server and bandwidth costs related to our game development business from RMB10.3 million to RMB17.8 million. Our fees paid to outsourcing parties increased for the six months ended

FINANCIAL INFORMATION

June 30, 2013, primarily due to fees paid to outsourcing parties for our first mobile game, *The Era of Storms*, which was launched in the second quarter of 2012. Increases in our server and bandwidth costs as well as in server depreciation cost for the six months ended June 30, 2013 were in line with the growth of our game development business.

Game Publishing. Our cost of revenue for game publishing segment for the six months ended June 30, 2013 was RMB21.2 million, a 26.4% increase from RMB16.8 million for the six months ended June 30, 2012. The increase was primarily due to the increase in salary and compensation expense from RMB7.0 million to RMB10.1 million. Our increase in salary and compensation expense for the six months ended June 30, 2013 was primarily due to the increase in headcount in the *9Iwan* operation team and the share-based compensation expense under the Pre-[●] Share Option Scheme. Our server and bandwidth costs related to our game publishing business slightly increased from RMB4.1 million for the six months ended June 30, 2012 to RMB4.3 million for the six months ended June 30, 2013. Our payment handling costs also increased from RMB2.3 million for the six months ended June 30, 2012 to RMB2.5 million for the six months ended June 30, 2013 as a result of the increase in the total transaction amounts settled through payment channels as our game publishing business grew.

Gross Profit Margin. As a result of the foregoing, our gross profit margin for the six months ended June 30, 2013 was 88.8%, as compared to 91.1% for the six months ended June 30, 2012. Our gross profit margin for game development segment for the six months ended June 30, 2013 was 88.7%, as compared to 93.9% for the six months ended June 30, 2012. Our gross profit margin for game publishing segment for the six months ended June 30, 2013 was 89.1%, as compared to 85.5% for the six months ended June 30, 2012.

Selling and Marketing Expenses. Our selling and marketing expenses for the six months ended June 30, 2013 were RMB158.9 million, a 101.8% increase from RMB78.8 million for the six months ended June 30, 2012. This increase was primarily due to the increase of our promotion and advertising expenses from RMB75.8 million for the six months ended June 30, 2012 to RMB152.3 million for the six months ended June 30, 2013, which was primarily because of (i) our initiatives to expand our platform business by placing more advertisements on popular websites in China to generate more user traffic and (ii) the general increase in online advertising cost in China as a result of increased demand for online advertisement.

Administrative Expenses. Our administrative expenses for the six months ended June 30, 2013 were RMB46.9 million, a 261.7% increase from RMB13.0 million for the six months ended June 30, 2012. This increase was primarily due to (i) the share-based compensation expense of RMB12.5 million as a result of the share options granted to senior management to incentivize their contributions to our business development and (ii) the increase of other administrative expenses from RMB13.0 million for the six months ended June 30, 2012 to RMB34.4 million for the six months ended June 30, 2013 mainly resulting from the professional service expenses incurred in connection with [●].

Research and Development Expenses. Our research and development expenses for the six months ended June 30, 2013 were RMB141.3 million, a 90.2% increase from RMB74.3 million for the six months ended June 30, 2012. This increase was primarily due to (i) the increase in our employee benefit expenses (excluding the share-based compensation expense) from RMB59.9 million for the six months ended June 30, 2012 to RMB109.9 million for the six months ended June 30, 2013 as a result of an increase in headcount and salary of our game development teams as we expanded into the mobile game business and developed more mobile games as well as we leveraged more on our in-house game development capabilities and (ii) the share-based compensation expense of RMB10.9 million as a result of the share option granted to our game development staff as part of our employee incentive plan, partially offset by the decrease in our game development outsourcing costs from RMB9.0 million for the six months ended June 30, 2012 to RMB4.9 million for the six months ended June 30, 2013 as we reduced outsourced research and development. Our headcount in the game development teams increased from 802 as of June 30, 2012 to 1,456 as of June 30, 2013.

FINANCIAL INFORMATION

Other Income. Our other income for the six months ended June 30, 2013 was RMB1.8 million, representing a 9.1% decrease from RMB1.9 million for the six months ended June 30, 2012. This decrease was primarily because Feiyan applied for and received a government grant of RMB1.5 million as a “Key Software and Animation Company” from the Guangzhou municipal government for the six months ended June 30, 2012, partially offset by the increase in our interest income as a result of the increase in our bank deposits. This government grant was provided to promising software and animation companies in Guangzhou to stimulate development of the local software and animation industry. Other than the qualification for being a “Key Software and Animation Company,” the grant has no other conditions attached and is not recurring in nature.

Operating Profit. As a result of the foregoing, our operating profit for the six months ended June 30, 2013 was RMB163.6 million, representing a 7.9% increase from RMB151.7 million for the six months ended June 30, 2012. Our operating profit margin for the six months ended June 30, 2013 was 28.5%, compared with 43.7% for the six months ended June 30, 2012.

Finance Income/(Cost). We had a finance income of RMB1.9 million for the six months ended June 30, 2013 as compared to a finance cost of RMB3.6 million for the six months ended June 30, 2012. The finance income for the six months ended June 30, 2013 was primarily attributable to interest income on a short-term investment as part of our cash management strategy, the annual interest rate of which is guaranteed at 2.7% and linked to commodity price, floating within the range of 2.7% per annum to 3.9% per annum. The finance cost for the six months ended June 30, 2012 was primarily attributable to the issuance cost of Series A Preferred Shares in June 2012.

(Loss)/Profit before Income Tax. As of result of the foregoing and the fair value loss of convertible redeemable preferred shares of RMB369.4 million attributable to the significant increase in the underlying equity fair value of the Company, we had a loss before income tax for the six months ended June 30, 2013 of RMB203.9 million, as compared to profit before income tax of RMB148.0 million for the six months ended June 30, 2012. Please refer to the section headed “Financial Information — Shareholders’ Equity” and Note 30 to the Accountant’s Report in Appendix I to this document for details of the fair value loss of convertible redeemable preferred shares.

Income Tax Expense. Our income tax expense for the six months ended June 30, 2013 was RMB39.4 million, a 52.8% increase from RMB25.8 million for the six months ended June 30, 2012. This increase was primarily because (i) our taxable profit of the PRC Operational Entities increased; and (ii) fair value loss of convertible redeemable preferred shares of RMB369.4 million did not decrease our income tax expense as the Company was exempted from Cayman Islands income tax.

(Loss)/Profit for the Period. As a result of the foregoing, our loss for the six months ended June 30, 2013 was RMB243.3 million, as compared to our profit of RMB122.2 million for the six months ended June 30, 2012.

Adjusted Net Profit. Our adjusted net profit for the six months ended June 30, 2013 was RMB153.6 million, representing a 22.0% increase from RMB125.9 million for the six months ended June 30, 2012. Please refer to the section headed “— Other Financial Measures.”

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

Revenue. Our revenue for 2012 was RMB776.6 million, a 102.2% increase from RMB384.0 million for 2011.

Game Development. Our game development revenue for 2012 was RMB540.7 million, a 114.6% increase from RMB252.0 million for 2011. The increase in our game development revenue was primarily due to the increase in the number of average MPUs from approximately 240,000 in 2011 to approximately 518,000 in 2012. Such increase was primarily because (i) we launched 12 new games in 2012, including *Charmed Westward Journey*, *Fantasy Immortal II: Ascension* and *The Era of Storms*, which generated revenue of RMB81.8 million in 2012

FINANCIAL INFORMATION

and (ii) our 12 existing successful games, such as *Soul Guardian II* and *True King*, continued to attract more paying players in 2012 compared to in 2011 and generated revenue of RMB445.1 million in 2012. Please refer to the section headed "Business — Our Businesses — Our Game Development Business" for details of key new games and existing games during the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013. The ARPPU for our game development business remained stable from 2011 to 2012. Our revenue generated from licensing fees paid by our publishing partners in 2012 was RMB16.3 million, a 256.7% increase from RMB4.6 million in 2011. Our revenue generated from our technical support services to third-party game developers in 2012 was RMB21.0 million, as compared to nil in 2011. As of December 31, 2012, we had 24 self-developed games in operation, out of which 16 were both published on *9Iwan* and by our publishing partners and eight were only published by our publishing partners. As of December 31, 2011, we had 13 self-developed games in operation, out of which 11 were both published on *9Iwan* and by our publishing partners and two were only published by our publishing partners. One self-developed game was phased out in both 2011 and 2012.

Game Publishing. Our game publishing revenue for 2012 was RMB235.9 million, a 78.7% increase from RMB132.0 million for 2011. The increase in our game publishing revenue was primarily due to the increase in the average MPUs from approximately 40,000 in 2011 to approximately 71,000 in 2012. Such an increase was primarily because (i) we were able to broaden our player base on *9Iwan* through targeted marketing and promotional campaigns; (ii) we continued to provide high-quality player service to increase the number of paying players; and (iii) we were able to license more popular games from third-party developers and publish more successful self-developed games on *9Iwan*, which helped increase the organic growth of our player base and the number of paying players. The ARPPU for our game publishing business in 2012 remained stable as compared to 2011. Our game publishing revenue generated by our own games for 2012 was RMB123.1 million, a 48.1% increase from RMB83.1 million for 2011. Our game publishing revenue generated by licensed games for 2012 was RMB112.8 million, a 130.9% increase from RMB48.8 million for 2011. As of December 31, 2012, *9Iwan* published 16 self-developed games and 49 licensed games, as compared to 11 self-developed games and 26 licensed games as of December 31, 2011. In 2012, 14 licensed games were phased out, as compared to three licensed games in 2011.

Cost of Revenue. Our cost of revenue for 2012 was RMB79.1 million, a 14.9% increase from RMB68.8 million in 2011.

Game Development. Our cost of revenue for game development segment for 2012 was RMB40.6 million, a decrease of RMB4.2 million, or 9.3%, from RMB44.7 million for 2011. The decrease was primarily due to the decrease in fees paid to outsourcing parties from RMB30.6 million to RMB6.4 million, partially offset by the increase in server and bandwidth costs from RMB10.6 million to RMB24.2 million. Our fees paid to outsourcing parties decreased in 2012 because certain webgames they helped to develop were less popular and thus generated less revenue in 2012. Increases in our server and bandwidth costs as well as server depreciation cost increased in 2012 were in line with the growth of our game development business.

Game Publishing. Our cost of revenue for game publishing segment for 2012 was RMB38.5 million, a 59.8% increase from RMB24.1 million for 2011. The increase was primarily due to the increase in server and bandwidth costs related to our game publishing business from RMB6.6 million to RMB9.2 million as well as the increase in salary and compensation expense from RMB10.5 million to RMB16.3 million. We incurred more server and bandwidth costs and server depreciation cost in 2012 to accommodate the increased user traffic on *9Iwan*. Our increase in salary and compensation expense in 2012 was primarily due to the increase in headcount in the *9Iwan* operation team from 176 as of December 31, 2011 to 281 as of December 31, 2012. Our payment handling costs also increased from RMB2.6 million in 2011 to RMB5.2 million in 2012 as a result of the increase in the total transaction amounts settled through payment channels as our game publishing business grew.

Gross Profit Margin. As a result of the foregoing, our gross profit margin for 2012 was 89.8%, as compared to 82.1% for 2011. Our gross profit margin for game development segment for 2012 was 92.5%, as compared to

FINANCIAL INFORMATION

82.3% for 2011. Our gross profit margin for game publishing segment for 2012 was 83.7%, as compared to 81.7% for 2011.

Selling and Marketing Expenses. Our selling and marketing expenses for 2012 were RMB178.7 million, a 200.6% increase from RMB59.5 million for 2011. This increase was primarily due to the increase of our promotion and advertising expenses from RMB57.0 million in 2011 to RMB172.2 million in 2012, which was primarily because of (i) our initiatives to expand our platform business by placing more advertisements on popular websites in China to generate more user traffic and (ii) the general increase in online advertising cost in China as a result of increased demand for online advertisement.

Administrative Expenses. Our administrative expenses for 2012 were RMB36.5 million, a 71.0% decrease from RMB125.7 million for 2011. This decrease was primarily due to the share-based compensation expense of RMB97.1 million incurred in 2011 as a result of the share grants by Mr. Wang, Mr. Huang and Mr. Liao to Mr. Zhuang and Mr. Yang for their previous contributions to our business development.

Research and Development Expenses. Our research and development expenses for 2012 were RMB200.6 million, a 123.3% increase from RMB89.8 million for 2011. This increase was primarily due to the increase in our employee benefit expenses from RMB46.8 million in 2011 to RMB160.9 million in 2012 as a result of the increase in headcount of our game development teams as we leveraged more on our in-house game development capabilities, partially offset by the decrease in our game development outsourcing costs from RMB37.2 million in 2011 to RMB21.6 million in 2012 as we reduced outsourced research and development. Our headcount in the game development teams increased from 652 as of December 31, 2011 to 1,493 as of December 31, 2012.

Other Income. Our other income for 2012 was RMB2.8 million, representing a significant increase from RMB0.5 million for 2011. This increase was primarily because Feiyin applied for and received a government grant of RMB1.5 million as a "Key Software and Animation Company" from the Guangzhou municipal government in 2012. This government grant was provided to promising software and animation companies in Guangzhou to stimulate development of the local software and animation industry. Other than the qualification for being a "Key Software and Animation Company," the grant has no conditions attached and is not recurring in nature. We also received more interest income as a result of the increase in our bank deposits.

Operating Profit. As a result of the foregoing, our operating profit for 2012 was RMB283.6 million, representing a significant increase from RMB40.5 million for 2011. Our operating profit margin for 2012 was 36.5%, compared with 10.6% for 2011.

Finance Costs. Our finance costs for 2012 were RMB3.6 million while we did not have any finance costs for 2011. This increase was primarily attributable to transaction costs for the issuance of convertible redeemable preferred shares.

Profit before Income Tax. As of result of the foregoing, our profit before income tax for 2012 was RMB261.2 million, representing a significant increase from RMB40.5 million for 2011.

Income Tax Expense. Our income tax expense for 2012 was RMB43.6 million, a 92.2% increase from RMB22.7 million for 2011. This increase was primarily due to the increase in our profit before income tax in 2012. Our effective income tax rate was 16.7% in 2012, compared to 55.9% in 2011. The higher effective tax rate in 2011 was the result of non-tax deductible expenses, such as share-based compensation expenses, which reduced profit before income tax but not the tax expenses.

Profit for the Year. As a result of the foregoing, our profit for 2012 was RMB217.6 million, representing a significant increase from RMB17.8 million for 2011.

FINANCIAL INFORMATION

Adjusted Net Profit. Our adjusted net profit for 2012 was RMB240.0 million, representing a 108.8% increase from RMB114.9 million for 2011. Please refer to the section headed “— Other Financial Measures.”

Year Ended December 31, 2011 Compared with the Year Ended December 31, 2010

Revenue. Our revenue for 2011 was RMB384.0 million, a 303.9% increase from RMB95.1 million in 2010.

Game Development. Our game development revenue for 2011 was RMB252.0 million, a 407.1% increase from RMB49.7 million for 2010. The increase in our game development revenue was primarily driven by the increase in the number of average MPUs for our game development business from approximately 69,000 in 2010 to approximately 240,000 in 2011. Such increase was primarily because (i) we launched eight new games in 2011, including *Soul Guardian II*, *The Ninth Heaven*, *True King* and *Legend of Chaos* which generated revenue of RMB87.0 million in 2011, and (ii) our five existing successful games, such as *Soul Guardian I* and *Fantasy Immortal*, continued to attract more paying players in 2011 compared to 2010 and generated revenue of RMB161.5 million in 2011. Please refer to the section headed “Business — Our Businesses — Our Game Development Business” for details of key new games and existing games during the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013. Our ARPPU from game development business also increased from RMB60 in 2010 to RMB88 in 2011, primarily due to (i) the successful launch of our new popular webgames in 2011 such as *Generals Saga*, and (ii) the improvement of the revenue generating capabilities of our existing successful games in 2011 such as *Soul Guardian I*, *Fantasy Immortal*, *Tale of the Dragon Tomb* and *The Archmages*. Our revenue generated from licensing fees paid by our publishing partners in 2011 was RMB4.6 million, a 69.9% increase from RMB2.7 million in 2010. We did not generate revenue from technical support service to third-party game developers in 2010 or 2011. As of December 31, 2011, we had 13 self-developed games in operation, out of which 11 were both published on *91wan* and by our publishing partners and two were only published by our publishing partners. As of December 31, 2010, we had six self-developed games in operation, all of which were both published on *91wan* and by our publishing partners. One self-developed game was phased out in 2011 while no self-developed game was phased out in 2010.

Game Publishing. Our game publishing revenue for 2011 was RMB132.0 million, a 190.9% increase from RMB45.4 million for 2010. The increase in our game publishing revenue was primarily due to the increase in our ARPPU for game publishing business from RMB125 in 2010 to RMB274 in 2011, and to a lesser extent, the increase in the average MPUs for game publishing business from approximately 30,000 in 2010 to approximately 40,000 in 2011. The increase in the average MPUs for game publishing business from 2010 to 2011 was primarily because (i) we were able to broaden our player base on *91wan* through targeted marketing and promotion campaigns; (ii) we continued to provide high-quality player service to increase the number of paying players; and (iii) we were able to license more popular games from third-party developers and publish more successful self-developed games on *91wan*, which helped increase the organic growth of our player base and the number of paying players. The increase in our ARPPU for game publishing business was primarily because (i) we published new popular webgames on *91wan* in 2011, (ii) the revenue generating capabilities of the existing successful games further improved in 2011, and (iii) we published more of our own successful games on *91wan*, which had stronger revenue generating capabilities as compared to licensed games. Our game publishing revenue generated by our own games for 2011 was RMB83.1 million, a 175.9% increase from RMB30.1 million for 2010. Our game publishing revenue generated by licensed games for 2011 was RMB48.8 million, a 220.5% increase from RMB15.2 million for 2010. As of December 31, 2011, *91wan* published 11 self-developed games and 26 licensed games, as compared to six self-developed games and 11 licensed games as of December 31, 2010. Three licensed games were phased out in both 2010 and 2011.

Cost of Revenue. Our cost of revenue for 2011 was RMB68.8 million, a 25.8% increase from RMB54.7 million in 2010.

Game Development. Our cost of revenue for game development segment for 2011 was RMB44.7 million, a 1.4% decrease from RMB45.3 million for 2010. The decrease was primarily due to the decrease in fees paid to

FINANCIAL INFORMATION

outsourcing parties from RMB40.4 million to RMB30.6 million, partially offset by the increase in server and bandwidth costs related to our game development business from RMB3.8 million to RMB10.6 million. Our fees paid to outsourcing parties decreased in 2011 as we decided to leverage more on our in-house webpage development force and reduced the work outsourced to third parties. Increases in our server and bandwidth costs as well as server depreciation cost in 2011 were in line with the growth of our game development business.

Game Publishing. Our cost of revenue for game publishing segment for 2011 was RMB24.1 million, a 157.5% increase from RMB9.4 million for 2010. The increase was primarily due to the increase in server and bandwidth costs related to our game publishing business from RMB2.2 million to RMB6.6 million as well as the increase in salary and compensation expense from RMB4.0 million to RMB10.5 million. We incurred more server and bandwidth costs and server depreciation cost in 2011 to accommodate the increased user traffic on *91wan*. Our increase in salary and compensation expense in 2011 was primarily due to the increase in headcount in the *91wan* operation team from 93 as of December 31, 2010 to 176 as of December 31, 2011. Our payment handling costs also increased from RMB1.7 million in 2010 to RMB2.6 million in 2011 as a result of the increase in the total transaction amounts settled by payment channels as our game publishing business grew.

Gross Profit Margin. As a result of the foregoing, our gross profit margin for 2011 was 82.1%, as compared to 42.5% for 2010. Our gross profit margin for game development segment for 2011 was 82.3%, as compared to 8.8% for 2010. Our gross profit margin for game publishing segment for 2011 was 81.7%, as compared to 79.4% for 2010.

Selling and Marketing Expenses. Our selling and marketing expenses for 2011 were RMB59.5 million, a 123.2% increase from RMB26.6 million in 2010. This increase was primarily due to the increase of our promotion and advertising expenses from RMB25.7 million in 2010 to RMB57.0 million in 2011, which was primarily because of (i) our initiatives to expand our platform business by placing advertisements on popular websites in China to acquire more player traffic, and (ii) the general increase in online advertising cost in China as a result of increased demand for online advertisement.

Administrative Expenses. Our administrative expenses for 2011 were RMB125.7 million, a significant increase from RMB7.2 million in 2010. This increase was primarily due to the share-based compensation expense of RMB97.1 million incurred in 2011 as a result of the share grants by Mr. Wang, Mr. Huang and Mr. Liao to Mr. Zhuang and Mr. Yang for their previous contributions to our business development.

Research and Development Expenses. Our research and development expenses for 2011 were RMB89.8 million, a 91.2% increase from RMB47.0 million for 2010. This increase was primarily due to the increase in our employee benefit expenses from RMB15.3 million in 2010 to RMB46.8 million in 2011 as a result of the increase in headcount of our game development teams as we commit to develop more successful games in the future, and to a lesser extent, the increase in our game development outsourcing costs from RMB30.9 million in 2010 to RMB37.2 million in 2011. Our headcount in the game development teams increased from 278 as of December 31, 2010 to 652 as of December 31, 2011.

Operating Profit/(Loss). As a result of the foregoing, our operating profit for 2011 was RMB40.5 million, as compared to our operating loss of RMB40.4 million in 2010. Our operating profit margin for 2011 was 10.6%.

Profit/(Loss) before Income Tax. As a result of the foregoing, our profit before income tax for 2011 was RMB40.5 million, as compared to our loss before income tax of RMB40.4 million in 2010.

Income Tax Expense. Our income tax expense for 2011 was RMB22.7 million, representing a significant increase from the income tax credit of RMB0.03 million for 2010. This increase was because (i) we incurred loss before income tax in 2010 and (ii) the share-based compensation expenses incurred in 2011 were not deductible for tax purposes. As a result of the foregoing, our effective income tax rate was 55.9% in 2011, compared to 0.1% in 2010.

FINANCIAL INFORMATION

Profit/(Loss) for the Year. As a result of the foregoing, our profit for 2011 was RMB17.8 million, as compared to our loss for 2010 of RMB40.4 million.

Adjusted Net Profit/(Loss). Our adjusted net profit for 2011 was RMB114.9 million, as compared to adjusted net loss of RMB40.4 million for 2010. Please refer to the section headed “— Other Financial Measures.”

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

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

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

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2010	2011	2012	2012	2013
	(RMB'000)				
	(unaudited)				
Net cash generated from operating activities	26,791	100,650	299,629	183,436	130,899
Net cash used in investing activities	(16,908)	(28,112)	(51,972)	(7,820)	(154,362)
Net cash (used in)/generated from financing activities	—	—	(20,896)	351,008	(1,550)
Net increase/(decrease) in cash and cash equivalents	9,883	72,538	226,761	526,624	(25,013)
Cash and cash equivalents at end of year/period	13,455	85,993	312,639	612,617	287,415

Net Cash Generated from Operating Activities

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

For the six months ended June 30, 2013, our net cash generated from operating activities was RMB130.9 million. This net cash generated from operating activities was mainly attributable to (i) an increase in trade payables of RMB10.0 million; (ii) an increase in other payables and accruals of RMB11.0 million; and (iii) non-cash items of RMB407.5 million, including depreciation of property and equipment of RMB7.5 million, share-based compensation of RMB27.5 million and fair value loss of convertible redeemable preferred shares of RMB369.4 million, partially offset by (i) our loss before income tax of RMB203.9 million; (ii) an increase in trade receivables of RMB6.6 million; (iii) an increase in prepayments and other receivables of RMB19.9 million; (iv) a decrease in deferred revenue of RMB28.5 million; and (v) the payments for income tax of RMB38.6 million.

FINANCIAL INFORMATION

For 2012, our net cash generated from operating activities was RMB299.6 million. This net cash generated from operating activities was mainly attributable to our profit before income tax of RMB261.2 million, which was positively adjusted primarily for (i) a decrease in prepayments and other receivables of RMB39.5 million; (ii) an increase in other payables and accruals of RMB22.2 million; (iii) an increase in deferred revenue of RMB23.4 million; and (iv) non-cash items of RMB37.5 million, including depreciation of property and equipment of RMB10.6 million and fair value loss of convertible redeemable preferred shares of RMB18.8 million, partially offset by (i) an increase in trade receivables of RMB38.2 million; (ii) a decrease in trade payables of RMB1.4 million; and (iii) the payment for income tax of RMB44.5 million.

For 2011, our net cash generated from operating activities was RMB100.7 million. This net cash generated from operating activities was mainly attributable to our profit before income tax of RMB40.5 million, which was positively adjusted primarily for (i) an increase in other payables and accruals of RMB8.9 million; (ii) an increase in deferred revenue of RMB20.9 million; and (iii) non-cash items of RMB103.8 million, including share-based compensation expenses of RMB97.1 million related to the share grants to Mr. Zhuang and Mr. Yang, partially offset by (i) an increase in trade receivables of RMB25.6 million; (ii) an increase in prepayments and other receivables of RMB21.5 million; (iii) a decrease in trade payables of RMB2.2 million; and (iv) the payment for income tax of RMB24.3 million.

For 2010, our net cash generated from operating activities was RMB26.8 million. This net cash generated from operating activities was mainly attributable to our loss before income tax of RMB40.4 million, which was positively adjusted primarily for (i) an increase in trade payables of RMB10.7 million; (ii) an increase in other payables and accruals of RMB9.3 million; (iii) an increase in deferred revenue of RMB86.0 million; and (iv) non-cash items of RMB1.8 million, partially offset by (i) an increase in trade receivables of RMB17.7 million; (ii) an increase in prepayments and other receivables of RMB22.4 million; and (iii) the payment for income tax of 0.5 million.

Net Cash Used in Investing Activities

For the six months ended June 30, 2013, our net cash used in investing activities was RMB154.4 million, mainly attributable to (i) payment for our short-term investment of RMB220.0 million, which represents structured deposits with the annual interest rate guaranteed at the rate of 2.7% and linked to commodity prices, floating within the range of 2.7% to 3.9%; (ii) payment for our investment in Appionics of RMB18.7 million; (iii) purchase of property and equipment of RMB22.0 million, such as servers and computers for our network infrastructure and leasehold improvements for new offices; and (iv) purchases of intangible assets of RMB4.7 million, including our software purchase and payment of licensing fees for our licensed games, partially offset by (i) proceeds from uplift of our matured short-term investment of RMB110.0 million; (ii) interest received from our short-term investment of RMB1.1 million; and (iii) proceeds from disposals of property and equipment such as servers and computers.

For 2012, our net cash used in investing activities was RMB52.0 million, mainly attributable to (i) purchase of property and equipment of RMB19.7 million, such as servers and computers for our network infrastructure; and (ii) purchases of intangible assets of RMB32.8 million, including purchase of intellectual property rights of third-party developed games such as *Fantasy Immortal II: Ascension*, partially offset by proceeds from disposals of property and equipment such as servers and computers.

For 2011, our net cash used in investing activities was RMB28.1 million, mainly attributable to (i) purchases of property and equipment of RMB27.8 million, such as servers and computers for our network infrastructure; and (ii) purchases of intangible assets of RMB0.7 million, such as intellectual property rights of third-party developed games, partially offset by proceeds from disposals of property and equipment such as servers and computers.

FINANCIAL INFORMATION

For 2010, our net cash used in investing activities was RMB16.9 million, representing purchases of property and equipment such as servers and computers for our network infrastructure.

Net Cash Used in Financing Activities

Our net cash used in financing activities for the six months ended June 30, 2013 was RMB1.6 million, which was primarily attributable to payment for our deferred [●] costs incurred in connection with [●].

Our net cash used in financing activities in 2012 was RMB20.9 million, which was attributable to (i) payments for repurchase of ordinary shares from two Pre-Series A Investors of RMB371.9 million, (ii) dividends paid to the Founders of RMB90.5 million and (iii) payments of issuance costs of convertible redeemable preferred shares of RMB3.6 million, partially offset by (i) capital contribution of RMB10.0 million from our Founders to set up Jieyou and (ii) proceeds from issuance of convertible redeemable preferred shares of RMB435.2 million.

We did not have net cash used in or generated from financing activities in 2011 or 2010.

Net Current Assets and Liabilities

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

	<u>As of December 31,</u>			<u>As of June 30,</u>	<u>As of</u>
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>August 31,</u>
	(RMB'000)				2013
	(unaudited)				
Current Assets					
Trade receivables	20,496	46,066	84,293	90,904	83,798
Prepayments and other receivables	40,075	60,547	20,233	45,899	39,044
Short-term investment	—	—	—	110,854	110,402
Cash and cash equivalents	13,455	85,993	312,639	287,415	348,233
Total current assets	<u>74,026</u>	<u>192,606</u>	<u>417,165</u>	<u>535,072</u>	<u>581,477</u>
Current Liabilities					
Short-term loan	—	—	—	—	15,427
Trade payables	13,803	11,603	10,168	20,167	13,414
Other payables and accruals	10,439	19,381	41,622	57,849	67,618
Income tax liabilities	12,253	16,373	20,467	15,590	13,927
Deferred revenue	85,594	102,628	127,145	98,086	83,523
Total current liabilities	<u>122,089</u>	<u>149,985</u>	<u>199,402</u>	<u>191,692</u>	<u>193,909</u>
Net current (liabilities)/assets	<u>(48,063)</u>	<u>42,621</u>	<u>217,763</u>	<u>343,380</u>	<u>387,568</u>

As of August 31, 2013, we had net current assets of RMB387.6 million, as compared to our net current assets of RMB343.4 million as of June 30, 2013. This change was mainly attributable to (i) an increase in cash and cash equivalents of RMB60.8 million, in line with the growth in our business; (ii) an increase in short-term loan of RMB15.4 million, primarily because we draw down the term loan facility with China Merchants Bank Co., Ltd., Hong Kong Branch in July 2013; (iii) an increase in other payables and accruals of RMB9.8 million; and (iv) a decrease in deferred revenue of RMB14.6 million.

As of June 30, 2013, we had net current assets of RMB343.4 million, as compared to our net current assets of RMB217.8 million as of December 31, 2012. This change was mainly attributable to (i) an increase in

FINANCIAL INFORMATION

prepayments and other receivables of RMB25.7 million, primarily due to the increase in our prepaid advertising costs as we increased the prepayments paid to advertisement vendors in exchange for better advertising opportunities and resources as well as our deferred [●] costs incurred in connection with [●], (ii) an increase in short-term investment of RMB110.9 million as part of our cash management strategy, (iii) a decrease in cash and cash equivalents of RMB25.2 million, primarily as a result of the increase in our short-term investment, (iv) an increase in other payables and accruals of RMB16.2 million, primarily due to the professional service fees payable in connection with [●], and (v) a decrease in deferred revenue of RMB29.1 million.

As of December 31, 2012, we had net current assets of RMB217.8 million, as compared to our net current assets of RMB42.6 million as of December 31, 2011. This change was mainly attributable to (i) an increase in trade receivables of RMB38.2 million, primarily as a result of the increase in the number of our games published on the platforms of our publishing partners, (ii) a decrease in prepayments and other receivables of RMB40.3 million, primarily because we received amounts due from shareholders of RMB54.6 million in 2012, (iii) an increase in cash and cash equivalents of RMB226.6 million, primarily as a result of the increase in our cash flow from operating activities, (iv) an increase in other payables and accruals of RMB22.2 million, primarily as a result of the increase in headcount of our staff in the PRC, and (v) an increase in deferred revenue of RMB24.5 million.

As of December 31, 2011, we had net current assets of RMB42.6 million, representing an increase of RMB90.7 million from our net current liabilities of RMB48.1 million as of December 31, 2010. This change was mainly attributable to (i) an increase in trade receivables of RMB25.6 million, primarily as a result of the increase in the number of our games published on the platforms of our publishing partners, (ii) an increase in prepayments and other receivables of RMB20.5 million, primarily due to the increase in receivables due from related parties, (iii) an increase in cash and cash equivalents of RMB72.5 million, primarily as a result of the increase in our cash flow from operating activities, and (iv) an increase in deferred revenue of RMB17.0 million.

As of December 31, 2010, we had net current liabilities of RMB48.1 million. This was mainly due to the significant amount of deferred revenues under current liabilities in 2010 as compared to the relatively small amount of cash and cash equivalents, primarily because our business scale was relatively small before 2009 and the webgames we devoted resources to develop and launch in 2010 were yet to generate a large amount of revenues.

Capital Expenditure and Investment

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

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2010	2011	2012	2012	2013
	(RMB'000) (unaudited)				
Capital expenditures					
— Purchase of property and equipment	16,908	27,750	19,662	6,811	22,029
— Purchase of intangible assets	—	698	32,830	1,050	4,712
Total	<u>16,908</u>	<u>28,448</u>	<u>52,492</u>	<u>7,861</u>	<u>26,741</u>

Our capital expenditures comprised purchase of property and equipment such as servers and computers and purchase of intangible assets such as intellectual property rights of third-party developed games. During the three years ended December 31, 2010, 2011 and 2012, our total capital expenditures were RMB16.9 million, RMB28.4

FINANCIAL INFORMATION

million and RMB52.5 million, respectively. The increase of RMB24.0 million in our total capital expenditures from 2011 to 2012 was primarily due to the increase in our purchase of intangible assets of RMB32.1 million, which mainly arose from our purchase of the intellectual property rights of *Fantasy Immortal II: Ascension*, one of our most popular webgames, in 2012. For the six months ended June 30, 2012 and 2013, our total capital expenditures were RMB7.9 million and RMB26.7 million, respectively. This increase of RMB18.9 million in our total capital expenditures was primarily due to the increase in our purchase of property and equipment of RMB15.2 million in line with our business growth and the increase in our purchase of intangible assets of RMB3.7 million as a result of our software purchase and payment of licensing fees for our licensed games.

Capital Commitments

We did not have capital expenditure contracted for but not provided for as of December 31, 2010, 2011 and 2012. As of June 30, 2013, our capital expenditure contracted but not provided for amounted to approximately RMB2.7 million, which was related to acquisition of property and equipment.

Operating Lease Commitments

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

	As of December 31,			As of June 30,
	2010	2011	2012	2013
	(RMB'000)			
Contracted:				
No later than 1 year	4,784	8,434	17,350	20,446
Later than 1 year and no later than 5 years	10,875	9,661	12,317	32,445
Total	<u>15,659</u>	<u>18,095</u>	<u>29,667</u>	<u>52,891</u>

Working Capital

We finance our working capital needs primarily through cash flow from operating activities and advances from shareholders. Taking into account the financial resources available to the Group, including the cash flow from operating activities, the bank borrowings and [●], our Directors are of the view that, after due and careful inquiry, the Group has sufficient available working capital for our present requirements for at least the next 12 months from the date of this document.

Trade Receivables

The balance of trade receivables at the end of respective years consists of (i) the receivables from our publishing partners under the revenue sharing arrangements related to our game development business and (ii) the receivables from payment channels related to our game publishing business.

FINANCIAL INFORMATION

Our trade receivables increased from RMB20.6 million as of December 31, 2010 to RMB48.3 million as of December 31, 2011, and to RMB86.9 million as of December 31, 2012 and further to RMB91.9 million as of June 30, 2013. The following table sets forth an ageing analysis, based on the recognition date of our trade receivables as of each date indicated:

	<u>As of December 31,</u>			<u>As of June 30,</u>
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
	(RMB'000)			
0-30 days	18,421	39,137	59,498	59,137
31-60 days	673	3,488	17,803	23,025
61-90 days	682	1,704	4,948	4,357
91-180 days	631	1,846	1,230	3,319
180-365 days	121	1,978	814	1,156
Over 1 year	49	137	2,620	909
Total	<u>20,577</u>	<u>48,290</u>	<u>86,913</u>	<u>91,903</u>

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

	<u>For the Year Ended December 31,</u>			<u>For the Six Months Ended June 30,</u>	
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2012</u>	<u>2013</u>
Trade receivables turnover days ⁽¹⁾	79	44	40	28	29

Note:

(1) The trade receivables turnover days for a certain period is the trade receivable balances divided by revenue for that period and multiplied by 365 days for a year or 180 days for a six-month period, as applicable.

Our trade receivables turnover days for the years ended December 31, 2011 and 2012 decreased to 44 days and 40 days, respectively, from 79 days for the year ended December 31, 2010, mainly because we have improved our trade receivable collection efforts since 2011. Our trade receivables turnover days remained stable as 29 days for the six months ended June 30, 2013 as compared to 28 days for the six months ended June 30, 2012.

FINANCIAL INFORMATION

Prepayments and Other Receivables

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

	As of December 31,			As of June 30,
	2010	2011	2012	2013
	(RMB'000)			
Included in non-current assets				
Rental and other deposits	467	1,523	2,352	3,142
Prepayments for intangible assets and property and equipment	—	—	—	6,365
	<u>467</u>	<u>1,523</u>	<u>2,352</u>	<u>9,507</u>
Included in current assets				
Amount due from Controlling Shareholders	32,054	54,679	64	—
Rental and other deposits	815	694	3,434	7,674
Prepaid advertising costs	—	859	9,883	23,059
Staff advance	4,869	3,630	1,719	403
Prepayments for outsourcing of game development charges	—	—	2,660	2,085
Deferred [●] costs	—	—	—	6,641
Prepaid technical services fee	—	—	566	920
Others	2,841	1,189	2,411	5,117
	<u>40,579</u>	<u>61,051</u>	<u>20,737</u>	<u>45,899</u>
Less: provision for impairment of other receivables	(504)	(504)	(504)	—
Subtotal	<u>40,075</u>	<u>60,547</u>	<u>20,233</u>	<u>45,899</u>
Total	<u>40,542</u>	<u>62,070</u>	<u>22,585</u>	<u>55,406</u>

Our prepayments and other receivables as of December 31, 2010, 2011 and 2012 and June 30, 2013 were RMB40.5 million, RMB62.1 million, RMB22.6 million and RMB55.4 million, respectively. From December 31, 2010 to December 31, 2011, our prepayments and other receivables increased by RMB21.5 million, or 53.1%. From December 31, 2011 to December 31, 2012, our prepayments and other receivables decreased by RMB39.5 million, or 63.6%. From December 31, 2012 to June 30, 2013, our prepayments and other receivables increased by RMB32.8 million, or 145.3%. Our prepaid advertising costs, representing the advertising fees we paid upfront for better advertising opportunities and resources under certain advertising arrangements, increased from nil as of December 31, 2010 to RMB0.9 million as of December 31, 2011, RMB9.9 million as of December 31, 2012 and RMB23.1 million as of June 30, 2013, primarily because (i) we spent more resources in advertising activities for user acquisition of *9Iwan*, (ii) we engaged more advertisement vendors and most of the new vendors requested prepayment arrangements, and (iii) we increased the prepayments paid to advertisement vendors in exchange for better advertising opportunities and resources. Our prepayments for outsourcing of game development charges, representing the prepayments to outsourcing parties during our game development operation, increased from nil as of December 31, 2010 and 2011 to RMB2.7 million as of December 31, 2012 and RMB2.1 million as of June 30, 2013, primarily because we engaged new outsourcing parties in 2012 and the six months ended June 30, 2013 who requested prepayment arrangements while the outsourcing parties we engaged in 2010 and 2011 did not request such arrangements. Our deferred [●] costs increased from nil as of December 31, 2012 to RMB6.6 million as of June 30, 2013 as a result of the incurred incremental [●] cost in connection with [●] during the six months ended June 30, 2013. Our prepayments and other receivables also include prepaid rental and prepayment for game license.

FINANCIAL INFORMATION

Cash and Cash Equivalents

Our cash and cash equivalents comprised cash at bank and on hand, and cash at other financial institutions. Our cash at other financial institutions represents the cash deposited at the licensed payment channels. Our cash and cash equivalents as of December 31, 2010, 2011 and 2012 and June 30, 2013 were RMB13.5 million, RMB86.0 million, RMB312.6 million and RMB287.4 million, respectively. Our cash at bank and on hand as of December 31, 2010, 2011 and 2012 and June 30, 2013 was RMB13.5 million, RMB82.3 million, RMB309.0 million and RMB282.2 million, respectively. Our cash at other financial institutions as of December 31, 2010, 2011 and 2012 and June 30, 2013 was nil, RMB3.7 million, RMB3.6 million and RMB5.3 million, respectively. The significant increase in our cash and cash equivalents as of June 30, 2013 as compared to December 31, 2010 was primarily due to the increase in our net cash generated from operating activities, partially offset by the increase in our net cash used in investing activities and financing activities. Please refer to the section headed “—Liquidity and Capital Resources — Cash Flow.”

Short-term Investment

For the six months ended June 30, 2013, we made a short-term investment of RMB220.0 million as part of our cash management strategy, which represents RMB-denominated structured deposits with a maturity period of 90 days. The minimum deposit amount is RMB100 million and neither us or the bank has the right to terminate the investment before maturity. The annual interest rate of such deposits is guaranteed at the rate of 2.7% and linked to commodity prices, floating within the range of 2.7% to 3.9%. The principal is also guaranteed and will be repaid to us together with the interest upon maturity. During the six months ended June 30, 2013, RMB110.0 million of such short-term investment was mature.

We have exercised due care when making investment decision and focus only on low risk financial products, the investment principals of which are guaranteed. Our headquarter finance department monitors the fluctuation in market interest rate and may adjust our investment timely with reference to the latest market conditions. Furthermore, we have adopted a series of internal control measures to review and monitor our investment risks. Our Finance Manager prepares reports with detailed analysis on the category, return, target, interest and other features of proposed financial products and submits to our General Manager for approval. Our Finance Manager then negotiates with bank(s) the terms of proposed financial products and submits the contract application forms to the head of our Operational Department and our General Manager for approval. Once approved, our cashier in the Finance Department proceeds with purchase of relevant financial products. During the terms of the financial products, our Finance Department records interests on a monthly basis. The renewal of any expired financial product follows the same approval procedures as described above.

Trade Payables

Our trade payables as of December 31, 2010, 2011 and 2012 and June 30, 2013 were RMB13.8 million, RMB11.6 million, RMB10.2 million and RMB20.2 million, respectively. From December 31, 2010 to December 31, 2011, our trade payables decreased by RMB2.2 million, or 15.9%. From December 31, 2011 to December 31, 2012, our trade payables decreased by RMB1.4 million, or 12.4%. From December 31, 2012 to June 30, 2013, our trade payables increased by RMB10.0 million, or 98.3%. Such increase was primarily due to the increase in our trade payables with game licensors under the revenue sharing arrangements related to our licensed games published on *91wan*.

FINANCIAL INFORMATION

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

	As of December 31,			As of June 30,
	2010	2011	2012	2013
	(RMB'000)			
0-30 days	13,681	9,367	8,351	10,647
31-60 days	116	956	1,018	7,778
61-90 days	—	745	317	330
91-180 days	6	151	166	719
Over 180 days	—	384	316	693
Total	<u>13,803</u>	<u>11,603</u>	<u>10,168</u>	<u>20,167</u>

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

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2010	2011	2012	2012	2013
Trade payables turnover days ⁽¹⁾	92	62	47	47	57

Note:

(1) The trade payables turnover days for a certain period is the trade payables balances divided by cost of revenue for that period and multiplied by 365 days for a year or 180 days for a six-month period, as applicable.

We settle our trade payables when the work is completed by third parties. Our trade payables turnover days for the year ended December 31, 2012 decreased to 47 days from 62 days for the year ended December 31, 2011, which is a further decrease from 92 days for the year ended December 31, 2010, primarily because of the changes in the mix of suppliers. Our trade payables turnover days for the six months ended June 30, 2013 increased to 57 days from 47 days for the six months ended June 30, 2012, primarily due to the increase in the revenue contribution from publishing third-party developed games, which typically result in more revenue shared to third-party developers and longer trade payables turnover days. Our Directors confirm that we did not have material defaults in payments of trade payables during the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013.

Other Payables and Accruals

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

	As of December 31,			As of June 30,
	2010	2011	2012	2013
	(RMB'000)			
Staff costs and welfare accruals	3,354	12,449	25,737	24,957
Professional service fees payable	—	5,457	3,343	9,233
Other tax liabilities	4,149	508	3,841	4,095
Advertising expenses	283	—	4,333	12,374
Others	<u>2,653</u>	<u>967</u>	<u>4,368</u>	<u>7,190</u>
Total	<u>10,439</u>	<u>19,381</u>	<u>41,622</u>	<u>57,849</u>

Our other payables and accruals as of December 31, 2010, 2011 and 2012 and June 30, 2013 were RMB10.4 million, RMB19.4 million, RMB41.6 million and RMB57.8 million, respectively. Our other payables and accruals increased from December 31, 2010 to December 31, 2011 by RMB8.9 million, or 85.7%, and increased from December 31, 2011 to December 31, 2012 by RMB22.2 million, or 114.8%. Our other payables and

FINANCIAL INFORMATION

accruals increased from December 31, 2012 to June 30, 2013 by RMB16.2 million, or 39.0%. Our other payables and accruals also include rental accruals and withholding individual income tax. Our Directors confirm that we did not have material defaults in payment of other payables during the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013.

Amounts Due to/from Related Parties

As of December 31, 2010, 2011 and 2012 and June 30, 2013, we had (i) receivables due from Sisanjiujiu Internet Co., Ltd. ("Sisanjiujiu Internet") of RMB2.7 million, RMB3.3 million, nil and nil, respectively, and (ii) receivables due from Guangzhou Youguo Internet Co., Ltd. ("Guangzhou Youguo") of RMB0.4 million, nil, nil and nil, respectively. Both Sisanjiujiu and Guangzhou Youguo are significantly influenced by a close family member of one of our Pre-Series A Investors. Such receivables arose mainly from the revenue sharing related to our games published on the platforms of such related parties and were fully settled.

As of December 31, 2010, 2011 and 2012 and June 30, 2013, we had (i) payables due to Sisanjiujiu of RMB0.03 million, RMB0.4 million, nil and nil, respectively, (ii) payables due to Guangzhou Jieyou Information Technology Co., Ltd. ("Jieyou Information") of RMB7.2 million, RMB1.2 million, nil and nil, respectively, and (iii) payables due to Beijing Youguo Internet Technology Co., Ltd. ("Beijing Youguo") of nil, RMB0.2 million, nil and nil, respectively. Jieyou Information is significantly influenced by Mr. Zhuang and Beijing Youguo is significantly influenced by a close family member of Mr. Wang. Such payables arose from outsourced game development transactions with such related parties as well as the revenue sharing related to games licensed from such related parties and published on our publishing platform and were fully settled.

As of December 31, 2010, 2011 and 2012 and June 30, 2013, we had (i) receivables due from Mr. Huang of RMB6.6 million, RMB18.1 million, nil and nil, respectively, and (ii) receivables due from Mr. Liao of RMB25.5 million, RMB36.5 million, nil and nil, respectively. Such receivables mainly arose from advance to these Controlling Shareholders for business purpose and when these Controlling Shareholders collected receivables and settled payables through their personal bank accounts on behalf of us during the years ended December 31, 2010 and 2011 and were fully settled in 2012 (the "Arrangements").

The Arrangements commenced in 2009 for convenience and efficiency purposes because personal bank accounts have more flexibility as compared to corporate bank accounts in the PRC. For example, corporate bank accounts in the PRC have fund transfer delays during weekends and public holidays, which prolong the settlement process. In our early days as a startup, in light of the highly competitive business environment of webpage industry, prompt settlement of transactions would facilitate us to retain quality business partners, whom our competitors also tended to solicit. Therefore, it was considered to be desirable to use personal bank accounts to expedite the settlement process with our business partners at that time. Among over 200 business partners at that time, 17 business partners accepted the Arrangements, which consisted of ten publishing partners, two payment channels and five outsourcing parties. Most of our publishing partners and outsourcing parties involved in the Arrangements were startups with relatively small sizes at the time of the Arrangements. All of our business partners involved in the Arrangements were independent third parties at the time of the Arrangements, except for Sisanjiujiu Internet, and are private companies based in the PRC. A majority of the equity interest in Sisanjiujiu Internet was held by a close family member of one of our Pre-Series A Investors at the time of the Arrangements. During the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, the total amounts received by our Controlling Shareholders from Sisanjiujiu Internet and paid by our Controlling Shareholders to Sisanjiujiu Internet on behalf of us under the Arrangements were RMB2.3 million and nil, respectively. As we subsequently enhanced our internal control, we ceased the Arrangements in July 2011 and settled all outstanding amounts with the relevant Controlling Shareholders under the Arrangements in June 2012. The internal control measures we have taken since August 2011 have effectively prevented the recurrence of the Arrangements afterwards.

We have operation systems to trace sales and calculate gross billings. Based on the gross billings and the revenue sharing arrangement, we calculated and maintained the records of cash to be received from or paid to third

FINANCIAL INFORMATION

parties. For a payment from or to third parties, we checked whether it was settled by our corporate bank accounts or the relevant Controlling Shareholders' personal bank accounts, with relevant supporting documents, including bank statements, bank-in slips or payment slips. We used such information to calculate the outstanding balances with each third party on a monthly basis, reconciled the gross billings and the outstanding balance with each third party on a monthly basis and investigated the difference, if any. As a general control procedure, we reviewed account receivables aging and account payables aging on a monthly basis to make sure that all aged receivables and payables were properly followed up and that there was no significant unknown receipt or payment in the our financial records. We believe that the aforementioned measures we maintained enabled us to properly record the transactions under the Arrangements in our financial records. Furthermore, we had internal procedures to ensure that the amounts for business transactions under the Arrangements could be separated from our Controlling Shareholders' personal transactions, despite the fact that our Controlling Shareholders' personal bank accounts were used for both personal usage and the Arrangements. We retained all transaction records during our business operations, regardless whether the transactions were settled through the relevant Controlling Shareholders' personal bank accounts or our corporate bank account. At the end of each month, our finance department conducted thorough reconciliation of its transaction records with the settlement records in the bank statements of the relevant Controlling Shareholders' personal bank accounts. Such reconciliation exercise ensured that all our transactions settled through the relevant Controlling Shareholders' personal bank accounts correctly match their bank statement records. After the reconciliation, the total transaction amounts of matched records were identified as transaction amounts under the Arrangements.

The local tax bureau is fully aware of the Arrangements. As we have fully declared our tax liabilities and made full tax payment based on our revenue and profit in accordance with the relevant PRC tax laws during the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, the local tax bureau did not raise any objection to our tax declaration or payment and has subsequently issued the certificates of non-violation of PRC tax laws to us. We declare our tax liabilities based on our revenue and profit pursuant to applicable PRC accounting standards, regardless of whether such revenue is supported by official invoices or not. During the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, all our tax liabilities and expenses were properly recorded in accordance with our revenue and profit pursuant to applicable PRC accounting standards. During the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, the total amount received and paid by our Controlling Shareholders on behalf of us under the Arrangements were RMB101.6 million and RMB65.3 million, respectively. We have subsequently enhanced our internal control and ceased the Arrangements in July 2011 and settled all outstanding amounts with the relevant Controlling Shareholders under the Arrangements in June 2012. None of our receivables or payables has been settled through the personal bank accounts of the relevant Controlling Shareholders afterwards. We have also taken necessary internal control measures since August 2011 to prevent the recurrence of the Arrangements. All our contracts with business partners prescribe the specific corporate bank account we will use for purpose of the payments and receipts under the relevant contracts. Upon settlement, we check the transaction records and bank-in and bank-out slips of our corporate bank account to ensure that all payments and receipts under the relevant contracts are made through our corporate bank account prescribed therein. We have not experienced any termination of cooperation with our business partners since the cessation of the Arrangements and such cessation has no adverse effect on our business operations and financial condition. Based on the tax compliance certificates issued by the local tax bureau, the confirmation of our Finance Department and the review of documents relating to the Arrangements, PRC legal advisers, confirm that (i) the Arrangements did not violate the relevant PRC laws and regulations, (ii) the Arrangements did not result in any tax evasion, fraud, money laundering or other illegal activities, and (iii) we were not subject to any liability or penalty by virtual of the Arrangements. Our Directors have not received any personal benefit from the Arrangements.

As a common practice in PRC online game industry, players usually do not ask service providers to issue official invoices. Nevertheless, we declare our tax liabilities based on our sales revenue, the calculation of which is not based on transaction amounts supported by issued official invoices. The local tax bureau is fully aware of such

FINANCIAL INFORMATION

practice and has accepted our tax filings without any disagreement or objection, and has subsequently issued tax compliance certificates to us to confirm our tax compliance records in the PRC. Therefore, our PRC legal advisers, are of the view that the local tax bureau has acknowledged the legitimacy of the Arrangements. According to the Administrative Measures of the People’s Republic of China for Invoices (Revised in 2010) 《中華人民共和國發票管理辦法（2010年修訂）》 issued by the State Council and took into effect on December 20, 2010 (the “Invoices Measures”), where a business unit or an individual fails to, among other things, issue official invoices which should be issued, the business unit or individual may be subject to an order of correction from the competent tax authority, a fine not exceeding RMB10,000 and confiscation of all illegal income (if any). We may be deemed as not fully compliant with the Invoices Measures for not issuing official invoices at the full amount of our revenue. However, the probability that we receive an order of correction or a fine is remote given that the local tax bureau is fully aware of the practice and has issued tax compliance certificates to us. Our PRC legal advisers, are of the view that we had no incident of tax evasion based on (i) our confirmation that we have fully paid tax in accordance with our sales revenue, the calculation of which is not based on transaction amounts supported by issued official invoices; and (ii) the tax compliance certificates issued by the local tax bureau.

As of December 31, 2010, 2011 and 2012 and June 30, 2013, we had (i) receivables due from Mr. Wang of nil, RMB15,000, RMB15,000 and nil, respectively, (ii) receivables due from Mr. Liao of nil, RMB16,000, RMB16,000 and nil, respectively, (iii) receivables due from Mr. Huang of nil, RMB26,000, RMB26,000 and nil, respectively, (iv) receivables due from Mr. Zhuang of nil, RMB6,000, RMB6,000 and nil, respectively, and (v) receivables due from Mr. Yang of nil, RMB1,000, RMB1,000 and nil, respectively. Such receivables arose from capital contribution by the Controlling Shareholders and were fully settled.

We did not have outstanding balances with our related parties as of the Latest Practicable Date. With respect to the trade-related transactions with related parties set out in Note 34 to the Accountant’s Report in Appendix I to this document, our Directors confirm that these transactions were conducted on normal commercial terms and/or our terms not less favorable than terms available from independent third parties, which are considered fair, reasonable and in the interest of the Shareholders of our Company as a whole.

SHAREHOLDERS’ EQUITY

The following table sets forth our equity as of the dates indicated:

	As of December 31,			As of June 30,
	2010	2011	2012	2013
	(RMB’000)			
Share capital	—	64	49	49
Reserves	25,888	125,930	(228,351)	(190,430)
(Accumulated losses)/Retained earnings	(45,420)	(30,524)	91,639	(151,708)
Total (deficits)/equity	(19,532)	95,470	(136,663)	(342,089)

As of December 31, 2010, 2011 and 2012 and June 30, 2013, we had total deficits of RMB19.5 million, total equity of RMB95.5 million, total deficits of RMB136.7 million and total deficits of RMB342.1 million, respectively.

As of December 31, 2010 and 2011, our reserves amounted to RMB25.9 million and RMB125.9 million, respectively. As of December 31, 2012 and June 30, 2013, we had total deficits of RMB136.7 million and RMB342.1 million, respectively. This was primarily due to the negative reserve of RMB228.4 million and RMB190.4 million, respectively, of which RMB371.9 million was other reserve resulting from the repurchase of ordinary shares in connection with the Pre-● Investment by the Series A Investors in June 2012. Please refer to Note 24 to the Accountant’s Report in Appendix I to this document. The net proceeds from investment by the Series A Investors (the “Series A Investment”) were principally used for (i) repurchase of the Ordinary Shares

FINANCIAL INFORMATION

then beneficially owned by Mr. Wong Po Tsan and Ms. Wang Baoshan pursuant to the Strategic Cooperation Agreement, (ii) investment in Appionics and (iii) general working capital purposes. As of June 30, 2013, RMB434.2 million of net proceeds from the Series A Investment had been utilized for the purposes set out in the foregoing. The remaining unutilized proceeds will be used for general working capital.

For the repurchase of the Ordinary Shares, we treated it as a transaction between us and our shareholders. The difference between the repurchase price and the par value of the relevant share capital amounting to approximately US\$58.8 million (equivalent to approximately RMB371.9 million) was recognized as a reduction of reserve in the financial statements, which resulted in negative capital reserve in the financial statements.

Upon the issuance of the Series A Preferred Shares, we designated them as financial liabilities at fair value through profit or loss and any subsequent change in fair value is recognized in the profit or loss. As of December 31, 2012 and June 30, 2013, total fair value of the Series A Preferred Shares amounting to approximately US\$71.8 million (equivalent to approximately RMB451.2 million) and approximately US\$131.1 million (equivalent to approximately RMB809.8 million), respectively, was recognized in the liabilities with its accumulated fair value change amounting to approximately US\$3.0 million (equivalent to approximately RMB18.8 million) and approximately US\$62.3 million (equivalent to approximately RMB388.2 million), respectively, recognized in fair value loss of convertible redeemable preferred shares in the financial statements. Please refer to Note 30 to the Accountant's Report in Appendix I to this document.

Pursuant to the conversion terms set forth in the memorandum of association and articles of association, all Series A Preferred Shares will be automatically converted into Ordinary Shares according to a conversion price (initially being the issue price of Series A Preferred Shares, resulting in an initial conversion ratio of 1:1, subject to adjustments for certain events, including but not limited to additional equity securities issuance) upon [●].

As a result, the liabilities for the Series A Preferred Shares will be derecognized and accounted as an increase in share capital and capital reserve and we will not have total deficits immediately upon [●].

INDEBTEDNESS

Bank Loans and Other Borrowings

In June 2013, Foga Tech entered into a general banking facility agreement with China Merchants Bank Co., Ltd., Hong Kong Branch in connection with a term loan facility up to lower of US\$2.5 million or 95% of RMB16.2 million as provided in a RMB standby letter of credit issued by China Merchants Bank Co., Ltd., Guangzhou Branch, guaranteed by Feiyin, available for drawdown within one year and for the purpose of working capital before [●]. The term loan has been fully drawn down in July 2013.

As of August 31, 2013, we had outstanding bank borrowings amounting to US\$2.5 million and financial liabilities of the Series A Preferred Shares amounting to RMB880 million. Other than that, we did not have any other bank loans, debt securities, borrowings, indebtedness or mortgages.

Contingent Liabilities

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

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

FINANCIAL INFORMATION

Off-balance Sheet Commitments and Arrangements

As of June 30, 2013, our capital expenditure contracted but not provided for amounted to approximately RMB2.7 million, which was related to acquisition of property and equipment. As of the Latest Practicable Date, we had not entered into any other off-balance sheet transactions.

MARKET RISK DISCLOSURE

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

Foreign Exchange Risk

We mainly operate in the PRC and a substantial portion of our revenue, cost of revenue and expenses are denominated in RMB. We also use RMB as our reporting currency. As we license certain of our games in the overseas market, we are exposed to various currency exposure, primarily with respect to USD.

As of December 31, 2010, 2011 and 2012 and June 30, 2013, we did not have significant foreign exchange risk for operations. We do not hedge against any fluctuation in foreign currency.

Interest Rate Risk

We are exposed to interest rate risk resulting from Series A Preferred Shares, the valuation of which is affected by market interest rates. We are of the view that other interest rate risks (such as interest rate risk on bank deposits) are not material. We do not currently use any derivative instruments to manage our interest rate risks as such risks are considered minimal.

Price Risk

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

For the year ended December 31, 2012 and the six months ended June 30, 2013, if our equity value had increased/decreased by 10% with all other variables held constant, profit before income tax for the year/period would have been approximately RMB36.1 million lower/RMB36.6 million higher and approximately RMB73.4 million lower/RMB73.6 million higher, respectively.

Credit Risk

Our credit risk relates mainly to our short-term investment, trade receivables, other receivables, and cash and cash equivalents.

If our cooperation with publishing partners is terminated or our publishing partners experience financial difficulties, the recoverability of our trade receivables from our game development business will be adversely affected. We frequently communicate with our publishing partners to manage such risk. We are of the view that such risk is minimal. We also have large amount of trade receivables from payment channels related to our game publishing business. We assess the credibility of payment channels taking into account their financial condition, previous incidents and certain other factors. We also periodically assess other receivables based on historical settlement record.

As of December 31, 2010, 2011, 2012 and June 30, 2013, all of our cash at bank and on hand were deposited in state-owned PRC banks or reputable international financial institutions, with no recent history of default. As of

FINANCIAL INFORMATION

June 30, 2013, our short-term investment was a financial product purchased from a state-owned PRC financial institution, with no recent history of default.

Liquidity Risk

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

DIVIDEND POLICY AND DISTRIBUTABLE RESERVES

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

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

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

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

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

Our Board has absolute discretion in whether to declare any dividend for any year and, if it decides to declare a dividend, how much dividend to declare. Feiyin and Weidong declared and paid dividends of RMB90.5 million in 2012. The Company has not paid or declared any dividend since its inception. No distributable reserves of the Company were available for distribution to the owners during the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013. We do not intend to include accumulated earnings of the PRC Operational Entities of approximately RMB269.3 million as of June 30, 2013 into service fee to be paid to Feidong under the Contractual Arrangements in the future. Such earnings are to be retained in the PRC Operational Entities to meet their business operational needs. We will continue to re-evaluate our dividend policy in light of our financial condition and the prevailing economic climate. However, the determination to pay

FINANCIAL INFORMATION

dividends will be made at the discretion of our Board and will be based upon our earnings, cash flow, financial condition, capital requirements, statutory fund reserve requirements and any other conditions that our Directors deem relevant. The payment of dividends may also be limited by legal restrictions and by financing agreements that we may enter into in the future. There can be no assurance that dividends of any amount will be declared or distributed in any year.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in our financial or trading position, indebtedness, mortgage, contingent liabilities, guarantees or prospects of our Group since June 30, 2013, the date of the latest audited consolidated financial statements of our Group.

APPENDIX I**ACCOUNTANT’S REPORT**

The following is the text of a report received from [●].

Letterhead of [●]

[Draft]

[Date]

The Directors
Forgame Holdings Limited
[●]

Dear Sirs,

We report on the financial information of Forgame Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”), which comprises the consolidated balance sheets as of December 31, 2010, 2011 and 2012 and June 30, 2013, the balance sheets of the Company as of December 31, 2011 and 2012 and June 30, 2013, the consolidated statements of comprehensive (loss)/income, the consolidated statements of changes in (deficit)/equity and the consolidated statements of cash flows for each of the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013 (the “Relevant Periods”), and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of the Company and is set out in Sections I to III below for inclusion in Appendix I to the document of the Company dated [date].

The Company was incorporated in the Cayman Islands on July 26, 2011 as an exempted company with limited liability under the Companies Law (2011 Revision) of the Cayman Islands. Pursuant to a group reorganization as described in Note 1(b) of Section II headed “History and reorganization of the Group” below, which was completed on June 15, 2012, the Company became the holding company of the subsidiaries now comprising the Group (the “Reorganization”).

As of the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in Note 1(b) of Section II below. All of these companies are private companies or, if incorporated or established outside Hong Kong, have substantially the same characteristics as a Hong Kong incorporated private company.

No audited financial statements have been prepared by the Company as it is not required to issue audited financial statements under the statutory requirement in the Cayman Islands. The audited financial statements of the other companies now comprising the Group as of the date of this report for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles generally accepted in their place of incorporation. The details of the statutory auditors of these companies are set out in Note 1(b) of Section II.

The directors of the Company have prepared the consolidated financial statements of the Company for the Relevant Periods, in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (the “Underlying Financial Statements”). The directors of the Company are responsible for the preparation of the Underlying Financial Statements that gives a true and fair view in accordance with IFRSs. [●] has audited the Underlying Financial Statements in accordance with

APPENDIX I

ACCOUNTANT'S REPORT

International Standards on Auditing ("ISAs") issued by the International Auditing and Assurance Standards Board ("IAASB") pursuant to separate terms of engagement with the Company.]

The financial information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon.

Directors' Responsibility for the Financial Information

The directors of the Company are responsible for the preparation of the financial information that gives a true and fair view in accordance with IFRSs, and for such internal control as the directors determine is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with relevant rules issued by the Hong Kong Institute of Certified Public Accountants.

Opinion

[In our opinion, the financial information gives, for the purpose of this report, a true and fair view of the state of affairs of the Company as of December 31, 2011 and 2012 and June 30, 2013 and of the state of affairs of the Group as of December 31, 2010, 2011 and 2012 and June 30, 2013 and of the Group's results and cash flows for the Relevant Periods then ended.]

Review of Stub Period Comparative Financial Information

We have reviewed the stub period comparative financial information set out in Sections I to II below included in Appendix I to the document which comprises the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months ended June 30, 2012 and a summary of significant accounting policies and other explanatory information (the "Stub Period Comparative Financial Information").

The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the accounting policies set out in Note 2 of Section II below.

Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the IAASB. A review of the Stub Period Comparative Financial Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with ISAs and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

[Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purpose of this report, has not been prepared, in all material respects, in accordance with the accounting policies set out in Note 2 of Section II below.]

APPENDIX I

ACCOUNTANT'S REPORT

I. FINANCIAL INFORMATION

The following is the financial information of the Group prepared by the directors of the Company as of December 31, 2010, 2011 and 2012 and June 30, 2013, and for each of the years ended December 31, 2010, 2011 and 2012 and each of the six months ended June 30, 2012 and 2013 (the "Financial Information").

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS)/ INCOME

	Section II Note	Year Ended December 31,			Six Months Ended June 30,	
		2010 RMB'000	2011 RMB'000	2012 RMB'000	2012 RMB'000 (unaudited)	2013 RMB'000
Revenue	5	95,078	384,009	776,649	347,122	573,748
Cost of revenue	6	(54,701)	(68,830)	(79,088)	(30,973)	(64,117)
Gross profit		40,377	315,179	697,561	316,149	509,631
Selling and marketing expenses	6	(26,636)	(59,464)	(178,726)	(78,778)	(158,945)
Administrative expenses	6	(7,178)	(125,697)	(36,462)	(12,953)	(46,854)
Research and development expenses	6	(46,997)	(89,845)	(200,624)	(74,284)	(141,252)
Other income	7	24	463	2,788	1,943	1,766
Other losses	8	—	(123)	(946)	(405)	(744)
Operating (loss)/profit		(40,410)	40,513	283,591	151,672	163,602
Finance income	10	—	—	—	—	1,906
Finance costs	10	—	—	(3,645)	(3,645)	—
Finance (costs)/income, net	10	—	—	(3,645)	(3,645)	1,906
Fair value loss of convertible redeemable preferred shares	30	—	—	(18,769)	—	(369,446)
(Loss)/profit before income tax ...		(40,410)	40,513	261,177	148,027	(203,938)
Income tax credit/(expense)	11	26	(22,664)	(43,560)	(25,791)	(39,409)
(Loss)/profit for the year/period ...		(40,384)	17,849	217,617	122,236	(243,347)
Item that will not be reclassified subsequently to profit or loss		—	—	2,654	—	10,432
Currency translation differences		—	—	2,654	—	10,432
Total comprehensive (loss)/income for the year/period		<u>(40,384)</u>	<u>17,849</u>	<u>220,271</u>	<u>122,236</u>	<u>(232,915)</u>
Attributable to:						
— Equity holders of the Company ..		(40,384)	17,849	220,271	122,236	(232,915)
— Non-controlling interests		—	—	—	—	—
		<u>(40,384)</u>	<u>17,849</u>	<u>220,271</u>	<u>122,236</u>	<u>(232,915)</u>
(Loss)/earnings per share (expressed in RMB per share)	12					
— Basic		<u>(0.40)</u>	<u>0.18</u>	<u>4.02</u>	<u>1.32</u>	<u>(14.78)</u>
— Diluted		<u>(0.40)</u>	<u>0.18</u>	<u>2.30</u>	<u>1.22</u>	<u>(14.78)</u>
Dividends	13	—	—	90,500	90,500	—

APPENDIX I

ACCOUNTANT'S REPORT

CONSOLIDATED BALANCE SHEETS

	Section II Note	As of December 31,			As of June 30,
		2010 RMB'000	2011 RMB'000	2012 RMB'000	2013 RMB'000
ASSETS					
Non-current assets					
Property and equipment	14	17,430	38,536	46,700	55,310
Intangible assets	16	2,354	2,672	31,349	30,812
Investment in an unlisted security	18	—	—	—	18,536
Prepayments and other receivables	20	467	1,523	2,352	9,507
Deferred income tax assets	31	13,843	19,480	24,463	18,760
		<u>34,094</u>	<u>62,211</u>	<u>104,864</u>	<u>132,925</u>
Current assets					
Trade receivables	19	20,496	46,066	84,293	90,904
Prepayments and other receivables	20	40,075	60,547	20,233	45,899
Short-term investment	21	—	—	—	110,854
Cash and cash equivalents	22	13,455	85,993	312,639	287,415
		<u>74,026</u>	<u>192,606</u>	<u>417,165</u>	<u>535,072</u>
Total assets		<u>108,120</u>	<u>254,817</u>	<u>522,029</u>	<u>667,997</u>
EQUITY					
Share capital	23	—	64	49	49
Reserves	24	25,888	125,930	(228,351)	(190,430)
(Accumulated losses)/retained earnings		(45,420)	(30,524)	91,639	(151,708)
Total (deficit)/equity		<u>(19,532)</u>	<u>95,470</u>	<u>(136,663)</u>	<u>(342,089)</u>
LIABILITIES					
Non-current liabilities					
Deferred revenue	27	5,266	9,145	7,987	8,511
Convertible redeemable preferred shares	30	—	—	451,153	809,767
Deferred income tax liabilities	31	297	217	150	116
		<u>5,563</u>	<u>9,362</u>	<u>459,290</u>	<u>818,394</u>
Current liabilities					
Trade payables	28	13,803	11,603	10,168	20,167
Other payables and accruals	29	10,439	19,381	41,622	57,849
Income tax liabilities		12,253	16,373	20,467	15,590
Deferred revenue	27	85,594	102,628	127,145	98,086
		<u>122,089</u>	<u>149,985</u>	<u>199,402</u>	<u>191,692</u>
Total liabilities		<u>127,652</u>	<u>159,347</u>	<u>658,692</u>	<u>1,010,086</u>
Total equity and liabilities		<u>108,120</u>	<u>254,817</u>	<u>522,029</u>	<u>667,997</u>
Net current (liabilities)/assets		<u>(48,063)</u>	<u>42,621</u>	<u>217,763</u>	<u>343,380</u>
Total assets less current liabilities		<u>(13,969)</u>	<u>104,832</u>	<u>322,627</u>	<u>476,305</u>

APPENDIX I

ACCOUNTANT'S REPORT

BALANCE SHEETS — COMPANY

	Section II Note	As of December 31,		As of June 30,
		2011 RMB'000	2012 RMB'000	2013 RMB'000
ASSETS				
Non-current assets				
Investments in subsidiaries	15	102,977	102,977	117,746
Amounts due from subsidiaries	15	—	31,427	49,430
		<u>102,977</u>	<u>134,404</u>	<u>167,176</u>
Current assets				
Prepayments and other receivables	20	—	—	12,056
Amounts due from Controlling Shareholders	34(d)	64	64	—
Cash and cash equivalents	22	—	28,706	952
		<u>64</u>	<u>28,770</u>	<u>13,008</u>
Total assets		<u>103,041</u>	<u>163,174</u>	<u>180,184</u>
EQUITY				
Share capital	23	64	49	49
Reserves	24	102,977	(266,532)	(231,883)
Accumulated losses	26	—	(23,677)	(406,227)
Total equity/(deficit)		<u>103,041</u>	<u>(290,160)</u>	<u>(638,061)</u>
LIABILITIES				
Non-current liabilities				
Convertible redeemable preferred shares	30	—	451,153	809,767
Current liabilities				
Other payables and accruals	29	—	2,181	8,478
Total liabilities		<u>—</u>	<u>453,334</u>	<u>818,245</u>
Total equity and liabilities		<u>103,041</u>	<u>163,174</u>	<u>180,184</u>
Net current assets		<u>64</u>	<u>26,589</u>	<u>4,530</u>
Total assets less current liabilities		<u>103,041</u>	<u>160,993</u>	<u>171,706</u>

APPENDIX I

ACCOUNTANT'S REPORT

CONSOLIDATED STATEMENTS OF CHANGES IN (DEFICIT)/EQUITY

	Section II Note	Attributable to Owners of the Company			
		Share Capital RMB'000	Reserves RMB'000	(Accumulated Losses)/Retained Earnings RMB'000	Total Equity/(Deficit) RMB'000
Balance at January 1, 2010		—	25,888	(5,036)	20,852
Comprehensive loss					
Loss for the year		—	—	(40,384)	(40,384)
Balance at December 31, 2010		—	25,888	(45,420)	(19,532)
Balance at January 1, 2011		—	25,888	(45,420)	(19,532)
Comprehensive income					
Profit for the year		—	—	17,849	17,849
Total comprehensive income		—	—	17,849	17,849
Total contributions by and distributions to owners of the Company recognized directly in equity					
Issue of new ordinary shares	23	64	—	—	64
Shares awarded to two founders	25	—	97,089	—	97,089
Total contributions by and distributions to owners of the Company for the year		64	97,089	—	97,153
Profit appropriations to statutory reserves	24	—	2,953	(2,953)	—
Balance at December 31, 2011		64	125,930	(30,524)	95,470
Balance at January 1, 2012		64	125,930	(30,524)	95,470
Comprehensive income					
Profit for the year		—	—	217,617	217,617
Other comprehensive income:					
— Currency translation differences	24	—	2,654	—	2,654
Total comprehensive income		—	2,654	217,617	220,271
Total contributions by and distributions to owners of the Company recognized directly in equity					
Repurchase of ordinary shares from two Pre-Series A Investors	23	(15)	(371,889)	—	(371,904)
Capital contribution from the Founders	24	—	10,000	—	10,000
Dividends	13	—	—	(90,500)	(90,500)
Total contributions by and distributions to owners of the Company for the year		(15)	(361,889)	(90,500)	(452,404)
Profit appropriations to statutory reserves	24	—	4,954	(4,954)	—
Balance at December 31, 2012		49	(228,351)	91,639	(136,663)

APPENDIX I

ACCOUNTANT'S REPORT

	Section II Note	Attributable to Owners of the Company			
		Share Capital RMB'000	Reserves RMB'000	(Accumulated Losses)/Retained Earnings RMB'000	Total Equity/(Deficit) RMB'000
Unaudited:					
Balance at January 1, 2012		64	125,930	(30,524)	95,470
Comprehensive income					
Profit for the period		—	—	122,236	122,236
Total comprehensive income		—	—	122,236	122,236
Total contributions by and distributions to owners of the Company recognized directly in equity					
Repurchase of ordinary shares from two Pre-Series A investors	23	(15)	(371,889)	—	(371,904)
Capital contribution from the Founders	24	—	10,000	—	10,000
Dividends	13	—	—	(90,500)	(90,500)
Total contributions by and distributions to owners of the Company for the year		(15)	(361,889)	(90,500)	(452,404)
Balance at June 30, 2012		49	(235,959)	1,212	(234,698)

	Section II Note	Attributable to Owners of the Company			
		Share Capital RMB'000	Reserves RMB'000	(Accumulated Losses)/Retained Earnings RMB'000	Total Equity/(Deficit) RMB'000
Balance at January 1, 2013		49	(228,351)	91,639	(136,663)
Comprehensive income/(loss)					
Loss for the period		—	—	(243,347)	(243,347)
Other comprehensive income:					
— Currency translation differences	24	—	10,432	—	10,432
Total comprehensive income/(loss)		—	10,432	(243,347)	(232,915)
Total contributions by and distributions to owners of the Company recognized directly in equity					
Pre-[●] Share Option Scheme:					
— Value of employee services	24	—	27,489	—	27,489
Total contributions by and distributions to owners of the Company for the period		—	27,489	—	27,489
Balance at June 30, 2013		49	(190,430)	(151,708)	(342,089)

APPENDIX I

ACCOUNTANT’S REPORT

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Section II Note	Year Ended December 31,			Six Months Ended June 30,	
		2010 RMB'000	2011 RMB'000	2012 RMB'000	2012 RMB'000 (unaudited)	2013 RMB'000
Cash flows from operating activities						
Cash generated from operations	32	27,301	124,911	344,145	209,660	169,516
Income tax paid		(510)	(24,261)	(44,516)	(26,224)	(38,617)
Net cash generated from operating activities		<u>26,791</u>	<u>100,650</u>	<u>299,629</u>	<u>183,436</u>	<u>130,899</u>
Cash flows from investing activities						
Purchase of property and equipment		(16,908)	(27,750)	(19,662)	(6,811)	(22,029)
Proceeds from disposals of property and equipment	32	—	336	520	41	52
Purchase of intangible assets		—	(698)	(32,830)	(1,050)	(4,712)
Payment for acquisition of investment in an unlisted security	18	—	—	—	—	(18,725)
Payment for short-term investment	21	—	—	—	—	(220,000)
Proceeds from uplift of matured short-term investment	21	—	—	—	—	110,000
Interest received from short-term investment		—	—	—	—	1,052
Net cash used in investing activities		<u>(16,908)</u>	<u>(28,112)</u>	<u>(51,972)</u>	<u>(7,820)</u>	<u>(154,362)</u>
Cash flows from financing activities						
Payments for repurchase of ordinary shares from two Pre-Series A Investors	23	—	—	(371,904)	—	—
Capital contributions from the Founders	24	—	—	10,000	10,000	—
Cash received for issued ordinary shares	23(a)	—	—	—	—	64
Dividends paid	13	—	—	(90,500)	(90,500)	—
Payment for deferred [●] costs		—	—	—	—	(1,614)
Proceeds from issuance of convertible redeemable preferred shares	30	—	—	435,153	435,153	—
Payments of issuance costs of convertible redeemable preferred shares	10	—	—	(3,645)	(3,645)	—
Net cash (used in)/generated from financing activities		<u>—</u>	<u>—</u>	<u>(20,896)</u>	<u>351,008</u>	<u>(1,550)</u>
Net increase/(decrease) in cash and cash equivalents		<u>9,883</u>	<u>72,538</u>	<u>226,761</u>	<u>526,624</u>	<u>(25,013)</u>
Cash and cash equivalents at beginning of year/period		3,572	13,455	85,993	85,993	312,639
Exchange losses on cash and cash equivalents		—	—	(115)	—	(211)
Cash and cash equivalents at end of year/period		<u>13,455</u>	<u>85,993</u>	<u>312,639</u>	<u>612,617</u>	<u>287,415</u>

II. NOTES TO THE FINANCIAL INFORMATION

1 General Information, Reorganization and Basis of Presentation

(a) General Information

Forgame Holdings Limited (the "Company"), previously known as Foga Holdings Limited, was incorporated in the Cayman Islands on July 26, 2011 as an exempted company with limited liability under the Companies Law (2011 Revision) of the Cayman Islands. The address of the Company's registered office is P.O. Box 613, 4th Floor Harbour Centre, George Town, Grand Cayman KY1-1107, Cayman Islands.

The Company is an investment holding company and its subsidiaries (collectively the "Group") are principally engaged in developing, licensing and operating webgames and mobile games (the "Business") in the People's Republic of China (the "PRC").

Mr. Wang Dongfeng, Mr. Huang Weibing, Mr. Liao Dong, Mr. Yang Tao and Mr. Zhuang Jieguang (collectively as the "Founders" or "Controlling Shareholders") collectively own 66.03% equity interests in the Company through their respective wholly-owned companies namely Foga Group Ltd., Foga Networks Development Ltd., Foga Holdings Ltd., Foga Internet Development Ltd. and Foga Development Co., Ltd. (collectively as "Founder Companies").

The Financial Information is presented in Renminbi ("RMB"), unless otherwise stated.

(b) History and Reorganization of the Group

Prior to the incorporation of the Company and completion of the group reorganization (as explained below), the Business was carried out through several domestic operating companies, incorporated in the PRC, namely Guangzhou Weidong Internet Technology Co., Ltd. (廣州維動網絡科技有限公司, "Weidong"), Guangzhou Feiyin Information Technology Co., Ltd. (廣州菲音信息科技有限公司, "Feiyin") and Guangzhou Jieyou Software Co., Ltd. (廣州捷遊軟件有限公司, "Jieyou"). Feiyin and Weidong were incorporated on April 12, 2004 and January 22, 2007 and were acquired by the Founders in September 2009 at consideration of RMB10,000,000 and RMB10,000,000, respectively, while Jieyou was incorporated by the Founders on June 7, 2012. Weidong, Feiyin and Jieyou are collectively defined as the "PRC Operational Entities" thereafter.

In preparation for the [●], the Group underwent a reorganization (the "Reorganization"), pursuant to which the beneficial interests in the companies engaged in the Business were transferred to the Company. The Reorganization involved the following:

- (i) On July 25, 2011, the Founder Companies were established in the British Virgin Islands (the "BVI") by the respective Founders.
- (ii) On July 26, 2011, the Company was incorporated in the Cayman Islands with an authorized share capital of US\$50,000, consisting of 50,000 ordinary shares of US\$1.00 each. 10,000 ordinary shares with par value of US\$1.00 each were allocated and issued to the Founder Companies.
- (iii) On August 9, 2011, Foga Tech Limited ("Foga Tech") was incorporated in Hong Kong as a wholly-owned subsidiary of the Company.
- (iv) On March 22, 2012, Hongkong Ledong Tech Limited was incorporated in Hong Kong as a wholly-owned subsidiary of Foga Tech.
- (v) On June 13, 2012, Guangzhou Feidong Software Technology Co., Ltd. (廣州菲動軟件科技有限公司, "Feidong") was established as a wholly foreign-owned enterprise in the PRC with Foga Tech being

APPENDIX I

ACCOUNTANT’S REPORT

its sole equity-holder. It was established to carry out the business of software development and to provide related information technical services.

- (vi) Pursuant to a series of contractual agreements signed in June and July 2012 (the “Contractual Arrangements”) among Feidong, the PRC Operational Entities and their respective equity holders, Feidong acquired effective control over the financial and operational policies of the PRC Operational Entities and became entitled to economic benefits generated by these entities. Accordingly, the PRC Operational Entities became the subsidiaries of Feidong. Further details of the Contractual Arrangements are set out in Note 2.2.1(a) below. Upon completion of the Reorganization, the Company became the holding company of the Group.

Upon completion of the Reorganization and as of the date of this report, the Company had direct or indirect interests in the following subsidiaries:

Company Name	Country and Date of Incorporation/ Establishment	Issued and Fully Paid Share Capital/ Registered Capital	Equity Interest Held	Principal Activities and Place of Operation	Note
Directly held by the Company					
Foga Tech Limited	Hong Kong/ August 9, 2011	HK\$1	100%	Investment holding, Hong Kong	(1)
Indirectly held by the Company					
Hongkong Ledong Tech Limited	Hong Kong/ March 22, 2012	HK\$10,000	100%	Development and operation of webgames, Hong Kong	(2)
Guangzhou Feidong Software Technology Co., Ltd. (廣州菲動軟件科技有限公司)	PRC/ June 13, 2012	US\$5,000,000	100%	Software development and provision of information technology services, the PRC	(3)
Guangzhou Feiyin Information Technology Co., Ltd. (廣州菲音信息科技有限公司)	PRC/ April 12, 2004	RMB10,000,000	100%	Development of webgames and mobile games, the PRC	(4)
Guangzhou Weidong Internet Technology Co., Ltd. (廣州維動網絡科技有限公司)	PRC/ January 22, 2007	RMB10,000,000	100%	Development and operation of webgames, the PRC	(5)
Guangzhou Jieyou Software Co., Ltd. (廣州捷遊軟件有限公司)	PRC/ June 7, 2012	RMB10,000,000	100%	Development and operation of webgames, the PRC	(3)

The English names of certain companies referred herein represent management’s best effort at translating the Chinese names of these companies as no English name has been registered.

All companies comprising the Group have adopted December 31 as their financial year end date.

The Group’s major subsidiaries are based in the PRC and majority of their transactions are denominated in Renminbi (“RMB”). The conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. As of December 31, 2010, 2011 and 2012 and June 30, 2013, other than the restriction from exchange control regulations, there is no significant restriction on the Group’s ability to access or use the assets and settle the liabilities of the Group.

APPENDIX I

ACCOUNTANT'S REPORT

Notes:

- (1) The statutory financial statements from date of incorporation to December 31, 2012 were audited by FUNG, YU & CO. CPA LIMITED.
- (2) No statutory audited financial statements have been prepared for this company as it was newly incorporated in 2012.
- (3) The statutory financial statements were audited by 廣州市華穗會計師事務所有限公司 (Guangzhou Huasui Certified Public Accountants Co., Ltd.) for the period ended December 31, 2012.
- (4) The statutory financial statements were audited by 廣州市華穗會計師事務所有限公司 for the years ended December 31, 2010, 2011 and 2012.
- (5) The statutory financial statements were audited by 廣東城豐信會計師事務所有限公司 (Guangdong Chengfengxin Certified Public Accountants Co., Ltd.) for the year ended December 31, 2010 and 廣州市華穗會計師事務所有限公司 for the years ended December 31, 2011 and 2012.

(c) ***Basis of Presentation***

Immediately prior to and after the Reorganization, the Business was carried out by the PRC Operational Entities which were under the control of the Controlling Shareholders. Pursuant to the Reorganization, both the PRC Operational Entities and the Business are put under the effective control of Feidong, and ultimately the Company, through the Contractual Arrangements.

The Company has not been involved in any other business prior to the Reorganization and its operations do not meet the definition of a business. The Reorganization is merely a reorganization of the Business and does not result in any changes in business substance, nor in any management or Controlling Shareholders of the Business, before and after the Reorganization. Accordingly, the Financial Information of the companies now comprising the Group is presented using the carrying value of the Business for all periods presented.

Intercompany transactions, balances and unrealized gains/losses on transactions between group companies are eliminated on consolidation.

2 Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied throughout the Relevant Periods, unless otherwise stated.

2.1 Basis of Preparation

The Financial Information of the Group has been prepared in accordance with International Financial Reporting Standards ("IFRSs"). The Financial Information has been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

The preparation of Financial Information in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in Note 4 below.

All new standards, amendments to standards and interpretations, which are mandatory for the financial year beginning January 1, 2013, are consistently applied to the Group for the Relevant Periods.

(a) Changes in Accounting Policy and Disclosures

The following new standards, amendments to standards and interpretation have been issued but are not effective for the financial year beginning January 1, 2013 that are relevant to the operations of the Group but have not been early adopted.

- IFRS 9, "Financial instruments," addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the profit or loss, unless this creates an accounting mismatch.
- Amendments to IAS 32 "Financial instruments: presentation" on asset and liability offsetting, these amendments are to the application guidance in IAS 32, "Financial instruments: Presentation," and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.
- Amendments to IAS 36 "Impairment of assets" on recoverable amount disclosures for non-financial assets, these amendments require additional disclosure of fair value information should the recoverable amount of impaired assets be based on fair value less costs of disposal. In addition, it removes the requirements of disclosing recoverable amounts in annual impairment test of goodwill and intangible assets with indefinite useful lives if not impaired.
- IFRIC 21, "Levies," addresses the accounting for a liability to pay a levy imposed by governments in accordance with legislation if that liability is within the scope of IAS 37. It also addresses the accounting for a liability to pay a levy whose timing and amount is certain.

The Group will adopt amendments to IAS 32, amendments to IAS 36 and IFRIC 21 on January 1, 2014 and IFRS 9 on January 1, 2015. The Group is in the process of making an assessment of the impact of the above standards, amendments to standards and interpretation on the financial statements of the Group in their initial applications.

2.2 Subsidiaries

2.2.1 Consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

APPENDIX I

ACCOUNTANT'S REPORT

(a) *Subsidiaries Arising from Reorganization*

The wholly-owned subsidiary, Feidong, has entered into Contractual Arrangements with the PRC Operational Entities and their respective equity holders, which enable Feidong and the Group to:

- exercise effective financial and operational control over the PRC Operational Entities;
- exercise equity holders' voting rights of the PRC Operational Entities;
- receive substantially all of the economic interest returns generated by the PRC Operational Entities in consideration for the business support, technical and consulting services provided by Feidong, at Feidong's discretion;
- obtain an irrevocable and exclusive right with an initial period of 10 years to purchase the entire equity interest in the PRC Operational Entities from the respective equity holders. The right automatically renews upon expiry until Feidong specifies a renewal term;
- obtain a pledge over the entire equity interest of the PRC Operational Entities from their respective equity holders as collateral security for all of the PRC Operational Entities' payments due to Feidong and to secure performance of PRC Operational Entities' obligations under the Contractual Arrangements.

The Group does not have any equity interest in PRC Operational Entities. However, as a result of the Contractual Arrangements, the Group has rights to variable returns from its involvement with the PRC Operational Entities and has the ability to affect those returns through its power over the PRC Operational Entities and is considered to control the PRC Operational Entities. Consequently, the Company regards the PRC Operational Entities as the indirect subsidiaries under IFRSs. The Group has included the financial position and results of the PRC Operational Entities in the consolidated financial statements during the Relevant Periods. Please refer to Note 1(c) for details of the related presentation basis.

Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over the PRC Operational Entities and uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the results, assets and liabilities of the PRC Operational Entities. The Group believes that the Contractual Arrangements among Feidong, the PRC Operational Entities and their respective equity holders are in compliance with relevant PRC laws and regulations and are legally enforceable.

(b) *Subsidiaries Other than from Reorganization*

Except for the Reorganization of which the accounting treatment is described in Note 1(c) above, the Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in profit or loss.

APPENDIX I

ACCOUNTANT’S REPORT

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the amount of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

(c) *Changes in Ownership Interests in Subsidiaries without Change of Control*

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions — that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2.2.2 **Separate Financial Statements**

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the Financial Information of the investee’s net assets including goodwill.

2.3 **Segment Reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (“CODM”), who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that make strategic decisions.

2.4 **Foreign Currency Translation**

(a) *Functional and Presentation Currency*

Items included in the Financial Information of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The functional currency of the Company is the United States dollar (“US\$”). The Company’s primary subsidiaries were incorporated in the PRC and these subsidiaries considered RMB as their functional currency. As the major operations of the Group during the Relevant Periods are within the PRC, the Group determined to present its Financial Information in RMB (unless otherwise stated).

(b) *Transactions and Balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the

APPENDIX I

ACCOUNTANT'S REPORT

profit or loss, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statements of comprehensive income within "finance costs." All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within "other losses."

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are included in other comprehensive income.

(c) *Group Companies*

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognized in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognized in other comprehensive income.

2.5 **Property and Equipment**

Property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation on property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

— Furniture and office equipment	5 years
— Server and other equipment	3-5 years
— Motor vehicles	5 years
— Leasehold improvement	Shorter of remaining term of the lease and the estimated useful lives of the assets

APPENDIX I

ACCOUNTANT'S REPORT

The depreciation method, residual values and useful lives of the assets are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognized within "other losses" in the consolidated statements of comprehensive income.

2.6 Intangible Assets

(a) *Goodwill*

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the consideration transferred over the Company's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the amount of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognized immediately as an expense and is not subsequently reversed.

(b) *Computer Software*

Acquired computer software is capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives (3 to 5 years), and recorded in amortization within operating expenses in the consolidated statements of comprehensive income.

(c) *Game Intellectual Properties and Licenses*

Game intellectual properties and licenses are initially recorded at cost or estimated fair value of intangible assets acquired through business combinations. These intangible assets are amortized on a straight-line basis over their estimate useful lives (ranged from 3 to 10 years.)

(d) *Research and Development Expenditures*

Research expenditure is recognized as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are capitalized as intangible assets when recognition criteria are fulfilled. These criteria include: (1) it is technically feasible to complete the game product so that it will be available for use or sale; (2) management intends to complete the game product and use or sell it; (3) there is an ability to use or sell the game product; (4) it can be demonstrated how the game product will generate probable future economic benefits; (5) adequate technical, financial and other resources to complete the development and to use or sell the game product are available; and (6) the expenditure attributable to the game product during its development can be reliably measured. Other development expenditures that do not meet those criteria are recognized as expenses as incurred. During

the Relevant Periods, there were no development costs meeting these criteria and capitalized as intangible assets.

Development costs previously recognized as expenses are not recognized as assets in subsequent periods. Capitalized development costs are amortized from the point at which the assets are ready for use on a straight-line basis over their useful lives.

2.7 Impairment of Non-financial Assets

Assets that have an indefinite useful life, for example, goodwill, are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each of the reporting dates.

2.8 Financial Assets

(a) Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade receivables," "other receivables" and "cash and cash equivalents" in the balance sheet (Notes 2.11 and 2.12).

(b) Recognition and Measurement

Regular way purchases and sales of financial assets are recognized on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in profit or loss. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

APPENDIX I

ACCOUNTANT'S REPORT

2.9 Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

2.10 Impairment of Financial Assets

Assets Carried at Amortized Cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the profit or loss.

2.11 Trade Receivables and Other Receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection of trade receivables and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

2.12 Cash and Cash Equivalents

In the consolidated statements of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks and other financial institutions and short-term highly liquid investments with original maturity of three months or less.

2.13 Share Capital and Premium

Ordinary shares are classified as equity. Convertible redeemable preferred shares are classified as liabilities (Note 2.15).

APPENDIX I

ACCOUNTANT'S REPORT

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity share capital (treasury share), the considerations paid, including any directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs) is included in equity attributable to the Company's equity holders.

2.14 Trade Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.15 Convertible Redeemable Preferred Shares

Convertible redeemable preferred shares (Note 30) are redeemable upon occurrence of certain future events and at the option of the holders. This instrument can be converted into ordinary shares of the Company at any time at the option of the holders or automatically converted into ordinary shares upon occurrence of an initial public offering of the Company or agreed by majority of the holders as detailed in Note 30.

The Group designated the convertible redeemable preferred shares as financial liabilities at fair value through profit or loss. They are initially recognized at fair value. Any directly attributable transaction costs are recognized as finance costs in the consolidated statements of comprehensive income.

Subsequent to initial recognition, the convertible redeemable preferred shares are carried at fair value with changes in fair value recognized in the profit or loss.

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

2.16 Current and Deferred Income Tax

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

(a) Current Income Tax

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

APPENDIX I

ACCOUNTANT’S REPORT

(b) *Deferred Income Tax*

Inside Basis Differences

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

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

Outside Basis Differences

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

(c) *Offsetting*

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

2.17 Employee Benefits

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organized by the relevant governmental authorities. The Group’s liability in respect of these plans is limited to the contributions payable in each period. Contributions to these plans are expensed as incurred. Assets of the plans are held and managed by government authorities and are separate from those of the Group.

2.18 Share-based Payments

(a) *Equity-settled Share-based Payments Transactions*

Certain Controlling Shareholders transferred some of their interests in the Business to two Pre-Series A Investors (“Pre-Series A Investors”) in 2009 and two founders, Mr. Zhuang Jieguang and Mr. Yang Tao, in 2011 in return for their services to the Group (Note 25). These shares were fully vested in 2009 and 2011, respectively. The Group also operates an equity-settled share-based compensation plan, the Pre-[●] Share Option Scheme, under which the Group receives services from employees or other service providers as consideration for equity instruments (options) of the Company. The fair value of the services received in exchange for the grant of the equity instruments (options) is recognized as expense.

In terms of share options and shares awarded to employees, the total amount to be expensed is determined by reference to the fair value of the equity instruments (options) granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions; and
- including the impact of any non-vesting conditions.

APPENDIX I

ACCOUNTANT'S REPORT

In terms of share options and shares awarded to counterparties other than employees, the total amount to be expensed is determined by reference to the fair value of the service unless such fair value could not be estimated reliably. In such case, the expense will be measured indirectly by reference to the fair value of the equity instruments granted at the date when such counterparties render services.

Non-market performance and service conditions are included in assumptions about the number of options and shares that are expected to vest. The total expense is recognized over the vesting period over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognizing the expense during the period between service commencement period and grant date.

At the end of each reporting period, the Group revises its estimates of the number of options and shares that are expected to vest based on the non-marketing performance and service conditions. It recognizes the impact of the revision to original estimates, if any, in the profit or loss, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

(b) *Share-based Payments Transactions among Group Entities*

The grant by the Company of shares to the Pre-Series A Investors and two founders and options over its equity instruments to the employees or other service providers of the subsidiaries is treated as a capital contribution. The fair value of consulting and employee services received, measured by reference to the grant date fair value, is recognized over the vesting period as an increase to investments in subsidiaries undertakings, with a corresponding credit to equity in the separate financial statements of the Company.

2.19 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2.20 Revenue Recognition

The Group engaged in provision of webgames and mobile games development service ("Game Development") and webgames publishing services ("Game Publishing"). The Group's revenue is principally derived from the sales of virtual items in games from both Game Development and Game Publishing. Revenues reported in the Financial Information are net of sales tax and related surcharges.

APPENDIX I

ACCOUNTANT'S REPORT

(a) *Game Development Revenue*

The Group provides Game Development service through its own web-based platforms (91wan.com, 2918.com, 9vs.com, 915.com and 336.com, collectively "91wan"), third party web-based platforms, such as Tencent, Qihoo and YY, and certain mobile-based platforms (collectively "Platforms" thereafter). The Group is responsible for hosting the games, providing on-going updates of new contents, sales of in-game virtual items, technical support for the operations of the games, as well as preventing, detecting and resolving in-game cheating and hacking activities, etc. Platforms are responsible for distribution, marketing, payer authentication and payment collections related to the games.

The Group's games are free-to-play and players can pay for virtual items for better in-game experience. Players purchase the Group's game credits ("Paying Players") through Platform's own charging system and use the game credits to exchange in-game virtual items. Paying Players usually exchange their game credits for the virtual items shortly after purchases. The monetary value of the virtual items sold is shared between the Group and Platforms, which is pre-determined in individual revenue sharing arrangements ("Revenue Sharing Arrangements"). Revenue shared by the Group generally ranged from 20% to 40% for each game. Platforms collect the payments made by Paying Players and remit the cash to the Group according to the Revenue Sharing Arrangements.

Upon the sales of virtual items, the Group typically has an implied obligation to provide the service which enables the virtual items to be displayed and used in the respective games. As a result, the proceeds from the sales of virtual items are initially recorded in deferred revenue and are recognized as revenue subsequently only when the services have been rendered. For the purposes of determining when services have been rendered to the respective Paying Players, the Group has determined the following:

- Consumable virtual items represent items that will be extinguished shortly after consumption by a specific game player action. The Paying Players will not continue to benefit from the virtual items thereafter. Revenue is recognized (as a release from deferred revenue) when the items are consumed.
- Durable virtual items represent items that are accessible and beneficial to Paying Players over an extended period of time. Revenue is recognized ratably over the average playing period of Paying Player ("Player Relationship Period"), which represents the best estimate of the average life of durable virtual items for the applicable game.

The Group determines the Player Relationship Period on a game-by-game and platform-by-platform basis by tracking the player data, such as log-in data and purchase record. If there is insufficient player data to determine the Player Relationship Period, such as in the case of a newly launched game, it estimates the Player Relationship Period based on other similar types of games of the Group or third-party developers, taking into account the games profile, target audience and its appeal to Paying Players of different demographic groups, until the new game establishes its own history, which is normally up to 12 months after launch. The Group re-assesses such periods semi-annually.

If the Group does not have the ability to differentiate revenue attributable to durable virtual items from consumable virtual items of a specific game, the Group recognizes revenue derived from both durable and consumable virtual items of that game ratably by taking reference to the Player Relationship Period of the respective games, or other similar types of games.

For revenues relating to games developed by the Group which are published on third party Platforms, the Group has evaluated the roles and responsibilities in the delivery of game experience to the Paying Players and concluded the Group takes the primary responsibilities in the rendering service. The Group is determined to be the primary obligor. However, the Group operates across a large number of Platforms, some of which offer various marketing discounts from time to time to Paying Players. The actual prices paid by individual paying players may be lower than the standard prices of virtual items purchased with the balance being subsidized by the Platforms and such marketing discounts are neither available to be

APPENDIX I

ACCOUNTANT’S REPORT

tracked reliably nor borne by the Group. As such, the Group is not able to make a reasonable estimate of the gross revenue (i.e., the actual prices paid by the Paying Players). Accordingly, the Group reports a net revenue to the extent of the amounts received and receivable from third party Platforms under Revenue Sharing Arrangement when the services are rendered.

For revenue derived from mobile games, the Group follows the policies of webgames since the operations of the two types of games are similar during the Relevant Periods.

The Group also derives revenue from licensing and technical support service on a game-by-game basis. Licensing revenue is primarily from oversea platforms and recognized on a straight-line basis over the licensing period. Technical support revenue is recognized when technical support services are rendered.

(b) *Game Publishing Revenue*

The Group provides Game Publishing service through cooperation with game developers to Paying Players. The Group publishes its self-developed and third party developers’ games on its own web-based platforms. Similar to the Group’s games published in other Platforms (details described in section (a) above), the games published on 91wan are free-to-play and players can pay for virtual items for better in-game experience.

The Group’s Game Publishing revenue mainly derives from Revenue Sharing Arrangements (details described in section (a) above) from game developers. The games published on 91wan are hosted, maintained and updated by the game developers, and the Group mainly provides access to 91wan and limited after-sale basic technical support to the Paying Players. The Group has evaluated and determined it is not the primary obligor in the services rendered to the Paying Players as a Platform. Accordingly, the Group records its revenue, net of the portion of sharing of revenues with the game developers.

The Group believes that its implied obligation to the game developers corresponds to the game developers’ implied obligation to provide the service which enables the virtual items to be displayed and used in the games. Given that games are hosted, managed and administered by the game developers, the Group does not have access to the data on the consumption details and the types of virtual items purchased by the Paying Players. However, the Group maintains individual Paying Player’s purchase history of game credits which are used for exchange for virtual items. As such, the Group has adopted a policy to recognize revenues for both consumable and durable items exchanged by game credits over the Player Relationship Period on a game-by-game basis.

The Group determines Player Relationship Period on a game-by-game basis by tracking the player data, such as log-in data and purchase record. When the Group publishes a new game, it estimates the Player Relationship Period based on other similar types of games of the Group or third party developers, taking into account the games profile, target audience and its appeal to Paying Players of different demographic groups, until the new game establishes its own history, which is normally up to 12 months after launch. The Group re-assesses such periods semi-annually.

The Group allows Paying Players on 91wan to make payments through cooperation with various third-party online payment platforms such as Alipay, 99bill and Yeepay and certain major pre-paid card service providers in China such as Shenzhoufu. These online payment platforms charge the Group payment handling costs (“Payment handling cost”) with pre-agreed charge rates over the total payments received and the Group recorded the charge in “cost of revenue.”

2.21 **Interest Income**

Interest income mainly represents interest income from bank deposits and is recognized using effective interest method.

APPENDIX I

ACCOUNTANT'S REPORT

2.22 Government Grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property and equipment are included in non-current liabilities as deferred government grants and are credited to the profit or loss on a straight-line basis over the expected lives of the related assets.

2.23 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease.

2.24 Dividend Distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's and the Company's Financial Information in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

3 Financial Risk Management

3.1 Financial Risk Factors

The Group's activities exposed it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Risk management is carried out by the senior management of the Group approved by the Board of Directors.

(a) Market Risk

(i) Foreign Exchange Risk

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US\$. All of the transactions of the Company and its overseas subsidiaries are denominated and settled in their common functional currency, US\$. Therefore, foreign exchange risk primarily arose from recognized assets and liabilities in the Group's PRC subsidiaries when receiving or to receive foreign currencies from overseas cooperated counterparties. The Group does not hedge against any fluctuation in foreign currency.

As of December 31, 2010, 2011 and 2012 and June 30, 2013, the Group did not have significant exchange risk from the operations.

(ii) Interest Rate Risk

The Group's and the Company's interest rate risk primarily arose from Series A convertible redeemable preferred shares ("Series A Preferred Shares") (Note 30), the valuation of which is affected by market interest rate. Please refer to Note 4.1(c) for related sensitivity analysis.

During the Relevant Periods, other than those mentioned above, management of the Group is of the opinion that other interest rate risk (such as interest rate risk on bank deposits) was not material to the Group and the Company.

APPENDIX I

ACCOUNTANT'S REPORT

(iii) Price Risk

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

For the year ended December 31, 2012 and the six months ended June 30, 2013, if the Group's equity value had increased/decreased by 10% with all other variables held constant, profit before income tax for the year/period would have been approximately RMB36,080,000 lower/RMB36,638,000 higher and RMB73,371,000 lower/RMB73,557,000 higher, respectively.

(b) *Credit Risk*

The carrying amounts of cash and cash equivalents placed with banks and financial institutions, short-term investment, trade receivables, other receivables included in the Financial Information represent the Group's maximum exposure to credit risk in relation to its financial assets. The objective of the Group's measures to manage credit risk is to control potential exposure to recoverability problem.

To manage risk of bank deposits, deposits are mainly placed with state-owned financial institutions in the PRC and reputable international financial institutions outside of the PRC. There has been no recent history of default in relation to these financial institutions.

The Group had made short-term investment in certain financial product with relatively higher interest rates with certain financial institutions. As of June 30, 2013, the Group had an outstanding investment in a financial product which was bought from a reputable state-owned financial institution in the PRC. Management has exercised due care when making investment decision with focus only on low risk financial products. There has been no recent history of default in relation to this financial institution.

For trade receivables, a significant portion of trade receivables at the end of each of the Relevant Periods was due from those Platforms in cooperation with the Group. If the strategic relationship with the Platforms is terminated or scaled-back; or if the Platforms alter the co-operative arrangements; or if they experience financial difficulties in paying the Group, the Group's Game Development receivables might be adversely affected in terms of recoverability.

To manage this risk, the Group maintains frequent communications with the Platforms to ensure the effective credit control. In view of the history of cooperation with the Platforms and the sound collection history of receivables due from them, management believes that the credit risk inherent in the Group's outstanding trade receivable balances due from Platforms is low.

For other receivables, management make periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience.

The Company has no significant exposure of credit risk in the Financial Information.

(c) *Liquidity Risk*

The Group aims to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying businesses, the Group's finance department maintains flexibility in funding by maintaining adequate cash and cash equivalents.

The table below analyses the Group and the Company's non-derivative financial liabilities that will be settled on a net basis into relevant maturity grouping based on the remaining period at the balance sheet to

APPENDIX I

ACCOUNTANT'S REPORT

the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

<u>Group</u>	<u>Less than 3 Months</u> <u>RMB'000</u>
At December 31, 2010	
Trade payables	13,803
Other payables and accruals (excluding advance, accrued payroll and other tax liabilities)	2,618
	<u> </u>
At December 31, 2011	
Trade payables	11,603
Other payables and accruals (excluding advance, accrued payroll and other tax liabilities)	5,878
	<u> </u>
At December 31, 2012	
Trade payables	10,168
Other payables and accruals (excluding advance, accrued payroll and other tax liabilities)	11,813
	<u> </u>
At June 30, 2013	
Trade payables	20,167
Other payables and accruals (excluding advance, accrued payroll and other tax liabilities)	28,708
	<u> </u>
 <u>Company</u>	
	<u>Less than 3 Months</u> <u>RMB'000</u>
At December 31, 2012	
Other payables and accruals (excluding advance, accrued payroll and other tax liabilities)	1,858
	<u> </u>
At June 30, 2013	
Other payables and accruals (excluding advance, accrued payroll and other tax liabilities)	8,134
	<u> </u>

As of December 31, 2010 and 2011, the Group and the Company had no derivative financial liability.

As of December 31, 2012 and June 30, 2013, Series A Preferred Shares were classified as non-current liability because the Group believes it has no obligation to settle the liability arising from the attached redemption right within 12 months after the end of each reporting period. The maximum exposure of this redemption is the contractual redemption price which is equal to the 150% of the issue price, plus any accrued but unpaid dividends on such shares (Note 30). The Group recognizes the hybrid Series A Preferred Shares at fair value through profit or loss, accordingly, Series A Preferred Shares are managed on a net-fair value basis rather than by maturity date.

3.2 Capital Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders' value in the long term.

The Group monitors capital (including share capital, capital reserves and Series A Preferred Shares on an as-if converted basis) by regularly reviewing the capital structure. As a part of this review, the directors of the Company consider the cost of capital and the risks associated with the issued share capital. The Group

APPENDIX I

ACCOUNTANT'S REPORT

may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or repurchase the Company's shares.

3.3 Fair Value Estimation

Financial instruments are carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities that are measured at fair value as of December 31, 2012.

	<u>Level 1</u> RMB'000	<u>Level 2</u> RMB'000	<u>Level 3</u> RMB'000	<u>Total</u> RMB'000
Recurring Fair Value Measurements:				
Liabilities:				
Financial liabilities at fair value through profit or loss				
— Convertible redeemable preferred shares	<u>—</u>	<u>—</u>	<u>451,153</u>	<u>451,153</u>

The following table presents the Group's assets and liabilities that are measured at fair value as of June 30, 2013.

	<u>Level 1</u> RMB'000	<u>Level 2</u> RMB'000	<u>Level 3</u> RMB'000	<u>Total</u> RMB'000
Recurring Fair Value Measurements:				
Assets:				
Financial assets at fair value through profit or loss				
— Short-term investment	<u>—</u>	<u>110,854</u>	<u>—</u>	<u>110,854</u>
— Investment in an unlisted security	<u>—</u>	<u>—</u>	<u>18,536</u>	<u>18,536</u>
	<u>—</u>	<u>110,854</u>	<u>18,536</u>	<u>129,390</u>
Liabilities:				
Financial liabilities at fair value through profit or loss				
— Convertible redeemable preferred shares	<u>—</u>	<u>—</u>	<u>809,767</u>	<u>809,767</u>

The Group did not have any assets and liabilities that are measured at fair value as of December 31, 2010 and 2011.

The fair value of financial instruments traded in active markets is determined based on quoted market prices at each of the reporting dates. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize

APPENDIX I

ACCOUNTANT'S REPORT

the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments
- Discounted cash flow model and unobservable inputs mainly including assumptions of expected future cash flows and discount rate
- A combination of observable inputs and unobservable inputs, including discount rate, risk-free interest rate, expected volatility and market multiples.

There were no significant transfers between level 1 and level 2 fair value hierarchy classifications during the Relevant Periods.

There were no changes in valuation techniques during the Relevant Periods.

The changes in level 3 instruments for the year ended December 31, 2012 and the six months ended June 30, 2013 are presented in Notes 18 and 30.

The Group determines the fair value of the Group's financial instrument carried at fair value in levels 2 and 3 at each of the reporting dates.

Except for the short-term investment, investment in an unlisted security and Series A Preferred Shares, the carrying amounts of financial assets including cash and cash equivalents, trade receivables and other receivables; and financial liabilities including trade payables and other payables and accruals, approximate their respective fair value due to their short maturity at each of the reporting dates.

4 Critical Accounting Estimates and Judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical Accounting Estimates and Assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) *Estimates of Player Relationship Period in the Group's Game Development and Game Publishing Services*

As described in Note 2.20, the Group recognizes revenue from durable virtual items in Game Development and both durable and consumable items in Game Publishing ratably over the Player Relationship Period. The determination of Player Relationship Period in each game is made based on the Group's best estimate that takes into account all known and relevant information at the time of

APPENDIX I

ACCOUNTANT'S REPORT

assessment. Such estimates are subject to re-evaluation on a semi-annual basis. Any adjustments arising from changes in the Player Relationship Period as a result of new information will be accounted for as a change in accounting estimate.

(b) *Income Tax*

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

(c) *Fair Value of Series A Preferred Shares*

The Series A Preferred Shares issued by the Company are not traded in an active market and the respective fair value is determined by using valuation techniques. The directors have used the discounted cash flow method to determine the underlying equity value of the Company and adopted equity allocation method to determine the fair value of the Series A Preferred Shares. Key assumptions, such as discount rate, risk-free interest rate and volatility are disclosed in Note 30.

The estimated carrying amount of Series A Preferred Shares as of June 30, 2013 would have been RMB43,331,000 lower or RMB52,853,000 higher should the discount rate used in discount cash flow analysis higher/lower by 100 basis points from management's estimates.

(d) *Fair Value of Share-based Award to Two Founders*

As mentioned in Note 2.18, the Group has awarded shares to Pre-Series A Investors and two founders. The directors have used the discounted cash flow method to determine the total fair value of these shares awarded. Significant judgments on key assumptions, such as discount rate and projections of future performance are required to be made by the directors (Note 25).

The share-based compensation expense related to shares awarded to two founders for the year ended December 31, 2011 would have been RMB4,951,000 lower or RMB5,484,000 higher should the discount rate used in discount cash flow analysis higher/lower by 100 basis points from management's estimates.

(e) *Recognition of Share-based Compensation Expenses*

As mentioned in Note 25, the Group has granted share options to its directors and employees. The directors have used the Binomial option-pricing model to determine the total fair value of the options granted, which is to be expensed over the vesting period. Significant estimate on assumptions, such as the underlying equity value, risk-free interest rate, expected volatility and dividend yield, is required to be made by the directors in applying the Binomial option-pricing model.

4.2 Critical Judgments in Applying the Group's Accounting Policies

(a) *Revenue Recognition*

Net Revenue Presentation

For revenues relating to games developed by the Group which are published on third party Platforms, as described in Note 2.20, the Group is unable to make a reasonable estimate of the gross revenue because the third party Platforms have discretion determining the actual price of the virtual items purchased by the

Paying Players and in offering discounts. Accordingly, such revenue is recognized based on the net amount received from the third party Platforms.

Revenue Deferral of Certain Self-developed Games

As mentioned in Notes 2.20(a) and 27, in the case the Group does not possess relevant data and information to differentiate revenues attributable to durable and consumable virtual items of a specific game, revenue is deferred and recognized ratably over the expected Player Relationship Period (defined in Note 2.20) of the specific game or making reference to other similar types of games.

(b) *Repurchase of Ordinary Shares from the Pre-Series A Investors*

On June 15, 2012, the Company repurchased 2,400,000 ordinary shares from the Pre-Series A Investors (Note 23). The repurchase was accounted for as a transaction between the Company and shareholders, the difference between the repurchase amount and the initial value of the related share capital was debited to other reserves.

(c) *Restrictions on Ordinary Shares Held by the Founders*

As described in details in Note 23(c), the Founders, the Series A Preferred Share holders and the Company entered into a share restriction agreement on June 15, 2012 that the Founders agreed to have their shares held in the Company be subject to certain restrictions. Such restrictions will be uplifted according to an agreed vesting schedule with a condition that the Founders have to remain as employees of the Group. The directors of the Company consider that the restrictions and vesting of these shares do not give rise to any additional value and benefits to the Founders and therefore the arrangement has not been accounted for as share-based payments.

5 Segment Information

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

- Game Development
- Game Publishing

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

The revenues from external customers reported to CODM are measured as segment revenue, which is the net shared revenue derived from the customers in each segment. Cost of revenue primarily comprises bandwidth and server custody fees, salary and compensation expense, fees paid to outsourcing parties, depreciation and amortisation and others.

Other information, together with the segment information, provided to the CODM, is measured in a manner consistent with that applied in this Financial Information. There were no separate segment assets

APPENDIX I

ACCOUNTANT'S REPORT

and segment liabilities information provided to the CODM, as CODM does not use this information to allocate resources to or evaluate the performance of the operating segments.

The segment information provided to the Group's CODM for the reportable segments for the Relevant Periods is as follows:

	Year Ended December 31, 2010		
	Game Development RMB'000	Game Publishing RMB'000	Total RMB'000
Segment revenue	49,701	45,377	95,078
Segment cost	(45,335)	(9,366)	(54,701)
Gross profit	4,366	36,011	40,377
Depreciation and amortization included in segment cost	1,106	600	1,706

	Year Ended December 31, 2011		
	Game Development RMB'000	Game Publishing RMB'000	Total RMB'000
Segment revenue	252,016	131,993	384,009
Segment cost	(44,714)	(24,116)	(68,830)
Gross profit	207,302	107,877	315,179
Depreciation and amortization included in segment cost	3,258	1,868	5,126

	Year Ended December 31, 2012		
	Game Development RMB'000	Game Publishing RMB'000	Total RMB'000
Segment revenue	540,749	235,900	776,649
Segment cost	(40,556)	(38,532)	(79,088)
Gross profit	500,193	197,368	697,561
Depreciation and amortization included in segment cost	9,143	3,538	12,681

	Six Months Ended June 30, 2012 (unaudited)		
	Game Development RMB'000	Game Publishing RMB'000	Total RMB'000
Segment revenue	231,564	115,558	347,122
Segment cost	(14,189)	(16,784)	(30,973)
Gross profit	217,375	98,774	316,149
Depreciation and amortization included in segment cost	2,535	1,624	4,159

	Six Months Ended June 30, 2013		
	Game Development RMB'000	Game Publishing RMB'000	Total RMB'000
Segment revenue	379,482	194,266	573,748
Segment cost	(42,906)	(21,211)	(64,117)
Gross profit	336,576	173,055	509,631
Depreciation and amortization included in segment cost	8,206	1,602	9,808

APPENDIX I

ACCOUNTANT'S REPORT

The Company is domiciled in the Cayman Islands while the Group mainly operates its businesses in the PRC. The segment revenue provided to the Group's CODM for the PRC (excluding Hong Kong) and other regions for the Relevant Periods is as follows:

	Year Ended December 31, 2010		
	PRC (Excluding Hong Kong) RMB'000	Other Regions RMB'000	Total RMB'000
Segment revenue	91,992	3,086	95,078
	Year Ended December 31, 2011		
	PRC (Excluding Hong Kong) RMB'000	Other Regions RMB'000	Total RMB'000
Segment revenue	360,417	23,592	384,009
	Year Ended December 31, 2012		
	PRC (Excluding Hong Kong) RMB'000	Other Regions RMB'000	Total RMB'000
Segment revenue	700,252	76,397	776,649
	Six Months Ended June 30, 2012 (unaudited)		
	PRC (Excluding Hong Kong) RMB'000	Other Regions RMB'000	Total RMB'000
Segment revenue	311,890	35,232	347,122
	Six Months Ended June 30, 2013		
	PRC (Excluding Hong Kong) RMB'000	Other Regions RMB'000	Total RMB'000
Segment revenue	534,147	39,601	573,748

The reconciliation of gross profit to (loss)/profit before income tax of individual period during the Relevant Periods is shown in the consolidated statements of comprehensive (loss)/income.

There is no concentration risk as no single external customer was more than 10% of the Group's total revenue for the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2012 and 2013.

Turnover consists of revenues generated by the Group, which accounted for RMB95,078,000, RMB384,009,000, RMB776,649,000, RMB347,122,000 (unaudited) and RMB573,748,000 for the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2012 and 2013, respectively.

As of December 31, 2010, 2011 and 2012 and June 30, 2013, majority of the non-current assets of the Group were located in the PRC.

APPENDIX I

ACCOUNTANT'S REPORT

6 Expenses by Nature

	Year Ended December 31,			Six Months Ended June 30,	
	2010 RMB'000	2011 RMB'000	2012 RMB'000	2012 RMB'000 (unaudited)	2013 RMB'000
Employee benefit expenses (Notes 9 and a)	23,610	68,197	200,032	74,906	161,351
Shares awarded to Mr. Zhuang Jieguang (Note 25)	—	96,702	—	—	—
Promotion and advertising expenses	25,664	57,014	172,193	75,871	152,572
Bandwidth and server custody fees	5,986	17,275	34,360	14,541	22,617
Game development outsourcing costs	30,875	37,203	21,558	8,980	4,865
Fees paid to outsourcing parties (Note b)	40,439	30,604	6,365	1,348	16,832
Operating lease rentals in respect of office buildings	1,717	7,198	12,288	4,708	13,630
Depreciation of property and equipment (Note 14)	1,483	6,280	10,578	4,786	7,524
Travelling and entertainment expenses	872	3,550	8,601	2,317	3,287
Utilities and office expenses	1,731	3,932	6,258	2,245	2,706
Auditors' remuneration	14	3,812	6,089	19	2,313
Payment handling costs	1,702	2,595	5,153	2,279	2,450
Amortization of intangible assets (Note 16)	321	380	4,153	203	4,737
Professional fees	54	4,087	1,754	1,278	12,552
Other tax expenses	253	552	1,254	553	982
Others	791	4,455	4,264	2,954	2,750
Total cost of revenue, selling and marketing expenses, administrative expenses and research and development expenses	135,512	343,836	494,900	196,988	411,168

Notes:

- (a) In 2011, the employee benefit expenses included the share-based compensation charge of RMB387,000 for the shares awarded to Mr. Yang Tao (Note 25).
- (b) The Group engaged certain game developers to develop games and the Group agreed to share the related game revenue with them after the games are launched commercially. These fees were included in the "cost of revenue."

7 Other Income

	Year Ended December 31,			Six Months Ended June 30,	
	2010 RMB'000	2011 RMB'000	2012 RMB'000	2012 RMB'000 (unaudited)	2013 RMB'000
Interest income	24	282	1,144	443	1,755
Government grants	—	181	1,644	1,500	11
	<u>24</u>	<u>463</u>	<u>2,788</u>	<u>1,943</u>	<u>1,766</u>

8 Other Losses

	Year Ended December 31,			Six Months Ended June 30,	
	2010 RMB'000	2011 RMB'000	2012 RMB'000	2012 RMB'000 (unaudited)	2013 RMB'000
Exchange loss, net	—	95	546	226	551
Loss on disposal of property and equipment, net	—	28	400	179	193
	<u>—</u>	<u>123</u>	<u>946</u>	<u>405</u>	<u>744</u>

APPENDIX I

ACCOUNTANT'S REPORT

9 Employee Benefit Expenses (Including Directors' Emoluments)

	Year Ended December 31,			Six Months Ended June 30,	
	2010 RMB'000	2011 RMB'000	2012 RMB'000	2012 RMB'000 (unaudited)	2013 RMB'000
Wages, salaries and bonuses	20,112	54,122	159,822	62,072	111,418
Pension costs — defined contribution plans	349	1,932	5,830	1,932	3,999
Other social security costs, housing benefits and other employee benefits . . .	3,149	11,756	34,380	10,902	18,445
Shares awarded to Mr. Yang Tao (Note 25)	—	387	—	—	—
Share-based compensation expenses under Pre-[●] Share Option Scheme	—	—	—	—	27,489
	<u>23,610</u>	<u>68,197</u>	<u>200,032</u>	<u>74,906</u>	<u>161,351</u>

(a) Pension Costs — Defined Contribution Plans

Employees of the Group companies in the PRC are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. The Group contributes funds which are calculated on fixed percentage (2010, 2011, 2012 and six months ended June 30, 2012 and 2013: 12%) of the employees' salary (subject to a floor and cap) as set by local municipal governments to each scheme locally to fund the retirement benefits of the employees.

(b) Directors' and Chief Executives' Emoluments

The remuneration of each director and chief executive for the year ended December 31, 2011 is set out below:

Name	Fees RMB'000	Salaries RMB'000	Discretionary Bonus RMB'000	Pension Costs - Defined Contribution Plans RMB'000	Other Social Security Costs, Housing Benefits and Other Employee Benefits RMB'000	Total RMB'000
Wang Dongfeng ⁽ⁱ⁾	—	114	—	4	7	125
Chief executive						
Huang Weibing ⁽ⁱⁱ⁾	—	114	—	6	10	130
Liao Dong ⁽ⁱⁱⁱ⁾	—	120	—	7	7	134

APPENDIX I

ACCOUNTANT'S REPORT

The remuneration of each director and chief executive for the year ended December 31, 2012 is set out below:

<u>Name</u>	<u>Fees</u>	<u>Salaries</u>	<u>Discretionary Bonus</u>	<u>Pension Costs - Defined Contribution Plans</u>	<u>Other Social Security Costs, Housing Benefits and Other Employee Benefits</u>	<u>Total</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Executive Directors						
Wang Dongfeng ⁽ⁱ⁾	—	228	—	12	21	261
Huang Weibing ⁽ⁱⁱ⁾	—	394	—	14	24	432
Liao Dong ⁽ⁱⁱ⁾	—	228	—	12	21	261
Zhuang Jieguang ⁽ⁱⁱ⁾	—	181	—	3	8	192
Non-executive Directors						
Sippel Edward Francis ⁽ⁱⁱⁱ⁾	—	—	—	—	—	—
Tan Hainan ⁽ⁱⁱⁱ⁾	—	—	—	—	—	—
Tung Hans ⁽ⁱⁱⁱ⁾	—	—	—	—	—	—
Independent Non-executive Directors						
Iosilevich Alexander Gennady ^(iv)	42	—	—	—	—	42
Levin Eric Joshua ^(iv)	50	—	—	—	—	50

The remuneration of each director and chief executive for the six months ended June 30, 2012 (unaudited) is set out below:

<u>Name</u>	<u>Fees</u>	<u>Salaries</u>	<u>Discretionary Bonus</u>	<u>Pension Costs - Defined Contribution Plans</u>	<u>Other Social Security Costs, Housing Benefits and Other Employee Benefits</u>	<u>Total</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Executive Directors						
Wang Dongfeng ⁽ⁱ⁾	—	114	—	6	10	130
Huang Weibing ⁽ⁱⁱ⁾	—	190	—	7	11	208
Liao Dong ⁽ⁱⁱ⁾	—	114	—	6	11	131
Non-executive Directors						
Sippel Edward Francis ⁽ⁱⁱⁱ⁾	—	—	—	—	—	—
Tan Hainan ⁽ⁱⁱⁱ⁾	—	—	—	—	—	—
Tung Hans ⁽ⁱⁱⁱ⁾	—	—	—	—	—	—

APPENDIX I

ACCOUNTANT'S REPORT

The remuneration of each director and chief executive for the six months ended June 30, 2013 is set out below:

Name	Fees	Salaries	Discretionary Bonus	Pension Costs - Defined Contribution Plans	Other Social Security Costs, Share Options, Housing Benefits and Other Employee Benefits	Total
	RMB'000	RMB'000		RMB'000	RMB'000	RMB'000
Executive Directors						
Wang Dongfeng ⁽ⁱ⁾	—	114	—	6	10	130
Huang Weibing ⁽ⁱⁱ⁾	—	204	—	7	14	225
Liao Dong ⁽ⁱⁱ⁾	—	114	—	6	11	131
Zhuang Jieguang ⁽ⁱⁱ⁾	—	204	—	3	7	214
Non-executive Directors						
Sippel Edward Francis ⁽ⁱⁱⁱ⁾	—	—	—	—	—	—
Tan Hainan ⁽ⁱⁱⁱ⁾	—	—	—	—	—	—
Tung Hans ⁽ⁱⁱⁱ⁾	—	—	—	—	—	—
Independent Non-executive Directors						
Iosilevich Alexander Gennady ^(iv)	125	—	—	—	490	615
Levin Eric Joshua ^(iv)	150	—	—	—	739	889

Notes:

- (i) Mr. Wang Dongfeng was appointed as executive director and the chief executive officer ("CEO") of the Company on July 26, 2011.
- (ii) Mr. Huang Weibing and Mr. Liao Dong were appointed as co-presidents of the Company in July 2011, while Mr. Zhuang Jieguang was appointed as co-president of the Company on June 15, 2012. All of them were appointed as executive directors on June 15, 2012.
- (iii) On June 15, 2012, Mr. Sippel Edward Francis, Mr. Tan Hainan and Mr. Tung Hans were appointed as non-executive directors of the Company. They had not received and were not entitled to receive any emoluments during the Relevant Periods. Mr. Sippel Edward Francis resigned as a non-executive director of the Company with effect from April 18, 2013.
- (iv) On November 1, 2012, Mr. Iosilevich Alexander Gennady and Mr. Levin Eric Joshua were appointed as independent non-executive directors of the Company. Mr. Iosilevich Alexander Gennady resigned as an independent non-executive director of the Company with effect from July 31, 2013.
- (v) The Founders are also employees of other Group companies and the Group paid employee benefits to them before their respective appointments of directorship during the Relevant Periods.
- (vi) During the Relevant Periods, no directors waived or agreed to waive any emoluments.

(c) Five Highest Paid Individuals

The five individuals whose emoluments were the highest in the Group include no directors/chief executives for each of the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2012 and 2013. The emoluments paid and payable to the five highest paid individuals for each of the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2012 and 2013 are as follows:

	Year Ended December 31,			Six Months Ended June 30,	
	2010 RMB'000	2011 RMB'000	2012 RMB'000	2012 RMB'000 (unaudited)	2013 RMB'000
Wages, salaries and bonuses	1,408	1,341	16,619	9,522	2,909
Pension costs — defined contribution plans . . .	9	33	39	19	14
Other social security costs, housing benefits and other employee benefits	8	142	1,321	38	41
Shares awarded to Mr. Yang Tao (Note 25) . . .	—	387	—	—	—
Share-based compensation expenses under Pre- [•] Share Option Scheme	—	—	—	—	19,235
	<u>1,425</u>	<u>1,903</u>	<u>17,979</u>	<u>9,579</u>	<u>22,199</u>

APPENDIX I

ACCOUNTANT'S REPORT

The emoluments of these individuals fell within the following bands:

	Year Ended December 31,			Six Months Ended June 30,	
	2010 RMB'000	2011 RMB'000	2012 RMB'000	2012 RMB'000 (unaudited)	2013 RMB'000
Emolument bands					
Nil — HK\$1,000,000	5	5	—	—	—
HK\$1,000,001 — HK\$1,500,000	—	—	—	1	1
HK\$1,500,001 — HK\$2,000,000	—	—	—	2	1
HK\$2,500,001 — HK\$3,000,000	—	—	1	1	—
HK\$3,500,001 — HK\$4,000,000	—	—	2	1	1
HK\$5,000,001 — HK\$5,500,000	—	—	1	—	—
HK\$7,000,001 — HK\$7,500,000	—	—	1	—	—
HK\$9,500,001 — HK\$10,000,000	—	—	—	—	1
HK\$10,500,001 — HK\$11,000,000	—	—	—	—	1
	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>

- (d) During the Relevant Periods, neither directors nor the five highest paid individuals received any emolument from the Group as an inducement to join, upon joining the Group, leave the Group or as compensation for loss of office.

10 Finance (Costs)/Income, Net

	Year Ended December 31,		Six Months Ended June 30,	
	2012 RMB'000	2013 RMB'000	2012 RMB'000 (unaudited)	2013 RMB'000
Finance costs:				
— Issuance costs of Series A Preferred Shares (Note 30)	(3,645)	—	(3,645)	—
Finance income:				
— Interest income on short-term investment (Note 21)	—	1,906	—	1,906
Finance (costs)/income, net	<u>(3,645)</u>	<u>1,906</u>	<u>(3,645)</u>	<u>1,906</u>

11 Income Tax (Credit)/Expense

The income tax (credit)/expense of the Group for the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2012 and 2013 are analyzed as follows:

	Year Ended December 31,			Six Months Ended June 30,	
	2010 RMB'000	2011 RMB'000	2012 RMB'000	2012 RMB'000 (unaudited)	2013 RMB'000
Current income tax:					
— PRC corporate income tax	12,633	28,381	48,610	27,066	33,740
Deferred income tax (Note 31)					
Origination and reversal of temporary differences	(12,659)	(5,717)	(5,050)	(1,275)	3,670
— Impact of change in the income tax rate for Feidong	—	—	—	—	1,999
Income tax (credit)/expense	<u>(26)</u>	<u>22,664</u>	<u>43,560</u>	<u>25,791</u>	<u>39,409</u>

APPENDIX I

ACCOUNTANT’S REPORT

The tax on the Group’s (loss)/profit before income tax differs from the theoretical amount that would arise using the statutory tax rate applicable to (losses)/profits of the consolidated entities as follows:

	Year Ended December 31,			Six Months Ended June 30,	
	2010 RMB’000	2011 RMB’000	2012 RMB’000	2012 RMB’000 (unaudited)	2013 RMB’000
(Loss)/profit before income tax	(40,410)	40,513	261,177	148,027	(203,938)
Tax calculated at statutory income tax rates applicable to (losses)/profits of the consolidated entities in their respective jurisdictions (Note i)	(10,103)	10,128	65,434	37,979	44,965
Tax effects of:					
Preferential income tax rates applicable to subsidiaries	4,009	(4,274)	(24,335)	(15,678)	(14,915)
Tax losses for which no deferred income tax asset was recognized	—	—	269	—	63
Super deduction for research and development expenses	(480)	(1,308)	(4,840)	(666)	(3,254)
Expenses not deducted for income tax purposes:					
— Share-based compensation	—	14,563	—	—	2,945
— Others	6,548	3,555	7,032	4,156	7,606
Re-measurement of deferred income tax — change in enacted income tax rate of Feidong	—	—	—	—	1,999
Income tax (credit)/expense	<u>(26)</u>	<u>22,664</u>	<u>43,560</u>	<u>25,791</u>	<u>39,409</u>

Note:

(i) The Company is exempt from Cayman Islands income tax. As such, the operating results reported by the Company on a stand alone basis, including the fair value loss of Series A Preferred Shares, is not subject to any income tax.

(a) Cayman Islands Income Tax

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

(b) Hong Kong Profits Tax

Hong Kong profits tax rate is 16.5% for the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2012 and 2013. No Hong Kong profits tax was provided for as there was no estimated assessable profit that was subject to Hong Kong profits tax during the Relevant Periods.

(c) PRC Enterprise Income Tax (“EIT”)

Except for Weidong, Feiyin and Feidong, the income tax provision of the Group in respect of its operations in Mainland China was calculated at the tax rate of 25% on the assessable profits for each of the Relevant Periods, based on the existing legislation, interpretations and practices in respect thereof.

Weidong and Feiyin were qualified as “High and New Technology Enterprises” (“HNTEs”) under the EIT Law in 2010. Therefore, they were entitled to a preferential income tax rate of 15% on their estimated assessable profits for the years ended December 31, 2010, 2011 and 2012. As of June 30, 2013, these subsidiaries were in the process of renewing such entitlements by applying to the relevant government authorities. The Group expected these two subsidiaries will continue to be qualified as HNTEs and enjoy the preferential tax rate.

Before 2013, the applicable income tax rate of Feidong was 25%. In June 2013, Feidong was accredited as a “software enterprise” under the relevant PRC laws, regulations and rules. Therefore, under the EIT

APPENDIX I

ACCOUNTANT'S REPORT

Law, Feidong is exempted from EIT in 2013 and will enjoy a reduced income tax rate of 12.5% from 2014 to 2016, provided that it continues to be qualified as software enterprise during such period.

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

(d) PRC Withholding Tax ("WHT")

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

During the Relevant Periods, the Group does not have any plan to require its PRC subsidiaries to distribute their retained earnings and intends to retain them to operate and expand its business in the PRC. Accordingly, no deferred income tax liability on WHT was accrued as of the end of each reporting period.

12 (Loss)/Earnings per Share

For the purpose of computing basic and diluted (loss)/earnings per share, ordinary shares were assumed to have issued and allocated on January 1, 2010 as if the Company has been established by then. In addition, the number of ordinary shares outstanding during each year of the Relevant Periods have also been adjusted retroactively for the proportional change in the number of ordinary shares outstanding as a result of the First and Second Share Splits described in Note 23 in the computation of both basic and diluted (loss)/earnings per share for the Relevant Periods.

(a) Basic

Basic (loss)/earnings per share for the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2012 and 2013 are calculated by dividing the (loss)/profit of the Group attributable to the equity holders of the Company by the weighted average number of ordinary shares in issue during each respective year/period.

	Year Ended December 31,			Six Months Ended June 30,	
	2010	2011	2012	2012 (unaudited)	2013
(Loss)/profit attributable to equity holders of the Company (RMB'000)	(40,384)	17,849	217,617	122,236	(243,347)
Weighted average number of ordinary shares in issue (Note i)	<u>100,000,000</u>	<u>100,000,000</u>	<u>54,066,667</u>	<u>92,933,333</u>	<u>16,466,667</u>
Basic (loss)/earnings per share (in RMB/share)	<u>(0.40)</u>	<u>0.18</u>	<u>4.02</u>	<u>1.32</u>	<u>(14.78)</u>

Note:

(i) As detailed in Note 23(c), in connection with the issuance of Series A Preferred Shares on June 15, 2012, the Founders' ordinary shares were put on escrow with the Company as Restricted Shares (as defined in Note 23(c)). As these Restricted Shares are contingently returnable, they are not treated as outstanding and are excluded from the calculation of basic earnings per share for the year ended December 31, 2012 and the six months ended June 30, 2012 and 2013 until the date the shares are

APPENDIX I

ACCOUNTANT'S REPORT

no longer subject to recall. Should these shares had not been put on escrow with the Company as Restricted Shares, the respective weighted average number of ordinary shares in issue for the year ended December 31, 2012, the six months ended June 30, 2012 and 2013 for purpose of computing the basic earnings/(loss) per share would be 87,000,000, 98,000,000 and 76,000,000, and the unaudited basic earnings/(loss) per share would be RMB2.50/share, RMB1.25/share and RMB(3.20)/share, respectively.

(b) Diluted

Diluted (loss)/earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Diluted (loss)/earnings per share for the years ended December 31, 2010 and 2011 are the same as basic (loss)/earnings per share of respectively years/period. For the year ended December 31, 2012 and the six months ended June 30, 2012, the Company has two categories of dilutive potential ordinary shares, the Restricted Shares and Series A Preferred Shares. Restricted Shares are assumed to have been fully vested and released from restrictions with no impact on earnings. The Series A Preferred Shares are assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the fair value loss of convertible redeemable preferred shares less related income tax effect.

For the six months ended June 30, 2013, the Company has three categories of dilutive potential ordinary shares, the Restricted Shares, Series A Preferred Shares and share options granted to employees under Pre-[●] Share Option Scheme. As the Group incurred loss for the six months ended June 30, 2013, the Restricted Shares and Series A Preferred Shares are anti-dilutive and not included in the computation of diluted losses per share. Share options are not included in the computation of diluted losses per share as the options could not be exercised until the Company completes its [●]. As of June 30, 2013, such contingent event had not taken place.

	Year Ended December 31,			Six Months Ended June 30,	
	2010 RMB'000	2011 RMB'000	2012 RMB'000	2012 RMB'000 (unaudited)	2013 RMB'000
(Loss)/profit attributable to equity holders of the Company (RMB'000)	(40,384)	17,849	217,617	122,236	(243,347)
Fair value loss of convertible redeemable preferred shares (Note 30) (RMB'000)	—	—	18,769	—	—
(Loss)/profit used to determine diluted (loss)/earnings per share (RMB'000)	(40,384)	17,849	236,386	122,236	(243,347)
Weighted average number of ordinary shares in issue	100,000,000	100,000,000	54,066,667	92,933,333	16,466,667
Adjustments for Restricted Shares	—	—	32,933,333	5,066,667	—
Adjustments for conversion of convertible redeemable preferred shares	—	—	15,740,530	2,421,620	—
Weighted average number of ordinary shares for calculating diluted (loss)/earnings per share	100,000,000	100,000,000	102,740,530	100,421,620	16,466,667
Diluted (loss)/earnings per share (in RMB/share)	(0.40)	0.18	2.30	1.22	(14.78)

APPENDIX I

ACCOUNTANT'S REPORT

13 Dividends

	Year Ended December 31,			Six Months Ended June 30,	
	2010 RMB'000	2011 RMB'000	2012 RMB'000	2012 RMB'000 (unaudited)	2013 RMB'000
Dividends declared by Weidong and Feiyin	—	—	90,500	90,500	—

No dividends has been paid or declared by the Company since its incorporation.

Pursuant to the resolutions of the shareholders' meetings of Weidong and Feiyin held on May 21, 2012 and May 23, 2012, dividends of RMB78,000,000 and RMB12,500,000 were declared and paid to the then equity owners, respectively.

The rates for dividend and the number of shares ranking for dividends are not presented as such information is not considered meaningful for the purpose of this report.

14 Property and Equipment

	Furniture and Office Equipment RMB'000	Server and Other Equipment RMB'000	Motor Vehicles RMB'000	Leasehold Improvement RMB'000	Total RMB'000
At January 1, 2010					
Cost	249	2,196	—	—	2,445
Accumulated depreciation	(77)	(363)	—	—	(440)
Net book amount	172	1,833	—	—	2,005
Year ended December 31, 2010					
Opening net book amount	172	1,833	—	—	2,005
Additions	1,393	15,515	—	—	16,908
Depreciation charge	(98)	(1,385)	—	—	(1,483)
Closing net book amount	1,467	15,963	—	—	17,430
At December 31, 2010					
Cost	1,642	17,711	—	—	19,353
Accumulated depreciation	(175)	(1,748)	—	—	(1,923)
Net book amount	1,467	15,963	—	—	17,430
Year ended December 31, 2011					
Opening net book amount	1,467	15,963	—	—	17,430
Additions	3,359	21,910	261	2,220	27,750
Disposals	(322)	(42)	—	—	(364)
Depreciation charge	(637)	(5,234)	—	(409)	(6,280)
Closing net book amount	3,867	32,597	261	1,811	38,536
At December 31, 2011					
Cost	4,600	39,574	261	2,220	46,655
Accumulated depreciation	(733)	(6,977)	—	(409)	(8,119)
Net book amount	3,867	32,597	261	1,811	38,536

APPENDIX I

ACCOUNTANT'S REPORT

	Furniture and Office Equipment RMB'000	Server and Other Equipment RMB'000	Motor Vehicles RMB'000	Leasehold Improvement RMB'000	Total RMB'000
Year ended December 31, 2012					
Opening net book amount	3,867	32,597	261	1,811	38,536
Additions	5,262	12,805	1,577	18	19,662
Disposals	(280)	(640)	—	—	(920)
Depreciation charge	(1,067)	(8,499)	(154)	(858)	(10,578)
Closing net book amount	<u>7,782</u>	<u>36,263</u>	<u>1,684</u>	<u>971</u>	<u>46,700</u>
At December 31, 2012					
Cost	9,424	51,617	1,838	2,238	65,117
Accumulated depreciation	(1,642)	(15,354)	(154)	(1,267)	(18,417)
Net book amount	<u>7,782</u>	<u>36,263</u>	<u>1,684</u>	<u>971</u>	<u>46,700</u>
Six months ended June 30, 2012 (Unaudited)					
Opening net book amount	3,867	32,597	261	1,811	38,536
Additions	1,038	5,755	—	18	6,811
Disposals	(107)	(113)	—	—	(220)
Depreciation charge	(438)	(3,894)	(25)	(429)	(4,786)
Closing net book amount	<u>4,360</u>	<u>34,345</u>	<u>236</u>	<u>1,400</u>	<u>40,341</u>
At June 30, 2012 (Unaudited)					
Cost	5,488	45,148	261	2,238	53,135
Accumulated depreciation	(1,128)	(10,803)	(25)	(838)	(12,794)
Net book amount	<u>4,360</u>	<u>34,345</u>	<u>236</u>	<u>1,400</u>	<u>40,341</u>
Six months ended June 30, 2013					
Opening net book amount	7,782	36,263	1,684	971	46,700
Additions	2,523	5,580	509	7,767	16,379
Disposals	(146)	(99)	—	—	(245)
Depreciation charge	(904)	(5,225)	(182)	(1,213)	(7,524)
Closing net book amount	<u>9,255</u>	<u>36,519</u>	<u>2,011</u>	<u>7,525</u>	<u>55,310</u>
At June 30, 2013					
Cost	11,717	56,991	2,347	10,005	81,060
Accumulated depreciation	(2,462)	(20,472)	(336)	(2,480)	(25,750)
Net book amount	<u>9,255</u>	<u>36,519</u>	<u>2,011</u>	<u>7,525</u>	<u>55,310</u>

Depreciation charges were included in the following categories in the profit or loss:

	Year Ended December 31,			Six Months Ended June 30,	
	2010 RMB'000	2011 RMB'000	2012 RMB'000	2012 RMB'000 (unaudited)	2013 RMB'000
Cost of revenue	1,385	4,758	8,708	3,967	5,313
Administrative expenses	13	562	872	354	710
Research and development expenses	72	947	946	444	1,464
Selling and marketing expenses	13	13	52	21	37
	<u>1,483</u>	<u>6,280</u>	<u>10,578</u>	<u>4,786</u>	<u>7,524</u>

APPENDIX I

ACCOUNTANT'S REPORT

15 Interests in Subsidiaries — Company

	As of December 31,		As of June 30,
	2011 RMB'000	2012 RMB'000	2013 RMB'000
Investments in subsidiaries:			
— Investment in a subsidiary (Note a)	—	—	—
— Deemed investments arising from share-based compensation (Note b)	102,977	102,977	117,746
Amount due from a subsidiary (Note c)	—	31,427	49,430
	<u>102,977</u>	<u>134,404</u>	<u>167,176</u>

Details of the subsidiaries of the Group are set out in Note 1(b) of Section II.

- (a) The Company's investment in a subsidiary is HK\$1 (equivalent to approximately RMB1).
- (b) The amount represents share-based compensation expenses arising from the grant of awarded shares of the Company to Pre-Series A Investors in 2009, two founders in 2011 and share options granted to eligible employees of certain subsidiaries on January 1, 2013 (Note 25) in exchange for their services provided to certain subsidiaries now comprising the Group, which were deemed to be investments made by the Company into these subsidiaries.
- (c) The balance is unsecured, interest-free and its repayment is neither planned nor likely to occur in the foreseeable future.

16 Intangible Assets

	Goodwill RMB'000 (Note a)	Computer Software RMB'000	Game Intellectual Properties and Licenses RMB'000	Total RMB'000
At January 1, 2010				
Cost	1,586	—	1,169	2,755
Accumulated amortization	—	—	(80)	(80)
Net book amount	<u>1,586</u>	<u>—</u>	<u>1,089</u>	<u>2,675</u>
Year ended December 31, 2010				
Opening net book amount	1,586	—	1,089	2,675
Amortization charge	—	—	(321)	(321)
Closing net book amount	<u>1,586</u>	<u>—</u>	<u>768</u>	<u>2,354</u>
At December 31, 2010				
Cost	1,586	—	1,169	2,755
Accumulated amortization	—	—	(401)	(401)
Net book amount	<u>1,586</u>	<u>—</u>	<u>768</u>	<u>2,354</u>
Year ended December 31, 2011				
Opening net book amount	1,586	—	768	2,354
Additions	—	98	600	698
Amortization charge	—	(12)	(368)	(380)
Closing net book amount	<u>1,586</u>	<u>86</u>	<u>1,000</u>	<u>2,672</u>
At December 31, 2011				
Cost	1,586	98	1,769	3,453
Accumulated amortization	—	(12)	(769)	(781)
Net book amount	<u>1,586</u>	<u>86</u>	<u>1,000</u>	<u>2,672</u>

APPENDIX I

ACCOUNTANT'S REPORT

	Goodwill RMB'000 (Note a)	Computer Software RMB'000	Game Intellectual Properties and Licenses RMB'000	Total RMB'000
Year ended December 31, 2012				
Opening net book amount	1,586	86	1,000	2,672
Additions (Note b)	—	1,590	31,240	32,830
Amortization charge	—	(189)	(3,964)	(4,153)
Closing net book amount	<u>1,586</u>	<u>1,487</u>	<u>28,276</u>	<u>31,349</u>
At December 31, 2012				
Cost	1,586	1,688	33,009	36,283
Accumulated amortization	—	(201)	(4,733)	(4,934)
Net book amount	<u>1,586</u>	<u>1,487</u>	<u>28,276</u>	<u>31,349</u>
Six months ended June 30, 2012 (Unaudited)				
Opening net book amount	1,586	86	1,000	2,672
Additions	—	50	1,000	1,050
Amortization charge	—	(11)	(192)	(203)
Closing net book amount	<u>1,586</u>	<u>125</u>	<u>1,808</u>	<u>3,519</u>
At June 30, 2012 (Unaudited)				
Cost	1,586	148	2,769	4,503
Accumulated amortization	—	(23)	(961)	(984)
Net book amount	<u>1,586</u>	<u>125</u>	<u>1,808</u>	<u>3,519</u>
Six months ended June 30, 2013				
Opening net book amount	1,586	1,487	28,276	31,349
Additions	—	1,600	2,600	4,200
Amortization charge	—	(255)	(4,482)	(4,737)
Closing net book amount	<u>1,586</u>	<u>2,832</u>	<u>26,394</u>	<u>30,812</u>
At June 30, 2013				
Cost	1,586	3,288	35,609	40,483
Accumulated amortization	—	(456)	(9,215)	(9,671)
Net book amount	<u>1,586</u>	<u>2,832</u>	<u>26,394</u>	<u>30,812</u>

Notes:

- (a) Goodwill of RMB1,586,000 was recognized as a result of the acquisition of Weidong in 2009 (Note 1(b)) by the Group. None of the goodwill recognized is expected to be deductible for income tax purposes. Based on the assessment made by directors of the Company with reference to past performance and its expectations of market developments as of December 31, 2010, 2011 and 2012 and June 30, 2013, no provision for impairment on goodwill was required for each of the Relevant Periods.
- (b) In July 2012, the Group acquired a game intellectual property at a cash consideration of RMB25,000,000.

APPENDIX I

ACCOUNTANT'S REPORT

Amortization charges were included in the following categories in the profit or loss:

	Year Ended December 31,			Six Months Ended June 30,	
	2010 RMB'000	2011 RMB'000	2012 RMB'000	2012 RMB'000 (unaudited)	2013 RMB'000
Cost of revenue	321	368	3,973	192	4,495
Administrative expenses	—	12	137	11	198
Research and development expenses	—	—	43	—	44
	<u>321</u>	<u>380</u>	<u>4,153</u>	<u>203</u>	<u>4,737</u>

17 Financial Instruments by Category

Group	As of December 31,			As of June 30,
	2010 RMB'000	2011 RMB'000	2012 RMB'000	2013 RMB'000
Assets as per balance sheet				
Loans and receivables:				
— Trade receivables	20,496	46,066	84,293	90,904
— Other receivables (excluding prepayments)	37,701	60,022	7,065	12,619
— Cash and cash equivalents	13,455	85,993	312,639	287,415
Financial assets at fair value through profit or loss				
— Short-term investment	—	—	—	110,854
— Investment in an unlisted security	—	—	—	18,536
	<u>71,652</u>	<u>192,081</u>	<u>403,997</u>	<u>520,328</u>
Liabilities as per balance sheet				
Financial liabilities at amortized cost				
— Trade payables	13,803	11,603	10,168	20,167
— Other payables and accruals (excluding advance, accrued payroll and other tax liabilities)	2,618	5,878	11,813	28,708
Financial liabilities at fair value through profit or loss				
— Convertible redeemable preferred shares	—	—	451,153	809,767
	<u>16,421</u>	<u>17,481</u>	<u>473,134</u>	<u>858,642</u>
Company				
Assets as per balance sheet				
Loans and receivables:				
— Cash and cash equivalents	—	28,706	—	952
— Amount due from Controlling Shareholders	64	64	—	—
— Other receivables (excluding prepayments)	—	—	—	5,413
	<u>64</u>	<u>28,770</u>	<u>—</u>	<u>6,365</u>
Liabilities as per balance sheet				
Financial liabilities at amortized cost				
— Other payables and accruals (excluding advance, accrued payroll and other tax liabilities)	—	1,858	—	8,134
Financial liabilities at fair value through profit or loss				
— Convertible redeemable preferred shares	—	451,153	—	809,767
	<u>—</u>	<u>453,011</u>	<u>—</u>	<u>817,901</u>

APPENDIX I

ACCOUNTANT'S REPORT

18 Investment in an Unlisted Security

	RMB'000
At January 1, 2013	—
Additions — unlisted security of Appionics Holdings Limited ("Appionics") (Note a)	18,725
Exchange differences	(189)
At June 30, 2013	<u>18,536</u>
Change in unrealised gains or losses for the period included in profit or loss for assets held at the end of the reporting period	<u>—</u>

- (a) On April 18, 2013, the Group acquired certain redeemable convertible Series B preferred share of Appionics, for an aggregate cash consideration of US\$3,000,000 (equivalent to approximately RMB18,725,000). The Group does not bifurcate the conversion feature from its host instrument and designates the entire hybrid contract as a financial asset at fair value through profit or loss with the changes in the fair value recorded in other losses in the consolidated statement of comprehensive income.

The directors determined the fair value of the investment in an unlisted security as of the balance sheet date based on the expected revenue in Appionics and market multiple of comparable companies. The directors also consider that there was no significant change in the fair value from April 18 to June 30, 2013.

19 Trade Receivables

	As of December 31,			As of June 30,
	2010 RMB'000	2011 RMB'000	2012 RMB'000	2013 RMB'000
Third parties	17,415	44,956	86,913	91,903
Related parties (Note 34)	3,162	3,334	—	—
	20,577	48,290	86,913	91,903
Less: provision for impairment	(81)	(2,224)	(2,620)	(999)
	20,496	46,066	84,293	90,904

As of December 31, 2010, 2011 and 2012 and June 30, 2013, the fair values of trade receivables approximate their carrying amounts.

- (a) Aging analysis based on recognition date of the gross trade receivables at the respective balance sheet dates are as follows:

	As of December 31,			As of June 30,
	2010 RMB'000	2011 RMB'000	2012 RMB'000	2013 RMB'000
0-30 days	18,421	39,137	59,498	59,137
31-60 days	673	3,488	17,803	23,025
61-90 days	682	1,704	4,948	4,357
91-180 days	631	1,846	1,230	3,319
181-365 days	121	1,978	814	1,156
Over 1 year	49	137	2,620	909
	20,577	48,290	86,913	91,903

- (b) The sales of the Group are mainly made on credit terms determined on individual basis with normal credit periods of 30 to 60 days from respective invoice dates. As of December 31, 2010, 2011 and 2012 and June 30, 2013, trade receivables that are past due but not impaired were RMB1,403,000, RMB2,459,000,

APPENDIX I

ACCOUNTANT'S REPORT

RMB3,623,000 and RMB4,546,000, respectively. These receivables are due from number of Platforms for who have no significant financial difficulty and management of the Group had assessed, based on past experience, that the overdue amounts could be recovered. The aging of this category of trade receivables is less than one year.

- (c) Movements on the Group's provision for impairment of trade receivables are as follows:

	Year Ended December 31,			Six Months Ended June 30,
	2010 RMB'000	2011 RMB'000	2012 RMB'000	2013 RMB'000
At beginning of year/period	—	81	2,224	2,620
Provision for impairment	81	2,143	561	535
Receivables written off during the year/period as uncollectible	—	—	(165)	(1,683)
Reversal	—	—	—	(473)
At end of year/period	<u>81</u>	<u>2,224</u>	<u>2,620</u>	<u>999</u>

The provision and reversal of provision for impaired receivables have been included in "administrative expenses" in the consolidated statements of comprehensive income. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

- (d) The carrying amount of the Group's trade receivables are denominated in the following currencies:

	As of December 31,			As of June 30,
	2010 RMB'000	2011 RMB'000	2012 RMB'000	2013 RMB'000
RMB	20,356	33,373	72,076	74,553
US\$	221	14,917	14,837	17,350
	<u>20,577</u>	<u>48,290</u>	<u>86,913</u>	<u>91,903</u>

- (e) The maximum exposure to credit risk at each of the reporting dates is the carrying value of the net receivable balance. The Group does not hold any collateral as security.
- (f) As of December 31, 2010, 2011, 2012 and June 30, 2013, 24%, 33%, 31% and 28% of trade receivables are due from 2, 2, 2 and 2 major Platforms in cooperation with the Group for its game development business.

APPENDIX I

ACCOUNTANT'S REPORT

20 Prepayments and Other Receivables

<u>Group</u>	<u>As of December 31,</u>			<u>As of June 30,</u>
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Included in non-current assets				
Rental and other deposits	467	1,523	2,352	3,142
Prepayments for intangible assets, property and equipment	—	—	—	6,365
	<u>467</u>	<u>1,523</u>	<u>2,352</u>	<u>9,507</u>
Included in current assets				
Amount due from Controlling Shareholders (Note 34)	32,054	54,679	64	—
Rental and other deposits	815	694	3,434	7,674
Prepaid advertising costs (Note a)	—	859	9,883	23,059
Staff advance	4,869	3,630	1,719	403
Prepayments for outsourcing of game development charges	—	—	2,660	2,085
Deferred [●] costs	—	—	—	6,641
Prepaid technical services fee	—	—	566	920
Others	2,841	1,189	2,411	5,117
	<u>40,579</u>	<u>61,051</u>	<u>20,737</u>	<u>45,899</u>
Less: provision for impairment of other receivables	(504)	(504)	(504)	—
	<u>40,075</u>	<u>60,547</u>	<u>20,233</u>	<u>45,899</u>

Note:

(a) The Group engages various online advertising suppliers and makes prepayments in exchange for better advertising opportunities and resources in some arrangements. Such amounts are recognized in the "Selling and marketing expenses" when the advertising services are rendered.

As of December 31, 2010, 2011 and 2012 and June 30, 2013, the carrying amounts of prepayments and other receivables were primarily denominated in RMB and approximate their fair values at each of the reporting dates. As of December 31, 2010, 2011 and 2012 and June 30, 2013, there were no significant balances that are past due.

The maximum exposure to credit risk at each of the reporting dates is the carrying value of each class of other receivables mentioned above. The Group does not hold any collateral as security.

Provision is written off, when there is no expectation of recovering additional cash. For the six months ended June 30, 2013, receivables written off as uncollectible were RMB504,000.

As of June 30, 2013, prepayments and other receivables included in the Company's separate balance sheet primarily consists of deferred [●] costs and amount due from a subsidiary. The amount due from a subsidiary is unsecured, interest-free and repayable on demand.

21 Short-term Investment

Short-term investment is a RMB-denominated financial product with floating interest rates ranging from 2.7% to 3.9% per annum with a maturity period of 90 days offered by a financial institution in the PRC. The fair value of the financial product approximates its carrying amount. The investment principal and annual interest of 2.7% are guaranteed.

APPENDIX I

ACCOUNTANT'S REPORT

22 Cash and Cash Equivalents

<u>Group</u>	As of December 31,			As of June 30,
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at bank and on hand	13,455	82,288	309,000	282,159
Cash at other financial institutions	—	3,705	3,639	5,256
	<u>13,455</u>	<u>85,993</u>	<u>312,639</u>	<u>287,415</u>
Maximum exposure to credit risk	<u>13,455</u>	<u>85,993</u>	<u>312,639</u>	<u>287,415</u>

<u>Company</u>	As of December 31,		As of June 30,
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Cash at bank and on hand	—	28,706	952
Maximum exposure to credit risk	—	28,706	952

Cash and cash equivalents are denominated in the following currencies:

<u>Group</u>	As of December 31,			As of June 30,
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
RMB	13,455	85,993	280,376	282,789
US\$	—	—	32,263	4,625
HK\$	—	—	—	1
	<u>13,455</u>	<u>85,993</u>	<u>312,639</u>	<u>287,415</u>

<u>Company</u>	As of December 31,		As of June 30,
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
US\$	—	28,706	952

23 Share Capital

	Note	Number of Ordinary Shares	Nominal Value of Ordinary Shares US\$	Number of Preferred Shares	Nominal Value of Preferred Shares US\$
Authorized:					
Ordinary shares upon incorporation	a	50,000	50,000	—	—
As of December 31, 2011 ...		50,000	50,000	—	—
First Share Split	b	49,950,000	—	—	—
Reclassification and re-designation	b	(2,905,944)	(2,906)	2,905,944	2,906
Second Share Split	d	423,846,504	—	26,153,496	—
As of December 31, 2012 and June 30, 2013		<u>470,940,560</u>	<u>47,094</u>	<u>29,059,440</u>	<u>2,906</u>

APPENDIX I

ACCOUNTANT’S REPORT

	Note	Number of Shares	Nominal Value of Shares US\$’000	Equivalent Nominal Value of Share RMB’000
Issued:				
Issue of ordinary shares	a	10,000	10	64
As of December 31, 2011		<u>10,000</u>	<u>10</u>	<u>64</u>
First Share Split	b	9,990,000	—	—
Repurchase of ordinary shares	c	(2,400,000)	(2)	(15)
Second Share Split	d	68,400,000	—	—
As of December 31, 2012 and June 30, 2013		<u><u>76,000,000</u></u>	<u><u>8</u></u>	<u><u>49</u></u>

Notes:

- (a) The Company was incorporated on July 26, 2011 with an authorized share capital of US\$50,000 divided into 50,000 ordinary shares of US\$1 each. On the same date, 10,000 ordinary shares of US\$1 each were issued, totaling US\$10,000 (equivalent to approximately RMB64,000), to the Founder Companies. In April 2013, all issued ordinary shares had been fully paid by the Founders.
- (b) On June 15, 2012, the Board of Directors of the Company approved a share split of the Company’s share capital at a ratio of 1 to 1,000 (the “First Share Split”). Immediately after this split, the Company re-classified and re-designated authorized share capital into 47,094,056 ordinary shares of par value of US\$0.001 each and 2,905,944 preferred shares of par value of US\$0.001 each.
- (c) On June 15, 2012, the Company, the Pre-Series A Investors and certain institutional investors entered into a Series A Preferred Share Purchase Agreement under which the Company issued 2,905,944 Series A Preferred Shares of US\$0.001 each to these institutional investors for an aggregate cash consideration of US\$68,800,000 (equivalent to approximately RMB435,153,000) and repurchased 2,400,000 ordinary shares of US\$0.001 each from the Pre-Series A Investors for a total cash consideration of US\$58,800,000 (equivalent to approximately RMB371,904,000). The repurchased ordinary shares were cancelled immediately and the share capital of the Company was reduced by US\$2,000 (equivalent to approximately RMB15,000). The directors of the Company concluded that there was no separate component in the transaction to be recognized. Hence, the repurchase transaction is accounted for as the transaction between the Company and the shareholders. The difference of US\$58,798,000 (equivalent to approximately RMB371,889,000) between the repurchase amount and the initial value of related share capital was debited to other reserves.
As a closing condition to the Series A Preferred Share Purchase Agreement, on June 15, 2012, the Founders, the Series A Preferred Shareholders and the Company, entered into a share restriction agreement (“Share Restriction Agreement”). Pursuant to the Share Restriction Agreement, the ordinary shares (“Restricted Shares”) of the Company held by the Founders on June 15, 2012 shall be subject to vesting conditions and repurchase right of the Company until the Restricted Shares become vested. Twenty percent of the Restricted Shares shall vest upon the closing of the Series A Preferred Share Purchase Agreement, and twenty percent of the Restricted Shares shall vest on each of the first, second, third and fourth anniversaries of the closing of the Series A Preferred Share Purchase Agreement so long as the Founders remain employees of a member of the Group. Vesting of all Restricted Shares will be accelerated upon the completion of an [●] or change of control events as defined in the Share Restriction Agreement. The restrictions and vesting of these shares do not give rise to any additional value and benefits to the Founders and therefore the arrangement has not been accounted for as share based payments. As of December 31, 2012 and June 30, 2013, 60,800,000 and 45,600,000 Restricted Shares were yet to be vested and still subject to repurchase right of the Company, respectively.
- (d) On August 21, 2012, the Board of Directors of the Company approved another share split of the Company’s share capital at a ratio of 1 to 10 (the “Second Share Split”). As a result, the authorized share capital became US\$50,000 divided into 470,940,560 ordinary shares of par value of US\$0.0001 each and 29,059,440 preferred shares of par value of US\$0.0001 each, while the issued share capital became 76,000,000 ordinary shares of US\$0.0001 each and 29,059,440 Series A Preferred Shares of US\$0.0001 each.
- (e) In March 2013, four third-party investors acquired 1.05%, 3.15%, 1.05% and 1.05% shareholding interests in the Company for a cash consideration of US\$4,000,000, US\$12,000,000, US\$4,000,000 and US\$4,000,000, respectively, from Foga Holdings Ltd., Foga Networks Development Ltd. and Foga Development Co., Ltd.. The share transfers to the four investors were completed on March 27, 2013, March 28, 2013, March 28, 2013 and April 2, 2013, respectively.

APPENDIX I

ACCOUNTANT'S REPORT

24 Reserves

<u>Group</u>	<u>Capital Reserve</u> RMB'000 (Note a)	<u>Statutory Reserves</u> RMB'000 (Note b)	<u>Share-based Compensation Reserve</u> RMB'000	<u>Translation Differences</u> RMB'000	<u>Other Reserves</u> RMB'000	<u>Total</u> RMB'000
At January 1, 2010 and December 31, 2010	20,000	—	5,888	—	—	25,888
Shares awarded to two founders (Note 25)	—	—	97,089	—	—	97,089
Appropriation to statutory reserve	—	2,953	—	—	—	2,953
At December 31, 2011	<u>20,000</u>	<u>2,953</u>	<u>102,977</u>	<u>—</u>	<u>—</u>	<u>125,930</u>
Repurchase of ordinary shares from Pre-Series A Investors (Note 23(c))	—	—	—	—	(371,889)	(371,889)
Capital contribution by the Founders (Note a)	10,000	—	—	—	—	10,000
Appropriation to statutory reserves	—	4,954	—	—	—	4,954
Currency translation differences	—	—	—	2,654	—	2,654
At December 31, 2012	<u>30,000</u>	<u>7,907</u>	<u>102,977</u>	<u>2,654</u>	<u>(371,889)</u>	<u>(228,351)</u>
(Unaudited)						
At January 1, 2012	20,000	2,953	102,977	—	—	125,930
Repurchase of ordinary shares from Pre-Series A Investors (Note 23(c))	—	—	—	—	(371,889)	(371,889)
Capital contribution by the Founders (Note a)	10,000	—	—	—	—	10,000
At June 30, 2012	<u>30,000</u>	<u>2,953</u>	<u>102,977</u>	<u>—</u>	<u>(371,889)</u>	<u>(235,959)</u>
At January 1, 2013	30,000	7,907	102,977	2,654	(371,889)	(228,351)
Pre-[●] Share Option Scheme:						
— Value of employee service ...	—	—	27,489	—	—	27,489
Currency translation differences	—	—	—	10,432	—	10,432
At June 30, 2013	<u>30,000</u>	<u>7,907</u>	<u>130,466</u>	<u>13,086</u>	<u>(371,889)</u>	<u>(190,430)</u>

APPENDIX I

ACCOUNTANT'S REPORT

<u>Company</u>	<u>Share-based Compensation Reserve</u>	<u>Translation Differences</u>	<u>Other Reserve</u>	<u>Total</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
At July 26, 2011 (date of incorporation)	5,888	—	—	5,888
Shares awarded to two founders (Note 25)	97,089	—	—	97,089
At December 31, 2011	<u>102,977</u>	<u>—</u>	<u>—</u>	<u>102,977</u>
Repurchase of ordinary shares from Pre-Series A Investors (Note 23(c))	—	—	(371,889)	(371,889)
Currency translation differences	—	2,380	—	2,380
At December 31, 2012	<u>102,977</u>	<u>2,380</u>	<u>(371,889)</u>	<u>(266,532)</u>
(Unaudited)				
At January 1, 2012	102,977	—	—	102,977
Repurchase of ordinary shares from Pre-Series A Investors (Note 23(c))	—	—	(371,889)	(371,889)
At June 30, 2012	<u>102,977</u>	<u>—</u>	<u>(371,889)</u>	<u>(268,912)</u>
At January 1, 2013	102,977	2,380	(371,889)	(266,532)
Pre-[●] Share Option Scheme:				
— Value of employee service	27,489	—	—	27,489
Currency translation differences	—	7,160	—	7,160
At June 30, 2013	<u>130,466</u>	<u>9,540</u>	<u>(371,889)</u>	<u>(231,883)</u>

Notes:

- (a) Capital reserve of the Group arises from capital contribution by the Founders pursuant to the Group Reorganization (Note 1(b)).
- (b) In accordance with the relevant laws and regulations in the PRC and Articles of Association of the companies incorporated in the PRC now comprising the Group, i.e. the PRC Operational Entities, it is required to appropriate 10% of the annual net profits of the PRC Operational Entities, after offsetting any prior years' losses as determined under the PRC accounting standards, to the statutory surplus reserve fund before distributing any net profit. When the balance of the statutory surplus reserve fund reaches 50% of the registered capital of the PRC Operational Entities, any further appropriation is at the discretion of shareholders. The statutory surplus reserve fund can be used to offset prior years' losses, if any, and may be capitalized as capital, provided that the remaining balance of the statutory surplus reserve fund after such issue is no less than 25% of registered capital.
In addition, in accordance with the Law of the PRC on Enterprises with Foreign Investments and the stipulated provisions of the articles of association of wholly owned foreign subsidiaries in the PRC, appropriation from net profits (after offsetting accumulated losses brought forward from prior years) should be made by these companies to their respective reserve funds. The percentage of net profit to be appropriated to the reserve fund is not less than 10% of the net profit. When the balance of the reserve fund reaches 50% of the registered capital, such transfer needs not be made.

25 Share-based Payments — Group and Company

(a) Share-based Award

(i) Shares awarded to Pre-Series A Investors

In 2009, the Founders agreed to award 24% equity interest in the Company to two Pre-Series A Investors in exchange for their marketing consulting services. As of December 31, 2009, the required services were fully provided and the share-based awards were fully vested. The fair value of the share-based awards amounted to RMB5,888,000 at grant date was charged to the profit or loss for the year ended December 31, 2009.

(ii) Shares Awarded to Two Founders

In 2011, Mr. Wang Dongfeng, Mr. Liao Dong and Mr. Huang Weibing agreed to award their 12.55% equity interests in the Company in aggregate to the other two founders, Mr. Zhuang Jieguang and Mr. Yang Tao, at no consideration for their past contributions made to the business development of the Group. As there was no future service conditions attached to the award, the share-based awards

APPENDIX I

ACCOUNTANT'S REPORT

were vested immediately. The share award expenses related to Mr. Zhuang Jieguang and Mr. Yang Tao were accounted for as consulting service expenses and employee benefit expenses according to their respective capacities, respectively. The fair value of the share-based awards amounting to RMB97,089,000 was charged to the profit or loss for the year ended December 31, 2011. The fair values of awarded shares were calculated based on the Company's share price at the grant date. The Company adopted discounted cash flow method in determining the Company's share price and the key assumption on valuation at the grant date includes the discount rate of 23% and projections of future performance.

(b) Pre-[●] Share Option Scheme

On October 31, 2012, the Board of Directors of the Company approved the establishment of the Pre-[●] Share Option Scheme with the objective to recognize and reward the contribution of eligible directors, employees and other persons to the growth and development of the Group.

The exercise price of the granted options shall be the par value of the ordinary shares as amended as a result of any sub-division, consolidation, reclassification or reconstruction of the share capital of the Company from time to time.

Except as provided otherwise in the grant letter or offer in any other form by the Board of Directors, options are vested over a total vesting period of four years commencing from the grant date in equal proportions of 25% on each anniversary from the date of grant. In addition, the options are only exercisable after the [●] ("performance condition") and the grantees remained employed by the Group.

The Group has no legal or constructive obligations to repurchase or settle the options in cash.

Up to December 31, 2012, no share option had been granted. On January 1, 2013, 5,385,611 share options were granted under the scheme.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	<u>Average Exercise Price in US\$ per Share Option</u>	<u>Number of Share Options</u>
At January 1, 2013		
Granted	0.0001	5,385,611
Forfeited	0.0001	<u>(106,484)</u>
At June 30, 2013		<u>5,279,127</u>

As of June 30, 2013, no share options were exercisable as the performance condition has not been met.

As of June 30, 2013, all share options granted will be expired in 2022 with exercise price of US\$0.0001 per share option.

The directors have used the discounted cash flow method to determine the underlying equity fair value of the Company and adopted equity allocation method to determine the fair value of the underlying ordinary share. Key assumptions, such as discount rate and projections of future performance, are required to be determined by the directors with best estimate. The discount rate adopted was estimated by weighted average cost of capital, which is 23% as of the grant date.

APPENDIX I

ACCOUNTANT'S REPORT

Based on fair value of the underlying ordinary share, the directors have used Binomial option-pricing model to determine the fair value of the share option as of the grant date. The weighted average fair value of options granted during the period was US\$3.03 (approximately equivalent to RMB19.02) per option. Key assumptions are set as below:

	<u>January 1, 2013</u>
Risk-free interest rate	1.84%
Volatility	60.33%
Dividend yield	—

The directors estimated the risk-free interest rate based on the yield of US Treasury Strips with a maturity life equal to the option life of the share option. Volatility was estimated at grant date based on average of historical volatilities of the comparable companies with length commensurable to the time to maturity of the share option. Dividend yield is based on management estimation at the grant date. The total expense recognized in the consolidated statements of comprehensive (loss)/income for share options granted to directors and employees is disclosed in Note 9.

26 Accumulated losses — Company

	RMB'000
Balance at July 26, 2011 (date of incorporation) and at December 31, 2011	—
Loss for the year	<u>(23,677)</u>
Balance at December 31, 2012	(23,677)
Loss for the period	<u>(382,550)</u>
Balance at June 30, 2013	<u><u>(406,227)</u></u>

27 Deferred Revenue

	<u>As of December 31,</u>			<u>As of</u>
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>June 30,</u>
	RMB'000	RMB'000	RMB'000	2013
Included in non-current liabilities (Note b)	5,266	9,145	7,987	8,511
Included in current liabilities	<u>85,594</u>	<u>102,628</u>	<u>127,145</u>	<u>98,086</u>
	<u><u>90,860</u></u>	<u><u>111,773</u></u>	<u><u>135,132</u></u>	<u><u>106,597</u></u>

Notes:

- (a) Deferred revenue primarily consist of the unamortized virtual items in Game Development service and unamortized game credits in Game Publishing service, where the Group continued to have obligations described in Note 2.20, as of December 31, 2010, 2011 and 2012 and June 30, 2013. Deferred revenue will be recognized as revenue when all of the revenue recognition criteria are met. The Group did not possess relevant information and data to differentiate revenue attributable to durable virtual items from consumable virtual items of a number of their games developed by them prior to July 2011. Accordingly, revenue relating to these games was recognized on an aggregate basis by taking reference to the Player Relationship Period of the respective games or other similar types of games, as described in Note 2.20(a). Deferred revenue at each of the reporting dates arising from such treatment was approximately RMB72,741,000, RMB71,080,000, RMB27,011,000, and RMB16,003,000, respectively.
- (b) As of December 31, 2010, 2011 and 2012 and June 30, 2013, deferred revenue included in non-current liabilities was expected to be realized in one to two years commencing from the end of each report period.

28 Trade Payables

Trade payables primarily related to the purchase of services for server custody, outsourcing game development and the revenue sharing collected by the Group's own Platforms which is payable to cooperated game developers according to respective cooperation agreements.

APPENDIX I

ACCOUNTANT'S REPORT

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

	As of December 31,			As of
	2010	2011	2012	June 30,
	RMB'000	RMB'000	RMB'000	2013
				RMB'000
0-30 days	13,681	9,367	8,351	10,647
31-60 days	116	956	1,018	7,778
61-90 days	—	745	317	330
91-180 days	6	151	166	719
181-365 days	—	384	316	325
1-2 years	—	—	—	368
	<u>13,803</u>	<u>11,603</u>	<u>10,168</u>	<u>20,167</u>

Note:

- (a) As of December 31, 2010, 2011 and 2012 and June 30, 2013, trade payables were denominated in RMB and the fair value of trade payables approximated their carrying amounts at each of the reporting dates.

29 Other Payables and Accruals

	As of December 31,			As of
	2010	2011	2012	June 30,
	RMB'000	RMB'000	RMB'000	2013
				RMB'000
Staff costs and welfare accruals	3,354	12,449	25,737	24,957
Professional service fees payable	—	5,457	3,343	9,233
Other tax liabilities (Note b)	4,149	508	3,841	4,095
Advertising expenses	283	—	4,333	12,374
Others	2,653	967	4,368	7,190
	<u>10,439</u>	<u>19,381</u>	<u>41,622</u>	<u>57,849</u>

Notes:

- (a) Other payables and accruals were primarily denominated in RMB as of December 31, 2010, 2011 and 2012 and June 30, 2013 and the fair value of these balances approximates to their carrying amounts at each of the reporting dates.
 (b) The balances represent liabilities arising from business tax and other related taxes in the PRC.

As of June 30, 2013, other payables and accruals included in the Company's separate balance sheet primarily consist amounts due to subsidiaries. Related subsidiary balances are unsecured, interest-free and repayable on demand.

30 Convertible Redeemable Preferred Shares

On June 15, 2012, pursuant to a share purchase agreement, the Company issued 2,905,944 Series A Preferred Shares at a price of US\$23.676 per share for a total amount of US\$68,800,000 (equivalent to approximately RMB435,153,000), to several institutional investors. The preferred shares' par value is US\$0.001 each. The rights, preference and privileges of the Series A Preferred Shares are as follows:

(a) Dividends

The holders of Series A Preferred Shares will be entitled to receive in preference to the holders of the ordinary shares a per share amount equal to 5% of the issue price per annum when it is declared by the Board of Directors or at redemption.

The holders of Series A Preferred Shares would also be entitled to receive participating dividends if declared as if each outstanding Series A Preferred Share had been converted into ordinary shares prior to the record date for dividend or distribution.

APPENDIX I

ACCOUNTANT'S REPORT

(b) *Liquidation*

In the event of any liquidation, dissolution or winding up of the Company, the licensing of all or substantially all of any Group's intellectual property to a third party or a sale, transfer, lease or other disposition of all or substantially all of the assets of the Group, the holders of Series A Preferred Shares will be entitled to receive in preference to the holders of other classes of shares of the Company, a liquidation preference per share equal to 100% of the issue price of the Series A Preferred Shares, plus all accrued but unpaid dividends on such Series A Preferred Shares.

(c) *Redemption*

At any time after the earlier of the third anniversary of the issuance date of the Series A Preferred Shares and the date that there is a material breach by the Group or other parties to the transaction documents in relation to the issuance of Series A Preferred Shares, where the majority of Series A Preferred Shares holders vote for a redemption, the Series A Preferred Shares holders have a right to require the Company to redeem all outstanding Series A Preferred Shares at a price equal to 150% of the issuance price plus any accrued but unpaid dividends.

(d) *Conversion*

Each Series A Preferred Share is convertible, at the option of the holders, at any time after the date of issuance of such preferred share into such number of fully paid ordinary shares of the Company according to a conversion price. Conversion price is initially be the issue price of Series A Preferred Shares, resulting in an initial conversion ratio of 1:1, and is subject to adjustments for certain events, including but not limited to additional equity securities issuance, share dividends, subdivisions, redemptions, combinations, or consolidation of ordinary shares. The conversion price is also subject to anti-dilution adjustment in the event the Company issues new securities at a price per share that is less than such conversion price. In such case, the conversion price shall be reduced to adjust for dilution. Each Series A Preferred Share is automatically converted into ordinary shares of the Company at the then effective conversion price upon the earlier of (i) the closing date of a qualified initial public offering (the "Qualified IPO"), or (ii) the date of election by the majority of Series A Preferred Shares holders. The Qualified IPO is defined as a successful underwritten public offering of the ordinary shares (or depositary receipts or depositary shares thereof) of the Company that represents no less than twenty percent of Company's share capital calculated on an as-if converted, fully diluted basis post such offering, by an internationally recognized investment banking firm at an offer price (net of underwriting commissions and expenses) that implies a market capitalization of the Company immediately prior to such offering of not less than US\$580 million (based on the price per share offered to the public in the offering), and the listing of such ordinary shares (or depositary receipts or depositary shares thereof) of the Company on the New York Stock Exchange, the Nasdaq Global Market System, the Main Board of the Stock Exchange or any other reputable international exchange or quotation system that is approved in writing by the majority of Series A Preferred Share holders.

In case of any public offering of the ordinary shares (or depositary receipts or depositary shares thereof) of the Company that is not a Qualified IPO, holders of Series A Preferred Shares have the following conversion right:

- holder of each Series A Preferred Share may, at its own discretion, receive a cash payment equal to 100% of the Series A Preferred Share issue price, plus all accrued but unpaid dividends and convert its Series A Preferred Share into fully-paid non-assessable ordinary shares of the Company based on the then effective conversion price; or

APPENDIX I

ACCOUNTANT'S REPORT

- the holders who have over 50% of the voting power of the outstanding Series A Preferred Shares may, request the Company to convert their Series A Preferred Shares then held into fully-paid ordinary shares of the Company without any additional consideration, provided that the Company shall pay cash to such holders in an amount equal to the difference between (i) the cash amount that such holders would be entitled to receive as if there had been a liquidation event at such date which valued the Company at US\$580 million; and (ii) the aggregate value of such Series A Preferred Shares determined on an as-converted basis, implied at the price per share offered to the public in such IPO.

On March 8, 2013, the shareholders of the Company approved to remove the requirement of the Qualified IPO. Each Series A Preferred Share will be converted into ordinary shares of the Company at the then effective conversion price upon the earlier of (i) the closing date of [●] or (ii) the date of election by the majority of Series A Preferred Shares holders. Holders of each Series A Preferred Share are not entitled to receive any additional cash payment upon conversion.

Upon conversion, all preferred rights entitled to such holders shall lapse and such holders will thereafter hold rights equivalent to ordinary shareholders.

(e) Voting Rights

Each Series A Preferred Share conveys the right to its holder of one vote for each ordinary share upon conversion.

The Group monitors Series A Preferred Shares on a fair value basis which is in accordance with its risk management strategy and does not bifurcate any feature from its debt host instrument and designates the entire hybrid contract as a financial liability at fair value through profit or loss with the changes in the fair value recorded in the consolidated statements of comprehensive (loss)/income.

The movement of the Series A Preferred Shares is set out as below:

	RMB'000
At January 1, 2012	—
Issuance of preferred shares	435,153
Changes in fair value	18,769
Exchange differences	<u>(2,769)</u>
At December 31, 2012	<u>451,153</u>
Change in unrealized losses for the year included in profit or loss for liabilities held at the year end	<u>18,769</u>
At January 1, 2013	451,153
Changes in fair value	369,446
Exchange differences	<u>(10,832)</u>
At June 30, 2013	<u>809,767</u>
Change in unrealized losses for the period included in profit or loss for liabilities held at the period end	<u>369,446</u>

There was no significant change in the fair value of Series A Preferred Shares from June 15 (issuance date) to June 30, 2012.

Transaction costs of RMB3,645,000 directly attributable to the issuance of Series A Preferred Shares were recognized as finance costs in the consolidated statements of comprehensive income (Note 10).

APPENDIX I

ACCOUNTANT'S REPORT

The directors have used the discounted cash flow method to determine the underlying equity fair value of the Company and adopted equity allocation method to determine the fair value of the Series A Preferred Shares as of the date of issuance and at each of the reporting dates. Key assumptions are set as below:

	<u>June 15, 2012</u>	<u>December 31, 2012</u>	<u>June 30, 2013</u>
Discount rate	23%	23%	17.8%
Risk-free interest rate	0.42%	0.39%	0.16%
Volatility	52.39%	53.17%	53.76%

Discount rate was estimated by weighted average cost of capital as of each appraisal date. The directors estimated the risk-free interest rate based on the yield of US Treasury Strips with a maturity life equal to period from the respective appraisal dates to expected liquidation date. Volatility was estimated at the dates of appraisal based on average of historical volatilities of the comparable companies in the same industry for a period from the respective appraisal dates to expected liquidation date. In addition to the assumptions adopted above, the Company's projections of future performance were also factored into the determination of the fair value of Series A Preferred Shares on each appraisal date.

Changes in fair value of Series A Preferred Shares were recorded in "fair value loss of convertible redeemable preferred shares." Management considered that fair value change in the Series A Preferred Shares that are attributable to changes of credit risk of this liability being not significant.

31 Deferred Income Tax

The analysis of deferred income tax assets and deferred income tax liabilities are as follows:

	<u>As of December 31,</u>			<u>As of</u>
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>June 30,</u>
	RMB'000	RMB'000	RMB'000	2013
				RMB'000
Deferred income tax assets:				
— to be recovered after more than 12 months	518	233	74	196
— to be recovered within 12 months	13,325	19,247	24,389	18,564
	<u>13,843</u>	<u>19,480</u>	<u>24,463</u>	<u>18,760</u>
Deferred income tax liabilities:				
— to be recovered within 12 months	297	217	150	116
Deferred income tax assets — net	<u>13,546</u>	<u>19,263</u>	<u>24,313</u>	<u>18,644</u>

The movements of deferred income tax assets/(liabilities) are as follows:

	<u>Year Ended December 31,</u>			<u>Six Months Ended</u>	
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2012</u>	<u>2013</u>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
At beginning of the year/period	887	13,546	19,263	19,263	24,313
Recognized in the profit or loss	12,659	5,717	5,050	1,275	(5,669)
At end of the year/period	<u>13,546</u>	<u>19,263</u>	<u>24,313</u>	<u>20,538</u>	<u>18,644</u>

APPENDIX I

ACCOUNTANT'S REPORT

The movements in deferred income tax assets, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

	Deferred Revenue RMB'000	Accruals RMB'000	Others RMB'000	Total RMB'000
At January 1, 2010	731	136	397	1,264
Recognized in the profit or loss	<u>12,569</u>	<u>319</u>	<u>(309)</u>	<u>12,579</u>
At December 31, 2010	13,300	455	88	13,843
Recognized in the profit or loss	<u>1,524</u>	<u>2,047</u>	<u>2,066</u>	<u>5,637</u>
At December 31, 2011	14,824	2,502	2,154	19,480
Recognized in the profit or loss	<u>3,159</u>	<u>3,305</u>	<u>(1,481)</u>	<u>4,983</u>
At December 31, 2012	17,983	5,807	673	24,463
Recognized in the profit or loss	<u>(4,102)</u>	<u>(1,288)</u>	<u>(313)</u>	<u>(5,703)</u>
At June 30, 2013	<u><u>13,881</u></u>	<u><u>4,519</u></u>	<u><u>360</u></u>	<u><u>18,760</u></u>

The movements in deferred income tax liabilities, without taking into consideration the offsetting of balances within the same tax jurisdiction are as follows:

	Intangible Assets RMB'000
At January 1, 2010	377
Recognized in profit or loss	<u>(80)</u>
At December 31, 2010	297
Recognized in the profit or loss	<u>(80)</u>
At December 31, 2011	217
Recognized in the profit or loss	<u>(67)</u>
At December 31, 2012	150
Recognized in the profit or loss	<u>(34)</u>
At June 30, 2013	<u><u>116</u></u>

As of December 31, 2012 and June 30, 2013, no deferred income tax liability had been provided for the PRC withholding tax that would be payable on the unremitted earnings of approximately RMB116,944,000 and RMB260,178,000, respectively. Such earnings are expected to be retained by the PRC subsidiaries and not to be remitted to a foreign investor in the foreseeable future based on management's estimation of overseas funding requirements.

APPENDIX I

ACCOUNTANT'S REPORT

32 Cash Generated from Operations

	Year Ended December 31,			Six Months Ended June 30,	
	2010 RMB'000	2011 RMB'000	2012 RMB'000	2012 RMB'000 (unaudited)	2013 RMB'000
(Loss)/profit before income tax	(40,410)	40,513	261,177	148,027	(203,938)
Adjustments for:					
— Depreciation of property and equipment (Note 14)	1,483	6,280	10,578	4,786	7,524
— Amortization of intangible assets (Note 16) . .	321	380	4,153	203	4,737
— Loss on disposal of property and equipment (see below)	—	28	400	179	193
— Share-based compensation expenses	—	97,089	—	—	27,489
— Finance costs/(income) (Note 10)	—	—	3,645	3,645	(1,906)
— Fair value loss of convertible redeemable preferred shares (Note 30)	—	—	18,769	—	369,446
Changes in working capital:					
— Trade receivables	(17,666)	(25,570)	(38,227)	(8,813)	(6,611)
— Prepayments and other receivables	(22,398)	(21,464)	39,485	43,897	(19,879)
— Trade payables	10,666	(2,200)	(1,435)	(3,478)	9,999
— Other payables and accruals	9,319	8,942	22,241	16,633	10,997
— Deferred revenue	85,986	20,913	23,359	4,581	(28,535)
Cash generated from operations	<u>27,301</u>	<u>124,911</u>	<u>344,145</u>	<u>209,660</u>	<u>169,516</u>

(a) In the consolidated statements of cash flows, proceeds from sale of property and equipment comprise:

	Year Ended December 31,			Six Months Ended June 30,	
	2010 RMB'000	2011 RMB'000	2012 RMB'000	2012 RMB'000 (unaudited)	2013 RMB'000
Net book amount (Note 14)	—	364	920	220	245
Loss on disposal of property and equipment (Note 8)	—	(28)	(400)	(179)	(193)
Proceeds from disposal of property and equipment	<u>—</u>	<u>336</u>	<u>520</u>	<u>41</u>	<u>52</u>

(b) There were no material non-cash investing and financing transactions for the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2012 and 2013.

33 Commitments

(a) Capital Commitments

As of December 31, 2010, 2011 and 2012, there was no capital expenditure contracted but not provided for. As of June 30, 2013, the capital expenditure contracted but not provided for amounted to RMB2,662,000, which was related to acquisition of property and equipment.

There is no authorized but not contracted at the end of each of the reporting dates.

(b) Operating Lease Commitments

The Group leases buildings for daily operation under non-cancellable operating leases. The lease expenditure charged to the profit or loss during the Relevant Periods is disclosed in Note 6.

APPENDIX I

ACCOUNTANT'S REPORT

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As of December 31,			As of
	2010 RMB'000	2011 RMB'000	2012 RMB'000	June 30, 2013 RMB'000
No later than 1 year	4,784	8,434	17,350	20,446
Later than 1 year and no later than 5 years	10,875	9,661	12,317	32,445
	<u>15,659</u>	<u>18,095</u>	<u>29,667</u>	<u>52,891</u>

34 Significant Related Party Transactions

(a) Names and Relationships with Related Parties

The following companies are related parties of the Group that had balances and/or transactions with the Group during the Relevant Periods.

<u>Company</u>	<u>Relationship</u>	<u>Period of Related Party Relationship</u>
Sisanjiujiu Internet Co., Ltd. ("Sisanjiujiu Internet")	Significantly influenced by a close family member of a Pre-Series A Investor ⁽ⁱ⁾	Prior to June 16, 2012
Guangzhou Youguo Internet Co., Ltd. ("Guangzhou Youguo")	Significantly influenced by a close family member of a Pre-Series A Investor ⁽ⁱ⁾	Prior to June 16, 2012
Guangzhou Haoyou Internet Technology Co., Ltd. ("Guangzhou Haoyou")	Significantly influenced by Mr. Liao Dong ⁽ⁱⁱ⁾	Prior to January 1, 2011
Guangzhou Youming Internet Technology Co., Ltd. ("Guangzhou Youming")	Significantly influenced by Mr. Liao Dong ⁽ⁱⁱ⁾	Prior to January 1, 2011
Guangzhou Jieyou Information Technology Co., Ltd. ("Jieyou Information")	Significantly influenced by Mr. Zhuang Jieguang ⁽ⁱⁱⁱ⁾	Prior to July 1, 2012
Beijing Youguo Internet Technology Co., Ltd. ("Beijing Youguo")	Significantly influenced by a close family member of Mr. Wang Dongfeng ^(iv)	Throughout the Relevant Periods

Notes:

- (i) Effective from June 16, 2012, Guangzhou Youguo and Sisanjiujiu Internet (previously known as Xiamen Youjia Internet Co., Ltd.) were not related parties of the Group upon the repurchase of ordinary shares from Pre-Series A Investors in June 2012.
- (ii) Prior to January 1, 2011, Guangzhou Haoyou and Guangzhou Youming were owned by Mr. Liao Dong. Effective from January 1, 2011, they were not related parties of the Group upon his disposal of all equity interests of these companies.
- (iii) Mr. Zhuang Jieguang was the owner of Jieyou Information up to June 2011 and CEO of this company from July 2011 to June 2012. Effective from July 1, 2012, Jieyou Information was not a related party of the Group upon his resignation as CEO of this company.
- (iv) Beijing Youguo had been put under liquidation process as of the date of this report.

APPENDIX I

ACCOUNTANT'S REPORT

(b) Significant Transactions with Related Parties

In the opinion of the executive directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective parties.

	Year Ended December 31,			Six Months Ended June 30,	
	2010 RMB'000	2011 RMB'000	2012 RMB'000	2012 RMB'000 (unaudited)	2013 RMB'000
Discontinued related party transactions					
(i) Revenue generated from Paying Players who purchased in-game virtual items of games operated by related parties through the Group's platform					
— Sisanjiujiu Internet	2,441	5,794	11,926	11,926	—
— Guangzhou Youguo	—	8,137	5,445	5,445	—
— Jieyou Information	911	8,351	20,782	20,782	—
— Beijing Youguo	—	418	1,151	1,151	—
	<u>3,352</u>	<u>22,700</u>	<u>39,304</u>	<u>39,304</u>	<u>—</u>
(ii) Revenue generated from Paying Players who purchased in-game virtual items of games operated by the Group through related parties' Platforms					
— Sisanjiujiu Internet	1,127	25,168	26,753	26,753	—
— Guangzhou Youguo	2,658	689	—	—	—
	<u>3,785</u>	<u>25,857</u>	<u>26,753</u>	<u>26,753</u>	<u>—</u>
(iii) Fees paid to outsourcing parties					
— Jieyou Information	12,469	23,620	372	372	—
— Guangzhou Youming	640	—	—	—	—
	<u>13,109</u>	<u>23,620</u>	<u>372</u>	<u>372</u>	<u>—</u>
(iv) Game development outsourcing costs					
— Guangzhou Haoyou	5,600	—	—	—	—
— Guangzhou Youming	6,400	—	—	—	—
	<u>12,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

(c) Year End Balances Arising from Sales and Purchase of Services

	As of December 31,			As of June 30,
	2010 RMB'000	2011 RMB'000	2012 RMB'000	2013 RMB'000
(i) Receivables from related parties				
— Sisanjiujiu Internet	2,731	3,334	—	—
— Guangzhou Youguo	431	—	—	—
	<u>3,162</u>	<u>3,334</u>	<u>—</u>	<u>—</u>

APPENDIX I

ACCOUNTANT'S REPORT

The receivables due from related parties mainly arose from the revenue sharing generated from Paying Players who purchased in-game virtual items of games operated by the Group through related parties' Platforms.

	As of December 31,			As of June 30,
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
(ii) Payables to related parties				
— Sisanjiujiu Internet	28	357	—	—
— Jieyou Information	7,225	1,197	—	—
— Beijing Youguo	—	151	—	—
	<u>7,253</u>	<u>1,705</u>	<u>—</u>	<u>—</u>

The payables due to related parties arose from outsourcing game development transactions and the revenue generated from Paying Players who purchased in-game virtual items of games operated by related parties through the Group's platform, in which the Group collected the cash from the Paying Players and has a payable to the game developers for revenue sharing.

Balances with related parties were all unsecured, interest-free and had no fixed repayment terms.

(d) Amounts Due from Controlling Shareholders

(i) Receivables Arising from Operations

Names of Controlling Shareholders	At Beginning of Year	At End of Year	Maximum Outstanding during the Year
	RMB'000	RMB'000	RMB'000
2010			
— Mr. Huang Weibing	11,500	6,602	49,297
— Mr. Liao Dong	5,860	25,452	26,759
2011			
— Mr. Huang Weibing	6,602	18,128	18,133
— Mr. Liao Dong	25,452	36,487	37,434
2012			
— Mr. Huang Weibing	18,128	—	18,128
— Mr. Liao Dong	36,487	—	36,487

These balances mainly arose from advance to these Controlling Shareholders for the Group's business and the Group's transactions which these Controlling Shareholders collected the receivables from other Platforms and settled the payables to game developers on behalf of the Group during the years ended December 31, 2010 and 2011. These balances were fully settled in 2012.

(ii) Receivables Arising from Capital Contributions

	As of December 31,			As of June 30,
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
— Mr. Wang Dongfeng	—	15	15	—
— Mr. Liao Dong	—	16	16	—
— Mr. Huang Weibing	—	26	26	—
— Mr. Zhuang Jieguang	—	6	6	—
— Mr. Yang Tao	—	1	1	—
	<u>—</u>	<u>64</u>	<u>64</u>	<u>—</u>

APPENDIX I

ACCOUNTANT'S REPORT

The amounts due from Controlling Shareholders are unsecured, non-interest bearing and repayable on demand. These receivables were fully settled in April 2013.

(e) Key Management Personnel Compensations

The compensations paid or payable to key management personnel for employee services are shown below:

	Year Ended December 31,			Six Months Ended June 30,	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Wages, salaries and bonuses	372	578	7,316	3,524	1,464
Pension costs — defined contribution plans	6	20	58	26	29
Other social security costs, housing benefits and other employee benefits	5	28	602	43	120
Share-based compensation expenses under Pre-[●] Share Option Scheme	—	—	—	—	8,122
	<u>383</u>	<u>626</u>	<u>7,976</u>	<u>3,593</u>	<u>9,735</u>

35 Contingencies

The Group did not have any material contingent liabilities as of December 31, 2010, 2011 and 2012 and June 30, 2013.

36 Subsequent Events

- (a) On July 1, 2013, the Group granted 898,800 share options under the Pre-[●] Share Option Scheme (Note 25) to certain eligible employees. The fair value of the share option on the grant date was US\$4.88 (approximately equivalent to RMB30.16) per option, amounting to approximately RMB27,108,000 in aggregate.
- (b) On September 1, 2013, the Group granted 156,500 share options under the Pre-[●] Share Option Scheme (Note 25) to certain eligible employees and directors. The fair value of the share options as of the grant date was being assessed as of the date of this report.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to June 30, 2013 and up to the date of this report. No dividend or distribution has been declared or made by the Company or any of the companies comprising the Group in respect of any period subsequent to June 30, 2013.

Yours faithfully,
[●]

APPENDIX II SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

Set out below is a summary of certain provisions of the Memorandum of Association and Articles of Association of the Company and of certain aspects of Cayman Islands Company Law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on July 26, 2011 under the Cayman Islands Company Law. The Memorandum of Association and Articles which were adopted pursuant to a shareholders' resolution passed on September 1, 2013, conditional upon and with effect from the [●], comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum of Association states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Cayman Islands Company Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

(b) The Company may by special resolution alter its Memorandum of Association with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The following is a summary of certain provisions of the Articles:

(a) Directors

(i) Composition of the Board

Unless otherwise determined by the Company in general meeting, the number of directors shall not be less than three. There is no maximum number of directors.

(ii) Power to Allot and Issue Shares and Warrants

Subject to the Articles, any direction that may be given by the Company in general meeting and, where applicable, the relevant rules and without prejudice to any special rights or restrictions for the time being attached to any Shares or any class of Shares, all Shares for the time being unissued shall be under the control of the Directors who may designate, re-designate, offer, issue, allot and dispose of the same to such persons, in such manner, on such terms and having such rights and being subject to such restrictions as they may from time to time determine but so that no Shares shall be issued at a discount; and grant options with respect to such Shares and issue warrants, convertible securities or securities of similar nature conferring the right upon the holders thereof to subscribe for any class of Shares or securities in the capital of the Company on such terms as they may from time to time determine, and, for such purposes, the Directors may reserve an appropriate number of Shares for the time being unissued.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of Shares, to make, or make available, any such allotment, offer, option or Shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

APPENDIX II**SUMMARY OF THE CONSTITUTION OF THE COMPANY
AND CAYMAN ISLANDS COMPANY LAW**

(iii) Power to Dispose of the Assets of the Company or any Subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Cayman Islands Company Law to be exercised or done by the Company in general meeting.

(iv) Compensation or Payments for Loss of Office

Pursuant to the Articles, payments to any Director or past Director of any payment by way of compensation for loss of office, or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(v) Loans and Provision of Security for Loans to Directors

There are provisions in the Articles restricting the making of loans or provision of security to Directors.

(vi) Disclosure of Interests in Contracts with the Company or any of its Subsidiaries

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company.

Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the Shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favor of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Cayman Islands Company Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realized by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or any other proposal in which he or any of his associate(s) has/have a material interest, but this prohibition shall not apply to any of the following matters, namely:

- (aa) the giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;

APPENDIX II SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

- (bb) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility, in whole or in part, whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) proposal concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) proposal concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or shareholder or in which the Director or his associate(s) is/are beneficially interested in shares of that company, provided that the Director and any of his associates are not in aggregate beneficially interested in 5% or more of the issued shares of any class of such company (or of any third company through which his interest or that of his associates is derived) or of the voting rights;
- (ee) any proposal or arrangement concerning the benefit of employees of the Company or its subsidiaries including the adoption, modification or operation of:
 - (1) any employees’ share scheme or any share incentive or a share option scheme under which a Director or his associate(s) may benefit; or
 - (2) a pension fund or retirement, death or disability benefits scheme which relates both to directors, his associate(s) and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates; or
- (ff) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

(vii) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting or by the Board (as the case may be), such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason or such employment or office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of Shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

(viii) Retirement, Appointment and Removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that

APPENDIX II**SUMMARY OF THE CONSTITUTION OF THE COMPANY
AND CAYMAN ISLANDS COMPANY LAW**

every Director shall be subject to retirement at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election. Any Director so appointed as an addition to the existing Board of Directors shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any Shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place.

The office of Director shall also be vacated if:

- (aa) the Director resigns his office by notice in writing to the Company at its registered office or its head office;
- (bb) an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;
- (cc) the Director, without leave, is absent from meetings of Directors (unless an alternate Director appointed by him attends in his place) for a continuous period of 12 months, and the Directors resolve that his office be vacated;
- (dd) the Director becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (ee) the Director ceases to be or is prohibited from being a director by law or by virtue of any provisions in the Articles; or
- (ff) the Director is removed from office by an ordinary resolution or by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) then in office.

The Directors may from time to time appoint any person, whether or not a Director, to hold such office in the Company as the Directors may think necessary for the administration of the Company, including but not limited to, the office of president, one or more vice-presidents, treasurer, assistant treasurer, manager or controller, and for such term and at such remuneration (whether by way of salary or commission or participation in profits or partly in one way and partly in another), and with such powers and duties as the Directors may think fit. Any person so appointed by the Directors may be removed by the Directors. The Directors may also appoint one or more of their number to the office of managing director upon like terms, but any such appointment shall ipso facto determine if any managing director ceases from any cause to be a Director, or if the Company by resolution resolves that his tenure of office be terminated.

The Directors may delegate to any such committee, local board, manager or agent any of the powers, authorities and discretions for the time being vested in the Directors and may authorize the members of any such local board, or any of them, to fill any vacancies therein and to act notwithstanding vacancies and any such

APPENDIX II **SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW**

appointment or delegation may be made on such terms and subject to such conditions as the Directors may think fit and the Directors may at any time remove any person so appointed and may annul or vary any such delegation.

(ix) Borrowing Powers

The board may exercise all the powers of the Company to borrow money and to mortgage or charge all or part of its undertaking, property and uncalled capital or any part thereof, and subject to the Cayman Islands Company Law, to issue debentures, debenture stock and other securities whenever money is borrowed or as security for any debt, liability or obligation of the Company or of any third party.

(x) Proceedings of the Board

The board may meet together with (either within or outside the Cayman Islands) for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

(xi) Register of Directors and Officers

The Cayman Islands Company Law and the Articles provide that the Company is required to maintain at its registered office a register of Directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty days of any change in such Directors or officers.

(b) Alterations to Constitutional Documents / Change of Name

The Articles may be altered or amended by the Company in general meeting by special resolution. The Cayman Islands Company Law provides that a special resolution shall be required to alter the provisions of the Memorandum of Association, to amend the Articles or to change the name of the Company.

(c) Alteration of Capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Cayman Islands Company Law:

- (i) increase its capital by such sum, to be divided into Shares of such classes and amount, as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into Shares of larger amount than its existing Shares;
- (iii) convert all or any of its paid-up Shares into stock and reconvert that stock into paid-up Shares of any denomination;
- (iv) subdivide its Shares, or any of them, into Shares of a smaller amount provided that in the subdivision the proportion between the amount paid and the amount, if any, unpaid on each reduced Share shall be the same as it was in case of the Share from which the reduced Share is derived; or
- (v) cancel any Shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the Shares so cancelled.

The Company may by special resolutions reduce its Share capital and any capital redemption reserve in any manner authorized by law.

APPENDIX II

**SUMMARY OF THE CONSTITUTION OF THE COMPANY
AND CAYMAN ISLANDS COMPANY LAW**

(d) Variation of Rights of Existing Shares or Classes of Shares

Whenever the capital of the Company is divided into different classes, the rights attached to any such class may, subject to any rights or restrictions for the time being attached to any class, only be materially adversely varied or abrogated with the consent in writing of the holders of not less than three fourths of the issued Shares of the relevant class, or with the sanction of a resolution passed at a separate meeting of the holders of the Shares of such class by a majority of not less than three fourths of the votes cast at such a meeting. To every such separate meeting all the provisions of the Articles relating to general meetings of the Company or to the proceedings thereat shall *mutatis mutandis* apply except that the necessary quorum shall be two persons at least holding or representing by proxy one third in nominal or par value amount of the issued Shares of the relevant class (but so that if at any adjourned meeting of such holders a quorum as above defined is not present, those shareholders who are present shall form a quorum) and that, subject to any rights or restrictions for the time being attached to the Shares of that class, every shareholder of the class shall on a poll have one vote for each Share of the class held by him.

The rights conferred upon the holders of the Shares of any class issued with preferred or other rights shall not, subject to any rights or restrictions for the time being attached to the Shares of that class, be deemed to be materially adversely varied or abrogated by, *inter alia*, the creation, allotment or issue of further Shares ranking *pari passu* with or subsequent to them or the redemption or purchase of any Shares of any class by the Company.

(e) Transfer of Shares

Title to the Company's Shares registered in the Hong Kong Share Register may be evidenced and transferred in accordance with Hong Kong law and the relevant rules.

Transfers of Shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve, which is consistent with the standard form of transfer as approved by the Directors or prescribed by [●] as appropriate. All instruments of transfer must be left at the registered office of the Company or at such other place as the Directors may appoint. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the Share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any Share which is not fully paid up, and it may also refuse to register any transfer of any Share to more than four joint holders or any transfer of any Share on which the Company has a lien.

The board may decline to recognize any instrument of transfer unless a fee of such maximum sum as [●] may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of Share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may, on 14 days' notice being given by advertisement published on [●] website, or, subject to and in accordance with the relevant rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles or by advertisement published in

APPENDIX II**SUMMARY OF THE CONSTITUTION OF THE COMPANY
AND CAYMAN ISLANDS COMPANY LAW**

any newspapers, be suspended and the register of Shares closed at such times for such periods as the Directors may from time to time determine, provided always that such registration shall not be suspended or the register of Shares closed for more than 30 days in each year.

(f) *Power for the Company to Purchase its Own Shares*

The Company is empowered by the Cayman Islands Company Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements of the relevant rules.

(g) *Power for any Subsidiary of the Company to Own Shares in the Company*

There are no provisions in the Articles relating to ownership of Shares in the Company by a subsidiary.

(h) *Requirements for Annual General Meetings*

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles, and not more than 15 months shall elapse between the date of one annual general meeting of the Company and that of the next at such time and place as may be determined by the Board.

(i) *Notices of Meetings and Business to be Conducted Thereat*

An annual general meeting shall be called by notice of not less than 21 clear days and not less than 20 clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall be called by notice of at least 21 clear days and not less than 10 clear business days. All other extraordinary general meetings shall be called by notice of at least 14 clear days and not less than 10 clear business days. The notice shall specify the time, place and agenda of the meeting, particulars of the resolutions to be considered at the meeting and in the case of special business (as defined in the Articles) the general nature of that business. Notice of every general meeting shall be given to all members of the Company (except that in the case of joint holders the notice shall be sufficient if given to the joint holder first named in the share register), the Company's auditors, each Director and alternate Director, [●] and such other person(s) to whom such notice is required to be given in accordance with the relevant rules.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, if permitted by the relevant rules, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the issued Shares giving that right.

All business carried out at a general meeting shall be deemed special with the exception of (a) the declaration and sanctioning a dividend; (b) the consideration of the accounts, balance sheets and any report of the Directors or of the Company's auditors; (c) the election of Directors whether by rotation or otherwise in the place of those retiring; (d) the appointment of the Company's auditors and other officers; (e) the fixing of the remuneration of the company's auditors, and the voting of remuneration or extra remuneration to the Directors; (f) the granting of any mandate or authority to the Directors to offer, allot, grant options over or otherwise dispose of the unissued Shares in the capital of the Company representing not more than 20% in nominal value of its existing issued share capital; and (g) the granting of any mandate or authority to the Directors to repurchase securities of the Company.

APPENDIX II**SUMMARY OF THE CONSTITUTION OF THE COMPANY
AND CAYMAN ISLANDS COMPANY LAW**

No special business shall be transacted at any general meeting without the consent of all members of the Company entitled to receive notice of that meeting unless notice of such special business has been given in the notice convening that meeting.

(j) *Quorum for Meetings and Separate Class Meetings*

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business.

Save as otherwise provided by the Articles, the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights, the necessary quorum shall be one or more persons holding or representing by proxy not less than one third in nominal value of the issued Shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorized representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(k) *Special / Ordinary Resolution-Majorities Required*

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three fourths of such members as, being entitled so to do, vote in person or, in the case of such members being corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice, specifying the intention to propose the resolution as a special resolution, has been duly given, or in writing by all members of the Company entitled to vote at a general meeting of the Company.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of such members as, being entitled to do so, vote in person or, in the case of such members being corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles, or in writing by all members of the Company entitled to vote at a general meeting of the Company.

(l) *Voting Rights*

Subject to any special rights or restrictions as to voting for the time being attached to any Shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorized representative shall have one vote for every fully paid Share of which he is the holder but so that no amount paid up or credited as paid up on a Share in advance of calls or installments is treated for the foregoing purposes as paid up on the Share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll.

If a recognized clearing house (or its nominee(s)) is a member of the Company, it may authorize such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorized, the authorization shall

APPENDIX II**SUMMARY OF THE CONSTITUTION OF THE COMPANY
AND CAYMAN ISLANDS COMPANY LAW**

specify the number and class of Shares in respect of which each such person is so authorized. A person authorized pursuant to this provision shall be deemed to have been duly authorized without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognized clearing house (or its nominee(s)) as if such person was the registered holder of the Shares of the Company held by that clearing house (or its nominee(s)).

Where the Company has any knowledge that any shareholder is, under the relevant rules, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(m) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more Shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise.

(n) Accounts and Audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Cayman Islands Company Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorized by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the relevant rules, the Company may send to such persons a summary financial statement derived from the Company's annual accounts and the Directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company send to him, in addition to a summary financial statement, a complete printed copy of the Company's annual financial statement and the Directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted

APPENDIX II

SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(o) Dividends and Other Methods of Distribution

Subject to the Cayman Islands Company Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realized or unrealized, or from any reserve set aside from profits which the Directors determine is no longer needed. With the sanction of an ordinary resolution, dividends may also be declared and paid out of the share premium account or any other fund or account which can be authorized for this purpose in accordance with the Cayman Islands Company Law.

Except in so far as the rights attaching to, or the terms of issue of, any Share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the Shares in respect whereof the dividend is paid but no amount paid up on a Share in advance of calls shall for this purpose be treated as paid up on the Share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the Shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any Shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of Shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of Shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of Shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of Shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the Shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such Shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the Shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared, the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

APPENDIX II

SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any Share shall bear interest against the Company.

(p) *Inspection of the Hong Kong Share Register*

Pursuant to the Articles, the Hong Kong Share Register shall during normal business hours (subject to such reasonable restrictions as the directors may impose) be open to inspection by a member without charge and any other person on payment of such fee not exceeding HK\$2.50 (or such higher amount as may from time to time be permitted under the relevant rules) as the directors may determine for each inspection.

(q) *Call on Shares and Forfeiture of Shares*

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any moneys unpaid on the Shares held by them (whether on account of the nominal value of the Shares or by way of premium). If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person from whom the sum is due shall pay interest upon the sum at the rate of 8% per annum from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the moneys uncalled and unpaid or instalments payable upon any Shares held by him, and upon all or any of the moneys so advanced the Company may pay interest at such rate (not exceeding, without the sanction of an Ordinary Resolution, 8% per annum) as may be agreed upon between the member and the board.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the Shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any Share in respect of which notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited Shares and not actually paid before the date of forfeiture.

A person whose Shares have been forfeited shall cease to be a member in respect of the forfeited Shares but shall, notwithstanding, remain liable to pay to the Company all moneys which, at the date of forfeiture, were payable by him to the Company in respect of the Shares, but this liability shall cease if and when the Company receives payment in full of the amount unpaid on the Shares forfeited.

(r) *Rights of the Minorities in Relation to Fraud or Oppression*

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarized in paragraph 3(f) of this Appendix II.

APPENDIX II

**SUMMARY OF THE CONSTITUTION OF THE COMPANY
AND CAYMAN ISLANDS COMPANY LAW**

(s) *Procedures on Liquidation*

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution, except where the Company is to be wound up voluntarily because it is unable to pay its debts as they fall due. In such case the resolution shall be an ordinary resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of Shares, (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the Shares held by them respectively, and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the Shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or compelled by the court), the liquidator may, with the authority of an ordinary resolution and any other sanction required by the Cayman Islands Company Law, divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any Shares or other property in respect of which there is a liability.

(t) *Untraceable Members*

Pursuant to the Articles, the Company may sell any of the Shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the Shares in question (being not less than three in total number) for any sum payable in cash to the holder of such Shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12-year period, the Company has not during that time received any indication of the existence of the member; and (iii) following the expiry of the 12-year period, the Company has caused an advertisement to be published in accordance with the relevant rules giving notice of its intention to sell such Shares and a period of three months, or such shorter period as may be permitted by [●], has elapsed since the date of such advertisement and the [●] has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) *Subscription Rights Reserve*

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Cayman Islands Company Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands and is, therefore, subject to the Cayman Islands Company Law and Cayman Islands law. Set out below is a summary of certain provisions of the Cayman Islands Company

APPENDIX II **SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW**

Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman Islands law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(a) *Operations*

As a Cayman Islands exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorized share capital.

(b) *Share Capital*

The Cayman Islands Company Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account." At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Cayman Islands Company Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) in any manner provided in section 37 of the Cayman Islands Company Law; (d) writing off the preliminary expenses of the company; and (e) writing off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Cayman Islands Company Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "Court"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, by special resolution reduce its share capital in any way.

The Memorandum of Association and Articles include certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) *Financial Assistance to Purchase Shares of a Company or its Holding Company*

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the Directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

APPENDIX II**SUMMARY OF THE CONSTITUTION OF THE COMPANY
AND CAYMAN ISLANDS COMPANY LAW**

(d) Purchase of Shares and Warrants by a Company and its Subsidiaries

Subject to the provisions of the Cayman Islands Company Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorize the manner and terms of the purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorized by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the Directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and Distributions

With the exception of section 34 of the Cayman Islands Company Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Cayman Islands Company Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account.

(f) Protection of Minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up. Or, as an alternative to a winding-up order, the Court may make the following orders: (a) an order regulating the conduct of the company's affairs in the future; (b) an order requiring the company to refrain from doing or continuing an act complained of by the petitioner or to do an act which the petitioner has complained it has omitted to do; (c) an order authorizing civil proceedings to be brought in the name of and on behalf of the company by the petitioner on such terms as the Court may direct; or (d) an order providing for the purchase of the shares of any members of the company by other members or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

APPENDIX II SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by such company's memorandum and articles of association.

(g) *Management*

The Cayman Islands Company Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) *Accounting and Auditing Requirements*

A Cayman Islands exempted company shall cause proper books of account, including, where applicable, material underlying documentation including contracts and invoices to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company. Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions. A Cayman Islands exempted company shall cause all its books of account to be retained for a minimum period of five years from the date on which they are prepared.

(i) *Exchange Control*

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) *Taxation*

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (i) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (ii) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from May 7, 2013. The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) *Stamp Duty on Transfers*

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) *Loans to Directors*

There is no express provision in the Cayman Islands Company Law prohibiting the making of loans by a company to any of its directors.

**APPENDIX II SUMMARY OF THE CONSTITUTION OF THE COMPANY
AND CAYMAN ISLANDS COMPANY LAW**

(m) *Inspection of Corporate Records*

Members of the Company will have no general right under the Cayman Islands Company Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. An exempted company may also maintain a separate register of members in respect of its listed shares. There is no requirement under the Cayman Islands Company Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) *Winding Up*

A company may be wound up by either an order of the Court, voluntarily or subject to the supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily (a) when the period (if any) fixed for the duration of the company by its memorandum or articles of association expires; (b) if the event (if any) occurs, on the occurrence of which the memorandum or articles of association provide that the company is to be wound up; (c) if the company resolves by special resolution that it be wound up voluntarily; or (d) if the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding up, such company shall from the commencement of its winding up cease to carry on its business except so far as it may be beneficial for its winding up.

In circumstances where a company is solvent (the directors of the company will need to provide a statutory declaration to this effect), the company can be wound up by a special resolution of its shareholders, and the liquidation will not require the supervision of the Court. Unless one or more persons have been designated as liquidator or liquidators of the company in the company’s memorandum and articles of association, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets.

Alternatively, where the financial condition of the company is such that a declaration of solvency cannot be given by the directors, the winding up will be initiated by an ordinary resolution of the company’s shareholders and will occur subject to the supervision of the Court. In this case, a licensed insolvency practitioner will need to be appointed as liquidator (known as “an official liquidator”). The Court may determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. The Court may appoint a foreign practitioner to act jointly with a qualified insolvency practitioner. A person may qualify as an official liquidator if that person holds the qualifications specified in the Insolvency Practitioners Regulations of the Cayman Islands. The Court may appoint a foreign practitioner to act jointly with a qualified insolvency practitioner.

Upon the appointment of a liquidator, the responsibility for the company’s affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator’s duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting

APPENDIX II

SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation for it. At least 21 days before the meeting, the liquidator must send a notice specifying the time, place and object of the meeting to each contributory in any manner authorized by the company's articles of association and published in the Cayman Islands Gazette.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. While a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Mergers and Consolidations

The Cayman Islands Company Law provides that any two or more Cayman Islands companies limited by shares (other than segregated portfolio companies) may merge or consolidate in accordance with the Cayman Islands Company Law. The Cayman Islands Company Law also allows one or more Cayman Islands companies to merge or consolidate with one or more foreign companies (provided that the laws of the foreign jurisdiction permit such merger or consolidation).

To effect a merger or consolidation of one or more Cayman Islands companies the directors of each constituent company must approve a written plan of merger or consolidation (the "Plan") in accordance with the Cayman Islands Company Law. The Plan must then be authorized by each constituent company by a special resolution of members and such other authorization, if any, as may be specified in such constituent company's articles of association.

Where a Cayman Islands parent is merging with one or more of its Cayman Islands subsidiaries, shareholder consent is not required if a copy of the Plan is given to every member of each subsidiary company to be merged, unless that member agrees otherwise.

To effect a merger or consolidation of one or more Cayman Islands companies with one or more foreign companies, in addition to the approval requirements applicable to the merger or consolidation of Cayman Islands companies (in relation to Cayman Islands company(ies) only), the merger or consolidation must also be effected in compliance with the constitutional documents of, and laws of the foreign jurisdiction applicable to, the foreign company(ies).

(q) Compulsory Acquisition

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

APPENDIX II

SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

(r) *Indemnification*

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g., for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

The Company's legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarizing certain aspects of the Cayman Islands Company Law. Any person wishing to have a detailed summary of the Cayman Islands Company Law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

APPENDIX III

STATUTORY AND GENERAL INFORMATION

FURTHER INFORMATION ABOUT OUR COMPANY

1. Incorporation of Our Company

We were established in the Cayman Islands on July 26, 2011 under the Cayman Islands Company Law as an exempted company with limited liability, with the registered company number CF-259984. Accordingly, our Company's corporate structure and Articles are subject to the relevant laws of the Cayman Islands. A summary of our Articles is set out in Appendix II to this document.

Our registered place of business in Hong Kong is at 8th Floor, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong. We were registered as a non-Hong Kong company under Part XI of the Hong Kong Companies Ordinance on April 9, 2013. Ms. Yung Mei Yee of KCS Hong Kong Limited has been appointed as our agent for the acceptance of service of process in Hong Kong. The address for service of process is in 8th Floor, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong.

Our Company's head office and registered office are located as at the date of this document at 37-38/F, West Hall Renfeng Building, 490 Tianhe Road, Guangzhou, China. The telephone number of the head office is 86-20-66608091.

2. Changes in the Capital Stock of Our Company

At the date of our incorporation, our authorized share capital was US\$50,000, divided into 50,000 shares of par value of US\$1.00 each.

On June 15, 2012, our Company underwent a share split whereby one Ordinary Share of par value of US\$1.00 was split into 1,000 Ordinary Shares of par value of US\$0.001 each and one Series A Preferred Share of par value of US\$1.00 was split into 1,000 Series A Preferred Shares of par value of US\$0.001 each. Upon the completion of the share split, our authorized share capital was US\$50,000 divided into 47,094,056 Ordinary Shares of par value of US\$0.001 each and 2,905,944 Series A Preferred Shares of par value of US\$0.001 each. Our issued share capital was US\$10,505.94 divided into 7,600,000 Ordinary Shares of US\$0.001 each and 2,905,944 Series A Preferred Shares of US\$0.001 each.

On August 21, 2012, our Company underwent another share split whereby one Ordinary Share of par value of US\$0.001 was split into 10 Ordinary Shares of par value of US\$0.0001 each and one Series A Preferred Share of par value of US\$0.001 was split into 10 Series A Preferred Shares of par value of US\$0.0001 each. Upon the completion of the share split, our authorized share capital was US\$50,000 divided into 470,940,560 Ordinary Shares of par value of US\$0.0001 each and 29,059,440 Series A Preferred Shares of par value of US\$0.0001 each.

Save as disclosed above, there has been no alternation in our share capital within two years immediately preceding the date of this document.

3. Changes in the Share Capital of Our Subsidiaries and PRC Operational Entities

The following changes in the share capital of our subsidiaries and PRC Operational Entities have taken place within two years immediately preceding the issue of this document:

- (a) on August 9, 2011, Foga Tech was incorporated in Hong Kong with an initial authorized share capital of HK\$10,000 divided into 10,000 ordinary shares of par value of HK\$1.00 each. The initial issued share capital was HK\$1.00 divided into 1 ordinary share of HK\$1.00 each;

APPENDIX III

STATUTORY AND GENERAL INFORMATION

- (b) on March 22, 2012, Hongkong Ledong was incorporated in Hong Kong with an initial authorized share capital of HK\$10,000 divided into 10,000 ordinary shares of par value of HK\$1.00 each. The initial issued share capital was HK\$10,000 divided into 10,000 ordinary shares of par value of HK\$1.00 each;
- (c) on June 7, 2012, Jiyou was incorporated in the PRC with a registered capital of RMB10,000,000 with capital contributions of RMB2,375,000, RMB4,110,000, RMB2,470,000, RMB95,000 and RMB950,000 from Mr. Wang, Mr. Huang, Mr. Liao, Mr. Yang and Mr. Zhuang respectively; and
- (d) on June 13, 2012, Feidong was incorporated in the PRC with a registered capital of US\$5,000,000 and a capital in the amount of US\$5,000,000 was contributed by Foga Tech.

4. Written Resolutions of the Shareholders Passed on September 1, 2013

Written resolutions of the Shareholders were passed on September 1, 2013 approving, among others, the following:

- (a) the proposal of the Pre-[●] Share Option Scheme to be amended and restated was approved;
- (b) the adoption of the Post-[●] Share Option Scheme was approved;
- (c) the adoption of the RSU Scheme was approved; and
- (d) the Articles were adopted as our articles of association, conditional upon [●].

FURTHER INFORMATION ABOUT THE BUSINESS OF OUR COMPANY

1. Summary of Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by members of our Group within the two years preceding the date of this document and are or may be material:

- a. the Series A Preferred Share Purchase Agreement dated April 29, 2012, amended and restated on June 15, 2012 and entered into among the Company, FogaTech, Weidong, Feiyin, the Founders, the Holding Companies, the Pre-Series A Investors Longling Capital Ltd., Baolink Capital Ltd., TA XI L.P., TA FG Acquisitions (as party to the amended and restated Series A Preferred Share Purchase Agreement only) Qiming Venture pursuant to which the Company agreed to issue and Partners III L.P., Qiming Managing Directors Fund III, L.P., Ignition Growth Capital I L.P., and Ignition Growth Capital Managing Directors Fund I, LLC, agreed to subscribe for a total of 2,905,944 Series A Preferred Shares for an aggregate consideration of US\$68,800,000;
- b. the Right of First Refusal and Co-Sale Agreement dated June 15, 2012, amended by an amendment agreement dated March 8, 2013, and entered into among the Company, the Founders, the Holding Companies and the Series A Investors, details of which are set out in the section headed "Our History, Reorganization and Corporate Structure — Pre-[●] Investments";
- c. the Shareholders Agreement dated June 15, 2012, amended by an amendment agreement dated March 8, 2013, and entered into among the Company, Foga Tech, Weidong, Feiyin, the Founders, the Holding Companies and the Series A Investors, details of which are set out in the section headed "Our History, Reorganization and Corporate Structure — Pre-[●] Investments";
- d. the Share Restriction Agreement dated June 15, 2012, amended by an amendment agreement dated March 8, 2013, and entered into among the Company, the Founders, the Holding Companies and the Series A Investors, details of which are set out in the section headed "Our History, Reorganization and Corporate Structure — Pre-[●] Investments";
- e. the share purchase agreement between Foga Holdings, Foga Networks, Pineapple and our Company dated March 20, 2013, details of which are set out in the section headed "Our History, Reorganization and Corporate Structure — Pre-[●] Investments";
- f. the share purchase agreement between Foga Holdings, Foga Networks, Soaring Harmony and our Company dated March 26, 2013, details of which are set out in the section headed "Our History, Reorganization and Corporate Structure — Pre-[●] Investments";
- g. the share purchase agreement between Foga Holdings, Foga Networks, Alpaca and our Company dated March 26, 2013, details of which are set out in the section headed "Our History, Reorganization and Corporate Structure — Pre-[●] Investments";

APPENDIX III

STATUTORY AND GENERAL INFORMATION

- h. the share purchase agreement between Foga Development, Prometheus and our Company dated March 28, 2013, details of which are set out in the section headed “Our History, Reorganization and Corporate Structure — Pre-[●] Investments”;
- i. the share subscription agreement relating to Appionics entered into between Appionics, Outblaze Ventures Corporation, Hongkong Ledong and our Company dated April 18, 2013 pursuant to which Hongkong Ledong subscribed for 107,143 RCP B Shares in Appionics, representing a minority interest in Appionics, for an aggregate cash consideration of US\$3,000,000;
- j. the amended and restated registration rights agreement entered into between Appionics, Yong Hui Capital Holdings I, Ltd., Yong Hui Capital Holdings II, Ltd., Intel Capital Corporation and Hongkong Ledong dated April 18, 2013, pursuant to which Hongkong Ledong was added as a party and granted certain registration rights as a shareholder of Appionics;
- k. the amended and restated shareholders agreement relating to Appionics between Outblaze Ventures Corporation, Bolva Investments Limited, Neoteny Startup 1 Limited Partnership, Waterfront Limited, Yong Hui Capital Holdings I, Ltd., Yong Hui Capital Holdings II, Ltd., Intel Capital Corporation, Hongkong Ledong and Appionics dated April 18, 2013, pursuant to which Hongkong Ledong was added as a party and granted certain rights as a shareholder of Appionics
- l. the Amended and Restated Exclusive Business Cooperation Agreement dated September 12, 2013 entered into between Feidong and Feiyin, pursuant to which Feiyin agreed to engage Feidong on an exclusive basis irrevocably to provide business support and technical and consulting services in connection with its operations, and in return, Feidong will charge for the services;
- m. the Amended and Restated Exclusive Business Cooperation Agreement dated September 12, 2013 entered into between Feidong and Weidong, pursuant to which Weidong agreed to engage Feidong on an exclusive basis irrevocably to provide business support and technical and consulting services in connection with its operations, and in return, Feidong will charge for the services;
- n. the Amended and Restated Exclusive Business Cooperation Agreement dated September 12, 2013 entered into between Feidong and Jieyou, pursuant to which Jieyou agreed to engage Feidong on an exclusive basis irrevocably to provide business support and technical and consulting services in connection with its operations, and in return, Feidong will charge for the services;
- o. the Amended and Restated Share Pledge Agreement dated September 12, 2013 entered among Feidong, Mr. Wang and Feiyin, pursuant to which Mr. Wang agreed to grant to Feidong a first priority security interest over all his respective director equity interest in Feiyin and all related rights and revenue for guaranteeing the performance of obligations of Feiyin under the Exclusive Business Cooperation Agreement;
- p. the Amended and Restated Share Pledge Agreement dated September 12, 2013 entered among Feidong, Mr. Huang and Feiyin, pursuant to which Mr. Huang agreed to grant to Feidong a first priority security interest over all his respective director equity interest in Feiyin and all related rights and revenue for guaranteeing the performance of obligations of Feiyin under the Exclusive Business Cooperation Agreement;
- q. the Amended and Restated Share Pledge Agreement dated September 12, 2013 entered among Feidong, Mr. Liao and Feiyin, pursuant to which Mr. Liao agreed to grant to Feidong a first priority security interest over all his respective director equity interest in Feiyin and all related rights and revenue for guaranteeing the performance of obligations of Feiyin under the Exclusive Business Cooperation Agreement;
- r. the Amended and Restated Share Pledge Agreement dated September 12, 2013 entered among Feidong, Mr. Yang and Feiyin, pursuant to which Mr. Yang agreed to grant to Feidong a first priority security interest over all his respective director equity interest in Feiyin and all related rights and revenue for guaranteeing the performance of obligations of Feiyin under the Exclusive Business Cooperation Agreement;

APPENDIX III

STATUTORY AND GENERAL INFORMATION

- s. the Amended and Restated Share Pledge Agreement dated September 12, 2013 entered among Feidong, Mr. Zhuang and Feiyin, pursuant to which Mr. Zhuang agreed to grant to Feidong a first priority security interest over all his respective director equity interest in Feiyin and all related rights and revenue for guaranteeing the performance of obligations of Feiyin under the Exclusive Business Cooperation Agreement;
- t. the Amended and Restated Share Pledge Agreement dated September 12, 2013 entered among Feidong, Mr. Wang and Weidong, pursuant to which Mr. Wang agreed to grant to Feidong a first priority security interest over all his respective director equity interest in Weidong and all related rights and revenue for guaranteeing the performance of obligations of Weidong under the Exclusive Business Cooperation Agreement;
- u. the Amended and Restated Share Pledge Agreement dated September 12, 2013 entered among Feidong, Mr. Huang and Weidong, pursuant to which Mr. Huang agreed to grant to Feidong a first priority security interest over all his respective director equity interest in Weidong and all related rights and revenue for guaranteeing the performance of obligations of Weidong under the Exclusive Business Cooperation Agreement;
- v. the Amended and Restated Share Pledge Agreement dated September 12, 2013 entered among Feidong, Mr. Liao and Weidong, pursuant to which Mr. Liao agreed to grant to Feidong a first priority security interest over all his respective director equity interest in Weidong and all related rights and revenue for guaranteeing the performance of obligations of Weidong under the Exclusive Business Cooperation Agreement;
- w. the Amended and Restated Share Pledge Agreement dated September 12, 2013 entered among Feidong, Mr. Yang and Weidong, pursuant to which Mr. Yang agreed to grant to Feidong a first priority security interest over all his respective director equity interest in Weidong and all related rights and revenue for guaranteeing the performance of obligations of Weidong under the Exclusive Business Cooperation Agreement;
- x. the Amended and Restated Share Pledge Agreement dated September 12, 2013 entered among Feidong, Mr. Zhuang and Weidong, pursuant to which Mr. Zhuang agreed to grant to Feidong a first priority security interest over all his respective director equity interest in Weidong and all related rights and revenue for guaranteeing the performance of obligations of Weidong under the Exclusive Business Cooperation Agreement;
- y. the Amended and Restated Share Pledge Agreement dated September 12, 2013 entered among Feidong, Mr. Wang and Jieyou, pursuant to which Mr. Wang agreed to grant to Feidong a first priority security interest over all his respective director equity interest in Jieyou and all related rights and revenue for guaranteeing the performance of obligations of Jieyou under the Exclusive Business Cooperation Agreement;
- z. the Amended and Restated Share Pledge Agreement dated September 12, 2013 entered among Feidong, Mr. Huang and Jieyou, pursuant to which Mr. Huang agreed to grant to Feidong a first priority security interest over all his respective director equity interest in Jieyou and all related rights and revenue for guaranteeing the performance of obligations of Jieyou under the Exclusive Business Cooperation Agreement;
- aa. the Amended and Restated Share Pledge Agreement dated September 12, 2013 entered among Feidong, Mr. Liao and Jieyou, pursuant to which Mr. Liao agreed to grant to Feidong a first priority security interest over all his respective director equity interest in Jieyou and all related rights and revenue for guaranteeing the performance of obligations of Jieyou under the Exclusive Business Cooperation Agreement;
- bb. the Amended and Restated Share Pledge Agreement dated September 12, 2013 entered among Feidong, Mr. Yang and Jieyou, pursuant to which Mr. Yang agreed to grant to Feidong a first priority security interest over all his respective director equity interest in Jieyou and all related rights and revenue for

APPENDIX III

STATUTORY AND GENERAL INFORMATION

- guaranteeing the performance of obligations of Jieyou under the Exclusive Business Cooperation Agreement;
- cc. the Amended and Restated Share Pledge Agreement dated September 12, 2013 entered among Feidong, Mr. Zhuang and Jieyou, pursuant to which Mr. Zhuang agreed to grant to Feidong a first priority security interest over all his respective director equity interest in Jieyou and all related rights and revenue for guaranteeing the performance of obligations of Jieyou under the Exclusive Business Cooperation Agreement;
- dd. the Amended and Restated Exclusive Option Agreement dated September 12, 2013 entered into among Feidong, Mr. Wang and Feiyin, pursuant to which Mr. Wang granted, at nil consideration, an exclusive and irrevocable option to Feidong or its nominee(s) to acquire all or part of the equity interest in Feiyin held by Mr. Wang at the minimum amount as permitted by the applicable PRC laws and regulations;
- ee. the Amended and Restated Exclusive Option Agreement dated September 12, 2013 entered into among Feidong, Mr. Huang and Feiyin, pursuant to which Mr. Huang granted, at nil consideration, an exclusive and irrevocable option to Feidong or its nominee(s) to acquire all or part of the equity interest in Feiyin held by Mr. Huang at the minimum amount as permitted by the applicable PRC laws and regulations;
- ff. the Amended and Restated Exclusive Option Agreement dated September 12, 2013 entered into among Feidong, Mr. Liao and Feiyin, pursuant to which Mr. Liao granted, at nil consideration, an exclusive and irrevocable option to Feidong or its nominee(s) to acquire all or part of the equity interest in Feiyin held by Mr. Liao at the minimum amount as permitted by the applicable PRC laws and regulations;
- gg. the Amended and Restated Exclusive Option Agreement dated September 12, 2013 entered into among Feidong, Mr. Yang and Feiyin, pursuant to which Mr. Yang granted, at nil consideration, an exclusive and irrevocable option to Feidong or its nominee(s) to acquire all or part of the equity interest in Feiyin held by Mr. Yang at the minimum amount as permitted by the applicable PRC laws and regulations;
- hh. the Amended and Restated Exclusive Option Agreement dated September 12, 2013 entered into among Feidong, Mr. Zhuang and Feiyin, pursuant to which Mr. Zhuang granted, at nil consideration, an exclusive and irrevocable option to Feidong or its nominee(s) to acquire all or part of the equity interest in Feiyin held by Mr. Zhuang at the minimum amount as permitted by the applicable PRC laws and regulations;
- ii. the Amended and Restated Exclusive Option Agreement dated September 12, 2013 entered into among Feidong, Mr. Wang and Weidong, pursuant to which Mr. Wang granted, at nil consideration, an exclusive and irrevocable option to Feidong or its nominee(s) to acquire all or part of the equity interest in Weidong held by Mr. Wang at the minimum amount as permitted by the applicable PRC laws and regulations;
- jj. the Amended and Restated Exclusive Option Agreement dated September 12, 2013 entered into among Feidong, Mr. Huang and Weidong, pursuant to which Mr. Huang granted, at nil consideration, an exclusive and irrevocable option to Feidong or its nominee(s) to acquire all or part of the equity interest in Weidong held by Mr. Huang at the minimum amount as permitted by the applicable PRC laws and regulations;
- kk. the Amended and Restated Exclusive Option Agreement dated September 12, 2013 entered into among Feidong, Mr. Liao and Weidong, pursuant to which Mr. Liao granted, at nil consideration, an exclusive and irrevocable option to Feidong or its nominee(s) to acquire all or part of the equity interest in Weidong held by Mr. Liao at the minimum amount as permitted by the applicable PRC laws and regulations;
- ll. the Amended and Restated Exclusive Option Agreement dated September 12, 2013 entered into among Feidong, Mr. Yang and Weidong, pursuant to which Mr. Yang granted, at nil consideration, an exclusive and irrevocable option to Feidong or its nominee(s) to acquire all or part of the equity interest in Weidong held by Mr. Yang at the minimum amount as permitted by the applicable PRC laws and regulations;
- mm. the Amended and Restated Exclusive Option Agreement dated September 12, 2013 entered into among Feidong, Mr. Zhuang and Weidong, pursuant to which Mr. Zhuang granted, at nil consideration, an exclusive and irrevocable option to Feidong or its nominee(s) to acquire all or part of the equity interest in

APPENDIX III

STATUTORY AND GENERAL INFORMATION

- Weidong held by Mr. Zhuang at the minimum amount as permitted by the applicable PRC laws and regulations;
- nn. the Amended and Restated Exclusive Option Agreement dated September 12, 2013 entered into among Feidong, Mr. Wang and Jieyou, pursuant to which Mr. Wang granted, at nil consideration, an exclusive and irrevocable option to Feidong or its nominee(s) to acquire all or part of the equity interest in Jieyou held by Mr. Wang at the minimum amount as permitted by the applicable PRC laws and regulations;
 - oo. the Amended and Restated Exclusive Option Agreement dated September 12, 2013 entered into among Feidong, Mr. Huang and Jieyou, pursuant to which Mr. Huang granted, at nil consideration, an exclusive and irrevocable option to Feidong or its nominee(s) to acquire all or part of the equity interest in Jieyou held by Mr. Huang at the minimum amount as permitted by the applicable PRC laws and regulations;
 - pp. the Amended and Restated Exclusive Option Agreement dated September 12, 2013 entered into among Feidong, Mr. Liao and Jieyou, pursuant to which Mr. Liao granted, at nil consideration, an exclusive and irrevocable option to Feidong or its nominee(s) to acquire all or part of the equity interest in Jieyou held by Mr. Liao at the minimum amount as permitted by the applicable PRC laws and regulations;
 - qq. the Amended and Restated Exclusive Option Agreement dated September 12, 2013 entered into among Feidong, Mr. Yang and Jieyou, pursuant to which Mr. Yang granted, at nil consideration, an exclusive and irrevocable option to Feidong or its nominee(s) to acquire all or part of the equity interest in Jieyou held by Mr. Yang at the minimum amount as permitted by the applicable PRC laws and regulations;
 - rr. the Amended and Restated Exclusive Option Agreement dated September 12, 2013 entered into among Feidong, Mr. Zhuang and Jieyou, pursuant to which Mr. Zhuang granted, at nil consideration, an exclusive and irrevocable option to Feidong or its nominee(s) to acquire all or part of the equity interest in Jieyou held by Mr. Zhuang at the minimum amount as permitted by the applicable PRC laws and regulations;
 - ss. the Amended and Restated Power of Attorney dated September 12, 2013 granted by Mr. Wang in favor of Feidong, pursuant to which Feidong was authorized by Mr. Wang to exercise the shareholder's right in Feiyin;
 - tt. the Amended and Restated Power of Attorney dated September 12, 2013 granted by Mr. Huang in favor of Feidong, pursuant to which Feidong was authorized by Mr. Huang to exercise the shareholder's right in Feiyin;
 - uu. the Amended and Restated Power of Attorney dated September 12, 2013 granted by Mr. Liao in favor of Feidong, pursuant to which Feidong was authorized by Mr. Liao to exercise the shareholder's right in Feiyin;
 - vv. the Amended and Restated Power of Attorney dated September 12, 2013 granted by Mr. Yang in favor of Feidong, pursuant to which Feidong was authorized by Mr. Yang to exercise the shareholder's right in Feiyin;
 - ww. the Amended and Restated Power of Attorney dated September 12, 2013 granted by Mr. Zhuang in favor of Feidong, pursuant to which Feidong was authorized by Mr. Zhuang to exercise the shareholder's right in Feiyin;
 - xx. the Amended and Restated Power of Attorney dated September 12, 2013 granted by Mr. Wang in favor of Feidong, pursuant to which Feidong was authorized by Mr. Wang to exercise the shareholder's right in Weidong;
 - yy. the Amended and Restated Power of Attorney dated September 12, 2013 granted by Mr. Huang in favor of Feidong, pursuant to which Feidong was authorized by Mr. Huang to exercise the shareholder's right in Weidong;
 - zz. the Amended and Restated Power of Attorney dated September 12, 2013 granted by Mr. Liao in favor of Feidong, pursuant to which Feidong was authorized by Mr. Liao to exercise the shareholder's right in Weidong;

APPENDIX III


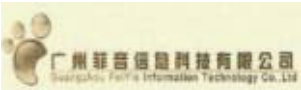
STATUTORY AND GENERAL INFORMATION

- aaa. the Amended and Restated Power of Attorney dated September 12, 2013 granted by Mr. Yang in favor of Feidong, pursuant to which Feidong was authorized by Mr. Yang to exercise the shareholder's right in Weidong;
- bbb. the Amended and Restated Power of Attorney dated September 12, 2013 granted by Mr. Zhuang in favor of Feidong, pursuant to which Feidong was authorized by Mr. Zhuang to exercise the shareholder's right in Weidong;
- ccc. the Amended and Restated Power of Attorney dated September 12, 2013 granted by Mr. Wang in favor of Feidong, pursuant to which Feidong was authorized by Mr. Wang to exercise the shareholder's right in Jieyou;
- ddd. the Amended and Restated Power of Attorney dated September 12, 2013 granted by Mr. Huang in favor of Feidong, pursuant to which Feidong was authorized by Mr. Huang to exercise the shareholder's right in Jieyou;
- eee. the Amended and Restated Power of Attorney dated September 12, 2013 granted by Mr. Liao in favor of Feidong, pursuant to which Feidong was authorized by Mr. Liao to exercise the shareholder's right in Jieyou;
- fff. the Amended and Restated Power of Attorney dated September 12, 2013 granted by Mr. Yang in favor of Feidong, pursuant to which Feidong was authorized by Mr. Yang to exercise the shareholder's right in Jieyou; and
- ggg. the Amended and Restated Power of Attorney dated September 12, 2013 granted by Mr. Zhuang in favor of Feidong, pursuant to which Feidong was authorized by Mr. Zhuang to exercise the shareholder's right in Jieyou.

2. Our Material Intellectual Property Rights

(a) Trademarks

As of the Latest Practicable Date, our material trademarks were as follows:

No.	Trademark	Place of Registration	Owner	Trademark No.	Class	Expiry Date/Status of Application
1.		PRC	Feiyin	8595287	9	August 27, 2021
2.		PRC	Feiyin	8595460	9	September 13, 2021
3.	九天仙梦	PRC	Feiyin	8599670	9	September 6, 2021
4.	九天仙梦	PRC	Feiyin	8599692	41	September 6, 2021
5.	真王	PRC	Feiyin	9028913	9	January 20, 2022
6.	真王	PRC	Feiyin	9028931	41	July 20, 2022
7.	英雄王座	PRC	Feiyin	9134327	9	February 27, 2022
8.	英雄王座	PRC	Feiyin	9134436	41	February 27, 2022
9.	明朝时代	PRC	Feiyin	7830379	41	January 27, 2021
10.	91wan	PRC	Weidong	8359406	35	July 6, 2021
11.	凡人修真	PRC	Feiyin	7936340	41	Pending
12.	洪荒神话	PRC	Feiyin	8374169	9	Pending
13.	洪荒神话	PRC	Feiyin	8374185	41	Pending

APPENDIX III STATUTORY AND GENERAL INFORMATION

No.	Trademark	Place of Registration	Owner	Trademark No.	Class	Expiry Date/Status of Application
14.	风云天下	PRC	Feiyin	10691072	41	Pending
15.	斗破乾坤	PRC	Feiyin	10740797	9	Pending
16.	斗破乾坤	PRC	Feiyin	10740882	41	Pending
17.		PRC	Weidong	9714429	42	Pending
18.		PRC	Weidong	9714348	41	Pending
19.		PRC	Weidong	9714203	9	Pending
20.	霸域	PRC	Weidong	10990138	41	Pending
21.	霸域	PRC	Weidong	10990048	9	Pending
22.		PRC	Weidong	11471822	41	Pending
23.		PRC	Weidong	11471834	41	Pending
24.		PRC	Weidong	11471846	41	Pending
25.	醉西游	PRC	Jieyou	11246908	41	Pending
26.	醉西游	PRC	Jieyou	11246789	28	Pending
27.	醉西游	PRC	Jieyou	11246715	9	Pending
28.	倾世情缘	PRC	Jieyou	11820514	9	Pending
29.	倾世情缘	PRC	Jieyou	11826706	41	Pending
30.		Hong Kong	The Company	302518182	9, 35, 41, 42	Pending
31.	雲遊 云游	Hong Kong	The Company	302518164	9, 35, 41, 42	Pending
32.		Hong Kong	The Company	302518173	9, 35, 41, 42	Pending

We have approximately 120 trademark registrations and approximately 134 pending trademark applications, which include 10 trademark registrations and 22 trademark applications for the above trademarks in various cities in the PRC and in Hong Kong.

APPENDIX III STATUTORY AND GENERAL INFORMATION

(b) Patents

As of the Latest Practicable Date, we had one registered patent relating to our data processing system and method:

No.	Patent	Place of Registration	Patent holder	Patent No.	Date of Registration
1.	數據處理系統和方法 (Data processing system and method)	PRC	Feiyin	200910265631.5	June 20, 2013

(c) Domain Names

As of the Latest Practicable Date, our material domain names were as follows:

No.	Domain Name	Registrant	Date of Registration	Expiry Date
1.	www.91wan.com	Weidong	December 30, 2004	December 30, 2013
2.	www.weedong.com	Weidong	November 9, 2009	November 9, 2013
3.	www.forgame.com	Weidong	September 16, 2002	September 16, 2014
4.	www.915.com	Weidong	May 14, 1998	May 13, 2016
5.	www.9vs.com	Weidong	January 10, 2003	January 10, 2015
6.	www.2918.com	Weidong	November 20, 2000	November 20, 2016
7.	www.forgame.com.cn	Weidong	March 21, 2012	March 21, 2015
8.	xunwan.com	Feiyin	July 2, 2007	July 2, 2014
9.	gzfeiyin.com	Feiyin	January 5, 2010	January 5, 2014
10.	feiyin.com	Feiyin	March 16, 2003	March 16, 2016
11.	336.com	Jieyou	March 6, 2000	March 6, 2016
12.	jiyou.com	Jieyou	November 9, 2003	November 9, 2015

As of the Latest Practicable Date, we had approximately 44 registered domain names.

(d) Copyright

As of the Latest Practicable Date, our material copyrights were as follows:

No.	Copyright	Version	Owner	Registration No.	Date of Registration
1.	《射雕傳》(translated as “ <i>Legend of the Condors</i> ”) webgame software	V1.0	Feiyin	2009SR023508	June 17, 2009
2.	《盤龍神墓記》(translated as “ <i>Tale of the Dragon Tomb</i> ”) webgame software	V1.0	Feiyin	2009SR031929	August 11, 2009
3.	《明朝時代》(translated as “ <i>Ming Dynasty</i> ”) webgame software	V1.0	Feiyin	2009SR028270	July 16, 2009
4.	《明朝時代》(translated as “ <i>Ming Dynasty</i> ”) webgame system	V2.0	Feiyin	2010SR014281	March 30, 2010
5.	《凡人修真》(translated as “ <i>Soul Guardian I</i> ”) webgame software	V1.0	Feiyin	2010SR023709	May 20, 2010
6.	《夢幻修仙》(translated as “ <i>Fantasy Immortal</i> ”) webgame software	V1.0	Feiyin	2010SR039768	August 6, 2010
7.	《洪荒神話》(translated as “ <i>Legend of Chaos</i> ”) webgame system	V1.0	Feiyin	2010SR049991	September 20, 2010

APPENDIX III STATUTORY AND GENERAL INFORMATION

No.	Copyright	Version	Owner	Registration No.	Date of Registration
8.	《九天仙夢》(translated as " <i>The Ninth Heaven</i> ") webpage system	V1.0	Feiyin	2010SR049992	September 20, 2010
9.	《江湖令》(translated as " <i>The Chaotic Order</i> ") webpage system	V1.0	Feiyin	2011SR003600	January 25, 2011
10.	《凡人修真II》(translated as " <i>Soul Guardian II</i> ") webpage system	V1.0	Feiyin	2011SR014697	March 23, 2011
11.	《真王》(translated as " <i>True King</i> ") webpage software	V1.0	Feiyin	2011SR004953	January 31, 2011
12.	《英雄王座》(translated as " <i>Heroes Online</i> ") webpage system	V1.0	Feiyin	2011SR009402	February 28, 2011
13.	《幻靈王》(translated as " <i>King Wanling</i> ") webpage system	V1.0	Feiyin	2011SR028839	May 16, 2011
14.	《芒果三國OL》(translated as " <i>Three Mango Kingdoms OL</i> ") mobile phone game system	V1.0	Feiyin	2012SR017736	March 7, 2012
15.	《風雲天下OL》(translated as " <i>The Era of Storms</i> ") mobile phone game system	V1.0	Feiyin	2012SR017736	March 26, 2012
16.	《仙神傳》(translated as " <i>Tale of Immortals</i> ") webpage software	V1.0	Feiyin	2011SR089472	December 1, 2011
17.	《斬仙錄》(translated as " <i>The Godslayer</i> ") webpage software	V1.0	Feiyin	2011SR088031	November 28, 2011
18.	《凡人仙夢》(translated as " <i>Guardian's Dream</i> ") webpage software	V1.0	Feiyin	2013SR021386	March 7, 2013
19.	《傾世情緣》(translated as " <i>Fate and Destiny</i> ") webpage software	V1.0	Jieyou	2012SR061713	July 11, 2012
20.	《醉西遊》(translated as " <i>Charmed Westward Journey</i> ") webpage software	V1.0	Jieyou	2012SR058826	July 3, 2012
21.	《夢回仙境》(translated as " <i>A Dream of Fairyland</i> ") webpage software	V1.0	Jieyou	2012SR085479	September 10, 2012
22.	《創世三國》(translated as " <i>Creation of Three Kingdoms</i> ") webpage software	V1.0	Jieyou	2012SR063194	July 13, 2012
23.	《夢幻飛仙》(translated as " <i>Fantasy Immortal II: Ascension</i> ") webpage software	V2.0	Feidong	2012SR076544	August 20, 2012
24.	《百煉成仙》(translated as " <i>The Hundred Trials</i> ") webpage system	V1.0	Weidong	2011SR039499	June 22, 2011
25.	《門法修仙傳》(translated as " <i>The Archmages</i> ") webpage software	V1.0	Weidong	2010SR024025	May 21, 2010
26.	《戰將傳奇》(translated as the " <i>Generals Saga</i> ") webpage software	V1.0	Weidong	2010SR026857	June 4, 2010
27.	《黃金海岸》(translated as " <i>Golden Seashore</i> ") webpage software	V1.0	Weidong	2011SR009990	March 2, 2011

As of the Latest Practicable Date, we had approximately 119 copyright registrations.

FURTHER INFORMATION ABOUT DIRECTORS

1. Particulars of Directors' Service Contracts and Letters of Appointment

Each of our Executive Directors has entered into a service contract with us for an initial term of three years, commencing from September 1, 2013, which shall be renewed as determined by the Board or the Shareholders of the Company. The Executive Directors may from time to time be entitled to Post-[●] Share Options and RSUs under the RSU Scheme. The office of a Director is liable to be vacated in certain circumstances pursuant to the Articles. The appointment of each of the Executive Directors may be terminated by either party by giving at least three months' written notice to the other.

Each of our Non-executive Directors has entered into a service contract with us for an initial term of three years, commencing from September 1, 2013, which shall be renewed as determined by the Board or the Shareholders of the Company. The Non-executive Directors may from time to time be entitled to Post-[●] Share Options and RSUs under the RSU Scheme. The office of a Director is liable to be vacated in certain circumstances pursuant to the Articles. The appointment of each of the Non-executive Directors may be terminated by either party by giving at least three months' written notice to the other.

Each of the Independent Non-executive Directors has signed a letter of appointment with us. Mr. Levin Eric Joshua signed a letter of appointment for a term of two years commencing November 1, 2012, which was amended and restated on September 1, 2013, extending his tenure for a further 10 months until August 31, 2014. Ms. Poon Philana Wai Yin and Mr. Zhao Cong Richard each signed a letter of appointment on September 1, 2013 for an initial term of two years. The letters of appointment shall be renewed as determined by the Board or the Shareholders of the Company. The Independent Non-executive Directors may from time to time be entitled to Post-[●] Share Options and RSUs under the RSU Scheme. The office of a Director is liable to be vacated in certain circumstances pursuant to the Articles. The appointment of each of the Independent Non-executive Directors may be terminated by either party by giving at least three months' written notice to the other.

Save as disclosed in this document, none of the Directors has or is proposed to have entered into any service agreement or letter of appointment with any member of our Group (excluding agreements expiring or determinable by any member of our Group within one year without payment of compensation other than statutory compensation).

2. Remuneration of Directors

For the year ended December 31, 2012 and the six months ended June 30, 2013, the aggregate amount of remuneration (including salaries, fees, share options, allowances, benefits and contributions to pension schemes) paid to our Directors were RMB1.2 million and RMB2.2 million respectively.

It is estimated that remuneration equivalent to approximately RMB4.7 million in aggregate will be paid and granted to our Directors by us in respect of the year ending December 31, 2013 under arrangements in force at the date of this document.

Our policy concerning the remuneration of the Directors is that the amount of remuneration is determined on the basis of the relevant Director's experience, responsibility, performance and the time devoted to our business.

Save as disclosed in this document, no Director has been paid in cash or shares or otherwise by any person either to induce him to become, or to qualify him as a Director, or otherwise for service rendered by him in connection with the promotion or formation of us.

APPENDIX III

STATUTORY AND GENERAL INFORMATION

3. Agency Fees or Commission

Save as disclosed in this document, within the two years preceding the date of this document, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of us or any of our subsidiaries.

4. Related Party Transactions

Please refer to Note 34 to the Accountant's Report in Appendix I to this document for details of the related party transactions. Our Directors confirm that all related party transactions are conducted on normal commercial terms, and that their terms are fair and reasonable.

PRE-[●] SHARE OPTION SCHEME

Summary of Terms

The following is a summary of the principal terms of the Pre-[●] Share Option Scheme which was adopted by the Shareholders' resolutions dated October 31, 2012 (the "Adoption Date") and amended on September 1, 2013.

(a) Purpose

The Pre-[●] Share Option Scheme is a share incentive scheme and is established to recognize and reward the contribution of the participants to the growth and development of our Group and [●] of the Shares on [●].

(b) Who may Join

The eligible participants under the Pre-[●] Share Option Scheme include the following:

- (i) any director (including executive director, non-executive director and independent non-executive director) of any member of the Group from time to time;
- (ii) any employee or officer of any member of the Group; and
- (iii) any advisers, consultants, distributors, contractors, contract manufacturers, agents, customers, business partners, joint venture business partners, service providers of any member of the Group, who the Board considers, in its sole discretion, have contributed or will contribute to the Group.

An offer shall be deemed to have been accepted when the duplicate letter comprising acceptance of the offer is duly signed by the Grantee or accepted in accordance with such terms and conditions and procedures as set out in the Pre-[●] Share Option Scheme Management Agreement (as defined below), with the number of Shares in respect of which the Offer is accepted clearly stated therein, together with a remittance in favor of the Company of HK\$1.00 (receipt of which shall be deemed to be acknowledged by the Company upon receipt of the duplicate letter comprising acceptance of the offer letter duly signed by the Grantee) by way of consideration for the grant thereof, is received by the Company. Such remittance shall not be refundable.

Any offer may be accepted in respect of less than the number of Shares to which the offered Option relates provided that it is accepted in respect of a [●] or an integral multiple thereof. To the extent that the offer is not accepted within 28 days from the offer date in accordance with paragraph (c) below, it will be deemed to have been irrevocably declined.

APPENDIX III

STATUTORY AND GENERAL INFORMATION

For the purposes of the Pre-[●] Share Option Scheme, the Pre-[●] Share Option Scheme Management Agreement means such management agreement entered into between the Company and the relevant service provider or any other service agreement to facilitate the acceptance and vesting of Pre-[●] Share Options from time to time.

(c) *Offer and Grant of Option*

An offer shall be made to a participant by letter in duplicate in such form as our Board may from time to time determine, requiring the participant to undertake to hold the option on the terms on which it is to be granted and to be bound by the provisions of the Pre-[●] Share Option Scheme and shall remain open for acceptance by the participant to whom an offer is made for a period of 28 days from the offer date.

(d) *Maximum Number of Shares*

The total number of Shares subject to the Pre-[●] Share Option Scheme is 6,303,566, representing 6% of the aggregate of the Shares in issue on the Adoption Date assuming conversion of the Series A Preferred Shares.

The total number of Shares subject to the Pre-[●] Share Option Scheme may be adjusted upon the occurrence of any alteration in the capital structure of the Company as provided by the paragraph (i) below.

(e) *Exercise Price*

The exercise price of a Share in respect of any particular option granted under the Pre-[●] Share Option Scheme shall be the par value of the Shares as amended as a result of any sub-division, consolidation, reclassification or reconstruction of the share capital of our Company from time to time.

(f) *Rights are Personal to Grantee*

An option is personal to the Grantee and shall not be assignable or transferable. No Grantee shall in any way sell, transfer, charge, mortgage, encumber or otherwise dispose of or create any interest (legal or beneficial) in favor of any third party over or in relation to any option or enter into any agreement so to do, except for (i) the transmission of an option on the death of the Grantee to his personal representatives(s) according to the terms of the Pre-[●] Share Option Scheme, or (ii) the transfer of any option to any trustee, acting in its capacity as such trustee, of any trust of which the Grantee is a beneficiary.

A Grantee may exercise his or her option in whole or in part, but if in part, only in respect of a [●] or any integral multiple thereof.

(g) *Exercise of Options and Duration of the Pre-[●] Share Option Scheme*

A Grantee may exercise his or her option in whole or in part (but, if in part, only in respect of a [●] or any integral multiple thereof) by giving notice in accordance with such instructions from the Company pursuant to the Pre-[●] Share Option Scheme Management Agreement stating that the option is thereby exercised and specifying the number of Shares to be subscribed and by a remittance for the full amount of the aggregate exercise price for the Shares in respect of which the notice is given.

APPENDIX III

STATUTORY AND GENERAL INFORMATION

Except as provided otherwise and subject to the terms and conditions upon which such option was granted, any option granted to a Grantee under the Pre-[●] Share Option Scheme will vest over a total vesting period of four years commencing from the date on which the offer of the grant is made to the Grantee in equal proportions of 25% each on the expiry of the first, second, third and fourth anniversary of such offer date, provided that:

- (i) in the event a Grantee terminates his or her employment or service on account of other than (A) his or her incapacitation or death, or (B) on one or more of the grounds of termination of employment, appointment or directorship specified in paragraph (j)(viii) below, all the Shares subject to such option that are unvested as of the date of such termination shall lapse; and
- (ii) in the event a Grantee terminates his or her employment or service on account of incapacitation or death, such Grantee shall be entitled to immediate vesting for 50% of the remaining Shares subject to such option that remain unvested as of the date of such incapacitation or death. All the remaining Shares subject to such option that are unvested in accordance with the preceding sentence shall lapse.

The options are only exercisable upon [●]. There is no performance target that needs to be achieved by the Grantee before the options can be exercised.

The Pre-[●] Share Option Scheme shall be valid and effective for the period of time commencing on the Adoption Date and expiring on the [●], after which period no further options will be granted but the provisions of the Pre-[●] Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options which are granted during the life of the scheme or otherwise as may be required in accordance with the provisions of the scheme.

(h) *Ranking of Shares*

The Shares to be allotted and issued upon the exercise of an option will rank *pari passu* with the fully paid Shares in issue as from the date of exercise of the option and in particular will entitle the holders to participate in all dividends or other distributions paid or made on or after the date of exercise of the option other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor is before the date of exercise of the option, provided always that when the date of exercise of the option falls on a date upon which the register of members of our Company is closed then the exercise of the option shall become effective on the next available Business Day on which the register of members of our Company is re-opened.

(i) *Effect of Alterations to Capital*

In the event of any alteration in the capital structure of our Company by way of capitalization of profits or reserves, rights issue, sub-division or consolidation of Shares or reduction of share capital of our Company, but excluding, for the avoidance of doubt, any alteration in the capital structure of our Company as a result of an issue of Shares or other securities of our Group as consideration in a transaction to which our Company is a party, the auditors or the financial advisers engaged by our Company for such purpose shall determine what adjustment is required to be made to:

- (i) the number of Shares subject to any unexercised option; and/or
- (ii) the exercise price; and/or
- (iii) the method of exercise of the options,

and the auditors or such financial advisers shall certify in writing to the Board that such adjustments are in their opinion fair and reasonable.

APPENDIX III

STATUTORY AND GENERAL INFORMATION

Any such adjustments shall give each Participant the same proportion of the equity capital of our Company for which such Participant was entitled to subscribe for prior to such adjustments, and any adjustments to the advantage of the Participants to the exercise price or to the number of Shares subject to the options must be approved by the Shareholders in general meeting. No adjustment may be made to the extent that Shares would be issued at less than their nominal value.

(j) *Lapse of Option*

An option shall lapse automatically and not be exercisable (to the extent not already vested or vested but not already exercised) on the earliest of:

- (i) the expiry of the option period;
- (ii) the termination of employment where the Grantee shall be entitled to exercise the option up to the vested entitlement of such Grantee as at the date of such termination (to the extent he or she is entitled to exercise at the date of termination but not already exercised), failing which it will lapse;
- (iii) the expiry of the period according to the notice issued by our Company in the event of a general offer by way of voluntary offer, takeover or otherwise (other than by way of scheme of arrangement) is made to all the Shareholders and such offer becomes or is declared unconditional;
- (iv) the expiry of the period according to the notice issued by our Company in the event of a compromise or arrangement (other than by way of scheme of arrangement) between our Company and our Shareholders and/or creditors being proposed in connection with a scheme for the reconstruction or amalgamation of our Company;
- (v) subject to the scheme of arrangement becoming effective, the expiry of the period according to the notice issued by our Company in the event of a general offer for Shares by way of scheme of arrangement is made to all the Shareholders and has been approved by the necessary number of Shareholders at the requisite meetings;
- (vi) the expiry of the period according to the notice issued by our Company in the event a notice is given by our Company to the Shareholders to convene a shareholders' meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind-up our Company;
- (vii) the date on which the Board cancels the option because the option holder commits a breach of paragraph (f) above;
- (viii) the date on which:
 - (a) the Grantee (being an employee or director of any member of our Group) ceases to be an employee, an officer or a director by reason of the termination of his or her employment, appointment or directorship on the grounds that he or she has been guilty of serious misconduct or has been convicted of any criminal offense involving his or her integrity or honesty or on any other ground on which an employer would be entitled to terminate his or her employment summarily;
 - (b) the Grantee being a business associate is under any contract with our Group, such contract is terminated by reason of breach of contract on the part of the business associate; or
 - (c) the Grantee being a business associate, appears either to be unable to pay or have no reasonable prospect to be able to pay debts, or has become insolvent, or has made any arrangements or composition with his or her creditors generally, or ceases or threaten to cease to carry on its business, or is wound up, or has an administrator or liquidator being appointed for the whole or

APPENDIX III

STATUTORY AND GENERAL INFORMATION

any part of its undertaking or assets; or has been convicted of any criminal offense involving integrity or honesty,

provided that whether any one or more of the events specified above occur in relation to a Grantee shall in the reasonable opinion of the Board be solely and conclusively determined by the Board;

- (ix) the date the Grantee ceases to be a participant (as determined by a board resolution) for any reason;
- (x) the date on which the option is cancelled by the Board with the mutual consent of the Grantee, cancel options previously granted to, but not yet exercised by a Grantee; or
- (xi) the tenth anniversary of the Adoption Date.

(k) Alteration of the Pre-[●] Share Option Scheme

Subject to the approval of the Shareholders in general meeting, our Board may amend any of the provisions of the Pre-[●] Share Option Scheme (including without limitation, amendments in order to comply with changes in legal or regulatory requirements and in order to waive any restrictions, imposed by the provisions of the Pre-[●] Share Option Scheme) at any time (but not so as to affect adversely any rights which have accrued to any Grantee at that date).

(l) Cancellation of Options

Our Board may at any time, with the mutual consent of the Grantee, cancel options previously granted to, but not yet exercised by a Grantee. Where our Company cancels options and offers options to the same Grantee, the offer of such new options may only be made with available options to the extent not yet granted (excluding the cancelled options) within the limit referred to in paragraph (d) above.

(m) Termination of the Pre-[●] Share Option Scheme

The Pre-[●] Share Option Scheme will terminate on the tenth anniversary of the Adoption Date, unless terminated earlier.

We may by ordinary resolution in general meeting or the Board at any time terminate the operation of the Pre-[●] Share Option Scheme and in such event no further option shall be offered or granted. Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the Pre-[●] Share Option Scheme.

(n) Administration of the Board

The Pre-[●] Share Option Scheme shall be subject to the administration of the Board or a committee of the Board who shall have the right (i) to interpret and construe the provisions of the Scheme, (ii) to determine the persons who will be awarded options under the Scheme, and the number and exercise price of options awarded, (iii) to make such appropriate and equitable adjustments to the terms of options granted under the Scheme as it deems necessary and (iv) to make such other decisions or determinations as it shall deem appropriate in the administration of the scheme, and such decision shall be final and binding on all parties.

(o) Disclosure in Annual and Interim Reports

We will disclose details of the Pre-[●] Share Option Scheme in our annual and interim reports including the number of options, date of grant, exercise price, exercise period and vesting period during the financial year/period in the annual/interim reports in accordance with the relevant rules in force from time to time.

APPENDIX III STATUTORY AND GENERAL INFORMATION

(a) Directors

Our Directors have been granted options under the Pre-[●] Share Option Scheme to subscribe for a total of 168,092 Shares.

Below is a list of the Directors who are Grantees under the Pre-[●] Share Option Scheme:

Name of Grantee	Address	Consideration Paid for the Grant	Exercise Price	Number of Shares under the Options Granted	Date of Grant	Option Period
<i>Director</i>						
LEVIN Eric Joshua	Room 2802 No. 2, Lane 211, Xingfu Road Changning District Shanghai PRC	HK\$1.00	Par value of the Shares ⁽¹⁾	69,292 Ordinary Shares	January 1, 2013	10 years from the date of grant
POON Philana Wai Yin (潘慧妍)	Flat F-1, 6th floor, Block F, Villa Monte Rosa, 41A Stubbs Road, Hong Kong	HK\$1.00	Par value of the Shares ⁽¹⁾	49,400 Ordinary Shares	September 1, 2013	10 years from the date of grant
ZHAO Cong Richard (趙聰)	Flat D, 16/F Le Bleu Deux, Block 1, 12 Tung Chung Waterfront Road, Tung Chung, Lantau Island, Hong Kong	HK\$1.00	Par value of the Shares ⁽¹⁾	49,400 Ordinary Shares	September 1, 2013	10 years from the date of grant
			Subtotal:	168,092		
			3	Ordinary		
			Grantees	Shares		

Notes:

(1) The par value of Shares is subject to amendments as a result of any sub-division, consolidation, reclassification or reconstruction of the share capital of the Company from time to time. As of the date of grant, the par value of the Share was US\$0.0001.

(b) Senior Management

Our senior management have been granted options under the Pre-[●] Share Option Scheme to subscribe for a total of 1,300,594 Shares.

APPENDIX III STATUTORY AND GENERAL INFORMATION

Below is a list of the senior management who are Grantees under the Pre-[●] Share Option Scheme:

Name of Grantee	Address	Consideration Paid for the Grant	Exercise Price	Number of Shares under the Options Granted	Date of Grant	Option Period
<i>Senior Management</i>						
NGAN King Leung Gary (顏勁良)	25D Primrose Court, 56A Conduit Road, Mid-level West, Hong Kong	HK\$1.00	Par value of the Shares ⁽¹⁾	1,050,594 Ordinary Shares	January 1, 2013	10 years from the date of grant
YANG Tao (楊韜)	Room 9, Unit 4, Building 916, Jingouhe Road No. 2, Haidian District, Beijing	HK\$1.00	Par value of the Shares ⁽¹⁾	250,000 Ordinary Shares	July 1, 2013	10 years from the date of grant
			Subtotal:	1,300,594		
			2 Grantees	Ordinary Shares		

Notes:

(1) The par value of Shares is subject to amendments as a result of any sub-division, consolidation, reclassification or reconstruction of the share capital of the Company from time to time. As of the date of grant, the par value of the Share was US\$0.0001.

(c) *Other Grantees*

Save for the three Independent Non-executive Directors, no options were granted to any [●] of the Company under the Pre-[●] Share Option Scheme. Among these Grantees, other than our Directors and members of our senior management, 360 Other Grantees (including Mr. Xu Brian who has the right to subscribe for more than 1 million Shares) have been granted options under the Pre-[●] Share Option Scheme to subscribe for a total of 4,834,811 Shares, with the number of Shares to be issued upon exercise of the relevant options ranging from 100 Shares to 1,262,213 Shares individually.

The table below shows the details of options granted to Other Grantees (excluding the Grantee who has the right to subscribe for more than 1 million Shares under the Pre-[●] Share Options):

Consideration Paid for the Grant	Exercise Price	Number of Shares under the Options granted	Option Period
HK\$1.00	Par value of the Shares ⁽¹⁾	3,572,598 Ordinary Shares	10 years from the date of grant
	Subtotal:	3,572,598 Ordinary Shares	
	359 Grantees		

Notes:

(1) The par value of Shares is subject to amendments as a result of any sub-division, consolidation, reclassification or reconstruction of the share capital of the Company from time to time. As of the date of grant, the par value of the Share was US\$0.0001.

APPENDIX III STATUTORY AND GENERAL INFORMATION

Below is the particulars of one of the Other Grantees who has the right to subscribe for more than 1 million Shares under the Pre-[●] Share Options:

Name of Grantee	Address	Consideration Paid for the Grant	Exercise Price	Number of Shares under the Options granted	Date of Grant	Option Period
<i>Other Grantee</i>						
XU Brian	Building 4, Room 2203 Dongfang Xinshijie No. 158 Zhongshandadaoxi Tianhe District Guangdong Province Guangzhou	HK\$1.00	Par value of the Shares ⁽¹⁾	1,262,213 Ordinary Shares	January 1, 2013	10 years from the date of grant
			Subtotal: 1 Grantee	1,262,213 Ordinary Shares		

Notes:

(1) The par value of Shares is subject to amendments as a result of any sub-division, consolidation, reclassification or reconstruction of the share capital of the Company from time to time. As of the date of grant, the par value of the Share was US\$0.0001.

POST-[●] SHARE OPTION SCHEME

A. Summary of Terms

The following is a summary of the principal terms of the Post-[●] Share Option Scheme, which is in accordance with the relevant rules and was conditionally adopted pursuant to the written resolutions of the Shareholders of our Company passed on September 1, 2013 and a resolution of our Board on September 1, 2013:

(a) Purpose

The purpose of the Post-[●] Share Option Scheme is to reward Eligible Participants (as defined below) for their past contribution to the success of our Group, and to provide incentives to them to further contribute to our Group.

(b) Who may Join

On and subject to the terms of the Post-[●] Share Option Scheme, our Board has the power but not the obligation, at any time and from time to time before and including the 10th anniversary of the effective date of the scheme, to offer to grant to any Eligible Participant (as defined below) as the Board may in its absolute discretion select an option to subscribe for such number of Shares (being in a [●] or an integral multiple thereof) as the Board may determine at the subscription price determined in accordance with paragraph (c) below to the following eligible participants ("Eligible Participant(s)"):

- (i) the full-time employees, executives or officers (including Executive, Non-executive and Independent Non-executive Directors) of our Company;
- (ii) the full-time employees of any of the subsidiaries and/or PRC Operational Entities;

APPENDIX III

STATUTORY AND GENERAL INFORMATION

- (iii) any suppliers, customers, consultants, agents, advisers that have contributed or will contribute to our Company, any of its subsidiaries and/or PRC Operational Entities (collectively "Business Partners"); and
- (iv) any other persons who, in the sole opinion of the Board, have contributed or will contribute to our Company, any of the subsidiaries and/or PRC Operational Entities.

(c) *Subscription Price*

The subscription price in respect of any option shall be a price determined by the Board and notified to any Eligible Participant (subject to any adjustments made) which shall be not less than the highest of:

- (i) the nominal value of a Share;
- (ii) the closing price of the Shares as stated in the [●] on the Offer Date (as defined below), which must be a business day; and
- (iii) the average of the closing price of the Shares as stated in the [●] for the five business days immediately preceding the date of the letter by which an option is offered to an Eligible Participant (the "Offer Date").

(d) *Offer of the Grant of an Option*

An offer of the grant of an option shall be made to any Eligible Participant by a letter and/or any such notice or document ("Notice of Grant"), specifying:

- (i) the number of Shares;
- (ii) the subscription price;
- (iii) the period to be determined and notified by our Board to each grantee (as defined below) during which the grantee may exercise such option (the "Option Period");
- (iv) the date by which the grant must be accepted being a date specified in the Notice of Grant and further requiring the Eligible Participant to hold the option on the terms on which it is to be granted and to be bound by the provisions of the Post-[●] Share Option Scheme; and
- (v) that the offer of an option shall be personal to the Eligible Participant concerned and shall not be transferable;

The inadvertent non-compliance with these requirements shall not render the grant of an option invalid if our Board so determines and makes such remedial action, if any, as it deems appropriate in its absolute discretion.

(e) *Acceptance of Offer*

An option shall be deemed to have been granted and accepted and to have taken effect if the grant has been accepted in accordance with such terms and conditions and procedures as set out in the Post-[●] Share Option Scheme Management Agreement (as defined below), or when the duplicate letter comprising acceptance of the offer of the grant of the option is duly signed by the Eligible Participant who accepts the offer or grant of an option in accordance with the terms of the Post-[●] Share Option Scheme together with a payment to us of HK\$1.00 (or the equivalent of HK\$1.00 in the local currency of any jurisdiction where our Group operates, as our Board may in its absolute discretion determine) by way of consideration for the grant thereof is received by our Company within the time period specified in the offer of the grant of the option. Such remittance shall not be refundable.

APPENDIX III

STATUTORY AND GENERAL INFORMATION

Any offer of the grant of an option may be accepted or deemed to have been accepted in respect of any number of Shares up to the number in respect of which the option is offered provided that it is accepted in respect of a [●] or an integral multiple thereof.

To the extent that the offer of the grant of an option is not accepted within the specified period as stated in the Notice of Grant pursuant to paragraph (d) after the Offer Date, it will be deemed to have been irrevocably declined and will lapse, unless our Board in its absolute discretion determines otherwise.

For the purposes of the Post-[●] Share Option Scheme, the Post-[●] Share Option Scheme Management Agreement means such management agreement entered into between the Company and the relevant service provider or any other service agreement to facilitate the acceptance, vesting and exercise of Post-[●] Share Options from time to time.

(f) Exercise of Options

A grantee (or his legal personal representative(s)) may exercise his Entitlement (as defined below) in whole or in part (but if in part, only in respect of a [●] or any integral multiple thereof) in the manner by:

- (i) giving notice in accordance with such instructions from the Company pursuant to the Post-[●] Share Option Scheme Management Agreement to our Company stating that the option is thereby exercised and specifying the number of Shares to be subscribed; and
- (ii) a remittance for the full amount of the aggregate Subscription Price for the Shares in respect of which the notice is given.

Within 28 days after the exercise of the options by the grantee, and where appropriate, receipt of the auditors' or an approved independent financial adviser's certificate, our Company shall allot and issue the relevant Shares to the grantee (or his legal personal representative(s)) credited as fully paid and issue to the grantee (or his legal personal representative(s)) a share certificate in respect of the Shares so allotted.

(g) Maximum Number of Shares in respect of which Options may be Granted

The maximum number of Shares in respect of which options may be granted under the Post-[●] Share Option Scheme when aggregated with the maximum number of Shares in respect of which options may be granted under any other option scheme over Shares shall not exceed 10% of the issued capital of the same class of our Company as of the date of approval of the Post-[●] Share Option Scheme. Options lapsed or cancelled in accordance with the terms of the Post-[●] Share Option Scheme will not be counted for the purpose of calculating the 10% limit.

The Company may seek approval for refreshing the 10% limit by Shareholders. However, the aggregate number of Shares which may be issued upon exercise of all options to be granted under the Post-[●] Share Option Scheme and any other option scheme under the limit as refreshed must not exceed 10% of the relevant class of securities in issue as of the date of approval of the limit. Options previously granted under the schemes (including those outstanding, cancelled, lapsed in accordance with the terms of the Post-[●] Share Option Scheme or exercised options) will not be counted for the purpose of calculating the limit as "refreshed". The maximum number of Shares to be issued upon exercise of all outstanding options under the Post-[●] Share Option Scheme may be increased by increments as determined by our Board, provided that the total number of Shares to be issued upon exercise of all outstanding options under the Post-[●] Share Option Scheme and all other share option schemes of our Company granted and yet to be exercised does not exceed 30% of all the Shares of the same class in issue from time to time. No option may be granted under the Post-[●] Share Option Scheme if this will result in the Limit being exceeded.

APPENDIX III

STATUTORY AND GENERAL INFORMATION

Subject to the approval of the Shareholders of our Company in general meeting our Company may refresh the Limit at any time provided that:

- (i) the Limit as refreshed does not exceed 10% of the Shares in issue as at the date of the approval by the Shareholders of our Company in general meeting;
- (ii) the options previously granted (including those outstanding, cancelled, lapsed in accordance with the provisions of the Post-[●] Share Option Scheme or exercised options) will not be counted for the purpose of calculating the Limit as refreshed; and
- (iii) a [●] containing the information and the disclaimer, respectively required under [●] shall be despatched to the Shareholders of our Company together with the notice of the relevant general meeting.

Our Company may also with the approval of the Shareholders of our Company in general meeting grant options in respect of Shares in excess of the Limit (as refreshed from time to time) to Eligible Participants specifically identified by our Company before such approval of the refresh of the Limit is sought. The circular issued by our Company to its Shareholders shall contain a generic description of the specified Eligible Participants who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified Eligible Participants with an explanation as to how the options serve such purpose the information required under [●].

In the event of any alteration in the capital structure of our Company whilst any option remains exercisable in accordance with paragraph (t) below whether by way of capitalization of profits or reserves, rights issue, consolidation, subdivision or reduction of the share capital of our Company in accordance with applicable laws and regulatory requirements (other than an issue of Shares as consideration in respect of a transaction to which the Company, the subsidiary or PRC Operational Entity is a party or in connection with any share option, restricted share or other equity incentive schemes of the Group), the maximum number of Shares in respect of which options may be granted shall be adjusted, in such manner as the auditors of our Company or an approved independent financial adviser shall certify in writing to our Board to be appropriate, fair and reasonable.

(h) Maximum Entitlement of Each Eligible Participant

Except with the approval of shareholders in general meeting, no option may be granted to any one person such that the total number of Shares issued and to be issued upon exercise of options and any other option over the Shares (including exercised, cancelled and outstanding options) granted and to be granted to such person in any 12-month period up to the date of the latest grant exceeds 1% of the Shares in issue from time to time.

Any further grant of options in excess of this 1% limit shall be subject to:

[●]

APPENDIX III

STATUTORY AND GENERAL INFORMATION

The number and terms (including the subscription price) of options to be granted to such participant must be fixed before the approval by the Shareholders of our Company, and the date of the Board meeting at which the Board proposes to grant the options to such Eligible Participant shall be taken as the date of offer of grant for the purpose of calculating the subscription price of the Shares.

(i) *Granting Options to [●]*

The approval of Independent Non-executive Directors of our Company (excluding any Independent Non-executive Director of our Company who is intended to be a grantee of the option) will be required for each grant of options to a director, chief executive, or [●] of the Company or any of their respective associates.

If our Company proposes to grant option(s) to a [●] or an Independent Non-executive Director of our Company or their respective [●] which will result in the total number of Shares issued and to be issued upon exercise of all the options granted and to be granted (including options exercised, cancelled and outstanding) to such person under the Post-[●] Share Option Scheme and any other share option scheme in the 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% of the Shares in issue; and
- (ii) having an aggregate value in excess of HK\$5 million, based on the [●] of the Shares at the date of offer of each grant,

such further grant of option(s) must be approved by our Shareholders, voting by way of poll. All [●] of the Company shall abstain from voting in favor of the resolution at such general meeting. Any change in the terms of options granted to a [●] or an Independent Non-executive Director or any of their respective [●] must be approved by the Shareholders.

(j) *Restrictions on the Times of Grant of Options*

No option shall be offered or granted:

- (i) to any Eligible Participant after a [●] has occurred or a [●] matter has been the subject of a decision, until such [●] has been announced in accordance with the applicable provisions of [●];
- (ii) to any Eligible Participant during the period commencing one month immediately before the following (whichever is earlier):
 - (a) the date of the board meeting;
 - (b) the deadline for our Company to [●];and ending on the date of the [●]. No option shall be granted during any period of delay in the publication of a [●].
- (iii) to any Director of our Company during the period of:
 - (a) 60 days immediately preceding the publication of the [●] of our Company or, if shorter, the period from the end of the relevant financial year up to the publication of the results; or

APPENDIX III

STATUTORY AND GENERAL INFORMATION

- (b) 30 days immediately preceding the publication of the [●] or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication of the [●].

(k) Rights are Personal to Option Holder

An option shall be personal to the grantee and shall not be assignable and no grantee 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. Any breach of the foregoing by the grantee shall entitle our Company to cancel any outstanding proportion of the option which is not exercised and remains exercisable during the Option Period (the "Entitlement") of such grantee.

(l) Exercise Period and Duration of the Post-[●] Share Option Scheme

Subject to the rules of the Post-[●] Share Option Scheme, options may be exercised by an Eligible Participant, in whole or in part, at any time during the period commencing from the date of grant and such expiry date as determined by the Board in the offer. Subject to earlier termination by our Company in general meeting or by the Board, the Post-[●] Share Option Scheme shall be valid and effective for a period of 10 years commencing on the effective date, after which period no further options will be granted by the provisions of the scheme, but the provisions of the scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of the Post-[●] Share Option Scheme.

(m) Performance Criteria

Our Board may in its absolute discretion specify such event, time limit or conditions (if any) as it thinks fit when making such offer to the Eligible Participant, including, without limitation, conditions as to performance criteria to be satisfied by the Eligible Participant and/or the Company and/or the Group which must be satisfied before an option can be exercised.

(n) Rights of Exercise for Option Holders

In the event of the grantee ceasing to be an employee for any reason other than his death or the termination of his employment or one or more grounds for summary termination (as defined below), all the Shares subject to such options that are unvested as of the date of such termination shall lapse.

In the event of the grantee ceasing to be an employee by reason of incapacitation or death and none of the events which would be a ground for summary termination (as defined below), such grantee shall be entitled to immediate vesting for 50% of the remaining Shares subject to such option that remain unvested as of the date of such incapacitation or death. All the remaining Shares subject to such option that are unvested in accordance with the preceding sentence shall lapse and the legal personal representative(s) of the grantee shall be entitled within a period of 12 months from the date of death (or such longer period as the Board may determine) to exercise the Entitlement in full pursuant to the terms of the scheme.

Any option or Entitlement shall elapse automatically and not be exercisable the date on which the grantee ceases to be an employee or officer of the Group by reason of the summary termination of his employment or office ("summary termination") on any one or more of the grounds that he has been guilty of misconduct, or has been convicted of any criminal offense involving his integrity or honesty or (if so determined by our Board in its absolute discretion) on any other ground on which the relevant company in our Group would be entitled to terminate his employment or office summarily at common law or pursuant to any applicable laws or under the grantee's service contract with the relevant company in our Group. A resolution of the Board or the board of directors of the relevant company in our Group to the effect that the employment or office of a grantee has or has not been terminated shall be conclusive.

APPENDIX III

STATUTORY AND GENERAL INFORMATION

(o) Discretion of the Board

Notwithstanding the aforesaid in paragraph (n) above and paragraph (u) below, in each case, the Board may in its absolute discretion decide that any option shall not so lapse or determine subject to such conditions or limitations as the Board may decide.

(p) Rights on Takeover and Scheme of Arrangement

If a general offer by way of voluntary offer, takeover or otherwise (other than by way of scheme of arrangement pursuant) is made to all Shareholders (or all such Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or in concert with the offeror) and such offer becomes or is declared unconditional prior to the expiry date of the relevant option, our Company shall forthwith give notice thereof to the grantee and the grantee shall be entitled to exercise the option to its full extent or, if our Company shall give the relevant notification, to the extent notified by the Company at any time within such period as shall be notified by the Company.

If a general offer for Shares by way of scheme of arrangement is made to all the Shareholders and has been approved by the necessary number of Shareholders at the requisite meetings, our Company shall forthwith give notice thereof to the grantee and the grantee may at any time thereafter (but before such time as shall be notified by the Company) exercise the option to its full extent, or to the extent specified in the notice.

(q) Rights on Winding-up

In the event a notice is given by our Company to our Shareholders to convene a Shareholders' meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall forthwith give notice thereof to the grantee and the grantee may at any time thereafter (but before such time as shall be notified by our Company) exercise the option to its full extent or to the extent specified in the notice.

(r) Rights on Compromise or Arrangement between our Company and its Members or Creditors

In the event of a compromise or arrangement (other than a scheme of arrangement contemplated in paragraph (p)), between our Company and our members or creditors being proposed in connection with a scheme for the reconstruction or amalgamation of the Company, the Company shall give notice thereof to all grantees on the same day as it first gives notice of the meeting to its members and/or creditors to consider such a scheme or arrangement and the grantee may at any time thereafter but before such time as shall be notified by our Company exercise the option to its full extent or to the extent specified in the notice.

(s) Ranking of Shares Issued upon Exercise of Options

The Shares to be allotted upon the exercise of an option will be subject to all the provisions of the Articles of Association of the Company for the time being in force and will rank *pari passu* with the fully paid Shares in issue on the date of allotment and accordingly will entitle the holders to participate in all dividends and other distributions paid or made on or after the date of allotment other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor falls before the date of allotment.

A Share issued upon the exercise of an option shall not carry voting rights until the registration of the grantee (or such other person as may succeed to the grantee's title by operation of applicable laws and in compliance with the terms of the Post-[●] Share Option Scheme) as the holder thereof. If under the terms of a resolution passed on a date prior to the date when an option is effectively exercised under paragraph (f) and the terms of the Post-[●] Share Option Scheme, the Shares to be issued upon such exercise will not rank for such dividend.

APPENDIX III

STATUTORY AND GENERAL INFORMATION

(t) *Effect of Alterations to Capital*

In the event of any alteration in the capital structure of our Company whilst any option remains exercisable, whether by way of capitalization of profits or reserves, rights issue, consolidation, subdivision or reduction of the share capital of the Company in accordance with applicable laws and regulatory requirements (other than an issue of Shares as consideration in respect of a transaction to which our Company, our subsidiary or PRC Operational Entity is a party or in connection with any share option, restricted share or other equity incentive schemes of our Group), such corresponding adjustments (if any) shall be made to:

- (i) the number or nominal amount of Shares, the subject matter of the option (insofar as it is unexercised); and/or
- (ii) the aggregate number of Shares subject to outstanding options; and/or
- (iii) the subscription price; and/or
- (iv) the method of exercise of the option,

as the auditors or an approved independent financial adviser shall certify in writing to the Board to be in their opinion fair and reasonable in compliance with the relevant rules and the note thereto, provided that any adjustment shall be made on the basis that the proportion of the issued share capital of our Company to which a grantee is entitled after such adjustment shall remain the same (as interpreted in accordance with [●]), or as nearly as possible the same as that to which he was entitled to subscribe had he exercised all the options held by him immediately before such adjustment, but so that no such adjustment shall be made the effect of which would be to enable any Share to be issued at less than its nominal value, or to alter any terms of the relevant option to the advantage of the grantee without the approval of the Shareholders. The capacity of the auditors or the approved independent financial adviser is that of experts and not of arbitrators and their certification shall be final and binding on the Company and the grantees. The costs of the auditors or the approved independent financial adviser shall be borne by our Company.

If there has been any alteration in the capital structure of our Company, we shall upon receipt of a notice from the grantee inform the grantee in accordance with paragraph (f) of such alteration and shall either inform the grantee of the adjustment to be made pursuant to the certificate of the auditors or an approved independent financial adviser obtained by the Company for such purpose or if no such certificate has yet been obtained, inform the grantee of such fact and instruct the auditors or an approved independent financial adviser to issue a certificate in that regard in accordance with the paragraph above.

The issue of securities as consideration in a transaction is not to be regarded as a circumstance requiring any such alterations.

(u) *Lapse of Options*

Any option or Entitlement shall lapse automatically and not be exercisable on the earliest of:

- (i) the expiry of the Option Period;
- (ii) the expiry of any of the periods referred to in paragraphs (n), (p), (q) or (r) above;
- (iii) subject to paragraph (q), the date of the commencement of the winding-up of the Company;
- (iv) the date on which the grantee ceases to be an employee or officer of the by reasons mentioned in paragraph (n) above;

APPENDIX III

STATUTORY AND GENERAL INFORMATION

- (v) the date on which the Board in its absolute discretion determines that the Business Partner ceases to be qualified under the Post-[●] Share Option Scheme by reason of the termination of its business relationship with our Company or any relevant member of the Group, or by reason of its failure to comply with the provisions of any contract of such Business Partner, or any other circumstances in which the Board in its absolute discretion deems it appropriate for the option or Entitlement of such Business Partner to lapse. The Board shall not in any event be required to provide reasons for the above, either in writing or at all;
- (vi) the date on which the grantee commits a breach of the provision in paragraph (k); or
- (vii) the occurrence or non-occurrence of any event, expiry of any period, or non-satisfaction of any condition, as specified in the letter containing the offer or grant of the relevant option.

Notwithstanding the aforesaid in this paragraph, in each case, the Board may in its absolute discretion decide that any option shall not so lapse or determine subject to such conditions or limitations as the Board may decide.

(v) *Alteration of the Post-[●] Share Option Scheme*

The Post-[●] Share Option Scheme may be altered in any respect by resolution of the Board except that the provisions of the scheme as to:

- (i) the preamble;
- (ii) the definitions of Eligible Participant, grantee and Option Period in the Post-[●] Share Option Scheme;
- (iii) the provisions which are referred to in paragraphs (b) to (i), (k) to (n), (p) to (u) and in this paragraph;

shall not be altered to the advantage of grantees or prospective grantees except with the prior sanction of a resolution of our Company in general meeting. However, no such alteration shall operate to affect adversely the terms of issue of any option granted or agreed to be granted prior to such alteration except with the consent or sanction of grantees holding options in respect of not less than the majority in nominal value of all Shares to be issued upon the exercise of all outstanding and unexercised Entitlements granted under the Post-[●] Share Option Scheme.

Any alterations to the terms and conditions of the Post-[●] Share Option Scheme which are of a material nature, and any change to the terms of any options granted, shall be subject to the approval of the Shareholders of the Company in general meeting. Unless the grantee of the relevant option is a [●] or an Independent Non-executive Director of our Company, this requirement shall not affect any alterations that take effect automatically under the existing terms of the Post-[●] Share Option Scheme.

The powers and authority of the Board in relation to the alteration of any terms of the Post-[●] Share Option Scheme shall not be changed except with prior sanction of a resolution of the Company in general meeting.

(w) *Cancellation of Options*

Any unexercised option may be cancelled subject to approval by the option holder. Issuance of new options to the same option holder may only be made if there are unissued options available under the Post-[●] Share Option Scheme (excluding the cancelled options) within the 10% limit or the limit as refreshed pursuant to the Post-[●] Share Option Scheme and in compliance with the terms of the Post-[●] Share Option Scheme in force from time to time.

APPENDIX III

STATUTORY AND GENERAL INFORMATION

(x) Termination of the Post-[●] Share Option Scheme

Our Company by resolution in general meeting or our Board may at any time terminate the operation of the Post-[●] Share Option Scheme and in such event no further options will be offered but the provisions of the Post-[●] Share Option Scheme shall remain in full force in all other respects to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of the Post-[●] Share Option Scheme. All Options granted prior to such termination shall continue to be valid and exercisable in accordance with the terms of the Post-[●] Share Option Scheme.

(y) Administration of the Post-[●] Share Option Scheme

The Post-[●] Share Option Scheme shall be subject to the administration of our Board who may delegate all or part of such administration to a committee or any other authorized agent. Save as otherwise provided in the Post-[●] Share Option Scheme, for any matters concerning the interpretation or application of this scheme, the decision of the Board or persons to whom our Board has delegated relevant powers shall be final and binding on all parties.

Our Board shall have the power from time to time to make or vary regulations for the administration and operation of the Post-[●] Share Option Scheme, provided that the same are not inconsistent with the provisions of the scheme.

(z) Condition of the Post-[●] Share Option Scheme

The Post-[●] Share Option Scheme shall take effect upon all of the following having been satisfied:

- (i) the passing of a resolution by the Shareholders of the Company to approve the Post-[●] Share Option Scheme;
- (ii) approval of [●]; and
- (iii) the commencement of [●].

(aa) Present Status of the Post-[●] Share Option Scheme

As at the Latest Practicable Date, no option had been granted or agreed to be granted under the Post-[●] Share Option Scheme.

RSU SCHEME

Background

The Company has conditionally adopted a restricted share unit scheme by a resolution of our Shareholders on September 1, 2013 and a resolution of our Board on September 1, 2013. The RSU Scheme does not involve the grant of options by our Company to subscribe for new Shares.

(a) Purposes of the RSU Scheme

The purposes of the RSU Scheme is to reward the RSU Participants (as defined below) for their contribution to the success of the Group, and to provide incentives to them to further contribute to the Group.

APPENDIX III

STATUTORY AND GENERAL INFORMATION

(b) RSU Awards

An award of restricted share units under the RSU Scheme ("Award") gives a participant in the RSU Scheme a conditional right when the Award vests to obtain either Shares or an equivalent value in cash with reference to the market value of the Shares on or about the date of vesting, as determined by the Board in its absolute discretion. An Award may include, if so specified by the Board in its entire discretion, cash and non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those Shares from the date that the Award is granted to the date that it vests.

For the purposes of the RSU Scheme, "Board" means the board of directors of the Company or a duly authorized administration committee thereof or such other committee as the Board may authorize.

(c) RSU Participants in the RSU Scheme

Participants of the RSU Scheme ("RSU Participants") include the following:

- (i) the full-time employees or officers (including Executive, Non-executive and Independent Non-executive Directors) of the Company
- (ii) the full-time employees of any of the Subsidiaries and PRC Operational Entities;
- (iii) any suppliers, customers, consultants, agents, advisers that have contributed or will contribute to the Company, any of its Subsidiaries and/or the PRC Operational Entities; and
- (iv) any other persons who, in the sole opinion of the Board, have contributed or will contribute to the Company, any of its Subsidiaries and/or the PRC Operational Entities.

(d) Status of the RSU Scheme

The RSU Scheme is conditional upon:

- (i) the passing of an ordinary resolution by the Shareholders to approve and adopt the RSU Scheme, and to authorize the directors of the Company to grant Awards and to allot and deal with Shares in connection with the RSU Scheme (which occurred on September 1, 2013);
- (ii) [●] granting approval of [●] of and permission to deal in the Shares that are the subject of Awards that may be granted pursuant to the RSU Scheme; and
- (iii) the commencement of dealings in the Shares on [●].

(The "RSU Conditions")

(e) Term of the Scheme

Subject to the RSU Conditions being satisfied and the termination clause in paragraph (y), the RSU Scheme shall be valid and effective for the period of 10 years commencing on the date of adoption (the "Term of the RSU Scheme"), after which period no further Awards will be granted, but the provisions of the RSU Scheme shall in all other respects remain in full force and effect and Awards that are granted during the Term of the RSU Scheme may continue to be exercisable in accordance with their terms of issue.

(f) Grant of RSU Award

On and subject to the terms of the RSU Scheme and the terms and conditions that the Board imposes pursuant to, the Board shall be entitled at any time during the life of the RSU Scheme to make a grant to any RSU Participant as the Board may in its absolute discretion determine.

APPENDIX III

STATUTORY AND GENERAL INFORMATION

Awards may be granted on such terms and conditions (e.g. by linking the vesting of the RSU to the attainment or performance of milestones by any member of the Group, the grantee or any group of RSU Participants) as the Board may determine, provided such terms and conditions shall not be inconsistent with any other terms and conditions of the RSU Scheme.

A grant shall be made to an RSU Participant by a letter and/or any such notice or document in such form as the Board may from time to time determine (“RSU Grant Letter”) and such grant shall be subject to the terms as specified in the RSU Scheme. The RSU Participant shall undertake to hold the Award on the terms on which it is granted and be bound by the provisions of the RSU Scheme, such Award shall remain open for acceptance by the RSU Participant to whom a grant is made for a period to be determined by the Board, provided that no such grant shall be open for acceptance after the tenth anniversary of the adoption date of the RSU Scheme or after the RSU Scheme has been terminated in accordance with the provisions of the RSU Scheme.

(g) Acceptance of RSU Award

A grant shall be deemed to have been accepted when in respect of a [●] or an integral multiple thereof and to have taken effect when notice is given to the Company by the grantee in accordance with any instructions from the Company pursuant to the RSU Management Agreement (as defined below).

For the purposes of the RSU Scheme, RSU Management Agreement means such management agreement entered into between the Company and the relevant service provider or any other service agreement to facilitate the acceptance and vesting of the RSUs to the grantees from time to time.

(h) Restrictions on Grants

The Board may not grant any Awards to any RSU Participant (“Excluded Participants”) in any of the following circumstances:

- (i) the requisite approvals for that grant from any applicable regulatory authorities have not been obtained;
- (ii) the [●] require that a [●] be issued in respect of the grant of the Awards or in respect of the RSU Scheme, unless the Board determines otherwise;
- (iii) where granting the Award would result in a breach by the Company, our Subsidiaries, the PRC Operational Entities or any of our or their directors of any applicable [●], rules or regulations; or
- (iv) after a [●] has occurred or a [●] has been the subject of a decision until such [●] has been announced in accordance with the requirements of the relevant rules. In particular commencing one month immediately preceding the earlier of:
 - (i) the date of the meeting of the Board of Directors for the approval of our Company’s results for any year, half-year, quarterly or any other interim period; and
 - (ii) the deadline for our Company to publish an [●] under the relevant rules;no Award may be granted. Such period will cover any period of delay in the [●].

APPENDIX III

STATUTORY AND GENERAL INFORMATION

(i) *Grant to Directors*

Where any Award is proposed to be granted to a Director, it shall not be granted on any day during the period of:

[●]

(j) *Grant to [●]*

Any grant of an Award to any Director, chief executive or [●] of our Company, or any of their respective [●], shall be subject to the prior approval of the Independent Non-executive Directors (excluding the Independent Non-executive Director who is the proposed grantee of the Awards in question).

(k) *RSU Scheme Limit*

No RSU Award shall be granted pursuant to the RSU Scheme if as a result of such grant (assumed accepted), the aggregate number of Shares (being in a [●] or an integral multiple thereof) (or, where cash is awarded in lieu of Shares, the aggregate number of Shares as are equivalent to the amount of cash so awarded) underlying all grants made pursuant to the RSU Scheme (excluding RSU Awards that have lapsed or been cancelled in accordance with the rules of the RSU Scheme) will exceed in total 11,290,494 Shares (the "RSU Scheme Limit"). This RSU Scheme Limit may be refreshed from time to time pursuant to paragraph (m).

(l) *Annual Mandate*

At each annual general meeting of the Company, the Company shall propose and the Shareholders shall consider and if thought fit, pass an ordinary resolution approving a mandate specifying:

- (i) the maximum number of Shares that may be the subject of RSUs granted pursuant to the RSU Scheme during the period between one annual general meeting and the subsequent annual general meeting of the Company; and
- (ii) that the Board has the power to deal with, allot and issue the Shares that are the subject of the RSUs granted pursuant to the RSU Scheme as and when they vest.

The mandate referred shall remain in effect until the earliest of:

- (i) the conclusion of the subsequent annual general meeting;
- (ii) the expiration of the period within which the subsequent annual general meeting is required by the laws applicable to the Company and the Articles of Association of the Company to be held; or
- (iii) the variation of or revocation of such mandate by the ordinary resolution of the Shareholders at a general meeting.

APPENDIX III

STATUTORY AND GENERAL INFORMATION

(m) Refresh of the RSU Scheme Limit

The RSU Scheme Limit may be refreshed from time to time subject to prior Shareholders' approval, but in any event, the total number of Shares that may underlie the RSUs granted following the date of approval of the refreshed limit ("the New Approval Date") under the limit as refreshed from time to time must not exceed 9% of the number of Shares in issue as at the New Approval Date. Shares underlying the RSUs granted pursuant to this Scheme (including those outstanding, cancelled, lapsed or vested RSUs) prior to the New Approval Date will not be counted for the purpose of determining the maximum aggregate number of Shares that may underlie the RSUs granted following the New Approval Date under the limit as renewed. For the avoidance of doubt, Shares issued prior to the New Approval Date pursuant to the vesting of RSUs granted pursuant to the RSU Scheme will be counted for the purpose of determining the number of Shares in issue as at the New Approval Date.

(n) Rights Attached to the Awards

The RSUs do not carry any right to vote at general meetings of the Company. No Participant shall enjoy any of the rights of a Shareholder by virtue of the grant of an Award pursuant to the RSU Scheme, unless and until such Shares underlying the Award are actually allotted and issued or transferred (as the case may be) to the RSU Participant upon the vesting of the RSU. Unless otherwise specified by the Board in its entire discretion in the RSU Grant Letter, the Participants do not have any rights to any cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions from any Shares underlying an Award.

(o) Rights Attached to Shares

The Shares to be allotted and issued upon the vesting of RSUs granted pursuant to the RSU Scheme shall be subject to all the provisions of the memorandum and articles of association of the Company for the time being in force and shall rank *pari passu* in all respects with the existing fully paid Shares in issue on the date on which those Shares are allotted and issued and accordingly shall entitle the holders to participate in all dividends or other distributions paid or made on or after the date on which Shares are allotted other than any dividends or distributions previously declared or recommended or resolved to be paid or made if the record date thereof shall be before the date on which the Shares are allotted.

(p) Awards to be Personal to the Grantee

An Award shall be personal to the grantee and shall not be assignable or transferable by the grantee provided that following the grantee's death, RSUs may be transferred by will or by the laws of testacy and distribution.

The terms of the RSU Scheme and the RSU Grant Letter shall be binding upon the executors, administrators, heirs, successors and assigns of the grantee.

Subject to sub-paragraphs (i) and (ii) of this paragraph, no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interests in favor of any third party over or in relation to any RSU.

For the purpose of the RSU Scheme, "Family Members" means the grantee's child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law, including adoptive relationships, any person sharing the grantee's household (other than a tenant or employee), a trust in which these persons have more than 50% of the beneficial interest, a foundation in which these persons (or the grantee) control the management of assets, and any other entity in which these persons (or the grantee) own more than 50% of the voting interests.

(q) Appointment of RSU Trustee

The Company will appoint a professional Trustee (the "RSU Trustee") to assist with the administration and vesting of RSUs granted pursuant to the RSU Scheme.

APPENDIX III

STATUTORY AND GENERAL INFORMATION

The Company will have in place control measures to ensure that the Shares held by the RSU Trustee from time to time will not reach 10%, and hence the RSU Trustee will not become a [●] of the Company. Control measures include (i) stipulating in the trust deed that the RSU Trustee shall in no circumstances hold 10% or more shareholding interests in the Company; and (ii) the Company's remuneration committee will monitor the number of Shares held by the RSU Trustee from time to time to ensure the RSU Trustee will not hold 10% or more shareholding interests in the Company.

(r) Vesting

Subject to the terms of the RSU Scheme and the specific terms and conditions applicable to each Award, the RSUs granted in an Award shall be subject to a vesting period, to the satisfaction of performance and/or other conditions to be determined by our Board. If such conditions are not satisfied, the RSU shall be cancelled automatically on the date on which such conditions are not satisfied, as determined by the Board in our absolute discretion.

The RSUs which have vested shall be satisfied at the Company's absolute discretion, either by:

- (i) the Company allotting and issuing a fully paid-up Share to the grantee for each RSU. The Company shall accordingly issue to the grantee (or, as the case may be, his legal representative(s) or its custodian agent) share certificates in respect of Shares so issued and allotted. Any issue of Shares to a grantee shall be subject to the applicable laws, regulations, rules and requirements or any relevant country or jurisdiction; and/or
- (ii) The Company may:
 - (a) allot and issue Shares to the RSU Trustee to be held by the RSU Trustee pending the vesting of the RSUs awarded which will be used to satisfy the RSUs upon vesting; and/or
 - (b) direct and procure the RSU Trustee to make on-market purchases of Shares to satisfy the RSUs upon vesting.
- (iii) directing and procuring the RSU Trustee to transfer the Shares underlying the Award (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those Shares) to the RSU Participant from the RSU Trust Fund (as defined below) which the RSU Trustee has either acquired by making on-market purchases of Shares or which the Company has allotted and issued to the RSU Trustee as fully paid up Shares; and/or
- (iv) paying, or directing and procuring the RSU Trustee to pay, to the RSU Participant in cash an amount which is equivalent to the value of the Shares (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those Shares) set out in sub-paragraph (iii) above.

(s) Appointment of RSU Trustee

If a RSU Trustee is appointed, the Company shall provide sufficient funds to the RSU Trustee by whatever means as the Board may in its absolute discretion determine to enable the RSU Trustee to satisfy its obligations in connection with the administration and vesting of RSUs granted pursuant to the RSU Scheme. The cash contribution made by the Company to the RSU Trustee, the Shares acquired by the RSU Trustee under the RSU Scheme shall constitute the assets held by the RSU Trustee pursuant to the RSU Scheme ("RSU Trust Fund") and shall be held, administered and dealt with by the RSU Trustee pursuant to the rules of the RSU Scheme, the trust deed and any other documentation entered between the RSU Trustee and the Company.

(t) Rights on a Takeover

In the event a general offer by way of voluntary offer, takeover or otherwise (other than by way of scheme of arrangement pursuant to paragraph (t) below) is made to all the Shareholders (or all such Shareholders other than

APPENDIX III

STATUTORY AND GENERAL INFORMATION

the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror) and such offer becomes or is declared unconditional prior to the vesting date of any RSU, the Board shall, prior to the offer becoming or being declared unconditional determine at its absolute discretion whether such RSU shall vest and the period within which such RSU shall vest. If the Board determines that such RSU shall vest, it shall notify the grantee that the RSU shall vest and the period within which such RSU shall vest.

(u) Rights on a Scheme of Arrangement

In the event a general offer for Shares by way of scheme of arrangement is made to all the Shareholders and has been approved by the necessary number of shareholders at the requisite meetings prior to the vesting of any RSU, the Board shall, prior to such meetings, determine at its absolute discretion whether such RSU shall vest and the period within which such RSU shall vest. If the Board determines that such RSU shall vest, it shall notify the grantee that the RSU shall vest and the period within which such RSU shall vest.

(v) Rights on a Voluntary Winding-up

In the event a notice is given by the Company to its Shareholders to convene a Shareholders' meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind-up the Company prior to the vesting date of any RSU, the Board shall determine at its discretion whether such RSU shall vest, and the period when such RSU shall vest. If the Board determines that such RSU shall vest, it shall notify the grantee that the RSU shall vest and the period within which such RSU shall vest.

(w) Rights on a Compromise or Arrangement

In the event of a compromise or arrangement, other than a scheme of arrangement contemplated in paragraph (t), between the Company and its members and/or creditors being proposed in connection with a scheme for the reconstruction or amalgamation of the Company, the Board shall determine at its discretion whether such RSU shall vest, and the period when such RSU shall vest. If the Board determines that such RSU shall vest, it shall notify the grantee that the RSU shall vest and the period within which such RSU shall vest.

(x) Lapse or Cancellation of RSU

An unvested RSU shall be cancelled automatically upon the earliest of:

- (i) the date of the termination of grantee's employment or service by the Company, any of its Subsidiaries or PRC Operational Entities for Cause (as defined below); or
- (ii) the date on which the offer (or, as the case may be, revised offer) referred to in paragraph (s) closes; or
- (iii) the record date for determining entitlements under the scheme of arrangement referred to in paragraph (t); or
- (iv) the date of the commencement of the winding-up of the Company; or
- (v) the date on which the grantee commits a breach of paragraph (p); or
- (vi) the date on which it is no longer possible to satisfy any outstanding conditions to vesting.

If the grantee's employment or service with the Company, the Subsidiaries or PRC Operational Entities is terminated for any reason other than for Cause (as defined below) (including by reason of resignation, retirement, death, disability or non-renewal of the employment or service agreement upon its expiration for any reason other than for Cause), the Board shall determine at its absolute discretion and shall notify the grantee whether any unvested RSU granted to such grantee shall vest and the period within which such RSU shall vest. If the Board determines that such RSU shall not vest, such RSU shall be cancelled automatically with effect from the date on which the grantee's employment or service is terminated.

APPENDIX III

STATUTORY AND GENERAL INFORMATION

For the purpose of this RSU Scheme, "Cause" means, with respect to a grantee, the summary termination of employment or office on any one or more of the following grounds: the grantee has been guilty of misconduct, or has been convicted of any criminal offence involving his integrity or honesty or (if so determined by the Board in its absolute discretion) on any other ground on which the relevant company in our Group would be entitled to terminate his employment or office summarily at common law or pursuant to any applicable laws or under the grantee's service contract with the relevant company in our Group. Notwithstanding the foregoing, a resolution of the Board or the board of directors of the relevant Subsidiary or PRC Operational Entity to the effect that the employment or office of a grantee has or has not been terminated on one or more of the grounds specified herein shall be conclusive.

The Board may at any time cancel any unvested RSUs granted to a grantee subject to consent by the grantee. Where the Company cancels unvested RSUs and makes a grant of new RSUs to the same grantee, such grant may only be made with available RSUs to the extent not yet granted (excluding the cancelled RSUs) within the limits prescribed by paragraph (k) above. Notwithstanding the aforesaid in this paragraph, in each case, the Board may in its absolute discretion decide that any RSU shall not be cancelled or determine subject to such conditions or limitations as the Board may decide.

(y) Reorganization of Capital Structure

In the event of an alteration in the capital structure of the Company whilst any RSU has not vested by way of capitalisation of profits or reserves, bonus issue, rights issue, open offer, subdivision or consolidation of shares, reduction of the share capital of the Company or otherwise howsoever in accordance with legal requirements and requirements of [●] (other than an issue of Shares as consideration in respect of a transaction to which the Company, the Subsidiary or PRC Operational Entity is a party or in connection with any share option, restricted share or other equity incentive schemes of the Group or in the event of any distribution of the Company's capital assets to its shareholders on a pro rata basis (whether in cash or in specie) (other than dividends paid out of the net profits attributable to its shareholders for each financial year of the Company), such corresponding alterations (if any) shall be made to the number or nominal amount of Shares subject to the RSU so far as unvested as the auditors or an approved independent financial adviser shall certify in writing, either generally or as regard any particular grantee, to have in their opinion, fairly and reasonably satisfied the requirement that such adjustments give an RSU Participant the same proportion (or rights in respect of the same proportion) of the share capital as that to which that grantee was previously entitled, but that no such adjustments be made to the extent that a Share would be issued at less than its nominal value. The capacity of the auditors or the approved independent financial adviser in this paragraph is that of experts and not of arbitrators and their certification shall, in absence of manifest error, be final and binding on the Company and the grantees. The costs of the Auditors or the approved independent financial adviser shall be borne by the Company.

(z) Amendment of the RSU Scheme

Save for any material amendments to the RSU Scheme, the RSU Scheme may be altered in any respect by a resolution of the Board of Directors. The Board of Directors' determination as to whether any proposed alteration to the terms and conditions of the RSU Scheme is material shall be conclusive.

Any alteration to the terms and conditions of the RSU Scheme, which is of a material nature, or any change to the terms of any RSU granted or agreed to be granted must be approved by the Shareholders in general meeting, except where such alterations take effect automatically under the existing terms of the RSU Scheme.

Shareholders of the Company in general meeting must approve any change to the authority of the Board of Directors in relation to any alteration to the terms of the RSU Scheme.

(aa) Termination of the RSU Scheme

The Company by ordinary resolution in general meeting or the Board of Directors may at any time terminate the operation of the RSU Scheme and in such event no further RSUs will be offered but in all other respects the

APPENDIX III

STATUTORY AND GENERAL INFORMATION

provisions of the RSU Scheme shall remain in full force and effect in respect of RSUs which are granted during the life of the RSU Scheme and which remain unvested immediately prior to the termination of the operation of the RSU Scheme.

(bb) Administration of the RSU Scheme

The RSU Scheme shall be subject to the administration of the Board of Directors or a duly authorized administration committee thereof or such other committee as the Board of Directors may authorize and the decision of the Board of Directors or the authorized administration committee, as the case may be, shall be final and binding on all parties. The Board shall have the right to:

- (i) interpret and construe the provisions of the RSU Scheme;
- (ii) determine the persons who will be granted Awards under the RSU Scheme, the terms on which Awards are granted and when the RSUs granted pursuant to the RSU Scheme may vest,
- (iii) make such appropriate and equitable adjustments to the terms of the Awards granted under the RSU Scheme as it deems necessary and
- (iv) make such other decisions or determinations as it shall deem appropriate in the administration of the RSU Scheme.

(cc) General

As of the Latest Practicable Date, no RSU had been granted or agreed to be granted by our Company pursuant to the RSU Scheme.

OTHER INFORMATION

1. Litigation

Except as disclosed in this document, as of the Latest Practicable Date, we were not engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on our results of operations or financial condition.

2. No Material Adverse Change

The Directors confirm that there has been no material adverse change in our financial or trading position, indebtedness, mortgage, contingent liabilities, guarantees or prospects of our Group since June 30, 2013, the date of the latest audited consolidated financial statements of our Group.

3. Binding Effect

This document shall have the effect, if an application is made in pursuance of it, of rendering all persons concerned bound by the relevant rules.

APPENDIX III

STATUTORY AND GENERAL INFORMATION

4. Miscellaneous

- (a) Save as otherwise disclosed in this document:
- (i) within the two years preceding the date of this document, no share or loan capital of our Company or of any of our principal operating subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (ii) within the two years preceding the date of this document, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of the principal subsidiaries;
 - (iii) within the two years preceding the date of this document, no commission has been paid or is payable for [●];
 - (iv) neither our Company nor any of our subsidiaries have issued or agreed to issue any founder shares, management shares or deferred shares;
 - (v) no share or loan capital of our Company or any of our consolidated subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

5. Estate Duty

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries or PRC Operational Entities.

6. Bilingual Document

The English language and Chinese language versions of this document are being published separately.