Certain information and statistics set out in this section and elsewhere in this prospectus have been derived from various government publications, market data providers and other independent third-party sources. In addition, this section contains information extracted from a commissioned report prepared by iResearch as supplemented by an addendum, or the iResearch Report, for the purposes of this prospectus. Except for the iResearch Report, neither our Group, its connected persons, the Selling Shareholders, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, nor any other party involved in the Global Offering has commissioned any such third-party sources. We believe that the sources of the information in this "Industry Overview" section are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. We also believe there is no adverse change in the market information since the date of the iResearch Report which may qualify, contradict or have an impact on the information in this section. However, the information has not been independently verified by us, the Selling Shareholders, the Joint Global Coordinators, the Joint Bookrunners, the Joint Sponsors, the Joint Lead Managers, any of the Underwriters or any other party involved in the Global Offering. The information and statistics may not be consistent with other information and statistics compiled within or outside China. For a discussion of risks relating to our industry, please refer to the section headed "Risk Factors — Risks Relating to Our Industry."

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, in connection with the Global Offering, 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 prospectus. 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.

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
Growth		*66.4%*	*34.0%*	*29.5%*	*30.4%*	*22.5%*
Webgames	0.1	0.7	1.8	3.4	5.3	7.6
Growth		*364.3%*	*169.2%*	*96.8%*	*53.7%*	*44.4%*
Client-based games	12.5	20.3	26.2	32.4	41.0	48.5
Growth		*62.2%*	*29.0%*	*23.9%*	*26.3%*	*18.5%*

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 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;
- 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	• Low — only requires access to flash-supported Internet browser • Does not require active installment of client software	• High — superior graphic and sound quality of games demand for higher hardware configuration • Requires active installment of client software
	Engagement	• Anywhere with personal computers connected to the Internet	• Accessed mostly at home and/or Internet café
	Time commitment	• Easy-to-play • Relatively shorter game play session	• Players need to spend time learning the game play and plots given complexity • Longer consecutive game playing sessions to enhance experience
Product	Development cycle	• Typically six to 12 months	• Typically two to three years
	Update frequency	• Continuous • Quick to react to the latest player preferences • Minimal impact to player experience when updating game content	• Less frequent • Requires players to download and install separate expansion software package
	Upfront development cost	• Low	• High

Source: iResearch Report

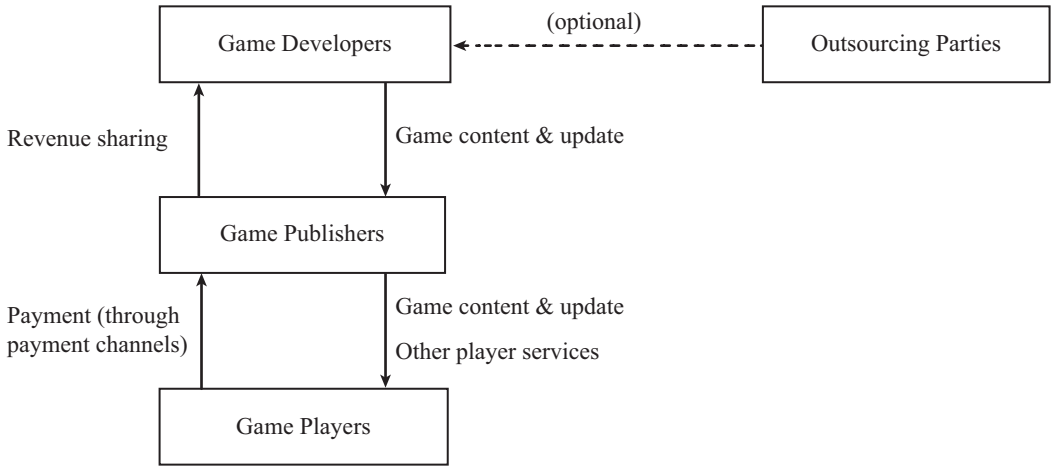
Webgame Value Chain Overview

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.
- 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:

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.

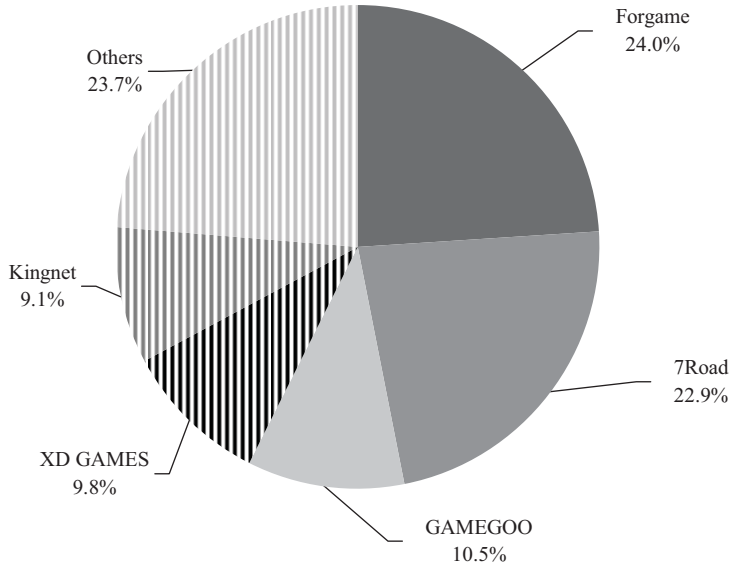
Access to Game Data

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.

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

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 webgame 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
Growth		*163.6%*	*179.3%*	*132.1%*

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 webgame 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 webgame developers who have entered into mobile game development market, such as Forgame 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.

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.