

**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

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## BUSINESS

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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 Track Record Period. 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, *9Iwan*, 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 *9Iwan* 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 *9Iwan* help *9Iwan* 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

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 Track Record Period 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.

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 webpage 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 webpage 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.

***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)	(%)
<b>Segment Revenue</b>										
— 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
<b>Total</b> . . . . .	<b>95,078</b>	<b>100.0</b>	<b>384,009</b>	<b>100.0</b>	<b>776,649</b>	<b>100.0</b>	<b>347,122</b>	<b>100.0</b>	<b>573,748</b>	<b>100.0</b>

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 Track Record Period 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 Track Record Period:

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2010	2011	2012	2012	2013
<b>Existing games</b>					
Number of games . . . . .	2	5	12	13	22
Revenue (RMB in millions) . . .	16.9	161.5	445.1	221.8	317.7
<b>New games</b>					
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 Track Record Period 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 Track Record Period:

	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
<b>Total</b>	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.

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 <sup>(1)</sup>	Status	Exclusive Publishing Arrangement <sup>(2)</sup>
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 <sup>(3)</sup>	
3. 龍龍神墓記 (Tale of the Dragon Tomb)	Turn-based RPG	First Quarter of 2010	Phased Out <sup>(3)</sup>	
4. 凡人修真 I (Soul Guardian I)	Turn-based RPG	Second Quarter of 2010	In Operation	
5. 夢幻修真 (Fantasy Immortal)	Turn-based RPG	Fourth Quarter of 2010	In Operation	
6. 門法修真傳 (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 <sup>(3)</sup>	
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	Fourth Quarter of 2011	Phased Out <sup>(3)</sup>	✓
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	Second Quarter of 2012	In Operation	
19. 百煉成仙 (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	Fourth Quarter of 2012	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. 門破乾坤 (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	First 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	



*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,

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.



*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.

### *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*.

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## BUSINESS

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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 prospectus.

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.

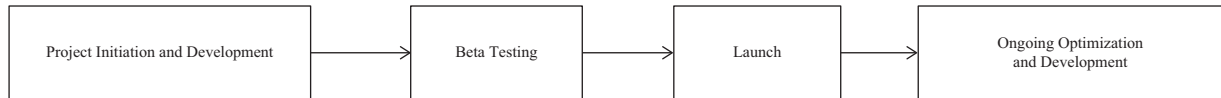


### ***Proprietary Game Analytics Engine***

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.



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## BUSINESS

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- 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, *91wan*, 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 *91wan* 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

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

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## BUSINESS

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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 Track Record Period. 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.

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## BUSINESS

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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.

### 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.



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## BUSINESS

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- *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 Track Record Period 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 the Listing 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 Track Record Period 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;



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## BUSINESS

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- 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 Track Record Period, 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;

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## BUSINESS

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- 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,

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## BUSINESS

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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, Jingtian & Gongcheng, 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 Track Record Period. Please refer to the section headed “— Legal Proceedings and Compliance” for details of the Wangyuan Lawsuit.

Please refer to the section headed “Appendix IV — 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.

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## BUSINESS

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### 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%
<b>Total</b> . . . . .	<b>1,899</b>	<b>100%</b>

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 Track Record Period.

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

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## BUSINESS

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

During the Track Record Period, 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 Track Record Period.

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 as defined under Rule 5.01(2) of the Listing Rules 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, Jingtian & Gongcheng, 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.

According to section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this prospectus is exempted from compliance with the requirements of

section 342(1)(b) of the Companies Ordinance, which requires a valuation report with respect to all our interests in land or buildings, for the reason that as of June 30, 2013, each of our property interests has a carrying amount below 15% of our consolidated total assets.

### **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 Track Record Period and the subsequent period up to the Latest Practicable Date. Our PRC legal advisers, Jingtian & Gongcheng, had advised us that, during the Track Record Period 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 Track Record Period 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 prospectus. 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 Track Record Period, 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



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## BUSINESS

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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 prospectus, 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 prospectus, 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

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## BUSINESS

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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 Track Record Period 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.

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## BUSINESS

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### *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

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## BUSINESS

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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 Track Record Period 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.

***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, Jingtian & Gongcheng, have advised us that, during the Track Record Period 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
License of Value-added Telecommunication Business (Internet Content Provider License) . . . . .	Feiyin	Guangdong Communications Administration (廣東省通信管理局)	April 19, 2010	May 27, 2014
	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)	September 26, 2010	September 26, 2013
		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)		



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**BUSINESS**

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<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

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## BUSINESS

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### Awards and Recognition

During the Track Record Period, we have received various awards and recognition in respect of the quality and popularity of our products and services, among which include the following:

Award/Recognition	Award Date	Awarding Institution/Authority	Entity/Product
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>