
CONTRACTUAL ARRANGEMENTS

Background

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

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

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

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

CONTRACTUAL ARRANGEMENTS

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

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

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

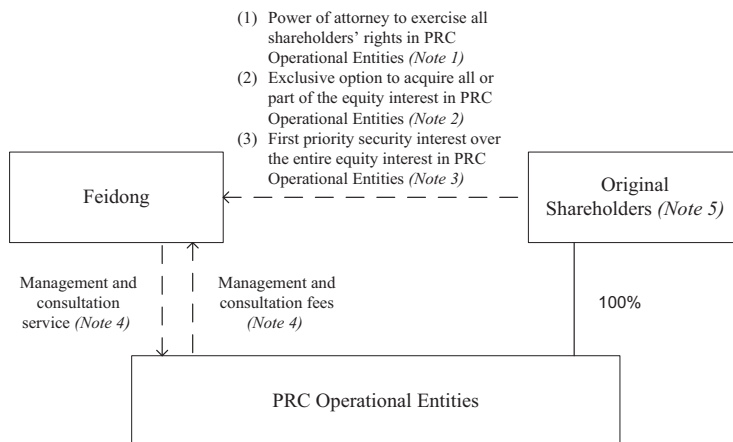
In order to comply with PRC laws and regulations while availing ourselves to international capital markets and maintaining effective control over all of its operations, we commenced a series of reorganization activities in July 2011. Pursuant to the reorganization, the Company became the indirect holding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

CONTRACTUAL ARRANGEMENTS

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

Contractual Arrangements

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



Note :

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

Exclusive Option Agreements

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

CONTRACTUAL ARRANGEMENTS

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

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

Exclusive Business Cooperation Agreements

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

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

CONTRACTUAL ARRANGEMENTS

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

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

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

Share Pledge Agreements

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

CONTRACTUAL ARRANGEMENTS

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

Powers of Attorney

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

Dispute Resolution

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

CONTRACTUAL ARRANGEMENTS

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

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

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

Succession

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

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

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

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

CONTRACTUAL ARRANGEMENTS

Arrangements to Address Potential Conflicts of Interests

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

Loss Sharing

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

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

Liquidation

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

CONTRACTUAL ARRANGEMENTS

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

Termination

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

Insurance

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

Company's Confirmation

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

Legality of the Contractual Arrangements

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

Our PRC legal advisers, Jingtian & Gongcheng, are also of the opinion that:

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

CONTRACTUAL ARRANGEMENTS

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

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

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

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

CONTRACTUAL ARRANGEMENTS

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

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

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

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

CONTRACTUAL ARRANGEMENTS

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

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

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

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

Given that the Contractual Arrangements will constitute non-exempt continuing connected transactions of our Company, a waiver has been sought from and has been granted by the Stock Exchange, details of which are disclosed in the section headed “Connected Transactions.”

CONTRACTUAL ARRANGEMENTS

Accounting Aspects of the Contractual Arrangements

Consolidation of Financial Results of the PRC Operational Entities

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

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

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

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

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