The following discussion should be read in conjunction with our audited consolidated financial information, together with the accompanying notes, as set forth in the Accountant's Report in Appendix I to this prospectus. Our consolidated financial information have been prepared in accordance with International Financial Reporting Standards ("IFRS") which may differ in material aspects from generally accepted principles in other jurisdiction, including the United States.

The following discussion and analysis contains certain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties. Factors that could cause or contribute to such differences include those disclosed in the section headed "Risk Factors."

OVERVIEW

We are a leading developer and publisher of webgames in China with a fast growing mobile game business. We were the No.1 webgame developer in China, with a 24% market share of net revenue from webgame development industry in 2012, according to iResearch. We have successfully developed and launched over 30 easy-to-access, highly engaging and popular games. In 2011, the first and second halves of 2012, respectively, five, five and four out of the top 15 webgames in China in terms of gross billings were developed by us, more than any other webgame developers in China. Our publishing platform, *91wan*, published 79 self-developed and licensed webgames and had attracted over 179 million registered players as of June 30, 2013. Please refer to the section headed "Business" for detailed discussion of our business.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations are affected by several key factors, including the following:

General Conditions Affecting the Online Gaming Industry in China

Our results of operations are affected by general conditions typically affecting the online gaming industry in China, including the overall economic condition, the increasing use of the Internet, the regulatory environment, and the demand for webgames and mobile games. The online gaming industry in China, particularly the webgame and mobile game industries, has a relatively short history and has experienced rapid growth in the past. Please refer to the section headed "Industry Overview" for details. Changes in the factors that lead to growth in the online gaming industry would have a significant impact on our business and prospects. For example, we rely on the spending of our players for our revenue, which may in turn depend on their level of disposable income, perceived future earnings and willingness to spend. Due to uncertain global economic conditions, our players may reduce the amount they spend on our webgames and mobile games. Please refer to the section headed "Risk Factors — Risks Relating to Our Industry."

Competition

Competition with other game developers and publishers also affects our results of operations. The webgame and mobile game industries are highly competitive in China. We compete primarily with other webgame and mobile game developers and publishers in China as well as in the international market. In addition, we also compete for players with various offline games, such as console games, arcade games and handheld games, as well as various other forms of traditional or online entertainment. The proliferation of the number of game developers and the available games in the market has placed significant pressure on the timing of our new game launches, the cost of marketing our games, and attracting new and retaining existing players. Our results of operations will be affected if there is any change in player sentiment and greater competition from other webgame and mobile game developers and publishers.

Continued Popularity of Our Games

The popularity of our games drives the growth of our player base, which is a key component in driving the sales and consumption of our virtual items, and hence our revenue. In order to further grow our player base, we need to maintain the quality of new games we develop and continue launching popular games to meet game player preferences. We also must continually upgrade and enhance our existing games to incentivize players to purchase virtual items in our games and expand the games' life cycle so as to extend the monetization period.

Ability to Expand Our Publishing Platform, *91wan*

The growth of our game publishing revenue depends on our ability to expand the player base on *91wan*. The popularity of the games we publish on *91wan* is also essential to the financial performance of our game publishing business. To sustain and expand *91wan*'s success, we need to continually source popular licensed games. In addition, our selling and marketing expenses are directly related to promoting and marketing the webgames published on *91wan* to generate user traffic. Our selling and marketing expenses increased significantly during the Track Record Period as a result of the general increase in the unit cost of the online advertising costs in China. Our results of operations will be negatively affected if our marketing efforts are not as effective as we expect.

Monetization of Our Players

Our business depends on our ability to monetize our player base. All of our games are free to play and we generate revenues from the sale of virtual items for the upgrade or better in-game experience. Therefore, while we need to increase the MAUs on *91wan* and players for our webgames, it is more important for us to either convert non-paying players into paying players or to improve the average spending per player to grow our revenue. Our ability to better analyze the player behavior and to explore new ways to monetize is critical to our business and results of operations.

Revenue Sharing Arrangement

In both our game development business and game publishing business, we have revenue sharing arrangements with third-party platforms or developers. We publish our webgames through over 350 platforms operated by our publishing partners in addition to our own publishing platform, *91wan*. We published 59 licensed webgames on *91wan* as of June 30, 2013. We generally enter into separate agreements for each of such games licensed to or from third parties and negotiate the percentage of the revenue sharing on a case-by-case basis. The terms of the revenue sharing arrangement for the agreements entered into or renewed in each particular year would have a significant impact on our results of operations.

BASIS OF PRESENTATION

Our Company, previously known as Foga Holdings Limited, was incorporated in the Cayman Islands on July 26, 2011 as an exempted company with limited liability in preparation for a listing of our Shares on the Main Board of the Hong Kong Stock Exchange. The Company is an investment holding company and its subsidiaries are principally engaged in developing, licensing and operating online games (the "listing business") in the PRC.

Prior to the incorporation of the Company and completion of the Reorganization, our listing business was carried out by our PRC Operational Entities, which were under the control of the Controlling Shareholders. Pursuant to the Reorganization, our PRC Operational Entities and the listing business were under the effective control of Feidong and the Company ultimately through the Contractual Arrangements. The Company had not been involved in any other business prior to the Reorganization and its operations do not meet the definition of a business. The Reorganization is merely a reorganization of our listing business and does not result in any changes in the substance or management of our business or the Controlling Shareholders before and after the Reorganization. Accordingly, the financial information of the companies now comprising the Group is presented using the carrying value of our listing business for all periods presented.

The consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements of the Group for the Track Record Period have been prepared on a consolidated basis and include the results of operations of the companies now comprising the Group for the Track Record Period as if the current group structure had been in existence throughout the Track Record Period. The consolidated balance sheets of the Group as of December 31, 2010, 2011 and 2012 and June 30, 2013 have been prepared to include the assets and liabilities of the companies comprising the Group as of the respective dates as if the current group structure had been in existence as of those dates or since their respective dates of acquisition, incorporation or establishment, as the case may be, where they did not exist at those dates. All intra-group transactions and balances between group companies have been eliminated on consolidation.

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

We have identified certain accounting policies that are significant to the preparation of our consolidated financial statements. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items. In each case, the determination of these items requires management judgments based on information and financial data that may change in future periods. When reviewing our consolidated financial statements, you should consider (i) our critical accounting policies, (ii) the judgments and other uncertainties affecting the application of such policies and (iii) the sensitivity of reported results to changes in conditions and assumptions.

We set forth below those accounting policies that we believe are of critical importance to us or involve the most significant estimates and judgments used in the preparation of our financial statements. Our significant accounting policies, estimates and judgments, which are important for an understanding of our financial condition and results of operations, are set forth in detail in Notes 2 and 4 to the Accountant's Report in Appendix I to this prospectus.

Revenue Recognition

We primarily derive revenue from (i) the sales of virtual items in games published on our own publishing platform as well as on platforms of our publishing partners, licensing arrangements and provision of technical support services from the cooperation with certain platforms or other game developers ("game development") and (ii) the provision of online game publishing service ("game publishing") through cooperation with game developers to paying players. Our revenue is net of sales tax and related surcharges.

Our games are free to play and players pay for virtual items for a better in-game experience. Players purchase our game credits ("paying players") through the platform's own charging system and use the game credits to exchange for virtual items. Paying players usually exchange their game credits for virtual items shortly after the purchases. There is no expiry date on our game credits. The monetary value of the virtual items sold are shared between developers and platforms, which is pre-determined in a revenue sharing arrangement. Platforms collect the payment and remit the cash to developers according to the revenue sharing arrangement.

(a) Game Development Revenue

Our game development revenue is generated from the sale of virtual items. Upon the sales of virtual items, we typically have an implied obligation to provide the service which enables the virtual items to be displayed and used in our games. As a result, the monetary value of our virtual items initially purchased by players is recorded as deferred revenues. Such revenues are recognized only when the services have been rendered. To determine when services have been rendered to respective paying players, we categorize our virtual items into two types:

- Consumable virtual items, such as energy drink and temporary speed boosters, represent items that will be extinguished shortly after consumption by a specific game player action. The paying players will not continue to benefit from the virtual items thereafter. Revenue is recognized (as a release from deferred revenue) when the items are consumed.

- Durable virtual items, such as weapons and clothes, represent items that are accessible and beneficial to a paying player over an extended period of time. Revenue is recognized ratably over the average playing period of the paying player ("player relationship period"), which represents the best estimate of the average life of durable virtual items for the applicable game and was typically a few months for most of our games during the Track Record Period.

We determine the player relationship period on a game-by-game and platform-by-platform basis by tracking the player data, such as log-in data and purchase record. If there is insufficient player data to determine the player relationship period, such as in the case of a newly launched game, we estimate the player relationship period based on other similar types of games we or third parties develop, taking into account of the game profile, the target audience and the appeal to paying players of different demographics, until the newly launched game establishes its own track record, which is normally up to 12 months after launch. We re-assess the player relationship period semi-annually. Our IT Manager and Finance Manager are jointly responsible for the estimation and evaluation of the player relationship period. If we are not able to differentiate revenue attributable to durable virtual items from that from consumable virtual items in a specific game, we recognize revenue from both durable and consumable virtual items for that game ratably over the player relationship period.

For revenues relating to our games that are published on third-party platforms, we are the primary obligor because we take the primary responsibilities in the delivery of game experience to the paying players. However, we are not able to make a reasonable estimate of the gross revenue generated from our games published on third-party platforms because the actual prices paid by individual paying players may be lower than the standard prices of virtual items with the balance being subsidized by the publishing platforms and we do not track or bear such marketing discounts. As such, we are not able to make a reasonable estimate of the gross revenue amount (i.e. the actual prices paid by the paying players). Accordingly, we record a net revenue to the extent of the amounts received and receivable from third party platforms under a pre-agreed revenue sharing arrangement when the services are rendered. Segment revenue for game development is recorded net of the portion of revenue sharing with third-party publishing partners and *91wan*, which reflects the way that our management reviews and evaluates the performance of our game development segment.

For revenue derived from mobile games, we follow the revenue recognition policies of webgames since the operations of the two types of games are similar during the Relevant Periods.

We also derive revenue from licensing and technical support service on a game-by-game basis. Licensing revenue is primarily derived from cooperation with overseas publishing partners and recognized on a straight-line basis over the licensing period. Technical support revenue is recognized when technical support services are rendered.

(b) Game Publishing Revenue

We publish games on our own publishing platform, *91wan*. Similar to our games published in platforms of our publishing partners, the games published on *91wan* are free to play and players pay for virtual items for better in-game experience.

We derive our game publishing revenue primarily from revenue sharing arrangements with game developers. The games published on *91wan* are hosted, maintained and updated by game developers, and we mainly provide access to *91wan* and limited after-sale basic technical support to paying players. We have evaluated and determined *91wan* is not the primary obligor in the services rendered to paying players by a publisher. We believe that our implied obligation to the game developers corresponds to the game developers' implied obligation to provide the service which enables the virtual items to be displayed and used in the game. Accordingly, as a publisher, we record the revenues net of the portion of revenues shared with game developers.

We adopt a policy to recognize revenues for both consumable and durable items in licensed games over the player relationship period on a game-by-game basis by tracking the player data, such as log-in data and purchase record. When we publish a new game, we estimate the player relationship period based on other similar types of games developed by us or third parties, taking into account the game profile, the target audience and the appeal to players of different demographics, until the new game establishes its own track record, which is normally up to 12 months after launch. We re-assess the player relationship period semi-annually. Our IT Manager and Finance Manager are jointly responsible for the estimation and evaluation of the player relationship period. For our self-developed games published on *91wan*, we adopt the revenue recognition policy as described in the section headed "— Game development revenue."

Staff Costs

For our game development business, staff costs are incurred in the development of new games and the ongoing optimization of existing games after launch. Staff costs of our game development business are research and development expenses in nature and are not directly attributable to our game development revenue generation. As such, no staff costs are allocated to cost of revenue for our game development business.

For our game publishing business, staff costs are incurred for operation, maintenance and provision of player service of our publishing platform, *91wan*. Staff costs are directly attributable to the operation of *91wan* and therefore recognized as cost of revenue for our game publishing business.

Our Directors are of the view that our revenue recognition and staff cost policies are in line with industry practice.

Share-based Payments

(a) Equity-settled Share-based Payments Transactions

Mr. Wang, Mr. Huang and Mr. Liao transferred some of their interests in our business to Mr. Zhuang and Mr. Yang in 2011 in return for their services to us. These shares were fully vested in 2011. We also operate an equity-settled share-based compensation plan, the Pre-IPO Share Option Scheme, under which we receive services from employees or other service providers as consideration for our equity instruments (options). The fair value of the services received in exchange for the grant of the equity instruments (options) is recognized as expense.

In terms of share options and shares awarded to employees, the total amount to be expensed is determined by reference to the fair value of the equity instruments (options) granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions; and
- including the impact of any non-vesting conditions.

In terms of share options and shares awarded to counterparties other than employees, the total amount to be expensed is determined by reference to the fair value of the service unless such fair value could not be estimated reliably. In such case, the expense will be measured indirectly by reference to the fair value of the equity instruments granted at the date when such counterparties render services.

Non-market performance and service conditions are included in assumptions about the number of options and shares that are expected to vest. The total expense is recognized over the vesting period over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognizing the expense during the period between service commencement period and grant date.

At the end of each reporting period, we revise estimates of the number of options and shares that are expected to vest based on the non-marketing performance and service conditions. We recognize the impact of the revision to original estimates, if any, in the profit or loss, with a corresponding adjustment to equity.

When the options are exercised, we issue new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

(b) Share-based Payments Transactions Among Group Entities

The Company's grant of the Shares to Mr. Zhuang and Mr. Yang, and options over our equity instruments to the employees or other service providers of the our subsidiaries is treated as a capital contribution. The fair value of consulting and employee services received, measured by reference to the grant date fair value, is recognized over the vesting period as an increase to investments in our subsidiaries, with a corresponding credit to equity in the separate financial statements of the Company.

Current and Deferred Income Tax

Our tax expenses comprise current income tax charges and recognized deferred income tax.

Our current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where we and our subsidiaries operate and generate taxable income.

Our deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. However, deferred income tax liabilities are not recognized if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income tax assets and liabilities relate to income tax levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Shareholders' Equity

Our ordinary shares are classified as equity. Convertible redeemable preferred shares are classified as liabilities. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases our equity share capital (treasury share), the considerations paid, including any directly attributable incremental costs, are deducted from equity attributable to our equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs) is included in equity attributable to our equity holders.

Convertible Redeemable Preferred Shares

Our convertible redeemable preferred shares are redeemable upon the occurrence of certain future events and can be converted into our ordinary shares at any time at the option of the holders or automatically converted to our ordinary shares upon the occurrence of our initial public offering or as agreed upon by a majority of the holders.

We designated the convertible redeemable preferred shares as financial liabilities at fair value through profit or loss. They are initially recognized at fair value. Any directly attributable transaction costs are recognized as finance costs in the consolidated statements of comprehensive income.

Subsequent to initial recognition, the convertible redeemable preferred shares are carried at fair value with changes in fair value recognized in the profit or loss.

The convertible redeemable preferred shares are classified as non-current liabilities unless we have an obligation to settle the liability within 12 months after the end of the reporting period.

DESCRIPTION OF SELECTED INCOME STATEMENT LINE ITEMS

The following summarizes components of certain items appearing in the Accountant's Report in Appendix I to this prospectus, which we believe will be helpful in understanding the period-to-period discussion that follows below.

Revenue

We generate revenues from two business segments: game development and game publishing.

Game Development. Our game development revenue consists of (i) our share of revenue generated from the sales of virtual items in the games we develop and publish on the platforms of our publishing partners and collected by these publishing partners, (ii) a certain percentage of revenue generated from the sales of virtual items in the games we develop and publish on *91wan* and collected by *91wan*, and (iii) licensing revenue from our publishing partners and technical support income from third-party game developers. Fees received from our publishing partners or by *91wan* which have not been fully recognized are recorded as deferred revenue on our consolidated balance sheet, to be recognized in accordance with our revenue recognition policy.

Game Publishing. Our game publishing revenue consists of (i) a pre-agreed percentage for *91wan* of revenue generated from the sales of virtual items in licensed games published on *91wan* and collected by *91wan*, and (ii) a certain percentage of revenue from the sales of virtual items related to the games we develop and publish on *91wan*.

The following table sets forth, for the periods indicated, our revenue breakdown by segment:

	For the Year Ended December 31,						For the Six Months Ended June 30,			
	2010		2011		2012		2012		2013	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000) (unaudited)	(%)	(RMB'000)	(%)
Segment Revenue										
— Game development										
— Games published on *91wan*(1)(2)	5,734	6.0	18,151	4.7	30,166	3.9	13,002	3.7	24,178	4.2
— Games published by publishing partners(3)	41,274	43.4	229,290	59.7	473,293	60.9	209,580	60.4	334,882	58.4
— Others(4)	2,693	2.8	4,575	1.2	37,290	4.8	8,982	2.6	20,422	3.6
Subtotal	49,701	52.3	252,016	65.6	540,749	69.6	231,564	66.7	379,482	66.1
— Game publishing										
— Self-developed games(5)(2)	30,137	31.7	83,149	21.7	123,110	15.9	53,910	15.5	100,278	17.5
— Licensed games(6)	15,240	16.0	48,844	12.7	112,790	14.5	61,648	17.8	93,988	16.4
Subtotal	45,377	47.7	131,993	34.4	235,900	30.4	115,558	33.3	194,266	33.9
Total	95,078	100.0	384,009	100.0	776,649	100.0	347,122	100.0	573,748	100.0

Notes:

(1) Refer to self-developed games published on *91wan*.

(2) Revenue generated from self-developed games published on *91wan* involves both our game development business and game publishing business and is therefore split between game development segment and game publishing segment and recognized respectively. The revenue sharing percentage between our game development segment and game publishing segment is approximately 20% and 80%, respectively, which is in line with the market practice.

(3) Refer to self-developed games published on platforms of publishing partners.

(4) Include licensing revenue and revenue from technical support services.

(5) Refer to self-developed games published on *91wan*.

(6) Refer to licensed games published on *91wan*. Game publishing revenue generated by licensed games does not include the revenue generated from a co-developed game licensed by a business partner to *91wan*, under the arrangement of which we own the intellectual property right of the game while the licensor has the right to license the game to all publishing platforms in the PRC, including *91wan*. Please refer to the section headed "Business — Our Game Publishing Business — Revenue Sharing" for details. Since we consider a game self-developed if we own the intellectual property right of such game, the revenue generated from the this co-developed game is recognized as game publishing revenue generated by self-developed games, rather than game publishing revenue generated by licensed games.

All of the games we develop or publish adopt the item-based revenue model where the games are free-to-play and we generate revenues through the sale of virtual items that enhance the game-playing experience.

Our revenue is affected by the following key metrics:

- *Monthly Paying Users.* Monthly paying users, or MPUs, refer to (i) in our game development business, the number of paying players for the games we develop in the relevant calendar month; and (ii) in our game publishing business, the number of paying players for the games published on *91wan* in the relevant calendar month. The average MPUs for both the games we developed and the games published on *91wan* increased significantly from 2010 to the six months ended June 30, 2013, and are directly affected by (i) the number of games we have developed and launched in the relevant period and (ii) the popularity of these games.

- *Average Revenue Per Monthly Paying User.* We use average revenue per monthly paying user, or ARPPU, which is calculated as (i) in our game development business, the game development revenue divided by the number of the average MPUs for the games we develop in any given period; and (ii) in our game publishing business, the game publishing revenue divided by the number of the average MPUs for the games published on *91wan* in any given period. The ARPPU for both the games we developed and the games published on *91wan* increased from 2010 to 2011, primarily because we developed and published more popular games in 2011 and the monetization ability of both the games we developed and the games we published was improved in 2011. The ARPPU for both the games we developed and published in 2012 remained stable as compared to that in 2011, despite an increase in the number of average MPUs in 2012. The ARPPU for our self-developed games for the six months ended June 30, 2013 decreased as compared to that for the six months ended June 30, 2012, primarily because the ARPPU of our new games were at a lower level during the early stage of their game life cycle, which we expect to gradually increase when the average in-game spending by the new players of our new games ramps up. Such decrease was also attributable to the fact that we were expanding our user base and increasing average MPUs of our games and it takes time for new players to increase their in-game spending. The ARPPU for the games we published for the six months ended June 30, 2013 remained stable as compared to that for the six months ended June 30, 2012.

The following tables set forth the related operating data as of the dates or for the periods indicated:

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

Note:

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

	As of December 31,			As of June 30,	
	2010	2011	2012	2012	2013
Self-developed games	6	13	24	17	34
— Published both on 9*1wan* and by publishing partners	6	11	16	12	20
— Published only by publishing partners	0	2	8	5	14
Games published on *91wan*	17	37	65	61	79
— Self-developed	6	11	16	12	20
— Licensed	11	26	49	49	59

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2010	2011	2012	2012	2013
Phased-out games	3	4	15	6	19
— Self-developed	0	1	1	0	2
— Licensed	3	3	14	6	17

For the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, our revenue generated from the PRC amounted RMB92.0 million, RMB360.4 million, RMB700.3 million and RMB534.1 million, respectively, while our revenue generated outside of the PRC amounted RMB3.1 million, RMB23.6 million, RMB76.4 million and RMB39.6 million, respectively.

Cost of Revenue

Our cost of revenue primarily comprises server and bandwidth costs, salary and compensation expense, revenue sharing fees to subcontracted game developers and others. For the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, our cost of revenue represented 57.5%, 17.9%, 10.2% and 11.2% of our revenue, respectively.

The following table sets forth, for the periods indicated, our segment cost of revenue by amount and as a percentage of segment cost of revenue:

	For the Year Ended December 31,						For the Six Months Ended June 30,			
	2010		2011		2012		2012		2013	
	(RMB'000)	(% of Segment Cost of Revenue)	(RMB'000)	(% of Segment Cost of Revenue)	(RMB'000)	(% of Segment Cost of Revenue)	(RMB'000)	(% of Segment Cost of Revenue) (unaudited)	(RMB'000)	(% of Segment Cost of Revenue)
Cost of Revenue by Segment										
— Game development	45,335	100.0	44,714	100.0	40,556	100.0	14,189	100.0	42,906	100.0
— Server and bandwidth costs	3,789	8.4	10,552	23.6	24,242	59.8	10,306	72.6	17,846	41.6
— Fees paid to outsourcing parties	40,439	89.2	30,604	68.4	6,365	15.7	1,348	9.5	16,832	39.2
— Others	1,107	2.4	3,558	8.0	9,949	24.5	2,535	17.9	8,228	19.2
— Game publishing	9,366	100.0	24,116	100.0	38,532	100.0	16,784	100.0	21,211	100.0
— Server and bandwidth costs	2,157	23.0	6,633	27.5	9,239	24.0	4,135	24.6	4,310	20.3
— Salary and compensation	3,951	42.2	10,535	43.7	16,282	42.3	7,024	41.9	10,108	47.7
— Others	3,258	34.8	6,948	28.8	13,011	33.8	5,625	33.5	6,793	32.0
Total	54,701		68,830		79,088		30,973		64,117	

Game Development. Our cost of revenue for game development segment consists of server and bandwidth costs related to our game development business, fees paid to outsourcing parties and others.

Server and bandwidth costs are the fees we pay to service providers for telecommunications services for bandwidth and to Internet data centers with whom we host our servers. We recognize server and bandwidth costs related to our game development business in our cost of revenue for game development segment. We expect our bandwidth and server hosting costs related to our game development business to increase as a result of an increased need for bandwidth and server hosting services to support the growth in the number of our players when we develop and launch more games.

We outsource certain game development work to third-party service providers and share revenues generated from the games they help to develop after launch, which are recorded as fees paid to outsourcing parties. We benefited from these co-development arrangements as they allowed our game development teams to focus on the core development process. However, as our webgame business expanded, we have increasingly leveraged our in-house webgame development team for the entire game development process and as such, fees paid to outsourcing parties will not be a material part of our cost of revenue. We may continue outsourcing certain game development work, particularly with respect to our mobile game development business, which will increase our fees paid to outsourcing parties in the future.

Our other cost of revenue for game development segment primarily comprises (i) depreciation of the servers we have purchased for our game development business and (ii) amortization of intangible assets which relates to the intellectual property rights of the games we have acquired from third parties, such as *Fantasy Immortal II: Ascension*.

Game Publishing. Our cost of revenue for game publishing segment consists of server and bandwidth costs related to our game publishing business, salary and compensation and others.

Server and bandwidth costs are the fees we pay to service providers for telecommunications services for bandwidth and to Internet data centers with whom we host our servers. We recognize server and bandwidth costs related to our game publishing business in our cost of revenue for game publishing segment. We expect our bandwidth and server hosting costs related to game publishing business to increase as a result of an increased need for bandwidth and server hosting services to support the growth in the number of players on *91wan*.

Salary and compensation represent the personnel cost for the operation, maintenance and provision of player service of our publishing platform, *91wan.*

Our other cost of revenue for game publishing segment primarily comprises (i) channel cost, which represents the handling fees we pay to third-party payment channels for our game publishing business, and (ii) depreciation of the servers we have purchased for our game publishing business.

Gross Profit

Gross profit represents the excess of revenue over cost of revenue. The following tables set out our gross profit and gross profit margin by segment for the periods indicated:

	For the Year Ended December 31,									For the Six Months Ended June 30,					
	2010			2011			2012			2012			2013		
	(RMB'000)	(%)	Gross Profit Margin	(RMB'000)	(%)	Gross Profit Margin	(RMB'000)	(%)	Gross Profit Margin	(RMB'000) (unaudited)	(%)	Gross Profit Margin	(RMB'000)	(%)	Gross Profit Margin
Gross Profit by Segment:															
— Game Development .	4,366	10.8	8.8%	207,302	65.8	82.3%	500,193	71.7	92.5%	217,375	68.8	93.9%	336,576	66.0	88.7%
— Game Publishing . . .	36,011	89.2	79.4%	107,877	34.2	81.7%	197,368	28.3	83.7%	98,774	31.2	85.5%	173,055	34.0	89.1%
Total	40,377	100.0		315,179	100.0		697,561	100.0		316,149	100.0		509,631	100.0	

Selling and Marketing Expenses

Our selling and marketing expenses are primarily related to our publishing business, mainly comprising advertisement costs incurred to generate user traffic for *91wan* and promote games published thereon by placing online advertisements on search engines, video, music, literature and game websites in China. For the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, our selling and marketing expenses represented 28.0%, 15.5%, 23.0% and 27.7% of our revenue, respectively.

Administrative Expenses

Our administrative expenses primarily comprise salaries, benefits and share-based compensation expenses for our senior management and administration staff, professional service fees, and other miscellaneous administrative expenses. For the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, our administrative expenses represented 7.5%, 32.7%, 4.7% and 8.2% of our revenue, respectively. Our administrative expenses in 2011 included a one-off share-based compensation expense of RMB97.1 million in connection with share grants to Mr. Zhuang and Mr. Yang.

Research and Development Expenses

Our research and development expenses are primarily related to our game development business, mainly comprising (i) the expenses incurred in connection with game development and ongoing optimization, primarily salaries and benefits paid to our game development teams, and (ii) game development outsourcing costs, primarily research and development fees we pay to outsourcing parties before launch of the games they help develop. In order to develop a robust pipeline of new games, we need to invest a significant amount of resources on game development. For the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, our research and development expenses represented 49.4%, 23.4%, 25.8% and 24.6% of our revenue, respectively. Our research and development expenses are often incurred several quarters before we begin to generate revenues. In addition, we may not always be successful in generating an acceptable return on our research and development investments. As a result, our operating margin could be adversely affected by our increased investments in research and development.

Other Income

Our other income consists of interest income from our bank deposits and government grants received by our PRC Operational Entities. For the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, our other income represented 0.03%, 0.1%, 0.4% and 0.3% of our revenue, respectively.

Other Losses

Our other losses consist of currency exchange loss and loss on disposal of property and equipment such as servers and computers. For the two years ended December 31, 2011 and 2012 and the six months ended June 30, 2013, our other losses represented 0.03%, 0.1% and 0.1% of our revenue, respectively. There was no other loss for the year ended December 31, 2010.

Finance (Costs)/Income

Our finance costs represent the transaction cost of the issuance of convertible redeemable preferred shares in June 2012. For the year ended December 31, 2012, our finance costs represented 0.5% of our revenue. We have not incurred any finance cost for interest bearing indebtedness during the Track Record Period. Our finance income represents interest income on a short-term investment as part of our cash management strategy, which is a RMB-denominated structured deposit with a maturity period of 90 days. The minimum deposit amount is RMB100 million and neither us or the bank has the right to terminate the investment before maturity. The annual interest rate of such deposit is guaranteed at the rate of 2.7% and linked to commodity prices, floating within the range of 2.7% to 3.9%. The principal is also guaranteed and will be repaid to us together with the interest upon maturity. For the six months ended June 30, 2013, our finance income represented 0.3% of our revenue.

Fair Value Loss of Convertible Redeemable Preferred Shares

Our fair value loss of convertible redeemable preferred shares represents changes in fair value of Series A Preferred Shares issued in June 2012. For the year ended December 31, 2012 and the six months ended June 30, 2013, our fair value loss of convertible redeemable preferred shares represented 2.4% and 64.4% of our revenue, respectively. Assuming the completion of the Global Offering in the year ending December 31, 2013 with the indicative Offer Price ranging from HK$43.50 to HK$55.00, the estimated total fair value loss to be recorded in relation to the convertible redeemable Series A Preferred Shares in the year ending December 31, 2013 will be approximately HK$708 million to HK$1,042 million. Prior to the Global Offering, the Series A Preferred Shares are not traded in an active market and the fair value at respective reporting dates is determined using valuation techniques. Please refer to Note 30 to the Accountant's Report in Appendix I to this prospectus for details of the key assumptions of the valuations. Upon the completion of the Global Offering, the Series A Preferred Shares will be automatically converted to Ordinary Shares of the Company on one-to-one basis. The total number of the Series A Preferred Shares that will be converted to Ordinary Shares is 29,059,440. The fair value of each of Series A Preferred Share will then be equivalent to the fair value of each of Ordinary Shares of the Company on the conversion date, which is the Offer Price in the Global Offering.

Income Tax

Cayman Islands. We are incorporated in the Cayman Islands as an exempted company with limited liability under the Company Law of Cayman Islands and accordingly are exempted from Cayman Islands income tax.

Hong Kong. Our subsidiaries incorporated in Hong Kong were subject to a profits tax at the rates of 16.5% for 2011 and 2012 and the six months ended June 30, 2013. No provision for Hong Kong profits tax was made as we had no estimated assessable profits arising in Hong Kong during the Track Record Period.

PRC. Jieyou has been subject to an income tax rate of 25% on its estimated assessable profits since its inception in June 2012. In 2010, Feiyin and Weidong were qualified as "High and New Technology Enterprises" under the EIT Law and as a result entitled to a preferential income tax rate of 15% on their estimated assessable profits for the years ended December 31, 2010, 2011 and 2012. As of June 30, 2013, both Feiyin and Weidong were in the process of renewing such entitlements by applying to the relevant government authorities. We expect them to be qualified as "High and New Technology Enterprises" by the end of 2013 and continue to enjoy the preferential tax rate. Feidong, our wholly-owned PRC subsidiary, was subject to an income tax of 25% for the period from its inception in June 2012 to December 31, 2012. However, in June 2013, it was accredited as a "software enterprise" under the relevant PRC laws and regulations. As a result, Feidong is exempted from PRC enterprise income tax in 2013 and will enjoy a reduced income tax rate of 12.5% from 2014 to 2016.

According to relevant laws and regulations promulgated by the SAT that have been in effect since 2008, enterprises engaging in research and development activities are entitled to claim 150% of their research and development expenses incurred as tax deductible expenses when determining their assessable profits for that year. We have made our best estimate for such deduction to be claimed for the PRC Operational Entities in ascertaining their assessable profits during the Track Record Period.

Pursuant to the EIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the PRC effective from January 1, 2008. A lower withholding tax rate may be applied if there is a tax arrangement between the PRC and the jurisdiction of the foreign investors. As we do not have any plan to distribute the retained earnings in our PRC subsidiary, no deferred income tax liability on withholding tax was accrued as of June 30, 2013.

OTHER FINANCIAL MEASURES

To supplement our consolidated financial statements which are presented in accordance with IFRS, we also use adjusted net profit/(loss) and adjusted EBITDA as additional financial measures. We present these financial measures because they are used by our management to evaluate our operating performance. We also believe that these financial measures provide useful information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as our management and in comparing financial results across accounting periods and to those of our peer companies.

Adjusted Net Profit/(Loss)

We define adjusted net profit/(loss) as net income or loss excluding share-based compensation, fair value change of preferred shares and finance cost relating to the issuance of preferred shares. Adjusted net profit/(loss) eliminates the effect of non-cash share-based compensation expenses and non-cash fair value change of preferred shares which have been and may continue to be significant recurring factors in our business prior to the completion of the Global Offering, as well as the expenses relating to the one-time issuance of preferred shares. The term of adjusted net profit/(loss) is not defined under IFRS. The use of adjusted net profit/(loss) has material limitations as an analytical tool, as adjusted net profit/(loss) does not include all items that impact our net loss or income for the year/period.

Adjusted EBITDA

Adjusted EBITDA, as we present it, represents net income or loss before income taxes, interest income and finance income, depreciation and amortization, further adjusted to exclude share-based compensation expense, fair value change of preferred shares and other one-off finance cost relating to the issuance of preferred shares.

The use of adjusted EBITDA has certain limitations because it does not reflect all items of income and expenses that affect our operations. Items excluded from adjusted EBITDA are significant components in understanding and assessing our operating and financial performance. Depreciation expense, amortization, income taxes and net finance income/charge (excluding preferred shares) as well as share-based compensation expenses and fair value change of preferred shares have been and may continue to be incurred in our business and are not reflected in the presentation of adjusted net profit /(loss). Each of these items should also be considered in the overall evaluation of our results. Additionally, adjusted EBITDA does not consider changes in working capital, capital expenditures and other investing activities and should not be considered as a measure of our liquidity. The term of adjusted EBITDA is not defined under IFRS, and adjusted EBITDA is not a measure of profit/(loss) for the year/period, operating profit/(loss) or liquidity presented in accordance with IFRS.

We compensate for these limitations by reconciling the financial measures to the nearest IFRS performance measure, all of which should be considered when evaluating our performance. The following table reconciles our adjusted net profit/(loss) and adjusted EBITDA for the years presented to the most directly comparable financial measure calculated and presented in accordance with IFRS, which is profit/(loss):

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2010	2011	2012	2012	2013
			(RMB'000)		
				(unaudited)	
(Loss)/profit for the year/period	(40,384)	17,849	217,617	122,236	(243,347)
Add:					
Share-based compensation	—	97,089	—	—	27,489
Fair value change of preferred shares	—	—	18,769	—	369,446
Finance cost relating to the issuance of preferred shares	—	—	3,645	3,645	—
Adjusted net (loss)/profit (unaudited)	(40,384)	114,938	240,031	125,881	153,588
Add:					
Depreciation and amortization	1,804	6,660	14,731	4,989	12,261
Interest income and finance income	(24)	(282)	(1,144)	(443)	(3,661)
Income tax	(26)	22,664	43,560	25,791	39,409
Adjusted EBITDA (unaudited)	(38,630)	143,980	297,178	156,218	201,597

In light of the foregoing limitations for other financial measures, when assessing our operating and financial performance, you should not consider adjusted net profit/(loss) and adjusted EBITDA in isolation or as a substitute for our profit/(loss) for the year/period, operating profit/(loss) or any other operating performance measure that is calculated in accordance with IFRS. In addition, because these measures may not be calculated in the same manner by all companies, they may not be comparable to other similar titled measures used by other companies.

RESULTS OF OPERATIONS

The following table sets forth our consolidated statement of comprehensive income for the periods indicated:

	For the Year Ended December 31,						For the Six Months Ended June 30,			
	2010	% of Revenue	2011	% of Revenue	2012	% of Revenue	2012	% of Revenue	2013	% of Revenue
	(RMB'000)		(RMB'000)		(RMB'000)		(RMB'000) (unaudited)		(RMB'000)	
Revenue	95,078	100.0	384,009	100.0	776,649	100.0	347,122	100.0	573,748	100.0
Game development	49,701	52.3	252,016	65.6	540,749	69.6	231,564	66.7	379,482	66.1
Game publishing	45,377	47.7	131,993	34.4	235,900	30.4	115,558	33.3	194,266	33.9
Cost of revenue	(54,701)	(57.5)	(68,830)	(17.9)	(79,088)	(10.2)	(30,973)	(8.9)	(64,117)	(11.2)
Game development	(45,335)	(47.7)	(44,714)	(11.6)	(40,556)	(5.2)	(14,189)	(4.1)	(42,906)	(7.5)
Game publishing	(9,366)	(9.9)	(24,116)	(6.3)	(38,532)	(5.0)	(16,784)	(4.8)	(21,211)	(3.7)
Gross profit	40,377	42.5	315,179	82.1	697,561	89.8	316,149	91.1	509,631	88.8
Game development	4,366	4.6	207,302	54.0	500,193	64.4	217,375	62.6	336,576	58.7
Game publishing	36,011	37.9	107,877	28.1	197,368	25.4	98,774	28.5	173,055	30.2
Selling and marketing expenses	(26,636)	(28.0)	(59,464)	(15.5)	(178,726)	(23.0)	(78,778)	(22.7)	(158,945)	(27.7)
Administrative expenses(1)	(7,178)	(7.5)	(125,697)	(32.7)	(36,462)	(4.7)	(12,953)	(3.7)	(46,854)	(8.2)
Research and development expenses	(46,997)	(49.4)	(89,845)	(23.4)	(200,624)	(25.8)	(74,284)	(21.4)	(141,252)	(24.6)
Other income	24	—	463	0.1	2,788	0.4	1,943	0.6	1,766	0.3
Other losses	—	—	(123)	—	(946)	(0.1)	(405)	(0.1)	(744)	(0.1)
Operating (loss)/profit	(40,410)	(42.5)	40,513	10.6	283,591	36.5	151,672	43.7	163,602	28.5
Finance (costs)/income	—	—	—	—	(3,645)	(0.5)	(3,645)	(1.1)	1,906	0.3
Fair value loss of convertible redeemable preferred shares	—	—	—	—	(18,769)	(2.4)	—	—	(369,446)	(64.4)
(Loss)/profit before income tax	(40,410)	(42.5)	40,513	10.6	261,177	33.6	148,027	42.6	(203,938)	(35.5)
Income tax credit/(expense)	26	—	(22,664)	(5.9)	(43,560)	(5.6)	(25,791)	(7.4)	(39,409)	(6.9)
(Loss)/profit for the year/period	(40,384)	(42.5)	17,849	4.6	217,617	28.0	122,236	35.2	(243,347)	(42.4)
Item that will not be reclassified subsequently to profit or loss										
Currency translation differences	—	—	—	—	2,654	0.3	—	—	10,432	1.8
Total comprehensive (loss)/ income for the year/ period	(40,384)	(42.5)	17,849	4.6	220,271	28.4	122,236	35.2	(232,915)	(40.6)
Other financial data										
Adjusted net (loss)/profit(2) (unaudited)	(40,384)	(42.5)	114,938	29.9	240,031	30.9	125,881	36.3	153,588	26.8

Notes:

(1) Our administrative expenses in 2011 includes the share-based compensation expenses of RMB97.1 million.

(2) Please refer to the section headed "— Other Financial Measures."

Six Months Ended June 30, 2013 Compared with the Six Months Ended June 30, 2012

Revenue. Our revenue for the six months ended June 30, 2013 was RMB573.7 million, a 65.3% increase from RMB347.1 million for the six months ended June 30, 2012.

Game Development. Our game development revenue for the six months ended June 30, 2013 was RMB379.5 million, a 63.9% increase from RMB231.6 million for the six months ended June 30, 2012. The increase in our game development revenue was primarily due to the increase in the number of average MPUs from approximately 382,000 for the six months ended June 30, 2012 to approximately 758,000 for the six months ended June 30, 2013, partially offset by the decrease in the ARPPU from RMB101 for the six months ended June 30, 2012 to RMB83 for the six months ended June 30, 2013, primarily due to a change in the mix of our existing and new games that contributed to our game development revenue during the six months ended June 30, 2013 as compared to the six months ended June 30, 2012. ARPPU of new games are typically lower at the early stages of their life cycles as compared to ARPPU of existing games. The increase in the number of average MPUs was primarily because (i) we launched 12 new games for the six months ended June 30, 2013, including *Conquest of the Universe*, *A Dream in Fairyland* and *Conquerors*, which generated revenue of RMB57.5 million for the six months ended June 30, 2013; and (ii) our 22 existing successful games, such as *True* King and *Charmed Westward Journey*, continued to attract more paying players for the six months ended June 30, 2013 compared to the six months ended June 30, 2012 and generated revenue of RMB317.7 million for the six months ended June 30, 2013. Please refer to the section headed "Business — Our Businesses— Our Game Development Business" for details of key new games and existing games during the Track Record Period. Our revenue generated from licensing fees paid by our publishing partners for the six months ended June 30, 2013 was RMB13.7 million, a 53.1% increase from RMB9.0 million for the six months ended June 30, 2012. Our revenue generated from our technical support services to third-party game developers for the six months ended June 30, 2013 was RMB6.7 million, as compared to nil for the six months ended June 30, 2012. As of June 30, 2013, we had 34 self-developed games in operation, out of which 20 were published both on *91wan* and by our publishing partners and 14 were only published by our publishing partners. As of June 30, 2012, we had 17 self-developed games in operation, out of which 12 were published both on *91wan* and by our publishing partners and five were only published by our publishing partners. For the six months ended June 30, 2013, two self-developed games were phased out, while no self-developed game was phased out for the six months ended June 30, 2012.

Game Publishing. Our game publishing revenue for the six months ended June 30, 2013 was RMB194.3 million, a 68.1% increase from RMB115.6 million for the six months ended June 30, 2012. The increase in our game publishing revenue was primarily due to the increase in the average MPUs from approximately 67,000 for the six months ended June 30, 2012 to approximately 115,000 for the six months ended June 30, 2013, partially offset by the decrease in the ARPPU from RMB289 for the six months ended June 30, 2012 to RMB282 for the six months ended June 30, 2013, primarily because the ARPPU of certain of our licensed games decreased. The increase in the number of average MPUs was primarily because (i) we were able to broaden our player base on *91wan* through targeted marketing and promotional campaigns; (ii) we continued to provide high-quality player service to increase the number of paying players; and (iii) we were able to license more popular games from third-party developers and publish more successful self-developed games on *91wan*, which helped increase the organic growth of our player base and the number of paying players. Our game publishing revenue generated by our own games for the six months ended June 30, 2013 was RMB100.3 million, a 86.0% increase from RMB53.9 million for the six months ended June 30, 2012. Our game publishing revenue generated by licensed games for the six months ended June 30, 2013 was RMB94.0 million, a 52.5% increase from RMB61.6 million for the six months ended June 30, 2012. As of June 30, 2013, *91wan* published 20 self-developed games and 59 licensed games, as compared to 12 self-developed games and 49 licensed games as of June 30, 2012. For the six months ended June 30, 2013, 17 licensed games were phased out, as compared to six licensed games for the six months ended June 30, 2012.

Cost of Revenue. Our cost of revenue for the six months ended June 30, 2013 was RMB64.1 million, a 107.0% increase from RMB31.0 million for the six months ended June 30, 2012.

Game Development. Our cost of revenue for game development segment for the six months ended June 30, 2013 was RMB42.9 million, a 202.4% increase from RMB14.2 million for the six months ended June 30, 2012. The increase was primarily due to the increase in fees paid to outsourcing parties from RMB1.3 million to RMB16.8 million as well as in server and bandwidth costs related to our game development business from RMB10.3 million to RMB17.8 million. Our fees paid to outsourcing parties increased for the six months ended

June 30, 2013, primarily due to fees paid to outsourcing parties for our first mobile game, *The Era of Storms*, which was launched in the second quarter of 2012. Increases in our server and bandwidth costs as well as in server depreciation cost for the six months ended June 30, 2013 were in line with the growth of our game development business.

Game Publishing. Our cost of revenue for game publishing segment for the six months ended June 30, 2013 was RMB21.2 million, a 26.4% increase from RMB16.8 million for the six months ended June 30, 2012. The increase was primarily due to the increase in salary and compensation expense from RMB7.0 million to RMB10.1 million. Our increase in salary and compensation expense for the six months ended June 30, 2013 was primarily due to the increase in headcount in the *91wan* operation team and the share-based compensation expense under the Pre-IPO Share Option Scheme. Our server and bandwidth costs related to our game publishing business slightly increased from RMB4.1 million for the six months ended June 30, 2012 to RMB4.3 million for the six months ended June 30, 2013. Our payment handling costs also increased from RMB2.3 million for the six months ended June 30, 2012 to RMB2.5 million for the six months ended June 30, 2013 as a result of the increase in the total transaction amounts settled through payment channels as our game publishing business grew.

Gross Profit Margin. As a result of the foregoing, our gross profit margin for the six months ended June 30, 2013 was 88.8%, as compared to 91.1% for the six months ended June 30, 2012. Our gross profit margin for game development segment for the six months ended June 30, 2013 was 88.7%, as compared to 93.9% for the six months ended June 30, 2012. Our gross profit margin for game publishing segment for the six months ended June 30, 2013 was 89.1%, as compared to 85.5% for the six months ended June 30, 2012.

Selling and Marketing Expenses. Our selling and marketing expenses for the six months ended June 30, 2013 were RMB158.9 million, a 101.8% increase from RMB78.8 million for the six months ended June 30, 2012. This increase was primarily due to the increase of our promotion and advertising expenses from RMB75.8 million for the six months ended June 30, 2012 to RMB152.3 million for the six months ended June 30, 2013, which was primarily because of (i) our initiatives to expand our platform business by placing more advertisements on popular websites in China to generate more user traffic and (ii) the general increase in online advertising cost in China as a result of increased demand for online advertisement.

Administrative Expenses. Our administrative expenses for the six months ended June 30, 2013 were RMB46.9 million, a 261.7% increase from RMB13.0 million for the six months ended June 30, 2012. This increase was primarily due to (i) the share-based compensation expense of RMB12.5 million as a result of the share options granted to senior management to incentivize their contributions to our business development and (ii) the increase of other administrative expenses from RMB13.0 million for the six months ended June 30, 2012 to RMB34.4 million for the six months ended June 30, 2013 mainly resulting from the professional service expenses incurred in connection with the Global Offering.

Research and Development Expenses. Our research and development expenses for the six months ended June 30, 2013 were RMB141.3 million, a 90.2% increase from RMB74.3 million for the six months ended June 30, 2012. This increase was primarily due to (i) the increase in our employee benefit expenses (excluding the share-based compensation expense) from RMB59.9 million for the six months ended June 30, 2012 to RMB109.9 million for the six months ended June 30, 2013 as a result of an increase in headcount and salary of our game development teams as we expanded into the mobile game business and developed more mobile games as well as we leveraged more on our in-house game development capabilities and (ii) the share-based compensation expense of RMB10.9 million as a result of the share option granted to our game development staff as part of our employee incentive plan, partially offset by the decrease in our game development outsourcing costs from RMB9.0 million for the six months ended June 30, 2012 to RMB4.9 million for the six months ended June 30, 2013 as we reduced outsourced research and development. Our headcount in the game development teams increased from 802 as of June 30, 2012 to 1,456 as of June 30, 2013.

Other Income. Our other income for the six months ended June 30, 2013 was RMB1.8 million, representing a 9.1% decrease from RMB1.9 million for the six months ended June 30, 2012. This decrease was primarily because Feiyin applied for and received a government grant of RMB1.5 million as a "Key Software and Animation Company" from the Guangzhou municipal government for the six months ended June 30, 2012, partially offset by the increase in our interest income as a result of the increase in our bank deposits. This government grant was provided to promising software and animation companies in Guangzhou to stimulate development of the local software and animation industry. Other than the qualification for being a "Key Software and Animation Company," the grant has no other conditions attached and is not recurring in nature.

Operating Profit. As a result of the foregoing, our operating profit for the six months ended June 30, 2013 was RMB163.6 million, representing a 7.9% increase from RMB151.7 million for the six months ended June 30, 2012. Our operating profit margin for the six months ended June 30, 2013 was 28.5%, compared with 43.7% for the six months ended June 30, 2012.

Finance Income/(Cost). We had a finance income of RMB1.9 million for the six months ended June 30, 2013 as compared to a finance cost of RMB3.6 million for the six months ended June 30, 2012. The finance income for the six months ended June 30, 2013 was primarily attributable to interest income on a short-term investment as part of our cash management strategy, the annual interest rate of which is guaranteed at 2.7% and linked to commodity price, floating within the range of 2.7% per annum to 3.9% per annum. The finance cost for the six months ended June 30, 2012 was primarily attributable to the issuance cost of Series A Preferred Shares in June 2012.

(Loss)/Profit before Income Tax. As of result of the foregoing and the fair value loss of convertible redeemable preferred shares of RMB369.4 million attributable to the significant increase in the underlying equity fair value of the Company, we had a loss before income tax for the six months ended June 30, 2013 of RMB203.9 million, as compared to profit before income tax of RMB148.0 million for the six months ended June 30, 2012. Please refer to the section headed "Financial Information — Shareholders' Equity" and Note 30 to the Accountant's Report in Appendix I to this prospectus for details of the fair value loss of convertible redeemable preferred shares.

Income Tax Expense. Our income tax expense for the six months ended June 30, 2013 was RMB39.4 million, a 52.8% increase from RMB25.8 million for the six months ended June 30, 2012. This increase was primarily because (i) our taxable profit of the PRC Operational Entities increased; and (ii) fair value loss of convertible redeemable preferred shares of RMB369.4 million did not decrease our income tax expense as the Company was exempted from Cayman Islands income tax.

(Loss)/Profit for the Period. As a result of the foregoing, our loss for the six months ended June 30, 2013 was RMB243.3 million, as compared to our profit of RMB122.2 million for the six months ended June 30, 2012.

Adjusted Net Profit. Our adjusted net profit for the six months ended June 30, 2013 was RMB153.6 million, representing a 22.0% increase from RMB125.9 million for the six months ended June 30, 2012. Please refer to the section headed "— Other Financial Measures."

Year Ended December 31, 2012 Compared with the Year Ended December 31, 2011

Revenue. Our revenue for 2012 was RMB776.6 million, a 102.2% increase from RMB384.0 million for 2011.

Game Development. Our game development revenue for 2012 was RMB540.7 million, a 114.6% increase from RMB252.0 million for 2011. The increase in our game development revenue was primarily due to the increase in the number of average MPUs from approximately 240,000 in 2011 to approximately 518,000 in 2012. Such increase was primarily because (i) we launched 12 new games in 2012, including *Charmed Westward Journey*, *Fantasy Immortal II: Ascension* and *The Era of Storms*, which generated revenue of RMB81.8 million in 2012 and (ii) our 12 existing successful games, such as *Soul Guardian II* and *True King*, continued to attract more paying players in 2012 compared to in 2011 and generated revenue of RMB445.1 million in 2012. Please refer to the section headed "Business — Our Businesses — Our Game Development Business" for details of key new games and existing games during the Track Record Period. The ARPPU for our game development business remained stable from 2011 to 2012. Our revenue generated from licensing fees paid by our publishing partners in 2012 was RMB16.3 million, a 256.7% increase from RMB4.6 million in 2011. Our revenue generated from our technical support services to third-party game developers in 2012 was RMB21.0 million, as compared to nil in 2011. As of December 31, 2012, we had 24 self-developed games in operation, out of which 16 were both published on *91wan* and by our publishing partners and eight were only published by our publishing partners. As of December 31, 2011, we had 13 self-developed games in operation, out of which 11 were both published on *91wan* and by our publishing partners and two were only published by our publishing partners. One self-developed game was phased out in both 2011 and 2012.

Game Publishing. Our game publishing revenue for 2012 was RMB235.9 million, a 78.7% increase from RMB132.0 million for 2011. The increase in our game publishing revenue was primarily due to the increase in the average MPUs from approximately 40,000 in 2011 to approximately 71,000 in 2012. Such an increase was primarily because (i) we were able to broaden our player base on *91wan* through targeted marketing and promotional campaigns; (ii) we continued to provide high-quality player service to increase the number of paying players; and (iii) we were able to license more popular games from third-party developers and publish more successful self-developed games on *91wan,* which helped increase the organic growth of our player base and the number of paying players. The ARPPU for our game publishing business in 2012 remained stable as compared to 2011. Our game publishing revenue generated by our own games for 2012 was RMB123.1 million, a 48.1% increase from RMB83.1 million for 2011. Our game publishing revenue generated by licensed games for 2012 was RMB112.8 million, a 130.9% increase from RMB48.8 million for 2011. As of December 31, 2012, *91wan* published 16 self-developed games and 49 licensed games, as compared to 11 self-developed games and 26 licensed games as of December 31, 2011. In 2012, 14 licensed games were phased out, as compared to three licensed games in 2011.

Cost of Revenue. Our cost of revenue for 2012 was RMB79.1 million, a 14.9% increase from RMB68.8 million in 2011.

Game Development. Our cost of revenue for game development segment for 2012 was RMB40.6 million, a decrease of RMB4.2 million, or 9.3%, from RMB44.7 million for 2011. The decrease was primarily due to the decrease in fees paid to outsourcing parties from RMB30.6 million to RMB6.4 million, partially offset by the increase in server and bandwidth costs from RMB10.6 million to RMB24.2 million. Our fees paid to outsourcing parties decreased in 2012 because certain webgames they helped to develop were less popular and thus generated less revenue in 2012. Increases in our server and bandwidth costs as well as server depreciation cost increased in 2012 were in line with the growth of our game development business.

Game Publishing. Our cost of revenue for game publishing segment for 2012 was RMB38.5 million, a 59.8% increase from RMB24.1 million for 2011. The increase was primarily due to the increase in server and bandwidth costs related to our game publishing business from RMB6.6 million to RMB9.2 million as well as the increase in salary and compensation expense from RMB10.5 million to RMB16.3 million. We incurred more server and bandwidth costs and server depreciation cost in 2012 to accommodate the increased user traffic on *91wan*. Our increase in salary and compensation expense in 2012 was primarily due to the increase in headcount in the *91wan* operation team from 176 as of December 31, 2011 to 281 as of December 31, 2012. Our payment handling costs also increased from RMB2.6 million in 2011 to RMB5.2 million in 2012 as a result of the increase in the total transaction amounts settled through payment channels as our game publishing business grew.

Gross Profit Margin. As a result of the foregoing, our gross profit margin for 2012 was 89.8%, as compared to 82.1% for 2011. Our gross profit margin for game development segment for 2012 was 92.5%, as compared to

82.3% for 2011. Our gross profit margin for game publishing segment for 2012 was 83.7%, as compared to 81.7% for 2011.

Selling and Marketing Expenses. Our selling and marketing expenses for 2012 were RMB178.7 million, a 200.6% increase from RMB59.5 million for 2011. This increase was primarily due to the increase of our promotion and advertising expenses from RMB57.0 million in 2011 to RMB172.2 million in 2012, which was primarily because of (i) our initiatives to expand our platform business by placing more advertisements on popular websites in China to generate more user traffic and (ii) the general increase in online advertising cost in China as a result of increased demand for online advertisement.

Administrative Expenses. Our administrative expenses for 2012 were RMB36.5 million, a 71.0% decrease from RMB125.7 million for 2011. This decrease was primarily due to the share-based compensation expense of RMB97.1 million incurred in 2011 as a result of the share grants by Mr. Wang, Mr. Huang and Mr. Liao to Mr. Zhuang and Mr. Yang for their previous contributions to our business development.

Research and Development Expenses. Our research and development expenses for 2012 were RMB200.6 million, a 123.3% increase from RMB89.8 million for 2011. This increase was primarily due to the increase in our employee benefit expenses from RMB46.8 million in 2011 to RMB160.9 million in 2012 as a result of the increase in headcount of our game development teams as we leveraged more on our in-house game development capabilities, partially offset by the decrease in our game development outsourcing costs from RMB37.2 million in 2011 to RMB21.6 million in 2012 as we reduced outsourced research and development. Our headcount in the game development teams increased from 652 as of December 31, 2011 to 1,493 as of December 31, 2012.

Other Income. Our other income for 2012 was RMB2.8 million, representing a significant increase from RMB0.5 million for 2011. This increase was primarily because Feiyin applied for and received a government grant of RMB1.5 million as a "Key Software and Animation Company" from the Guangzhou municipal government in 2012. This government grant was provided to promising software and animation companies in Guangzhou to stimulate development of the local software and animation industry. Other than the qualification for being a "Key Software and Animation Company," the grant has no conditions attached and is not recurring in nature. We also received more interest income as a result of the increase in our bank deposits.

Operating Profit. As a result of the foregoing, our operating profit for 2012 was RMB283.6 million, representing a significant increase from RMB40.5 million for 2011. Our operating profit margin for 2012 was 36.5%, compared with 10.6% for 2011.

Finance Costs. Our finance costs for 2012 were RMB3.6 million while we did not have any finance costs for 2011. This increase was primarily attributable to transaction costs for the issuance of convertible redeemable preferred shares.

Profit before Income Tax. As of result of the foregoing, our profit before income tax for 2012 was RMB261.2 million, representing a significant increase from RMB40.5 million for 2011.

Income Tax Expense. Our income tax expense for 2012 was RMB43.6 million, a 92.2% increase from RMB22.7 million for 2011. This increase was primarily due to the increase in our profit before income tax in 2012. Our effective income tax rate was 16.7% in 2012, compared to 55.9% in 2011. The higher effective tax rate in 2011 was the result of non-tax deductible expenses, such as share-based compensation expenses, which reduced profit before income tax but not the tax expenses.

Profit for the Year. As a result of the foregoing, our profit for 2012 was RMB217.6 million, representing a significant increase from RMB17.8 million for 2011.

Adjusted Net Profit. Our adjusted net profit for 2012 was RMB240.0 million, representing a 108.8% increase from RMB114.9 million for 2011. Please refer to the section headed "— Other Financial Measures."

Year Ended December 31, 2011 Compared with the Year Ended December 31, 2010

Revenue. Our revenue for 2011 was RMB384.0 million, a 303.9% increase from RMB95.1 million in 2010.

Game Development. Our game development revenue for 2011 was RMB252.0 million, a 407.1% increase from RMB49.7 million for 2010. The increase in our game development revenue was primarily driven by the increase in the number of average MPUs for our game development business from approximately 69,000 in 2010 to approximately 240,000 in 2011. Such increase was primarily because (i) we launched eight new games in 2011, including *Soul Guardian II*, *The Ninth Heaven*, *True King* and *Legend of Chaos* which generated revenue of RMB87.0 million in 2011, and (ii) our five existing successful games, such as *Soul Guardian I* and *Fantasy Immortal*, continued to attract more paying players in 2011 compared to 2010 and generated revenue of RMB161.5 million in 2011. Please refer to the section headed "Business — Our Businesses — Our Game Development Business" for details of key new games and existing games during the Track Record Period. Our ARPPU from game development business also increased from RMB60 in 2010 to RMB88 in 2011, primarily due to (i) the successful launch of our new popular webgames in 2011 such as *Generals Saga*, and (ii) the improvement of the revenue generating capabilities of our existing successful games in 2011 such as *Soul Guardian I*, *Fantasy Immortal*, *Tale of the Dragon Tomb and The Archmages*. Our revenue generated from licensing fees paid by our publishing partners in 2011 was RMB4.6 million, a 69.9% increase from RMB2.7 million in 2010. We did not generate revenue from technical support service to third-party game developers in 2010 or 2011. As of December 31, 2011, we had 13 self-developed games in operation, out of which 11 were both published on *91wan* and by our publishing partners and two were only published by our publishing partners. As of December 31, 2010, we had six self-developed games in operation, all of which were both published on *91wan* and by our publishing partners. One self-developed game was phased out in 2011 while no self-developed game was phased out in 2010.

Game Publishing. Our game publishing revenue for 2011 was RMB132.0 million, a 190.9% increase from RMB45.4 million for 2010. The increase in our game publishing revenue was primarily due to the increase in our ARPPU for game publishing business from RMB125 in 2010 to RMB274 in 2011, and to a lesser extent, the increase in the average MPUs for game publishing business from approximately 30,000 in 2010 to approximately 40,000 in 2011. The increase in the average MPUs for game publishing business from 2010 to 2011 was primarily because (i) we were able to broaden our player base on *91wan* through targeted marketing and promotion campaigns; (ii) we continued to provide high-quality player service to increase the number of paying players; and (iii) we were able to license more popular games from third-party developers and publish more successful self-developed games on *91wan*, which helped increase the organic growth of our player base and the number of paying players. The increase in our ARPPU for game publishing business was primarily because (i) we published new popular webgames on *91wan* in 2011, (ii) the revenue generating capabilities of the existing successful games further improved in 2011, and (iii) we published more of our own successful games on *91wan*, which had stronger revenue generating capabilities as compared to licensed games. Our game publishing revenue generated by our own games for 2011 was RMB83.1 million, a 175.9% increase from RMB30.1 million for 2010. Our game publishing revenue generated by licensed games for 2011 was RMB48.8 million, a 220.5% increase from RMB15.2 million for 2010. As of December 31, 2011, *91wan* published 11 self-developed games and 26 licensed games, as compared to six self-developed games and 11 licensed games as of December 31, 2010. Three licensed games were phased out in both 2010 and 2011.

Cost of Revenue. Our cost of revenue for 2011 was RMB68.8 million, a 25.8% increase from RMB54.7 million in 2010.

Game Development. Our cost of revenue for game development segment for 2011 was RMB44.7 million, a 1.4% decrease from RMB45.3 million for 2010. The decrease was primarily due to the decrease in fees paid to outsourcing parties from RMB40.4 million to RMB30.6 million, partially offset by the increase in server and bandwidth costs related to our game development business from RMB3.8 million to RMB10.6 million. Our fees paid to outsourcing parties decreased in 2011 as we decided to leverage more on our in-house webgame development force and reduced the work outsourced to third parties. Increases in our server and bandwidth costs as well as server depreciation cost in 2011 were in line with the growth of our game development business.

Game Publishing. Our cost of revenue for game publishing segment for 2011 was RMB24.1 million, a 157.5% increase from RMB9.4 million for 2010. The increase was primarily due to the increase in server and bandwidth costs related to our game publishing business from RMB2.2 million to RMB6.6 million as well as the increase in salary and compensation expense from RMB4.0 million to RMB10.5 million. We incurred more server and bandwidth costs and server depreciation cost in 2011 to accommodate the increased user traffic on *91wan*. Our increase in salary and compensation expense in 2011 was primarily due to the increase in headcount in the *91wan* operation team from 93 as of December 31, 2010 to 176 as of December 31, 2011. Our payment handling costs also increased from RMB1.7 million in 2010 to RMB2.6 million in 2011 as a result of the increase in the total transaction amounts settled by payment channels as our game publishing business grew.

Gross Profit Margin. As a result of the foregoing, our gross profit margin for 2011 was 82.1%, as compared to 42.5% for 2010. Our gross profit margin for game development segment for 2011 was 82.3%, as compared to 8.8% for 2010. Our gross profit margin for game publishing segment for 2011 was 81.7%, as compared to 79.4% for 2010.

Selling and Marketing Expenses. Our selling and marketing expenses for 2011 were RMB59.5 million, a 123.2% increase from RMB26.6 million in 2010. This increase was primarily due to the increase of our promotion and advertising expenses from RMB25.7 million in 2010 to RMB57.0 million in 2011, which was primarily because of (i) our initiatives to expand our platform business by placing advertisements on popular websites in China to acquire more player traffic, and (ii) the general increase in online advertising cost in China as a result of increased demand for online advertisement.

Administrative Expenses. Our administrative expenses for 2011 were RMB125.7 million, a significant increase from RMB7.2 million in 2010. This increase was primarily due to the share-based compensation expense of RMB97.1 million incurred in 2011 as a result of the share grants by Mr. Wang, Mr. Huang and Mr. Liao to Mr. Zhuang and Mr. Yang for their previous contributions to our business development.

Research and Development Expenses. Our research and development expenses for 2011 were RMB89.8 million, a 91.2% increase from RMB47.0 million for 2010. This increase was primarily due to the increase in our employee benefit expenses from RMB15.3 million in 2010 to RMB46.8 million in 2011 as a result of the increase in headcount of our game development teams as we commit to develop more successful games in the future, and to a lesser extent, the increase in our game development outsourcing costs from RMB30.9 million in 2010 to RMB37.2 million in 2011. Our headcount in the game development teams increased from 278 as of December 31, 2010 to 652 as of December 31, 2011.

Operating Profit/(Loss). As a result of the foregoing, our operating profit for 2011 was RMB40.5 million, as compared to our operating loss of RMB40.4 million in 2010. Our operating profit margin for 2011 was 10.6%.

Profit/(Loss) before Income Tax. As a result of the foregoing, our profit before income tax for 2011 was RMB40.5 million, as compared to our loss before income tax of RMB40.4 million in 2010.

Income Tax Expense. Our income tax expense for 2011 was RMB22.7 million, representing a significant increase from the income tax credit of RMB0.03 million for 2010. This increase was because (i) we incurred loss before income tax in 2010 and (ii) the share-based compensation expenses incurred in 2011 were not deductible for tax purposes. As a result of the foregoing, our effective income tax rate was 55.9% in 2011, compared to 0.1% in 2010.

Profit/(Loss) for the Year. As a result of the foregoing, our profit for 2011 was RMB17.8 million, as compared to our loss for 2010 of RMB40.4 million.

Adjusted Net Profit/(Loss). Our adjusted net profit for 2011 was RMB114.9 million, as compared to adjusted net loss of RMB40.4 million for 2010. Please refer to the section headed "— Other Financial Measures."

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

We have historically met our working capital and other capital requirements principally from cash flow generated from our operating activities. Going forward, we believe that our liquidity requirements will be satisfied by using a combination of cash flow generated from our operating activities, other funds raised from the capital markets from time to time and the proceeds from this Global Offering.

The following table presents selected cash flow data from our consolidated cash flow statements for the periods indicated:

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2010	2011	2012	2012	2013
	(RMB'000)			(unaudited)	
Net cash generated from operating activities	26,791	100,650	299,629	183,436	130,899
Net cash used in investing activities	(16,908)	(28,112)	(51,972)	(7,820)	(154,362)
Net cash (used in)/generated from financing activities	—	—	(20,896)	351,008	(1,550)
Net increase/(decrease) in cash and cash equivalents	9,883	72,538	226,761	526,624	(25,013)
Cash and cash equivalents at end of year/period	13,455	85,993	312,639	612,617	287,415

Net Cash Generated from Operating Activities

Net cash generated from operating activities consisted primarily of our profit/(loss) for the year/period adjusted by income tax paid and non-cash items, such as depreciation of property and equipment, amortization of intangible assets and share-based compensation, and adjusted by changes in working capital, such as trade receivables, prepayments and other receivables, trade payables, other payables and accruals and deferred revenues. The fluctuations of cash flows from operating activities largely correspond to the changes in our profit/(loss) for the year/period.

For the six months ended June 30, 2013, our net cash generated from operating activities was RMB130.9 million. This net cash generated from operating activities was mainly attributable to (i) an increase in trade payables of RMB10.0 million; (ii) an increase in other payables and accruals of RMB11.0 million; and (iii) non-cash items of RMB407.5 million, including depreciation of property and equipment of RMB7.5 million, share-based compensation of RMB27.5 million and fair value loss of convertible redeemable preferred shares of RMB369.4 million, partially offset by (i) our loss before income tax of RMB203.9 million; (ii) an increase in trade receivables or RMB6.6 million; (iii) an increase in prepayments and other receivables of RMB19.9 million; (iv) a decrease in deferred revenue of RMB28.5 million; and (v) the payments for income tax of RMB38.6 million.

For 2012, our net cash generated from operating activities was RMB299.6 million. This net cash generated from operating activities was mainly attributable to our profit before income tax of RMB261.2 million, which was positively adjusted primarily for (i) a decrease in prepayments and other receivables of RMB39.5 million; (ii) an increase in other payables and accruals of RMB22.2 million; (iii) an increase in deferred revenue of RMB23.4 million; and (iv) non-cash items of RMB37.5 million, including depreciation of property and equipment of RMB10.6 million and fair value loss of convertible redeemable preferred shares of RMB18.8 million, partially offset by (i) an increase in trade receivables of RMB38.2 million; (ii) a decrease in trade payables of RMB1.4 million; and (iii) the payment for income tax of RMB44.5 million.

For 2011, our net cash generated from operating activities was RMB100.7 million. This net cash generated from operating activities was mainly attributable to our profit before income tax of RMB40.5 million, which was positively adjusted primarily for (i) an increase in other payables and accruals of RMB8.9 million; (ii) an increase in deferred revenue of RMB20.9 million; and (iii) non-cash items of RMB103.8 million, including share-based compensation expenses of RMB97.1 million related to the share grants to Mr. Zhuang and Mr. Yang, partially offset by (i) an increase in trade receivables of RMB25.6 million; (ii) an increase in prepayments and other receivables of RMB21.5 million; (iii) a decrease in trade payables of RMB2.2 million; and (iv) the payment for income tax of RMB24.3 million.

For 2010, our net cash generated from operating activities was RMB26.8 million. This net cash generated from operating activities was mainly attributable to our loss before income tax of RMB40.4 million, which was positively adjusted primarily for (i) an increase in trade payables of RMB10.7 million; (ii) an increase in other payables and accruals of RMB9.3 million; (iii) an increase in deferred revenue of RMB86.0 million; and (iv) non-cash items of RMB1.8 million, partially offset by (i) an increase in trade receivables of RMB17.7 million; (ii) an increase in prepayments and other receivables of RMB22.4 million; and (iii) the payment for income tax of 0.5 million.

Net Cash Used in Investing Activities

For the six months ended June 30, 2013, our net cash used in investing activities was RMB154.4 million, mainly attributable to (i) payment for our short-term investment of RMB220.0 million, which represents structured deposits with the annual interest rate guaranteed at the rate of 2.7% and linked to commodity prices, floating within the range of 2.7% to 3.9%; (ii) payment for our investment in Appionics of RMB18.7 million; (iii) purchase of property and equipment of RMB22.0 million, such as servers and computers for our network infrastructure and leasehold improvements for new offices; and (iv) purchases of intangible assets of RMB4.7 million, including our software purchase and payment of licensing fees for our licensed games, partially offset by (i) proceeds from uplift of our matured short-term investment of RMB110.0 million; (ii) interest received from our short-term investment of RMB1.1 million; and (iii) proceeds from disposals of property and equipment such as servers and computers.

For 2012, our net cash used in investing activities was RMB52.0 million, mainly attributable to (i) purchase of property and equipment of RMB19.7 million, such as servers and computers for our network infrastructure; and (ii) purchases of intangible assets of RMB32.8 million, including purchase of intellectual property rights of third-party developed games such as *Fantasy Immortal II: Ascension*, partially offset by proceeds from disposals of property and equipment such as servers and computers.

For 2011, our net cash used in investing activities was RMB28.1 million, mainly attributable to (i) purchases of property and equipment of RMB27.8 million, such as servers and computers for our network infrastructure; and (ii) purchases of intangible assets of RMB0.7 million, such as intellectual property rights of third-party developed games, partially offset by proceeds from disposals of property and equipment such as servers and computers.

For 2010, our net cash used in investing activities was RMB16.9 million, representing purchases of property and equipment such as servers and computers for our network infrastructure.

Net Cash Used in Financing Activities

Our net cash used in financing activities for the six months ended June 30, 2013 was RMB1.6 million, which was primarily attributable to payment for our deferred IPO costs incurred in connection with the Global Offering.

Our net cash used in financing activities in 2012 was RMB20.9 million, which was attributable to (i) payments for repurchase of ordinary shares from two Pre-Series A Investors of RMB371.9 million, (ii) dividends paid to the Founders of RMB90.5 million and (iii) payments of issuance costs of convertible redeemable preferred shares of RMB3.6 million, partially offset by (i) capital contribution of RMB10.0 million from our Founders to set up Jieyou and (ii) proceeds from issuance of convertible redeemable preferred shares of RMB435.2 million.

We did not have net cash used in or generated from financing activities in 2011 or 2010.

Net Current Assets and Liabilities

The following table sets forth the breakdown of our current assets and current liabilities as of the dates indicated below:

	As of December 31,			As of June 30,	As of August 31,
	2010	**2011**	**2012**	**2013**	**2013**
			(RMB'000)		
					(unaudited)
Current Assets					
Trade receivables	20,496	46,066	84,293	90,904	83,798
Prepayments and other receivables	40,075	60,547	20,233	45,899	39,044
Short-term investment	—	—	—	110,854	110,402
Cash and cash equivalents	13,455	85,993	312,639	287,415	348,233
Total current assets	74,026	192,606	417,165	535,072	581,477
Current Liabilities					
Short-term loan	—	—	—	—	15,427
Trade payables	13,803	11,603	10,168	20,167	13,414
Other payables and accruals	10,439	19,381	41,622	57,849	67,618
Income tax liabilities	12,253	16,373	20,467	15,590	13,927
Deferred revenue	85,594	102,628	127,145	98,086	83,523
Total current liabilities	122,089	149,985	199,402	191,692	193,909
Net current (liabilities)/assets	(48,063)	42,621	217,763	343,380	387,568

As of August 31, 2013, we had net current assets of RMB387.6 million, as compared to our net current assets of RMB343.4 million as of June 30, 2013. This change was mainly attributable to (i) an increase in cash and cash equivalents of RMB60.8 million, in line with the growth in our business; (ii) an increase in short-term loan of RMB15.4 million, primarily because we draw down the term loan facility with China Merchants Bank Co., Ltd., Hong Kong Branch in July 2013; (iii) an increase in other payables and accruals of RMB9.8 million, primarily due to the profession service fees payable in connection with the Global Offering; and (iv) a decrease in deferred revenue of RMB14.6 million.

As of June 30, 2013, we had net current assets of RMB343.4 million, as compared to our net current assets of RMB217.8 million as of December 31, 2012. This change was mainly attributable to (i) an increase in prepayments and other receivables of RMB25.7 million, primarily due to the increase in our prepaid advertising costs as we increased the prepayments paid to advertisement vendors in exchange for better advertising opportunities and resources as well as our deferred IPO costs incurred in connection with the Global Offering, (ii) an increase in short-term investment of RMB110.9 million as part of our cash management strategy, (iii) a decrease in cash and cash equivalents of RMB25.2 million, primarily as a result of the increase in our short-term investment, (iv) an increase in other payables and accruals of RMB16.2 million, primarily due to the professional service fees payable in connection with the Global Offering, and (v) a decrease in deferred revenue of RMB29.1 million.

As of December 31, 2012, we had net current assets of RMB217.8 million, as compared to our net current assets of RMB42.6 million as of December 31, 2011. This change was mainly attributable to (i) an increase in trade receivables of RMB38.2 million, primarily as a result of the increase in the number of our games published on the platforms of our publishing partners, (ii) a decrease in prepayments and other receivables of RMB40.3 million, primarily because we received amounts due from shareholders of RMB54.6 million in 2012, (iii) an increase in cash and cash equivalents of RMB226.6 million, primarily as a result of the increase in our cash flow from operating activities, (iv) an increase in other payables and accruals of RMB22.2 million, primarily as a result of the increase in headcount of our staff in the PRC, and (v) an increase in deferred revenue of RMB24.5 million.

As of December 31, 2011, we had net current assets of RMB42.6 million, representing an increase of RMB90.7 million from our net current liabilities of RMB48.1 million as of December 31, 2010. This change was mainly attributable to (i) an increase in trade receivables of RMB25.6 million, primarily as a result of the increase in the number of our games published on the platforms of our publishing partners, (ii) an increase in prepayments and other receivables of RMB20.5 million, primarily due to the increase in receivables due from related parties, (iii) an increase in cash and cash equivalents of RMB72.5 million, primarily as a result of the increase in our cash flow from operating activities, and (iv) an increase in deferred revenue of RMB17.0 million.

As of December 31, 2010, we had net current liabilities of RMB48.1 million. This was mainly due to the significant amount of deferred revenues under current liabilities in 2010 as compared to the relatively small amount of cash and cash equivalents, primarily because our business scale was relatively small before 2009 and the webgames we devoted resources to develop and launch in 2010 were yet to generate a large amount of revenues.

Capital Expenditure and Investment

The following table sets out our expenditures for the periods indicated:

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2010	**2011**	**2012**	**2012**	**2013**
			(RMB'000)	**(unaudited)**	
Capital expenditures					
— Purchase of property and equipment	16,908	27,750	19,662	6,811	22,029
— Purchase of intangible assets	—	698	32,830	1,050	4,712
Total	16,908	28,448	52,492	7,861	26,741

Our capital expenditures comprised purchase of property and equipment such as servers and computers and purchase of intangible assets such as intellectual property rights of third-party developed games. During the three years ended December 31, 2010, 2011 and 2012, our total capital expenditures were RMB16.9 million, RMB28.4

million and RMB52.5 million, respectively. The increase of RMB24.0 million in our total capital expenditures from 2011 to 2012 was primarily due to the increase in our purchase of intangible assets of RMB32.1 million, which mainly arose from our purchase of the intellectual property rights of *Fantasy Immortal II: Ascension*, one of our most popular webgames, in 2012. For the six months ended June 30, 2012 and 2013, our total capital expenditures were RMB7.9 million and RMB26.7 million, respectively. This increase of RMB18.9 million in our total capital expenditures was primarily due to the increase in our purchase of property and equipment of RMB15.2 million in line with our business growth and the increase in our purchase of intangible assets of RMB3.7 million as a result of our software purchase and payment of licensing fees for our licensed games.

Capital Commitments

We did not have capital expenditure contracted for but not provided for as of December 31, 2010, 2011 and 2012. As of June 30, 2013, our capital expenditure contracted but not provided for amounted to approximately RMB2.7 million, which was related to acquisition of property and equipment.

Operating Lease Commitments

The following table sets out our total commitments for future minimum lease payments under non-cancellable operating leases as of each date indicated:

	As of December 31,			As of June 30,
	2010	**2011**	**2012**	**2013**
			(RMB'000)	
Contracted:				
No later than 1 year	4,784	8,434	17,350	20,446
Later than 1 year and no later than 5 years	10,875	9,661	12,317	32,445
Total	15,659	18,095	29,667	52,891

Working Capital

We finance our working capital needs primarily through cash flow from operating activities and advances from shareholders. Taking into account the financial resources available to the Group, including the cash flow from operating activities, the bank borrowings and the estimated net proceeds from the Global Offering, our Directors are of the view that, after due and careful inquiry, the Group has sufficient available working capital for our present requirements for at least the next 12 months from the date of this prospectus.

Trade Receivables

The balance of trade receivables at the end of respective years consists of (i) the receivables from our publishing partners under the revenue sharing arrangements related to our game development business and (ii) the receivables from payment channels related to our game publishing business.

Our trade receivables increased from RMB20.6 million as of December 31, 2010 to RMB48.3 million as of December 31, 2011, and to RMB86.9 million as of December 31, 2012 and further to RMB91.9 million as of June 30, 2013. The following table sets forth an ageing analysis, based on the recognition date of our trade receivables as of each date indicated:

	As of December 31,			As of June 30,
	2010	2011	2012	2013
			(RMB'000)	
0-30 days	18,421	39,137	59,498	59,137
31-60 days	673	3,488	17,803	23,025
61-90 days	682	1,704	4,948	4,357
91-180 days	631	1,846	1,230	3,319
180-365 days	121	1,978	814	1,156
Over 1 year	49	137	2,620	909
Total	20,577	48,290	86,913	91,903

The following table sets forth our average trade receivables turnover days for the periods indicated:

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2010	2011	2012	2012	2013
Trade receivables turnover days[(1)]	79	44	40	28	29

Note:

(1) The trade receivables turnover days for a certain period is the trade receivable balances divided by revenue for that period and multiplied by 365 days for a year or 180 days for a six-month period, as applicable.

Our trade receivables turnover days for the years ended December 31, 2011 and 2012 decreased to 44 days and 40 days, respectively, from 79 days for the year ended December 31, 2010, mainly because we have improved our trade receivable collection efforts since 2011. Our trade receivables turnover days remained stable as 29 days for the six months ended June 30, 2013 as compared to 28 days for the six months ended June 30, 2012.

Prepayments and Other Receivables

The following table sets out our prepayments and other receivables as of each date indicated:

	As of December 31,			As of June 30,
	2010	2011	2012	2013
		(RMB'000)		
Included in non-current assets				
Rental and other deposits	467	1,523	2,352	3,142
Prepayments for intangible assets and property and equipment	—	—	—	6,365
	467	1,523	2,352	9,507
Included in current assets				
Amount due from Controlling Shareholders	32,054	54,679	64	—
Rental and other deposits	815	694	3,434	7,674
Prepaid advertising costs	—	859	9,883	23,059
Staff advance	4,869	3,630	1,719	403
Prepayments for outsourcing of game development charges	—	—	2,660	2,085
Deferred IPO costs	—	—	—	6,641
Prepaid technical services fee	—	—	566	920
Others	2,841	1,189	2,411	5,117
	40,579	61,051	20,737	45,899
Less: provision for impairment of other receivables	(504)	(504)	(504)	—
Subtotal	40,075	60,547	20,233	45,899
Total	40,542	62,070	22,585	55,406

Our prepayments and other receivables as of December 31, 2010, 2011 and 2012 and June 30, 2013 were RMB40.5 million, RMB62.1 million, RMB22.6 million and RMB55.4 million, respectively. From December 31, 2010 to December 31, 2011, our prepayments and other receivables increased by RMB21.5 million, or 53.1%. From December 31, 2011 to December 31, 2012, our prepayments and other receivables decreased by RMB39.5 million, or 63.6%. From December 31, 2012 to June 30, 2013, our prepayments and other receivables increased by RMB32.8 million, or 145.3%. Our prepaid advertising costs, representing the advertising fees we paid upfront for better advertising opportunities and resources under certain advertising arrangements, increased from nil as of December 31, 2010 to RMB0.9 million as of December 31, 2011, RMB9.9 million as of December 31, 2012 and RMB23.1 million as of June 30, 2013, primarily because (i) we spent more resources in advertising activities for user acquisition of *91wan*, (ii) we engaged more advertisement vendors and most of the new vendors requested prepayment arrangements, and (iii) we increased the prepayments paid to advertisement vendors in exchange for better advertising opportunities and resources. Our prepayments for outsourcing of game development charges, representing the prepayments to outsourcing parties during our game development operation, increased from nil as of December 31, 2010 and 2011 to RMB2.7 million as of December 31, 2012 and RMB2.1 million as of June 30, 2013, primarily because we engaged new outsourcing parties in 2012 and the six months ended June 30, 2013 who requested prepayment arrangements while the outsourcing parties we engaged in 2010 and 2011 did not request such arrangements. Our deferred IPO costs increased from nil as of December 31, 2012 to RMB6.6 million as of June 30, 2013 as a result of the incurred incremental listing cost in connection with the Global Offering during the six months ended June 30, 2013. Our prepayments and other receivables also include prepaid rental and prepayment for game license.

Cash and Cash Equivalents

Our cash and cash equivalents comprised cash at bank and on hand, and cash at other financial institutions. Our cash at other financial institutions represents the cash deposited at the licensed payment channels. Our cash and cash equivalents as of December 31, 2010, 2011 and 2012 and June 30, 2013 were RMB13.5 million, RMB86.0 million, RMB312.6 million and RMB287.4 million, respectively. Our cash at bank and on hand as of December 31, 2010, 2011 and 2012 and June 30, 2013 was RMB13.5 million, RMB82.3 million, RMB309.0 million and RMB282.2 million, respectively. Our cash at other financial institutions as of December 31, 2010, 2011 and 2012 and June 30, 2013 was nil, RMB3.7 million, RMB3.6 million and RMB5.3 million, respectively. The significant increase in our cash and cash equivalents as of June 30, 2013 as compared to December 31, 2010 was primarily due to the increase in our net cash generated from operating activities, partially offset by the increase in our net cash used in investing activities and financing activities. Please refer to the section headed "— Liquidity and Capital Resources — Cash Flow."

Short-term Investment

For the six months ended June 30, 2013, we made a short-term investment of RMB220.0 million as part of our cash management strategy, which represents RMB-denominated structured deposits with a maturity period of 90 days. The minimum deposit amount is RMB100 million and neither us or the bank has the right to terminate the investment before maturity. The annual interest rate of such deposits is guaranteed at the rate of 2.7% and linked to commodity prices, floating within the range of 2.7% to 3.9%. The principal is also guaranteed and will be repaid to us together with the interest upon maturity. During the six months ended June 30, 2013, RMB110.0 million of such short-term investment was mature.

We have exercised due care when making investment decision and focus only on low risk financial products, the investment principals of which are guaranteed. Our headquarter finance department monitors the fluctuation in market interest rate and may adjust our investment timely with reference to the latest market conditions. Furthermore, we have adopted a series of internal control measures to review and monitor our investment risks. Our Finance Manager prepares reports with detailed analysis on the category, return, target, interest and other features of proposed financial products and submits to our General Manager for approval. Our Finance Manager then negotiates with bank(s) the terms of proposed financial products and submits the contract application forms to the head of our Operational Department and our General Manager for approval. Once approved, our cashier in the Finance Department proceeds with purchase of relevant financial products. During the terms of the financial products, our Finance Department records interests on a monthly basis. The renewal of any expired financial product follows the same approval procedures as described above.

Trade Payables

Our trade payables as of December 31, 2010, 2011 and 2012 and June 30, 2013 were RMB13.8 million, RMB11.6 million, RMB10.2 million and RMB20.2 million, respectively. From December 31, 2010 to December 31, 2011, our trade payables decreased by RMB2.2 million, or 15.9%. From December 31, 2011 to December 31, 2012, our trade payables decreased by RMB1.4 million, or 12.4%. From December 31, 2012 to June 30, 2013, our trade payables increased by RMB10.0 million, or 98.3%. Such increase was primarily due to the increase in our trade payables with game licensors under the revenue sharing arrangements related to our licensed games published on *91wan*.

The following table sets forth an ageing analysis of our trade payables as of the dates indicated:

	As of December 31,			As of June 30,
	2010	2011	2012	2013
		(RMB'000)		
0-30 days	13,681	9,367	8,351	10,647
31-60 days	116	956	1,018	7,778
61-90 days	—	745	317	330
91-180 days	6	151	166	719
Over 180 days	—	384	316	693
Total	13,803	11,603	10,168	20,167

The following table sets forth our average trade payables turnover days for the periods indicated:

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2010	2011	2012	2012	2013
Trade payables turnover days(1)	92	62	47	47	57

Note:

(1) The trade payables turnover days for a certain period is the trade payables balances divided by cost of revenue for that period and multiplied by 365 days for a year or 180 days for a six-month period, as applicable.

We settle our trade payables when the work is completed by third parties. Our trade payables turnover days for the year ended December 31, 2012 decreased to 47 days from 62 days for the year ended December 31, 2011, which is a further decrease from 92 days for the year ended December 31, 2010, primarily because of the changes in the mix of suppliers. Our trade payables turnover days for the six months ended June 30, 2013 increased to 57 days from 47 days for the six months ended June 30, 2012, primarily due to the increase in the revenue contribution from publishing third-party developed games, which typically result in more revenue shared to third-party developers and longer trade payables turnover days. Our Directors confirm that we did not have material defaults in payments of trade payables during the Track Record Period.

Other Payables and Accruals

The following table sets forth our other payables and accruals as of the dates indicated:

	As of December 31,			As of June 30,
	2010	2011	2012	2013
		(RMB'000)		
Staff costs and welfare accruals	3,354	12,449	25,737	24,957
Professional service fees payable	—	5,457	3,343	9,233
Other tax liabilities	4,149	508	3,841	4,095
Advertising expenses	283	—	4,333	12,374
Others	2,653	967	4,368	7,190
Total	10,439	19,381	41,622	57,849

Our other payables and accruals as of December 31, 2010, 2011 and 2012 and June 30, 2013 were RMB10.4 million, RMB19.4 million, RMB41.6 million and RMB57.8 million, respectively. Our other payables and accruals increased from December 31, 2010 to December 31, 2011 by RMB8.9 million, or 85.7%, and increased from December 31, 2011 to December 31, 2012 by RMB22.2 million, or 114.8%. Our other payables and accruals increased from December 31, 2012 to June 30, 2013 by RMB16.2 million, or 39.0%. Our other payables and accruals also include rental accruals and withholding individual income tax. Our Directors confirm that we did not have material defaults in payment of other payables during the Track Record Period.

Amounts Due to/from Related Parties

As of December 31, 2010, 2011 and 2012 and June 30, 2013, we had (i) receivables due from Sisanjiujiu Internet Co., Ltd. ("Sisanjiujiu Internet") of RMB2.7 million, RMB3.3 million, nil and nil, respectively, and (ii) receivables due from Guangzhou Youguo Internet Co., Ltd. ("Guangzhou Youguo") of RMB0.4 million, nil, nil and nil, respectively. Both Sisanjiujiu and Guangzhou Youguo are significantly influenced by a close family member of one of our Pre-Series A Investors. Such receivables arose mainly from the revenue sharing related to our games published on the platforms of such related parties and were fully settled.

As of December 31, 2010, 2011 and 2012 and June 30, 2013, we had (i) payables due to Sisanjiujiu of RMB0.03 million, RMB0.4 million, nil and nil, respectively, (ii) payables due to Guangzhou Jieyou Information Technology Co., Ltd. ("Jieyou Information") of RMB7.2 million, RMB1.2 million, nil and nil, respectively, and (iii) payables due to Beijing Youguo Internet Technology Co., Ltd. ("Beijing Youguo") of nil, RMB0.2 million, nil and nil, respectively. Jieyou Information is significantly influenced by Mr. Zhuang and Beijing Youguo is significantly influenced by a close family member of Mr. Wang. Such payables arose from outsourced game development transactions with such related parties as well as the revenue sharing related to games licensed from such related parties and published on our publishing platform and were fully settled.

As of December 31, 2010, 2011 and 2012 and June 30, 2013, we had (i) receivables due from Mr. Huang of RMB6.6 million, RMB18.1 million, nil and nil, respectively, and (ii) receivables due from Mr. Liao of RMB25.5 million, RMB36.5 million, nil and nil, respectively. Such receivables mainly arose from advance to these Controlling Shareholders for business purpose and when these Controlling Shareholders collected receivables and settled payables through their personal bank accounts on behalf of us during the years ended December 31, 2010 and 2011 and were fully settled in 2012 (the "Arrangements").

The Arrangements commenced in 2009 for convenience and efficiency purposes because personal bank accounts have more flexibility as compared to corporate bank accounts in the PRC. For example, corporate bank accounts in the PRC have fund transfer delays during weekends and public holidays, which prolong the settlement process. In our early days as a startup, in light of the highly competitive business environment of webgame industry, prompt settlement of transactions would facilitate us to retain quality business partners, whom our competitors also tended to solicit. Therefore, it was considered to be desirable to use personal bank accounts to expedite the settlement process with our business partners at that time. Among over 200 business partners at that time, 17 business partners accepted the Arrangements, which consisted of ten publishing partners, two payment channels and five outsourcing parties. Most of our publishing partners and outsourcing parties involved in the Arrangements were startups with relatively small sizes at the time of the Arrangements. All of our business partners involved in the Arrangements were Independent Third Parties at the time of the Arrangements, except for Sisanjiujiu Internet, and are private companies based in the PRC. A majority of the equity interest in Sisanjiujiu Internet was held by a close family member of one of our Pre-Series A Investors at the time of the Arrangements. During the Track Record Period, the total amounts received by our Controlling Shareholders from Sisanjiujiu Internet and paid by our Controlling Shareholders to Sisanjiujiu Internet on behalf of us under the Arrangements were RMB2.3 million and nil, respectively. As we subsequently enhanced our internal control, we ceased the Arrangements in July 2011 and settled all outstanding amounts with the relevant Controlling Shareholders under the Arrangements in June 2012. The internal control measures we have taken since August 2011 have effectively prevented the recurrence of the Arrangements afterwards.

We have operation systems to trace sales and calculate gross billings. Based on the gross billings and the revenue sharing arrangement, we calculated and maintained the records of cash to be received from or paid to third parties. For a payment from or to third parties, we checked whether it was settled by our corporate bank accounts or the relevant Controlling Shareholders' personal bank accounts, with relevant supporting documents, including bank statements, bank-in slips or payment slips. We used such information to calculate the outstanding balances with each third party on a monthly basis, reconciled the gross billings and the outstanding balance with each third party on a monthly basis and investigated the difference, if any. As a general control procedure, we reviewed account receivables aging and account payables aging on a monthly basis to make sure that all aged receivables and payables were properly followed up and that there was no significant unknown receipt or payment in the our financial records. We believe that the aforementioned measures we maintained enabled us to properly record the transactions under the Arrangements in our financial records. Furthermore, we had internal procedures to ensure that the amounts for business transactions under the Arrangements could be separated from our Controlling Shareholders' personal transactions, despite the fact that our Controlling Shareholders' personal bank accounts were used for both personal usage and the Arrangements. We retained all transaction records during our business operations, regardless whether the transactions were settled through the relevant Controlling Shareholders' personal bank accounts or our corporate bank account. At the end of each month, our finance department conducted thorough reconciliation of its transaction records with the settlement records in the bank statements of the relevant Controlling Shareholders' personal bank accounts. Such reconciliation exercise ensured that all our transactions settled through the relevant Controlling Shareholders' personal bank accounts correctly match their bank statement records. After the reconciliation, the total transaction amounts of matched records were identified as transaction amounts under the Arrangements.

The local tax bureau is fully aware of the Arrangements. As we have fully declared our tax liabilities and made full tax payment based on our revenue and profit in accordance with the relevant PRC tax laws during the Track Record Period, the local tax bureau did not raise any objection to our tax declaration or payment and has subsequently issued the certificates of non-violation of PRC tax laws to us. We declare our tax liabilities based on our revenue and profit pursuant to applicable PRC accounting standards, regardless of whether such revenue is supported by official invoices or not. During the Track Record Period, all our tax liabilities and expenses were properly recorded in accordance with our revenue and profit pursuant to applicable PRC accounting standards. During the Track Record Period, the total amount received and paid by our Controlling Shareholders on behalf of us under the Arrangements were RMB101.6 million and RMB65.3 million, respectively. We have subsequently enhanced our internal control and ceased the Arrangements in July 2011 and settled all outstanding amounts with the relevant Controlling Shareholders under the Arrangements in June 2012. None of our receivables or payables has been settled through the personal bank accounts of the relevant Controlling Shareholders afterwards. We have also taken necessary internal control measures since August 2011 to prevent the recurrence of the Arrangements. All our contracts with business partners prescribe the specific corporate bank account we will use for purpose of the payments and receipts under the relevant contracts. Upon settlement, we check the transaction records and bank-in and bank-out slips of our corporate bank account to ensure that all payments and receipts under the relevant contracts are made through our corporate bank account prescribed therein. We have not experienced any termination of cooperation with our business partners since the cessation of the Arrangements and such cessation has no adverse effect on our business operations and financial condition. Based on the tax compliance certificates issued by the local tax bureau, the confirmation of our Finance Department and the review of documents relating to the Arrangements, PRC legal advisers, Jingtian & Gongcheng, confirm that (i) the Arrangements did not violate the relevant PRC laws and regulations, (ii) the Arrangements did not result in any tax evasion, fraud, money laundering or other illegal activities, and (iii) we were not subject to any liability or penalty by virtual of the Arrangements. Our Directors have not received any personal benefit from the Arrangements.

As a common practice in PRC online game industry, players usually do not ask service providers to issue official invoices. Nevertheless, we declare our tax liabilities based on our sales revenue, the calculation of which is not based on transaction amounts supported by issued official invoices. The local tax bureau is fully aware of such practice and has accepted our tax filings without any disagreement or objection, and has subsequently issued tax compliance certificates to us to confirm our tax compliance records in the PRC. Therefore, our PRC legal advisers, Jingtian & Gongcheng, are of the view that the local tax bureau has acknowledged the legitimacy of the Arrangements. According to the Administrative Measures of the People's Republic of China for Invoices (Revised in 2010)《中華人民共和國發票管理辦法(2010年修訂)》issued by the State Council and took into effect on December 20, 2010 (the "Invoices Measures"), where a business unit or an individual fails to, among other things, issue official invoices which should be issued, the business unit or individual may be subject to an order of correction from the competent tax authority, a fine not exceeding RMB10,000 and confiscation of all illegal income (if any). We may be deemed as not fully compliant with the Invoices Measures for not issuing official invoices at the full amount of our revenue. However, the probability that we receive an order of correction or a fine is remote given that the local tax bureau is fully aware of the practice and has issued tax compliance certificates to us. Our PRC legal advisers, Jingtian & Gongcheng, are of the view that we had no incident of tax evasion based on (i) our confirmation that we have fully paid tax in accordance with our sales revenue, the calculation of which is not based on transaction amounts supported by issued official invoices; and (ii) the tax compliance certificates issued by the local tax bureau.

As of December 31, 2010, 2011 and 2012 and June 30, 2013, we had (i) receivables due from Mr. Wang of nil, RMB15,000, RMB15,000 and nil, respectively, (ii) receivables due from Mr. Liao of nil, RMB16,000, RMB16,000 and nil, respectively, (iii) receivables due from Mr. Huang of nil, RMB26,000, RMB26,000 and nil, respectively, (iv) receivables due from Mr. Zhuang of nil, RMB6,000, RMB6,000 and nil, respectively, and (v) receivables due from Mr. Yang of nil, RMB1,000, RMB1,000 and nil, respectively. Such receivables arose from capital contribution by the Controlling Shareholders and were fully settled.

We did not have outstanding balances with our related parties as of the Latest Practicable Date. With respect to the trade-related transactions with related parties set out in Note 34 to the Accountant's Report in Appendix I to this prospectus, our Directors confirm that these transactions were conducted on normal commercial terms and/or our terms not less favorable than terms available from Independent Third Parties, which are considered fair, reasonable and in the interest of the Shareholders of our Company as a whole.

SHAREHOLDERS' EQUITY

The following table sets forth our equity as of the dates indicated:

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

As of December 31, 2010, 2011 and 2012 and June 30, 2013, we had total deficits of RMB19.5 million, total equity of RMB95.5 million, total deficits of RMB136.7 million and total deficits of RMB342.1 million, respectively.

As of December 31, 2010 and 2011, our reserves amounted to RMB25.9 million and RMB125.9 million, respectively. As of December 31, 2012 and June 30, 2013, we had total deficits of RMB136.7 million and RMB342.1 million, respectively. This was primarily due to the negative reserve of RMB228.4 million and RMB190.4 million, respectively, of which RMB371.9 million was other reserve resulting from the repurchase of ordinary shares in connection with the Pre-IPO Investment by the Series A Investors in June 2012. Please refer to Note 24 to the Accountant's Report in Appendix I to this prospectus. The net proceeds from investment by the Series A Investors (the "Series A Investment") were principally used for (i) repurchase of the Ordinary Shares then beneficially owned by Mr. Wong Po Tsan and Ms. Wang Baoshan pursuant to the Strategic Cooperation Agreement, (ii) investment in Appionics and (iii) general working capital purposes. As of June 30, 2013, RMB434.2 million of net proceeds from the Series A Investment had been utilized for the purposes set out in the foregoing. The remaining unutilized proceeds will be used for general working capital.

For the repurchase of the Ordinary Shares, we treated it as a transaction between us and our shareholders. The difference between the repurchase price and the par value of the relevant share capital amounting to approximately US$58.8 million (equivalent to approximately RMB371.9 million) was recognized as a reduction of reserve in the financial statements, which resulted in negative capital reserve in the financial statements.

Upon the issuance of the Series A Preferred Shares, we designated them as financial liabilities at fair value through profit or loss and any subsequent change in fair value is recognized in the profit or loss. As of December 31, 2012 and June 30, 2013, total fair value of the Series A Preferred Shares amounting to approximately US$71.8 million (equivalent to approximately RMB451.2 million) and approximately US$131.1 million (equivalent to approximately RMB809.8 million), respectively, was recognized in the liabilities with its accumulated fair value change amounting to approximately US$3.0 million (equivalent to approximately RMB18.8 million) and approximately US$62.3 million (equivalent to approximately RMB388.2 million), respectively, recognized in fair value loss of convertible redeemable preferred shares in the financial statements. Please refer to Note 30 to the Accountant's Report in Appendix I to this prospectus.

Pursuant to the conversion terms set forth in the memorandum of association and articles of association, all Series A Preferred Shares will be automatically converted into Ordinary Shares according to a conversion price (initially being the issue price of Series A Preferred Shares, resulting in an initial conversion ratio of 1:1, subject to adjustments for certain events, including but not limited to additional equity securities issuance) upon the Global Offering.

As a result, the liabilities for the Series A Preferred Shares will be derecognized and accounted as an increase in share capital and capital reserve and we will not have total deficits immediately upon the Global Offering.

INDEBTEDNESS

Bank Loans and Other Borrowings

In June 2013, Foga Tech entered into a general banking facility agreement with China Merchants Bank Co., Ltd., Hong Kong Branch in connection with a term loan facility up to lower of US$2.5 million or 95% of RMB16.2 million as provided in a RMB standby letter of credit issued by China Merchants Bank Co., Ltd., Guangzhou Branch, guaranteed by Feiyin, available for drawdown within one year and for the purpose of working capital before the Listing. The term loan has been fully drawn down in July 2013.

As of August 31, 2013, we had outstanding bank borrowings amounting to US$2.5 million and financial liabilities of the Series A Preferred Shares amounting to RMB880 million. Other than that, we did not have any other bank loans, debt securities, borrowings, indebtedness or mortgages.

Contingent Liabilities

We are not currently involved in any material legal proceedings, nor are we aware of any pending or potential material legal proceedings involving us. If we were involved in such material legal proceedings, we would record any loss or contingency when, based on information then available, it is likely that a loss has been incurred and the amount of the loss can be reasonably estimated.

As of the Latest Practicable Date, we did not have any material contingent liabilities or guarantees.

Off-balance Sheet Commitments and Arrangements

As of June 30, 2013, our capital expenditure contracted but not provided for amounted to approximately RMB2.7 million, which was related to acquisition of property and equipment. As of the Latest Practicable Date, we had not entered into any other off-balance sheet transactions.

MARKET RISK DISCLOSURE

We are exposed to various types of market risks, including foreign exchange risk, interest rate risk, credit risk and liquidity risk.

Foreign Exchange Risk

We mainly operate in the PRC and a substantial portion of our revenue, cost of revenue and expenses are denominated in RMB. We also use RMB as our reporting currency. As we license certain of our games in the overseas market, we are exposed to various currency exposure, primarily with respect to USD.

As of December 31, 2010, 2011 and 2012 and June 30, 2013, we did not have significant foreign exchange risk for operations. We do not hedge against any fluctuation in foreign currency.

Interest Rate Risk

We are exposed to interest rate risk resulting from Series A Preferred Shares, the valuation of which is affected by market interest rates. We are of the view that other interest rate risks (such as interest rate risk on bank deposits) are not material. We do not currently use any derivative instruments to manage our interest rate risks as such risks are considered minimal.

Price Risk

We are exposed to price risk in respect of the Series A Preferred Shares carried at fair value with changes in fair value recognized in the profit or loss. Fair value of Series A Preferred Shares is affected by changes our market value. We are not exposed to commodity price risk.

For the year ended December 31, 2012 and the six months ended June 30, 2013, if our equity value had increased/decreased by 10% with all other variables held constant, profit before income tax for the year/period would have been approximately RMB36.1 million lower/RMB36.6 million higher and approximately RMB73.4 million lower/RMB73.6 million higher, respectively.

Credit Risk

Our credit risk relates mainly to our short-term investment, trade receivables, other receivables, and cash and cash equivalents.

If our cooperation with publishing partners is terminated or our publishing partners experience financial difficulties, the recoverability of our trade receivables from our game development business will be adversely affected. We frequently communicate with our publishing partners to manage such risk. We are of the view that such risk is minimal. We also have large amount of trade receivables from payment channels related to our game publishing business. We assess the credibility of payment channels taking into account their financial condition, previous incidents and certain other factors. We also periodically assess other receivables based on historical settlement record.

As of December 31, 2010, 2011, 2012 and June 30, 2013, all of our cash at bank and on hand were deposited in state-owned PRC banks or reputable international financial institutions, with no recent history of default. As of

June 30, 2013, our short-term investment was a financial product purchased from a state-owned PRC financial institution, with no recent history of default.

Liquidity Risk

We are exposed to liquidity risk. Our policy is to monitor and maintain a level of cash and cash equivalents deemed adequate by management to finance our operations and mitigate the effects of fluctuations in cash flows.

DIVIDEND POLICY AND DISTRIBUTABLE RESERVES

Subject to the Cayman Islands Company Law and our Articles of Association, we may declare dividends in any currency through a general meeting, but no dividend may be declared in excess of the amount recommended by our Board. Our Articles of Association provide that dividends may be declared and paid out of our profit, realized or unrealized, or from any reserve set aside from profits which our Directors determine is no longer needed. With the sanction of an ordinary resolution, dividends may also be declared and paid out of a share premium account or any other fund or account which can be authorized for this purpose in accordance with the Cayman Islands Company Law.

Except as provided under the terms of a particular issue, or with respect to the rights attached to any Shares, (i) all dividends will be declared and paid according to the amounts paid up on the Shares in respect of which the dividend is paid, but no amount paid up on a Share in advance of calls may for this purpose be treated as paid up on the Share; and (ii) all dividends will be apportioned and paid pro rata according to the amount paid up on the Shares during any portion or portions of the period in respect of which the dividend is paid. Our Directors may deduct from any dividend or other monies payable to any of our Shareholders or in respect of any Shares all sums of money (if any) presently payable by such Shareholder to us on account of calls or otherwise.

In addition, the declaration of dividends is subject to the discretion of our Board, and the amounts of dividends actually declared and paid will also depend on:

- our general business conditions;
- our financial results;
- our capital requirements;
- interests of our shareholders; and
- any other factors which our Board may deem relevant.

Our future dividend payments to our Shareholders will also depend upon the availability of dividends received from our PRC subsidiaries. PRC laws require that dividends be paid out of the net profit calculated according to PRC accounting principles. PRC laws also require PRC enterprises to set aside part of their net profit as statutory reserves before they distribute the net proceeds. These statutory reserves are not available for distribution as cash dividends.

Our Board has absolute discretion in whether to declare any dividend for any year and, if it decides to declare a dividend, how much dividend to declare. Feiyin and Weidong declared and paid dividends of RMB90.5 million in 2012. The Company has not paid or declared any dividend since its inception. No distributable reserves of the Company were available for distribution to the owners during the Track Record Period. We do not intend to include accumulated earnings of the PRC Operational Entities of approximately RMB269.3 million as of June 30, 2013 into service fee to be paid to Feidong under the Contractual Arrangements in the future. Such earnings are to be retained in the PRC Operational Entities to meet their business operational needs. We will continue to re-evaluate our dividend policy in light of our financial condition and the prevailing economic climate. However, the determination to pay dividends will be made at the discretion of our Board and will be based upon our earnings, cash flow, financial condition, capital requirements, statutory fund reserve requirements and any other conditions that our Directors deem relevant. The payment of dividends may also be limited by legal restrictions and by financing agreements that we may enter into in the future. There can be no assurance that dividends of any amount will be declared or distributed in any year.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

Our unaudited pro forma adjusted net tangible assets has been prepared for illustrative purposes only, and because of its hypothetical nature, it may not give a true picture of our consolidated net tangible assets as of June 30, 2013 or at any future dates following the Global Offering. It is prepared based on our consolidated net assets as of June 30, 2013 as set forth in the Accountant's Report in Appendix I to this prospectus, and adjusted as described below. Our unaudited pro forma adjusted net tangible assets does not form part of the Accountant's Report in Appendix I to this prospectus.

	Audited Consolidated Net Tangible Liabilities of the Group Attributable to Owners of the Company as of June 30, 2013(1)	Estimated Net Proceeds from the Global Offering(2)	Estimated Impact to the Net Assets upon the Conversion of the Series A Preferred Shares(3)	Unaudited Pro Forma Adjusted Net Tangible Assets Attributable to Owners of the Company	Unaudited Pro Forma Adjusted Net Tangible Assets per Ordinary Share(4)	
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB)	(HK$)
Based on an offer price of HK$43.50 per Share . . .	(372,901)	652,578	809,767	1,089,444	8.68	10.90
Based on an offer price of HK$55.00 per Share . . .	(372,901)	830,967	809,767	1,267,833	10.11	12.69

Notes:

(1) Our audited consolidated net tangible liabilities attributable to owners of the Company as of June 30, 2013 is extracted from the Accountant's Report in Appendix I to this prospectus, which is based on our audited consolidated net liabilities attributable to the owners of the Company as of June 30, 2013 of RMB342,089,000 with an adjustment for the intangible assets as of June 30, 2013 of RMB30,812,000.

(2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK$43.50 and HK$55.00 per Ordinary Share after deduction of the underwriting fees and other related expenses (excluding listing expenses of approximately RMB21,200,000 which have been accounted for prior to June 30, 2013) payable by the Company.

(3) Upon the Global Offering, 29,059,440 Series A Preferred Shares will be automatically converted to Ordinary Shares on a one-to-one basis under which the carrying amounts of the Series A Preferred Shares recorded as a liability of the Company will be transferred to the Company's equity.

(4) Our unaudited pro forma net tangible assets per Ordinary Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 125,449,940 Ordinary Shares were in issue assuming that the Global Offering has been completed on June 30, 2013, taking no account of any Share which may be allotted and issued or repurchased by the Company pursuant to the General Mandate to Issue Shares or the General Mandate to Repurchase Shares as described in the section headed "Share Capital", and any Shares to be issued upon the exercise of the Pre-IPO Share Options and the Post-IPO Share Options and any Shares to be issued pursuant to the RSU Scheme.

(5) No adjustment has been made to reflect any of our trading results or other transactions entered into subsequent to June 30, 2013.

(6) For the purpose of this unaudited pro forma adjusted net tangible assets statement, the balances stated in Renminbi are converted into Hong Kong dollars at the PBOC rate of HK$1.00 to RMB0.7966.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that as of the Latest Practicable Date, there were no circumstances which, had we been required to comply with Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in our financial or trading position, indebtedness, mortgage, contingent liabilities, guarantees or prospects of our Group since June 30, 2013, the date of the latest audited consolidated financial statements of our Group.