



Feiyu Technology International Company Ltd.  
飛魚科技國際有限公司

*(Incorporated in the Cayman Islands with limited liability)*

Stock Code : 1022

**GLOBAL  
OFFERING**

*simple*

*interesting*

*game*

*Joint Sponsors*



**BofA Merrill Lynch**

*Joint Global Coordinators and Joint Bookrunners  
(in alphabetical order)*

**BofA Merrill Lynch**



*Joint Lead Managers  
(in alphabetical order)*

**BofA Merrill Lynch**



## IMPORTANT

**IMPORTANT:** If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.



# Feiyu Technology International Company Ltd. 飛魚科技國際有限公司

(Incorporated in the Cayman Islands with limited liability)

## Global Offering

Number of Offer Shares under the Global Offering	:	300,000,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	:	30,000,000 Shares (subject to adjustment)
Number of International Offer Shares	:	270,000,000 Shares (subject to adjustment and the Over-allotment Option)
Maximum Offer Price	:	HK\$2.55 per Offer Share, plus brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value	:	US\$0.0000001 per Share
Stock code	:	1022

## Joint Sponsors



**BofA Merrill Lynch**

## Joint Global Coordinators and Joint Bookrunners (in alphabetical order)

**BofA Merrill Lynch**



## Joint Lead Managers (in alphabetical order)

**BofA Merrill Lynch**



Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, with the documents specified in the section headed "Appendix V — Documents Delivered to the Registrar of Companies and Available for Inspection" herein, has been registered with the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (on behalf of the Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or around Friday, November 28, 2014 and, in any event, not later than Wednesday, December 3, 2014. The Offer Price will not be more than HK\$2.55 and is currently expected to be not less than HK\$1.85. Applicants for Hong Kong Offer Shares are required to pay, on application, the maximum Offer Price of HK\$2.55 for each Hong Kong Offer Share together with a brokerage of 1%, an SFC transaction levy of 0.0027% and a Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price as finally determined is less than HK\$2.55 per Offer Share.

The Joint Global Coordinators, on behalf of the Underwriters, may, with our consent, reduce the number of Offer Shares and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such case, notices of the reduction in the number of Offer Shares and/or the indicative Offer Price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Such notice will also be available at the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our website at [www.feiyuhk.com](http://www.feiyuhk.com). Further details are set out in the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus. If, for any reason, the Joint Global Coordinators (on behalf of the Underwriters) and us are unable to reach an agreement on the Offer Price by Wednesday, December 3, 2014, the Global Offering will not become unconditional and will lapse immediately.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus and the related Application Forms, including the risk factors set out in the section headed "Risk Factors" in this prospectus.

Prospective investors of the Hong Kong Offer Shares should note that the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe, and to procure subscribers for, the Hong Kong Offer Shares, are subject to termination by the Joint Global Coordinators (on behalf of the Underwriters) if certain events shall occur prior to 8:00 a.m. on the day on which trading in the Shares commences on the Stock Exchange. Such grounds are set out in the section headed "Underwriting" in this prospectus. It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States or to, or for the account or benefit of U.S. persons, except pursuant to an exemption from, or in a transaction not subject to, the registration requirement under the U.S. Securities Act. The Offer Shares are being offered and sold (1) to qualified institutional buyers in reliance on Rule 144A or another exemption from registration under the U.S. Securities Act and (2) outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act.

November 25, 2014

## EXPECTED TIMETABLE (NOTE 1)

If there is any change in the following expected timetable of the Hong Kong Public Offering, we will issue an announcement in Hong Kong to be published in the South China Morning Post (in English), and in the Hong Kong Economic Times (in Chinese).

Latest time to complete electronic applications under

**White Form eIPO** service through the

designated website at [www.eipo.com.hk](http://www.eipo.com.hk)<sup>(note 2)</sup> . . . . . 11:30 a.m. on Friday,  
November 28, 2014

Application lists open<sup>(note 3)</sup> . . . . . 11:45 a.m. on Friday,  
November 28, 2014

Latest time for lodging **WHITE,**

**YELLOW** Application Forms and giving

**electronic application instructions**

to HKSCC<sup>(note 4)</sup> . . . . . 12:00 noon on Friday,  
November 28, 2014

Latest time to complete payment of **White Form eIPO**

Applications by effecting internet banking transfer(s)

or PPS payment transfer(s) . . . . . 12:00 noon on Friday,  
November 28, 2014

Application lists close<sup>(note 3)</sup> . . . . . 12:00 noon on Friday,  
November 28, 2014

Expected Price Determination Date<sup>(note 5)</sup> . . . . . Friday, November 28, 2014

(1) Announcement of:

- the Offer Price
- the level of indication of interest in the International Offering
- the level of applications in the Hong Kong Public Offering; and
- the basis of allotment under the Hong Kong Public Offering

to be published in the South China Morning Post (in English)  
and in the Hong Kong Economic Times (in Chinese)

on or before . . . . . Thursday, December 4, 2014

(2) Results of allocations in the Hong Kong Public Offering

(with successful Applicants' identification document numbers,  
where appropriate) to be available through a variety of channels.

(See "How to Apply for Hong Kong Offer Shares — 11. Publication  
of Results" in this prospectus) from . . . . . Thursday, December 4, 2014

(3) A full announcement of the Hong Kong Public Offering  
containing (1) and (2) above to be published on the website  
of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and  
the Company's website at [www.feiyuhk.com](http://www.feiyuhk.com)

from . . . . . Thursday, December 4, 2014

Results of allocations in the Hong Kong Public Offering will be available at

[www.iporeresults.com.hk](http://www.iporeresults.com.hk) with a "search by ID" function . . . . . Thursday, December 4, 2014

## EXPECTED TIMETABLE (NOTE 1)

Dispatch of Share certificates or deposit of the  
Share certificates into CCASS in respect of wholly or  
partially successful applications pursuant to  
the Hong Kong Public Offering on or before<sup>(note 6)</sup> . . . . . Thursday, December 4, 2014

Dispatch of White Form e-refund payment instructions/refund  
checks in respect of wholly or partially successful applications  
(if applicable) or wholly or partially unsuccessful applications pursuant  
to the Hong Kong Public Offering on or before<sup>(note 6)</sup> . . . . . Thursday, December 4, 2014

Dealings in Shares on the Stock Exchange  
to commence on . . . . . Friday, December 5, 2014

### Notes:

- (1) Unless otherwise stated, all times and dates refer to Hong Kong local times and dates. Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus.
- (2) You will not be permitted to submit your application through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk) after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, November 28, 2014, the application lists will not open and will close on that day. Further information is set out in the sub-section headed “How to Apply for Hong Kong Offer Shares — Effect of Bad Weather on the Opening of the Applications Lists” in this prospectus.
- (4) Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC via CCASS should refer to the sub-section headed “How to Apply for Hong Kong Offer Shares — Applying by Giving Electronic Application Instructions to HKSCC via CCASS” in this prospectus.
- (5) The Price Determination Date is expected to be on or about Friday, November 28, 2014, and in any event, not later than Wednesday, December 3, 2014. If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (on behalf of the Underwriters) and us on or before Wednesday, December 3, 2014, the Global Offering will not proceed and will lapse.
- (6) **Share certificates for the Hong Kong Offer Shares will only become valid certificates of title provided that (i) the Global Offering has become unconditional, and (ii) neither of the Underwriting Agreements has been terminated in accordance with its terms. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of Share certificates or prior to the Share certificates becoming valid certificates of title do so entirely at their own risk.**

e-Refund payment instructions/refund checks will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of successful applications if the Offer Price is less than the price payable on application. Part of the applicant’s Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund check, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant’s Hong Kong identity card number or passport number before cashing the refund check. Inaccurate completion of an applicant’s Hong Kong identity card number or passport number may lead to delay in encashment of or may invalidate the refund check.

Applicants who apply on **WHITE** Application Forms or through the **White Form eIPO** service for 1,000,000 Shares or more under the Hong Kong Public Offering and have provided all information required by Application Forms may collect (where applicable) refund checks and (where applicable) Share certificates in person from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on, Thursday, December 4, 2014 or any other date notified by the Company in the newspaper as the date of dispatch of Share certificates/e-Refund payment instructions/refund checks. Individual applicants who opt for personal collection must not authorize any other person to make their collection on their behalf. Corporate applicants who opt for personal collection must attend by their authorized representatives, each bearing a letter of authorization from such corporation stamped with the corporation’s chop. Both individuals and authorized representatives (if

## EXPECTED TIMETABLE (NOTE 1)

applicable) must produce, at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor Services Limited at the time of collection. Uncollected Share certificates and refund checks will be dispatched by ordinary post at the applicant's own risk to the address specified in the relevant Application Forms. Further information is set out in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus.

Applicants who apply on **YELLOW** Application Forms for 1,000,000 Hong Kong Offer Shares or more under the Hong Kong Public Offering and have provided all information required by Application Forms may collect their refund checks (if any) but may not elect to collect their Share certificates, which will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to their or the designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedure for collection of refund checks for applicants who apply on **YELLOW** Application Forms for Hong Kong Offer Shares is the same as that for applicants who apply on **WHITE** Application Forms.

Share certificates for the Hong Kong Offer Shares to be distributed via CCASS are expected to be deposited into CCASS on Thursday, December 4, 2014 for credit to the respective CCASS Participant's stock accounts designated by the International Underwriters, the purchasers or their agents, as the case may be.

Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC via CCASS should refer to the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus for further details.

Applicants who apply through the **White Form eIPO** service and paid their application monies through single bank accounts may have refund monies (if any) dispatched to the application payment account, in the form of e-Refund payment instructions; Applicants who apply through the **White Form eIPO** service and paid their application monies through multiple bank accounts may have refund monies (if any) dispatched to the address as specified in their application instructions to the White Form eIPO Service Provider, in the form of refund checks, by ordinary post at their own risk.

If you have applied for less than 1,000,000 Hong Kong Offer Shares, your Share certificates and/or refund checks will be dispatched by ordinary post at the applicant's own risk to the address specified on the Application Form.

Uncollected Share certificates and/or refund checks (if any) will be dispatched by ordinary post at the applicants' own risk to the addresses specified in the Application Forms promptly after the expiry of the time for their collection. See the sub-section headed "How to Apply for Hong Kong Offer Shares — Dispatch/Collection of Share Certificates and Refund Monies" in this Prospectus.

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### IMPORTANT NOTICE TO INVESTORS

*This prospectus is issued by our Company solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the Hong Kong Offer Shares. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.*

*You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus.*

*Any information or representation not made in this prospectus or the Application Forms must not be relied on by you as having been authorized by our Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors or any other person or party involved in the Global Offering. Information contained in our website, located at [www.feiyuhk.com](http://www.feiyuhk.com), does not form part of this prospectus.*

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## SUMMARY

*This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by, and should be read in conjunction with, the full text of this prospectus. You should read the entire prospectus before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks associated with an investment in the Offer Shares are set out in the section headed “Risk Factors” in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares. Various expressions used in this section are defined in the sections headed “Definitions” and “Glossary” in this prospectus.*

### BUSINESS OVERVIEW

We are a reputable developer and operator of mobile games and web games, with a strategic focus on mobile games. As of the Latest Practicable Date, our game portfolio included five mobile games and two web games, most of which are top ranked games in China according to either iResearch or App Annie. Our most successful games are our *Shen Xian Dao* (神仙道) series of RPGs, consisting of the web version of *Shen Xian Dao* (神仙道), its companion web game *Da Hua Shen Xian* (大話神仙), designed exclusively for Tencent platforms, and the mobile version of *Shen Xian Dao* (神仙道), and our Carrot Fantasy (保衛蘿蔔) games, a series of mobile casual games consisting of Carrot Fantasy (保衛蘿蔔) and Carrot Fantasy 2: Polar Adventure (“**Carrot Fantasy 2**”) (保衛蘿蔔2：極地冒險), which we acquired through our acquisition of Kailuo Tianxia in 2013. According to the iResearch Report, *Shen Xian Dao* (神仙道) was ranked third in terms of gross billings for all web games in China for 2012 (>RMB700 million), and eighteenth in 2013 (>RMB300 million) and tenth in terms of gross billings for all mobile games in China for 2013 (>RMB200 million). In addition, according to the iResearch Report, Carrot Fantasy (保衛蘿蔔) was ranked first among tower defense games in China in terms of average number of monthly active users in 2013 and the first half of 2014, with over 16.9 million and over 12.9 million active users per month, respectively, while for the first half of 2014, Carrot Fantasy 2 (保衛蘿蔔2) was ranked third, with over 7.9 million active users per month. Also, according to App Annie’s daily analysis of Apple Inc.’s App Store rankings, during the six months ended June 30, 2014, our more recently launched *Jiong Xi You* (囧西遊) was ranked among the daily top 20 adventure games in terms of gross billings in China for 181 days and *Luan Shi Zhi Ren 2* (亂世之刃2) (now titled *San Guo Zhi Ren* (三國之刃) and exclusively distributed on Tencent platforms) was ranked among the daily top 20 action games in terms of gross billings in China for 142 days. In addition, after the iOS version of *San Guo Zhi Ren* (三國之刃) was launched on Tencent platforms on October 19, 2014, for the period from October 22 through November 16, 2014, it was ranked first based on App Annie’s daily analysis of Apple Inc.’s App Store rankings in terms of gross billings in China for 23 days and ranked second for three days.

We have grown rapidly during the Track Record Period. Our revenue for the years ended December 31, 2011, 2012 and 2013, excluding Kailuo Tianxia, which we acquired on December 31, 2013, was RMB33.0 million, RMB158.7 million and RMB145.0 million, respectively, and for the six months ended June 30, 2014, including Kailuo Tianxia, was RMB129.2 million. Our profit for the years ended December 31, 2011, 2012 and 2013, excluding Kailuo Tianxia, was RMB24.6 million, RMB121.1 million and RMB51.0 million, respectively, and for the six months ended June 30, 2014, including Kailuo Tianxia, was RMB52.6 million. Our adjusted net profit for the years ended December 31, 2011, 2012 and 2013, excluding Kailuo Tianxia, was RMB24.6 million, RMB121.1 million and RMB79.8 million, respectively, and for the six months ended June 30, 2014, including Kailuo Tianxia, was RMB66.6 million. See “Financial Information — Non-IFRS Measure.” Kailuo Tianxia had revenue of RMB57.6 million and profit of RMB42.2 million for the year ended December 31, 2013, which was its first full year of operation.



## SUMMARY

### Our Games

We offer a diverse selection of games consisting of mobile games and web games. Our mobile games include RPGs and casual games, such as tower defense games, while our web games are all RPGs. Our casual games are generally easy to learn and typically have a simple story line with challenges for players to overcome in order to progress. Our RPGs typically draw upon themes such as fantasy martial-arts, strategy and historical events. We launched our first web game, the web version of *Shen Xian Dao* (神仙道), in May 2011, and our first mobile game, the mobile version of *Shen Xian Dao* (神仙道), in January 2012. We are one of the few PRC game development companies that offers games in both the casual and RPG categories. We develop the majority of our games in-house and also acquire or license games from third parties. Our creative and talented game development teams, led by our senior management, focus on developing player-centric game environments that provide superior game experience in order to foster longer-term player retention. In addition, we have personnel in each of our operations teams dedicated to data collection and analysis, based on which we are able to better tailor our games for our target audience and attract distribution and publishing partners to feature our games. The table below sets forth revenue generated from our key games in absolute amounts and as percentages of our total revenue during the Track Record Period:

	For the year ended December 31,						For the six months ended June 30,			
	2011 <sup>(1)</sup>		2012 <sup>(1)</sup>		2013 <sup>(1)</sup>		2013 <sup>(1)</sup>		2014	
	Revenue (RMB'000)	% of Revenue	Revenue (RMB'000)	% of Revenue	Revenue (RMB'000)	% of Revenue	Revenue (RMB'000)	% of Revenue	Revenue (RMB'000)	% of Revenue
<b>Web games (RPGs)</b>										
<i>Shen Xian Dao</i> (神仙道) . . . . .	32,205	97.6	122,400	77.1	57,766	39.8	33,471	44.4	25,242	19.5
<i>Da Hua Shen Xian</i> (大話神仙) . . . . .	—	—	15,292	9.6	19,557	13.5	12,471	16.5	4,089	3.2
<b>Mobile games</b>										
<b>RPGs</b>										
<i>Shen Xian Dao</i> (神仙道) . . . . .	—	—	16,874	10.7	38,818	26.8	22,514	29.9	11,901	9.2
<i>Jiong Xi You</i> (囧西遊) . . . . .	—	—	—	—	18,175	12.5	—	—	19,683	15.2
<i>Luan Shi Zhi Ren 2</i> (亂世之刃2) (now titled <i>San Guo Zhi Ren</i> (三國之刃)) <sup>(2)</sup>	—	—	—	—	257	0.2	—	—	26,489	20.5
<b>Casual</b>										
<i>Carrot Fantasy</i> (保衛蘿蔔) . . . . .	—	—	—	—	—	—	—	—	9,806	7.6
<i>Carrot Fantasy 2</i> (保衛蘿蔔2) . . . . .	—	—	—	—	—	—	—	—	22,119	17.1
<b>Key games total</b> . . . . .	<b>32,205</b>	<b>97.6</b>	<b>154,566</b>	<b>97.4</b>	<b>134,573</b>	<b>92.8</b>	<b>68,456</b>	<b>90.8</b>	<b>119,329</b>	<b>92.3</b>

Notes:

- (1) Excludes the revenue of our Carrot Fantasy games, which we acquired pursuant to our acquisition of Kailuo Tianxia on December 31, 2013.
- (2) We recently entered into an agreement with Shenzhen Tencent to exclusively license *Luan Shi Zhi Ren 2* (亂世之刃2) (now titled *San Guo Zhi Ren* (三國之刃)) for distribution and publishing on Tencent platforms. The Android version of *San Guo Zhi Ren* (三國之刃) was launched on August 7, 2014 and the iOS version was launched on October 19, 2014.

As of the Latest Practicable Date, we plan to launch four new games in December of 2014, two of which were already in beta-testing. In addition, we plan to launch nine new games in 2015. The table below sets forth certain information regarding our games in development through 2015.

## SUMMARY

Title <sup>(1)</sup>	Category	Details	Development Stage as of the Latest Practicable Date <sup>(2)</sup>	Expected Launch Date <sup>(2)</sup>	Expected Life Cycle <sup>(4)(5)</sup> (years)
<b>2014 Pipeline</b>					
<i>Ba Qin</i> (霸秦) . . . . .	Web RPG	Warring states period theme	Beta-testing	December 2014	2.5–3
Battery Run (電池快跑) . . . . .	Mobile casual	Parkour game	Beta-testing	December 2014	1.5–2
<i>Mei Ren Wu Shuang</i> (美人無雙) <sup>(3)</sup> . . . . .					
Carrot Fantasy – untitled (保衛蘿蔔 – 待定) . . . . .	Mobile RPG	Collectible card game	Internal review	December 2014	2–2.5
		Switcher or tower defense game – Carrot Fantasy theme	Development	December 2014	1.5–2
<b>2015 Pipeline</b>					
Game 1 — <i>Shen Xian</i> <i>Dao Wai Zhuan</i> (神仙道外傳) . . . . .					
	Mobile RPG	Fantasy martial arts	Development	First half of 2015	2.5–3
Game 2 . . . . .	Mobile casual	Tower defense game	Internal review	First half of 2015	1.5–2
Game 3 . . . . .	Mobile casual	Interactive pet game	Development	First half of 2015	1.5–2
Game 4 . . . . .	Mobile RPG	Romance of the Three Kingdoms theme	Development	First half of 2015	2–2.5
Game 5 . . . . .	Mobile RPG	Collectible card game – Romance of the Three Kingdoms theme	Development	First half of 2015	2–2.5
Game 6 — Carrot Fantasy 3 (保衛蘿蔔3) . . . . .					
	Mobile casual	Tower defense game	Development	First half of 2015	1.5–2
Game 7 — <i>Jiong Xi</i> <i>You 2</i> (囧西遊2) . . . . .					
	Mobile RPG	Fantasy martial arts – Journey to the West theme	Project Initiation	Second half of 2015	2–2.5
Game 8 — <i>Ba Qin</i> (霸秦) . . . . .					
	Mobile RPG	Warring states period theme	Development	Second half of 2015	2.5–3
Game 9 . . . . .	Mobile casual	Interactive pet game – Carrot Fantasy theme	Project Initiation	Second half of 2015	1.5–2

**Note:**

- (1) Game names are temporary and may be changed.
- (2) Our current game pipeline is indicative as of the Latest Practicable Date and the games we actually launch and expected launch dates may differ from those presented.
- (3) We are acting as the exclusive licensee to operate *Mei Ren Wu Shuang* (美人無雙) for distribution through distribution and publishing platforms. See “Our History, Reorganization and Corporate Structure — Our Group’s Reorganization — Transfer of Non-Restricted Business — Shenzhen Zhangxin.”
- (4) We have based our estimates on the expected life cycles of our pipeline games on the performance of our previous games, which we believe is consistent with generally adopted practice in the web game and mobile game industries. According to the iResearch Report, a web game has an average life cycle of six months and a mobile game has an average life cycle of three to six months, with only high quality games reaching longer life cycles. Historically, most of our games have had life cycles longer than this estimate and as a result we estimate their current stage as either early stage, stable stage or late stage, based on whether revenues derived from such games are increasing, stable or decreasing, respectively. For instance, the web version of *Shen Xian Dao* (神仙道), which we launched in May 2011, began reaching the late stages of its life cycle in 2013 and is currently still generating revenue. Similarly, the mobile version of *Shen Xian Dao* (神仙道), *Da Hua Shen Xian* (大話神仙), *Carrot Fantasy* (保衛蘿蔔), *Jiong Xi You* (囧西遊), *Luan Shi Zhi Ren 2* (亂世之刃2) (now titled *San Guo Zhi Ren* (三國之刃)), and *Carrot Fantasy 2* (保衛蘿蔔2) were launched in January of 2012, February of 2012, July of 2012, July of 2013, December of 2013 and November of 2013, respectively, and all continue to generate revenue. Our games have historically had life cycles longer than the typical

## SUMMARY

expected life cycle, which we believe is due to our commitment to creating a player-focused game environment that offers users a superior game experience in order to retain longer-term players. We provide appealing game design, settings and functions, all presented in easy-to-use interfaces. All of our games are designed to present players with increasingly difficult challenges while at the same time rewarding their progress. We also roll out upgrades frequently to enhance the features of our games and maintain user interest. Our web games are usually upgraded once every two weeks while our mobile games are typically upgraded every three to four weeks.

- (5) These expected life cycles are estimates only and we cannot assure you that such estimates will be accurate. See “Risk Factors — If we are unable to extend the relatively short expected life cycle of our web games and mobile games or if our games do not maintain their popularity during their expected life cycle, our business, financial condition, results of operations and prospects could be material and adversely impacted.”

### **Our Revenue Model**

We use the item-based revenue model for all of our games. Under the item-based revenue model, players can play the basic features of the games for free. We generate revenues when players purchase virtual currency that they may subsequently exchange for virtual items and premium features that enhance their in-game experience by, for example, enhancing the powers, abilities, attractiveness and social interaction of their characters, or enabling them to advance in the game more quickly. Our mobile casual game players typically spend less per player on in-game virtual items and premium features than our RPGs players. Accordingly, we focus on increasing both the overall number of paying users as well as the average payment per user. We also receive advertising revenue for in-game advertising in certain of our games. In addition, we may also receive licensing income when we grant exclusive licenses to our distribution and publishing partners.

### **Game Distribution and Publishing Platforms**

We rely on game distribution and publishing platforms to distribute our games to online game players. For our mobile games, we closely cooperate with major online application stores in order to reach a variety of mobile device users. Certain of our games are available for download on iOS and Android and we also utilize various other online application stores in China. In addition, we utilize websites that promote and distribute online games in China to expand our distribution network beyond online application stores. For web games, we utilize web game portals to attract web game players. As of the Latest Practicable Date, our games were available on an extensive network of over 300 distribution and publishing platforms, which covers substantially all of China’s mobile and web game population. Our games are available on some of the most visited game distribution and publishing platforms in China, including Baidu, Tencent platforms, 37wan.cn, 91wan.com, 360.cn and duowan.com, enabling us to tap into a large and diversified player base.

We enter into different forms of licensing arrangements, including exclusive and non-exclusive licensing, with our distribution and publishing partners depending on our decided approach to the distribution of particular games. Pursuant to our licensing agreements, we are responsible for game operation, including content updates and on-going technical support, such as the back-end processing for purchase and delivery of virtual currency and in-game virtual items and premium features, preventing, detecting and resolving in-game cheating and hacking activities and customer service relating to game operation, while our licensees are responsible for sales and marketing, payment collection and customer services relating to payments. Our exclusive licensees also typically provide and maintain servers and are granted an exclusive license to publish and sub-license the game to other distribution and publishing platforms. For the summary of key terms of our licensing agreements, please refer to sections headed “Business — Game distribution and publishing platforms and payment collection — Exclusive licensing” and “Business — Game distribution and publishing platforms and payment collection — Non-exclusive licensing” in this prospectus.

## SUMMARY

Our third party distribution and publishing platforms consist primarily of PRC based web game portals for our web games and online application stores and mobile game portals for our mobile games. For the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, we had licensing agreements with 1, 6, 8 and 44 third party distribution and publishing platforms. Our five largest third-party distribution and publishing partners for each of the years ended December 31, 2011, 2012 and 2013 and for the six months ended June 30, 2014 accounted for approximately 100.0%, 99.2%, 92.0% and 72.1% of our total revenue during those periods, respectively. In addition, our largest third-party distribution and publishing partner for each of the years ended December 31, 2011, 2012 and 2013 and for the six months ended June 30, 2014 accounted for approximately 100.0%, 77.8%, 57.4% and 24.9% of our total revenue during those periods, respectively. All of our licensees and sub-licensees are Independent Third Parties.

Please refer to page 162 of this prospectus for further details relating to game distribution and publishing platforms.

### Suppliers

Our suppliers include primarily third-party companies from which we purchase and lease servers and outsourcing related to development and design of our game operation systems. Charges from our five largest suppliers for each of the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014 accounted for approximately nil, 42.2%, 8.3% and 4.3% of our cost of sales during those periods, respectively. Our largest supplier for each of the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014 accounted for approximately nil, 37.6%, 4.5% and 2.2% of our cost of sales during those periods, respectively.

### OUR STRENGTHS

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

- A mobile game and web game developer and operator with strong brand recognition, strategically positioned to benefit from the growth of China's online game industry;
- Strong monetization capability and superior game experience that has attracted a large player base;
- Diverse distribution and publishing platforms;
- Strong game development expertise with a data-driven approach and track record of successful games; and
- Stable and experienced management team with long-term vision.

Please refer to pages 141 to 146 of this prospectus for details on the strengths of our Company.

## SUMMARY

### OUR STRATEGIES

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

- Expand our game portfolio and focus on the development of mobile games;
- Strengthen our brand and continue to extend the life cycle of our games;
- Further explore monetization opportunities;
- Continue to expand global user base; and
- Pursue strategic alliances and acquisition opportunities.

Please refer to pages 146 to 148 of this prospectus for details on the strategies of our Company.

### CONTRACTUAL ARRANGEMENTS

We are primarily engaged in the development and operation of mobile games and web games in the PRC and are considered to be engaged in the provision of value-added telecommunications services as a result of the operations of our games. We conduct part of our online game business through the PRC Contractual Entities. Pursuant to applicable PRC laws and regulations, foreign investors are prohibited from holding equity interest in an entity conducting online game operations and are restricted to conduct value-added telecommunications services. For further details of the limitations under applicable PRC laws and regulations on foreign ownership in PRC companies conducting online game operations and value-added telecommunications services, please refer to the section headed “Regulatory Overview” in this prospectus. Due to these restrictions, we conduct part of our operations in the PRC through the Contractual Arrangements with the PRC Contractual Entities and their shareholders. The Contractual Arrangements allow the PRC Operating Entities’ financials and results of operations to be consolidated into our financials as if they are wholly-owned subsidiaries of our Group.

Please refer to pages 182 to 199 of this prospectus for details of our Contractual Arrangements.

### OUR CONTROLLING SHAREHOLDERS

Immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised, and without taking into account any Shares which may be issued upon the exercise of options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan), Messrs. Yao Jianjun and Bi Lin, through their respective BVI Holding Companies, YAO Holdings Limited and BILIN Holdings Limited, and through Jolly Spring International Limited and Rayoon Limited, will have common control over our Group and are entitled to directly or indirectly exercise or control the exercise of approximately 39.808% of the voting rights of our Company and accordingly Messrs. Yao Jianjun, Bi Lin, YAO Holdings Limited, BILIN Holdings Limited, Jolly Spring International Limited and Rayoon Limited will be our Controlling Shareholders immediately upon the Listing. Messrs. Yao Jianjun and Bi Lin are capital contributing Founders of our Group. None of our Controlling Shareholders was engaged or interested in any business which, directly or indirectly, competes or is likely to compete with our Group’s business. Our Directors expect that our Group is capable of carrying on its business independently without undue reliance on the Controlling Shareholders.

## SUMMARY

Please refer to pages 200 to 205 of this prospectus for section headed “Relationship with Controlling Shareholders.”

### SUMMARY COMBINED FINANCIAL INFORMATION

The tables below include, for the periods indicated, selected financial information derived from our audited combined financial statements and selected financial information derived from the audited financial statements of Kailuo Tianxia, the details of which are set forth in Appendix IA and IB, respectively. The selected financial information set out below should be read in conjunction with the financial statements in Appendices IA and IB, including the related notes, attached to this prospectus. The table below sets forth selected items of our combined statement of profit or loss in absolute amounts and as percentages of our total revenue:

	For the year ended December 31,						For the six months ended June 30,			
	2011 <sup>(1)</sup>		2012 <sup>(1)</sup>		2013 <sup>(1)</sup>		2013 <sup>(1)</sup>		2014	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
<b>Revenue</b> . . . . .	33,011	100.0	158,729	100.0	145,037	100.0	75,373	100.0	129,230	100.0
Cost of sales. . . . .	(286)	(0.9)	(4,938)	(3.1)	(6,699)	(4.6)	(2,607)	(3.5)	(16,877)	(13.1)
<b>Gross profit</b> . . . . .	32,725	99.1	153,791	96.9	138,338	95.4	72,766	96.5	112,353	86.9
Other income and gains . . . . .	236	0.7	931	0.6	2,649	1.8	238	0.3	1,586	1.2
Selling and distribution expenses . . . . .	(2,425)	(7.3)	(5,822)	(3.7)	(15,541)	(10.7)	(3,137)	(4.2)	(19,858)	(15.4)
Administrative expenses . . . . .	(787)	(2.4)	(4,289)	(2.7)	(37,746)	(26.0)	(33,511)	(44.5)	(19,483)	(15.0)
Research and development costs . . . . .	(5,117)	(15.5)	(23,491)	(14.8)	(26,471)	(18.3)	(12,146)	(16.0)	(19,243)	(14.9)
Other expenses . . . . .	(4)	—	(30)	—	(23)	—	(13)	—	(10)	—
<b>Profit before tax</b> . . . . .	24,628	74.6	121,090	76.3	61,206	42.2	24,197	32.1	55,345	42.8
Income tax expense . . . . .	—	—	—	—	(10,249)	(7.1)	(6,724)	(8.9)	(2,729)	(2.1)
<b>Profit for the year/period</b> . . . . .	<u>24,628</u>	<u>74.6</u>	<u>121,090</u>	<u>76.3</u>	<u>50,957</u>	<u>35.1</u>	<u>17,473</u>	<u>23.2</u>	<u>52,616</u>	<u>40.7</u>
<b>Adjusted net profit</b> (unaudited) <sup>(2)</sup> . . . . .	24,628	74.6	121,090	76.3	79,776	55.0	46,292	61.4	66,626	51.6

(1) Excludes the financial information of Kailuo Tianxia, which we acquired on December 31, 2013.

(2) We define adjusted net profit as net income or loss excluding share-based compensation and IPO listing fees in connection with this Global Offering. The term of adjusted net profit is not defined under IFRS. The use of adjusted net profit has material limitations as an analytical tool as it does not include all items that impact our net loss or income for the year/period. Please refer to the section headed “Financial Information — Non-IFRS Measure.”

## SUMMARY

The table below sets forth the statement of profit or loss in absolute amounts and as percentages of its total revenue for Kailuo Tianxia, which we acquired on December 31, 2013:

	For the period from May 3 to December 31, 2012		For the year ended December 31, 2013	
	RMB'000	%	RMB'000	%
<b>Revenue</b> .....	1,566	100.0	57,643	100.0
Cost of sales. ....	(14)	(0.9)	(286)	(0.5)
<b>Gross profit</b> .....	1,552	99.1	57,357	99.5
Other income .....	—	—	8	—
Selling and distribution expenses .....	(352)	(22.5)	(6,258)	(10.9)
Administrative expenses .....	(480)	(30.7)	(3,076)	(5.3)
Research and development costs .....	(99)	(6.3)	(5,725)	(9.9)
Other expenses .....	—	—	(99)	(0.2)
<b>Profit before tax</b> .....	621	39.6	42,207	73.2
Income tax expense .....	(237)	(15.1)	—	—
<b>Profit for the year</b> .....	384	24.5	42,207	73.2

Based on the revenue breakdown contained in Note 5 of our audited financial statements set forth in Appendix IA to this prospectus, for the six months ended June 30, 2014, Kailuo Tianxia's total revenue, consisting of our single-player game revenue and the majority of our advertising revenue, was RMB39.3 million, which is equal to approximately 68.2% of its total revenue of RMB57.6 million for the year ended December 31, 2013. Kailuo Tianxia's gross profit margin and net profit margin for the six months ended June 30, 2014 was also comparable to its gross profit margin and net profit margin for the year ended December 31, 2013. For the six months ended June 30, 2014, Kailuo Tianxia's games, Carrot Fantasy (保衛蘿蔔) and Carrot Fantasy 2 (保衛蘿蔔2), had average MPUs of 1.0 million and ARPPU of RMB5.2 as compared to average MPUs of 895,000 and ARPPU of RMB4.2 for the year ended December 31, 2013.

Pursuant to our acquisition of Kailuo Tianxia on December 31, 2013, we recognized goodwill in the amount of RMB406.5 million. After initial recognition, goodwill is measured at cost less accumulated impairment losses and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. See "Financial Information — Critical Accounting Policies and Estimates — Estimation uncertainty — Acquisition of Kailuo Tianxia," Note 14 to the Accountants' Report included in Appendix IA to this prospectus and "Risk Factors — Goodwill impairment could negatively affect our reported results of operations."



## SUMMARY

### Selected Items of our Combined Statement of Financial Position

	As of December 31,			As of June
	2011 <sup>(1)</sup>	2012 <sup>(1)</sup>	2013 <sup>(2)</sup>	30, 2014
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Current assets</b>				
Accounts receivable .....	—	—	3,457	4,227
Receivables due from third-party game distribution platforms and payment channels .....	12,005	32,937	51,610	51,015
Prepayments, deposits and other receivables .....	54	1,740	1,847	8,562
Due from shareholders .....	210	23,641	3,334	2,059
Available-for-sale investments .....	10,058	10,104	6,054	13,911
Cash and cash equivalents .....	7,260	38,515	123,426	97,966
<b>Total current assets</b> .....	<b>29,587</b>	<b>106,937</b>	<b>189,728</b>	<b>177,740</b>
<b>Current liabilities</b>				
Other payables and accruals .....	1,521	11,794	52,036	38,591
Tax payable .....	—	—	6,764	4,102
Deferred revenue .....	2,831	4,917	4,536	4,210
Dividend payable .....	10,000	45,000	60,000	—
<b>Total current liabilities</b> .....	<b>14,352</b>	<b>61,711</b>	<b>123,336</b>	<b>46,903</b>
<b>Net current assets</b> .....	<b>15,235</b>	<b>45,226</b>	<b>66,392</b>	<b>130,837</b>
<b>Total equity</b> .....	<b>15,185</b>	<b>57,933</b>	<b>548,101</b>	<b>609,874</b>

(1) Excludes the financial information of Kailuo Tianxia, which we acquired on December 31, 2013. For financial information of Kailuo Tianxia for the period from May 3, 2012 to December 31, 2012 and the year ended December 31, 2013, please see “Financial Information — Summary Results of Operations of Kailuo Tianxia” and the Accountants’ Report of Kailuo Tianxia set forth in Appendix IB to this prospectus.

(2) Includes the fair values of the assets and liabilities of Kailuo Tianxia, pursuant to the acquisition of Kailuo Tianxia on December 31, 2013.

### Key Financial Ratios

	As of December 31,			As of June
	2011 <sup>(1)</sup>	2012 <sup>(1)</sup>	2013 <sup>(2)</sup>	30, 2014
	Current ratio (times) <sup>(3)</sup> .....	2.1	1.7	1.5

(1) Excludes the financial information of Kailuo Tianxia, which we acquired on December 31, 2013.

(2) Includes the fair values of the assets and liabilities of Kailuo Tianxia, pursuant to the acquisition of Kailuo Tianxia on December 31, 2013.

(3) Current assets divided by current liabilities as at the end of the year/period.

## SUMMARY

	For the years ended December 31,			For the six months ended June 30,
	2011 <sup>(1)</sup>	2012 <sup>(1)</sup>	2013 <sup>(2)</sup>	2014
Return on equity (%) <sup>(3)</sup> .....	162.2	209.0	9.3	8.6
Return on total assets (%) <sup>(4)</sup> .....	78.6	100.8	7.5	7.9

- (1) Excludes the financial information of Kailuo Tianxia, which we acquired on December 31, 2013.
- (2) Includes the fair values of the assets and liabilities of Kailuo Tianxia, pursuant to the acquisition of Kailuo Tianxia on December 31, 2013. Excludes the profit of Kailuo Tianxia for the year ended December 31, 2013.
- (3) Profit for the year/period divided by total equity and multiplied by 100. The decrease in our return on equity for the year ended December 31, 2013 was primarily a result of an increase in other reserves of RMB486.9 million, representing the fair value of the purchase consideration for Kailuo Tianxia in the form of new equity interest in Xiamen Guanghuan (less the capital injection from the shareholders of Kailuo Tianxia to Xiamen Guanghuan in the amount of RMB667,000) on December 31, 2013 as well as a decrease in profit for the year.
- (4) Profit for the year/period divided by total assets and multiplied by 100. The decrease in our return on total assets for the year ended December 31, 2013 was primarily a result of an increase in total assets relating to our acquisition of goodwill in the amount of RMB406.5 million pursuant to our acquisition of Kailuo Tianxia as well as a decrease in profit for the year. See “Financial Information — Critical Accounting Policies and Estimates — Impairment of goodwill” and “Risk Factors — Goodwill impairment could negatively affect our reported results of operations.”

Please refer to pages 227 to 280 of this prospectus for details of our financial information.

### SELECTED OPERATING DATA

As of June 30, 2014, our RPGs, including mobile games and web games, had 173.2 million cumulative registered users and our casual games had 198.5 million cumulative activated downloads. For the month of June 2014, our RPGs, including mobile games and web games had 2.3 million MAUs and our casual games had 22.5 million MAUs. Fluctuations in our operating data are primarily a result of changes in the number of players that play, download (in the case of mobile games) and pay for virtual items and premium features in our games. Factors affecting the number of our players include general factors affecting the online game industry in China, competition in the online game industry, our ability to offer highly engaging online games, the continued popularity of our games, the monetization of our player base and our relationships with game distribution and publishing platforms. For a detailed discussion of such factors, see “Financial Information — Factors Affecting our Results of Operation.”

## SUMMARY

The following tables set forth the related operating data for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,	
	2011 <sup>(1)</sup>	2012 <sup>(1)(2)</sup>	2013 <sup>(1)(3)</sup>	2013 <sup>(1)</sup>	2014 <sup>(4)</sup>
Average MPUs					
Web games (RPGs)					
(000's) .....	67	206	121	151	62
Mobile games					
RPG (000's) .....	—	30	34	30	40
Casual (000's) .....	—	—	—	—	1,019
ARPPU					
Web games (RPGs)					
(RMB) .....	40.1	55.8	53.2	50.6	78.5
Mobile games					
RPG (RMB) .....	—	47.3	142.8	125.9	242.0
Casual (RMB) .....	—	—	—	—	5.2

- (1) Excludes the average MPUs and ARPPU of Kailuo Tianxia, which we acquired on December 31, 2013.
- (2) The increase in average MPUs and ARPPU of our web games from 2011 to 2012 was primarily due to the increase in popularity of *Shen Xian Dao* (神仙道), which we launched in May of 2011, and was also due to the launch of *Da Hua Shen Xian* (大话神仙) in February of 2012. The increase in average MPUs and ARPPU of our mobile RPGs from 2011 to 2012 was due to the launch of our first mobile game, the mobile version of *Shen Xian Dao* (神仙道) in January of 2012. See “Financial Information — Period to Period Comparison of Results of Operations — Year Ended December 31, 2012 Compared to Year Ended December 31, 2011.”
- (3) The decrease in the average MPUs of our web games from 2012 to 2013 was primarily due to the decrease in number of average MPUs for the web version of *Shen Xian Dao* (神仙道), which, having launched in May of 2011, began to reach the late stage of its expected life cycle in 2013. The decrease in ARPPU was primarily due to a decrease in the average purchase amount of the MPUs of *Da Hua Shen Xian* (大话神仙) partially offset by an increase in ARPPU of the web version of *Shen Xian Dao* (神仙道), as it is typical for a game that is reaching the end of its life cycle to recognize an increase in average purchase amounts as remaining players tend to be more loyal and spend more. The increase in average MPUs for our mobile RPGs from 2012 to 2013 was primarily due to the launch of *Jiong Xi You* (囧西游) in July of 2013, for which we launched a marketing campaign to attract players. The increase in ARPPU for our mobile games from 2012 to 2013 was primarily due to an increase in the average purchase amount by MPUs of the mobile version of *Shen Xian Dao* (神仙道). See “Financial Information — Period to Period Comparison of Results of Operations — Year Ended December 31, 2013 Compared to Year Ended December 31, 2012.”
- (4) The decrease in our average MPUs of our web games for the six months ended June 30, 2013 compared to the six months ended June 30, 2014 was primarily due to the decrease in number of average MPUs for the web version of *Shen Xian Dao* (神仙道), which, having launched in May of 2011, was in the late stage of its expected life cycle in 2014. The increase in ARPPU of our web games for the same periods was primarily due to an increase in ARPPU of the web version of *Shen Xian Dao* (神仙道), as it is typical for a game that is reaching the end of its life cycle to recognize an increase in average purchase amounts as remaining players tend to be more loyal and spend more. The increase in the average MPUs and ARPPU of our mobile RPGs for the six months ended June 30, 2013 compared to the six months ended June 30, 2014 was primarily due to the launch of *Jiong Xi You* (囧西游) in July of 2013 and the launch of *Luan Shi Zhi Ren 2* (亂世之刃2) (now titled *San Guo Zhi Ren* (三國之刃)) in December of 2013. The increase in the average MPUs and ARPPU of our mobile casual games for the same periods was due to our acquisition of Kailuo Tianxia on December 31, 2013, which added *Carrot Fantasy* (保衛蘿蔔) and *Carrot Fantasy 2* (保衛蘿蔔2), both mobile casual games, to our existing game portfolio. See “Financial Information — Period to Period Comparison of Results of Operations — Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2013.”

## SUMMARY

The table below sets forth the average MPUs and ARPPU of Kailuo Tianxia, which consists of Carrot Fantasy (保衛蘿蔔) and Carrot Fantasy 2 (保衛蘿蔔2) for the periods indicated.

	For the period from May 3, to December 31, 2012 <sup>(1)</sup>	For the year ended December 31, 2013 <sup>(1)(2)</sup>
Average MPUs (000's).....	45	895
ARPPU (RMB) .....	19.9	4.2

- (1) Includes operating data of Kailuo Tianxia prior to our acquisition of it on December 31, 2013 and such data is included for reference only.
- (2) The increase in average MPUs of Kailuo Tianxia for the period from May 3 to December 31, 2012 compared to the year ended December 31, 2013 was a result of the increase in popularity of Carrot Fantasy (保衛蘿蔔) after it became a free download in December of 2012 and after the number of distribution and publishing platforms offering and actively promoting it began to increase in February of 2013. The decrease in ARPPU for the same periods was the natural result of the game reaching a larger casual player base. The lower overall ARPPU compared to RPGs is typical for casual games, which typically have lower in-game spending. See “Financial Information — Summary Results of Operations of Kailuo Tianxia.”

## SHARE INCENTIVE SCHEMES

### Pre-IPO Share Option Scheme

We have conditionally granted options to 2 members of our senior management and 120 other grantees to subscribe for an aggregate of 105,570,000 Shares at an exercise price of HK\$0.55 per Share, representing a discount of approximately 75% from the midpoint of the indicative Offer Price range of HK\$1.85 to HK\$2.55. Such options represent approximately 7.04% of the issued share capital of our Company immediately after completion of the Global Offering (assuming the Over-allotment Option is not exercised, and without taking into account any Shares which may be issued upon the exercise of options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan) or approximately 6.58% of the enlarged issued share capital of our Company upon full exercise of all outstanding options granted under the Pre-IPO Share Option Scheme (assuming the Over-allotment Option is not exercised, and without taking into account any Shares which may be issued upon the exercise of options granted under the Post-IPO Share Option Scheme, and vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan).

Please refer to pages IV-39 to IV-49 of this prospectus for details of the Pre-IPO Share Option Scheme.

### Post-IPO Share Option Scheme

We have conditionally adopted the Post-IPO Share Option Scheme. This scheme will comply with Chapter 17 of the Listing Rules, and other relevant rules and regulations.

Please refer to pages IV-49 to IV-59 of this prospectus for details of the Post-IPO Share Option Scheme for details.

## SUMMARY

### Pre-IPO RSU Plan

We have conditionally adopted the Pre-IPO RSU Plan on November 17, 2014. As of the Latest Practicable Date, no RSU had been granted or agreed to be granted by our Company pursuant to the Pre-IPO RSU Plan. The maximum number of Shares which may be granted under the Pre-IPO RSU Plan is 13,850,000. The 13,850,000 Shares represent approximately 0.92% of the issued share capital of the Company immediately after completion of the Global Offering (assuming the Over-allotment Option is not exercised, and without taking into account any Shares which may be issued upon the exercise of options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan).

Please refer to pages IV-60 to IV-71 of this prospectus for details of the Pre-IPO RSU Plan.

### Post-IPO RSU Plan

We have conditionally adopted the Post-IPO RSU Plan. Please refer to pages IV-71 to IV-73 of this prospectus for details of the Post-IPO RSU Plan.

### RECENT DEVELOPMENTS

Our mobile RPG, *Luan Shi Zhi Ren 2* (亂世之刃2) (now titled *San Guo Zhi Ren* (三國之刃)) was launched on Tencent platforms for Android on August 7, 2014 and for iOS on October 19, 2014 and for the period from October 22 through November 16, 2014, it was ranked first based on App Annie's daily analysis of Apple Inc.'s App Store rankings in terms of gross billings in China for 23 days and ranked second for three days.

The Directors confirm that since June 30, 2014 (being the date to which the latest audited combined financial information of our Group was prepared) and up to the date of this prospectus, there has been no material adverse change in the industry in which we operate and our business and financial condition which would materially affect the information shown in our financial statements included in the Accountant's Reports set forth in Appendix IA and Appendix IB to this prospectus. There have been no significant non-recurring items in our statement of profit or loss or material adverse change to our revenue, gross profit, gross profit margin, MAUs, MPUs or ARPPU since June 30, 2014.

The discussion below of the financial information for the nine months ended September 30, 2014 is based on our unaudited condensed consolidated financial statements prepared in accordance with International Accounting Standards 34 "Interim Financial Reporting" issued by the International Accounting Standards Board and reviewed by the Reporting Accountants in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by Hong Kong Institute of Certified Public Accountants for such relevant period. Our financial information during such period is not indicative of our actual results or the results for any future periods. The financial information below should be read in conjunction with our audited financial statements for the Track Record Period and related notes and other financial information, included elsewhere in this prospectus. Please also refer to "Financial Information" included elsewhere in this prospectus for information regarding trends and other factors that may influence our results of operations.

## SUMMARY

Our revenue increased by 80.6% from RMB107.8 million for the nine months ended September 30, 2013 to RMB194.7 million for the nine months ended September 30, 2014, primarily due to an increase in our revenue derived from our mobile games, resulting from our acquisition of Kailuo Tianxia on December 31, 2013 and the launch of the Android version of *Luan Shi Zhi Ren 2* (亂世之刃2) (now titled *San Guo Zhi Ren* (三國之刃)) on August 7, 2014 on Tencent platforms and partially offset by a decrease in revenue derived from our web games. Our cost of sales increased by 497.8% from RMB4.5 million for the nine months ended September 30, 2013 to RMB26.9 million for the nine months ended September 30, 2014, primarily due to the amortization for the nine months ended September 30, 2014, relating to intangible assets pursuant to the acquisition of Kailuo Tianxia and an increase in salaries and welfare due to an increase in operations employees hired in the fourth quarter of 2013 after the launch of *Luan Shi Zhi Ren 2* (亂世之刃2) (now titled *San Guo Zhi Ren* (三國之刃)) and the acquisition of Kailuo Tianxia on December 31, 2013. As a result of the foregoing, our gross profit increased by 62.4% from RMB103.3 million for the nine months ended September 30, 2013 to RMB167.8 million for the nine months ended September 30, 2014. Primarily as a result of an increase in our cost of sales, our gross profit margin decreased from 95.8% for the nine months ended September 30, 2013 to 86.2% for the nine months ended September 30, 2014.

Based on our unaudited condensed consolidated financial statements, as of September 30, 2014, we had net current assets of RMB95.3 million, as compared to our net current assets of RMB130.8 million as of June 30, 2014. This change was primarily attributable to a decrease in cash and cash equivalents of RMB22.3 million, resulting from the payment of dividends in the amount of RMB60.0 million in September 2014, partially offset by cash generated from profit before tax during the period, and an increase in our other payables and accruals of RMB19.2 million, resulting from the increase in the accrual of IPO expenses and an increase in withholdings for individual income tax amounts relating to the dividends paid in September 2014, partially offset by an increase in available-for-sale investments in the amount of RMB11.3 million.

For the month of September 2014, our RPGs, including mobile games and web games had 5.1 million MAUs and our casual games had 18.7 million MAUs. For the three months ended September 30, 2014, our web games had 58,000 average MPUs, our mobile RPGs had 188,000 average MPUs and our mobile casual games had 758,000 average MPUs.

### LISTING-RELATED EXPENSES INCURRED AND TO BE INCURRED

The total estimated listing-related expenses (excluding underwriting commissions to the Underwriters) in relation to the Global Offering is approximately RMB35.6 million, of which RMB17.9 million have been incurred during the Track Record Period. RMB14.0 million was charged to profit or loss for the six months ended June 30, 2014 and RMB3.9 million was included as prepayments as of June 30, 2014 and will be deducted from equity upon completion of the Global Offering as it is directly attributable to the issue of new Shares, we expect that of remaining listing-related expenses of approximately RMB17.7 million, RMB14.8 million will be charged to profit and loss for the year ending December 31, 2014 and RMB2.9 million will be deducted from equity as it is directly attributable to the issue of new Shares.

In addition, assuming an Offer Price of HK\$2.20 per Share, being the midpoint of the proposed Offer Price of HK\$1.85 to HK\$2.55 per Share, assuming that the Over-allotment Option is not exercised, we expect to incur underwriting commissions (including incentive fee of up to 1.50%) of RMB35.5 million, which will be deducted from equity as it is directly attributable to the issue of new Shares. The listing-related expenses above are the latest practicable estimates and are provided for reference only, and actual amounts may differ.

## SUMMARY

### DIVIDEND POLICY

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. Xiamen Guanghuan declared dividends of RMB10.0 million, RMB79.2 million and RMB71.1 million in 2011, 2012 and 2013, respectively and a dividend of RMB60.0 million in September 2014. As of the Latest Practicable Date, all outstanding dividends payable had been fully settled. We funded the payment of the declared dividends with cash on hand. 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.

Please refer to pages 278 to 279 of this prospectus for further information regarding our dividend policy.

### GLOBAL OFFERING STATISTICS

All statistics in this table are based on the assumption that (i) the Over-allotment Option is not exercised, and (ii) the options under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme are not exercised and (iii) RSUs vested under the Pre-IPO RSU Plan and Post-IPO RSU Plan are not issued.

	Based on an Offer Price of HK\$1.85	Based on an Offer Price of HK\$2.55
Market capitalization <sup>(1)</sup> .....	HK\$2,775 million	HK\$3,825 million
Unaudited pro forma adjusted net tangible assets attributable to the owners of the Company <sup>(2)</sup> ...	HK\$0.43	HK\$0.56

(1) The calculation of market capitalization is based on 1,500,000,000 Shares expected to be in issue immediately upon completion of the Global Offering.

(2) The unaudited pro forma adjusted net tangible asset per Share has been arrived at after adjustments referred to in the section headed "Appendix II — Unaudited Pro Forma Financial Information — Unaudited Pro Forma Statement of Adjusted Net Tangible Assets of Our Group" and on the basis of 1,500,000,000 Shares in issue at the Offer Price immediately upon the completion of the Global Offering.

### FUTURE PLANS AND USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$570.2 million, after deducting underwriting fees and commissions and estimated total expenses paid and payable by us in connection thereto, assuming an Offer Price of HK\$2.20 per Share, being the midpoint of the proposed Offer Price range of HK\$1.85 to HK\$2.55 per Share. We intend to use such net proceeds as follows:

Amount (millions of HK\$)	% of total estimated net proceeds (%)	Intended use
228.1 .....	40	<ul style="list-style-type: none"> <li>• expanding and enhancing our game portfolio, including by launching four new games in 2014 and nine new games in 2015, hiring more research and development personnel and for other research and development efforts.</li> </ul>
114.0 .....	20	<ul style="list-style-type: none"> <li>• expanding our marketing and promotion activities.</li> </ul>
85.5 .....	15	<ul style="list-style-type: none"> <li>• establishing and expanding international operations in selected overseas markets.</li> </ul>



## SUMMARY

Amount (millions of HK\$)	% of total estimated net proceeds (%)	Intended use
85.5 .....	15	<ul style="list-style-type: none"> <li>• potential acquisitions of technologies and complimentary online games or business, partnerships and licensing opportunities.</li> </ul>
57.0 .....	10	<ul style="list-style-type: none"> <li>• supplementing our working capital and for other general corporate purposes.</li> </ul>
570.2	100	

If the Offer Price is set at the highest or lowest point of the indicative Offer Price range, the net proceeds of the Global Offering, assuming that the Over-allotment Option is not exercised, will increase by approximately HK\$103.4 million or decrease by approximately HK\$103.4 million, respectively. In such event, we will increase or decrease the intended use of the net proceeds for the above purposes on a pro rata basis.

### RISK FACTORS

We believe that there are certain risks involved in our operations, many of which are beyond our control. In particular, we have a short operating history in developing mobile games and web games, which makes it difficult to evaluate our prospects and future financial results. In addition, a small number of games have generated a majority of our revenue, and we must continue to launch games that attract and retain a significant number of players in order to grow our revenue and sustain our competitive position. If we are unable to extend the relatively short expected life cycle of our web games and mobile games or if our games do not maintain their popularity during their expected life cycle, our business, financial condition, results of operations and prospects could be material and adversely impacted. In addition, our growth prospects will suffer if we are unable to continue to implement our game development strategy focusing on mobile games.

If the PRC government finds that the agreements that establish the structure for operating our China business do not comply with PRC laws and regulations, or if these regulations or their interpretations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations. In addition, our Contractual Arrangements may not be as effective in providing operational control as direct ownership and the PRC Contractual Entities or the Relevant Shareholders may fail to perform their obligations under our Contractual Arrangements.

Please refer to pages 37 to 80 of this prospectus for details of our risk factors, which we strongly urge you to read in full before making an investment in our Shares.

## DEFINITIONS

*In this prospectus, unless the context otherwise requires, the following expressions have the following meanings. Certain other terms are defined in "Glossary."*

<b>"Ace Kingdom Limited"</b>	a BVI business company incorporated under the laws of the British Virgin Islands on July 25, 2014 and held by TMF (Cayman) Ltd. as the trustee of The Sun Family Trust
<b>"Affiliate"</b>	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
<b>"AIC"</b>	Administration for Industry and Commerce of the People's Republic of China, and its branch(es)
<b>"App Annie"</b>	App Annie Inc., an independent application store market data provider
<b>"Application Form(s)"</b>	<b>WHITE, YELLOW</b> and <b>GREEN</b> application form(s) or, where the context requires, any of them relating to the Global Offering
<b>"Articles of Association" or "Articles"</b>	articles of association of the Company conditionally adopted on November 17, 2014, which will take effect upon the listing of the Shares on the Hong Kong Stock Exchange, as amended from time to time, a summary of which is contained in Appendix III to this prospectus
<b>"associate(s)"</b>	has the meaning ascribed to it under the Listing Rules
<b>"BILIN Holdings Limited"</b>	a BVI business company incorporated under the laws of the British Virgin Islands on February 21, 2014 and wholly owned by Rayoon Limited, as nominee of TMF (Cayman) Ltd., the trustee of The Bi Family Trust
<b>"Board Lot"</b>	means the board lot in which the Shares are traded on the Hong Kong Stock Exchange from time to time
<b>"Board of Directors" or "Board" or "our Board"</b>	our board of Directors
<b>"Business Day"</b>	any day (other than a Saturday, Sunday or public holiday) in Hong Kong on which banks in Hong Kong are open generally for normal banking business to the public
<b>"BVI"</b>	the British Virgin Islands
<b>"BVI Holding Companies"</b>	YAO Holdings Limited, BILIN Holdings Limited, Fishchen Holdings Limited, Eastep Holdings Limited, LINCHEN Holdings Limited and LINT Holdings Limited

## DEFINITIONS

<b>“CAGR”</b>	compound annual growth rate
<b>“Catalogue”</b>	the Guidance Catalogue of Industries for Foreign Investment (《外商投資產業指導目錄》), which was promulgated jointly by the MOFCOM and the NDRC on December 24, 2011 and became effective from January 30, 2012 and is amended from time to time
<b>“Cayman Companies Law” or “Companies Law”</b>	the Companies Law of the Cayman Islands, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
<b>“Cayman Islands”</b>	the Cayman Islands, a British Overseas Territory
<b>“CCASS”</b>	the Central Clearing and Settlement System established and operated by HKSCC
<b>“CCASS Clearing Participant”</b>	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant
<b>“CCASS Custodian Participant”</b>	a person admitted to participate in CCASS as a custodian participant
<b>“CCASS Investor Participant”</b>	a person admitted to participate in CCASS as an investor participant, who may be an individual or joint individuals or a corporation
<b>“CCASS Participant”</b>	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
<b>“Chengdu Guangcheng”</b>	Chengdu Guangcheng Interactive Technology Co., Ltd. (成都光橙互動科技有限公司), a limited company incorporated under the laws of the PRC on May 13, 2014. As of the Latest Practicable Date, Xiamen Feiyu, Mr. Liu Shaoyu (the director of Chengdu Guangcheng), Mr. Cao Jun and Mr. Zhou Kaisheng hold 60%, 20.4%, 11.2% and 8.4% equity interest in Chengdu Guangcheng, respectively
<b>“China” or “PRC”</b>	the People’s Republic of China, which for the purpose of this prospectus and for geographical reference only, excluding Hong Kong, Macau and Taiwan
<b>“Circular 37”</b>	the Circular on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Offshore Investment and Financing and Round Trip Investment via Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》), which was promulgated by the State Administration of Foreign Exchange of the PRC and took effect from July 4, 2014

## DEFINITIONS

<b>“Circular 75”</b>	the Circular on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Offshore Financing and Round Trip Investment via Overseas Special Purpose Vehicles (《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》), which was promulgated by the State Administration of Foreign Exchange of the PRC and took effect from November 1, 2005 and later replaced by Circular 37
<b>“close associate”</b>	has the meaning ascribed to it under the Listing Rules
<b>“CNNIC”</b>	China Internet Network Information Center
<b>“Companies Ordinance”</b>	the Companies Ordinance of Hong Kong (Chapter 622 of the Laws of Hong Kong) effective from March 3, 2014, as amended, supplemented or otherwise modified from time to time
<b>“Companies (Winding Up and Miscellaneous Provisions) Ordinance”</b>	Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
<b>“Company,” “our Company,” “we,” “us” or “our”</b>	Feiyu Technology International Company Ltd. (飛魚科技國際有限公司), an exempted company incorporated in the Cayman Islands with limited liability on March 6, 2014, and, except where the context otherwise requires, all of its subsidiaries and PRC Operating Entities or where the context refers to any time prior to its incorporation, the business which its predecessors or the predecessors of its present subsidiaries and PRC Operating Entities was engaged in and which was subsequently assumed by it
<b>“connected person”</b>	has the meaning ascribed to it under the Listing Rules
<b>“connected transaction”</b>	has the meaning ascribed to it under the Listing Rules
<b>“Contractual Arrangements”</b>	a series of contractual arrangements entered into by Xiamen Feiyu, the PRC Contractual Entities and the Relevant Shareholders, details of which are described in the section headed “Contractual Arrangements”
<b>“Controlling Shareholder(s)”</b>	has the meaning ascribed thereto under the Listing Rules and unless the context requires otherwise, refers to as Jolly Spring International Limited, Rayoon Limited, YAO Holdings Limited, BILIN Holdings Limited, Mr. Yao Jianjun and Mr. Bi Lin
<b>“core connected person”</b>	has the meaning ascribed to it under the Listing Rules

## DEFINITIONS

<b>“CSRC”</b>	China Securities Regulatory Commission (中國證券監督管理委員會), a regulatory body responsible for the supervision and regulation of the securities markets in the PRC
<b>“Director(s)” or “our Director(s)”</b>	the director(s) of our Company or any one of them
<b>“Eastep Holdings Limited”</b>	a BVI business company incorporated under the laws of the British Virgin Islands on February 21, 2014 and wholly owned by Ace Kingdom Limited as nominee of TMF (Cayman) Ltd., the trustee of The Sun Family Trust
<b>“EIT”</b>	enterprise income tax of the PRC
<b>“EIT Law”</b>	the PRC Enterprise Income Tax Law passed by the National People’s Congress of the PRC on March 16, 2007 and taking effect on January 1, 2008, as amended, supplemented and otherwise modified from time to time
<b>“Family Trusts”</b>	collectively, The Yao Family Trust, The Bi Family Trust, The Chen Family Trust, The Sun Family Trust, The Lin Family Trust and The Zhi Family Trust
<b>“Feiyou Feixin”</b>	Xiamen Feixin Internet Technology Co., Ltd. (廈門飛信網絡科技有限公司), a direct and wholly-owned subsidiary of Xiamen Feiyou and a limited company incorporated under the laws of the PRC on November 13, 2014
<b>“Feiyou Guangqu”</b>	Xiamen Guangqu Investment Management Co., Ltd. (廈門光趣投資管理有限公司), a direct and wholly-owned subsidiary of Xiamen Feiyou and a limited company incorporated under the laws of the PRC on November 10, 2014
<b>“Feiyou Guangyu”</b>	Xiamen Guangyu Investment Management Co., Ltd. (廈門市光娛投資管理有限公司), a direct and wholly-owned subsidiary of Xiamen Feiyou and a limited company incorporated under the laws of the PRC on November 10, 2014
<b>“Feiyou Zhangxin”</b>	Xiamen Zhangxin Interactive Technology Co., Ltd. (廈門掌心互動科技有限公司), a limited company incorporated under the laws of the PRC on October 27, 2014, 75% equity interest of which is owned by Xiamen Feiyou and 25% owned by Mr. Dong Ting, the supervisor of Feiyou Zhangxin
<b>“Feiyu Hong Kong”</b>	Feiyu Technology Hong Kong Limited (飛魚科技香港有限公司), a direct and wholly-owned subsidiary of our Company and a limited company incorporated under the laws of Hong Kong on March 25, 2014

## DEFINITIONS

<b>“Fishchen Holdings Limited”</b>	a BVI business company incorporated under the laws of the British Virgin Islands on February 21, 2014 and wholly owned by Honour Gate Limited as nominee of TMF (Cayman) Ltd., the trustee of The Chen Family Trust
<b>“Fishchen Shareholder(s)”</b>	Mr. Chen Jianyu, Fishchen Holdings Limited and Honour Gate Limited
<b>“GAPP”</b>	General Administration of Press and Publication of the PRC (中華人民共和國新聞出版總署) (currently known as the State Administration of Press, Publication, Radio, Film and Television of the People’s Republic of China (國家新聞出版廣電總局))
<b>“GDP”</b>	gross domestic product
<b>“Global Offering”</b>	the Hong Kong Public Offering and the International Offering
<b>“GREEN application form(s)”</b>	the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited
<b>“Group,” “our Group” or “the Group”</b>	our Company, its subsidiaries and the PRC Operating Entities (the financial results of which have been consolidated and accounted for as the subsidiaries of the our Company by virtue of the Contractual Arrangements), or where the context so requires, in respect of the period before our Company became the holding company of our current subsidiaries, the business operated by such subsidiaries or their predecessors (as the case may be) and the PRC Operating Entities
<b>“HK\$” or “Hong Kong dollars” or “HK dollars” or “cents”</b>	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
<b>“HKSCC”</b>	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
<b>“HKSCC Nominees”</b>	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
<b>“Hong Kong” or “HK”</b>	the Hong Kong Special Administrative Region of the PRC
<b>“Hong Kong Offer Shares”</b>	the 30,000,000 Shares initially being offered by our Company for subscription pursuant to the Hong Kong Public Offering (subject to adjustment and reallocation as described in the section headed “Structure of the Global Offering” in this prospectus)

## DEFINITIONS

<b>“Hong Kong Public Offering”</b>	the offer of Hong Kong Offer Shares for subscription by the public in Hong Kong (subject to adjustment as described in the section headed “Structure of the Global Offering” in this prospectus) at the Offer Price (plus a brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) on the terms and subject to the conditions described in this prospectus and the Application Forms relating thereto, as further described in the sub-section headed “Structure of the Global Offering — The Hong Kong Public Offering” in this prospectus
<b>“Hong Kong Public Offering Documents”</b>	this prospectus and the Application Forms
<b>“Hong Kong Share Registrar”</b>	Computershare Hong Kong Investor Services Limited
<b>“Hong Kong Stock Exchange” or “Stock Exchange”</b>	The Stock Exchange of Hong Kong Limited
<b>“Hong Kong Underwriters”</b>	the underwriters for the Hong Kong Public Offering as listed in the sub-section headed “Underwriting — Hong Kong Underwriters — Hong Kong Underwriters” in this prospectus
<b>“Hong Kong Underwriting Agreement”</b>	the underwriting agreement dated November 24, 2014 relating to the Hong Kong Public Offering entered into among our Company, the Controlling Shareholders, the Fishchen Shareholders, the Joint Global Coordinators, the Joint Sponsors and the Hong Kong Underwriters as further described in the section headed “Underwriting — Hong Kong Public Offering — Hong Kong Underwriting Agreement” in this prospectus
<b>“Honour Gate Limited”</b>	a BVI business company incorporated under the laws of the British Virgin Islands on July 25, 2014 and held by TMF (Cayman) Ltd. as the trustee of The Chen Family Trust
<b>“IFRS”</b>	International Financial Reporting Standards, amendments and interpretations issued by the International Accounting Standards Board
<b>“Independent Non-executive Director(s)”</b>	the independent non-executive Director(s) of the Company
<b>“Independent Third Party(ies)”</b>	any person or entity and any of their respective ultimate beneficial owner, who/which, as far as the Directors are aware after having made all reasonable enquiries, is not a connected person of our Company as defined under the Listing Rules



## DEFINITIONS

<b>“International Offering”</b>	the offer of the International Offer Shares at the Offer Price to institutional, professional, corporate and other investors (other than to retail investors in Hong Kong), as further described in the section headed “Structure of the Global Offering” in this prospectus
<b>“International Offer Shares”</b>	the 270,000,000 Shares initially being offered by our Company for subscription under the International Offering together with, where relevant, any additional Shares which may be issued pursuant to the exercise of Over-allotment Option (subject to adjustment and reallocation as described in the section headed “Structure of the Global Offering” in this prospectus)
<b>“International Underwriters”</b>	the underwriters of the International Offering who are expected to enter into the International Underwriting Agreement to underwrite the International Offering
<b>“International Underwriting Agreement”</b>	the underwriting agreement relating to the International Offering to be entered into on or about Friday, November 28, 2014 by, among others, our Company, the Controlling Shareholders, the Fishchen Shareholders, the International Underwriters and the Joint Global Coordinators, as further described in the section headed “Underwriting — The International Offering” in this prospectus
<b>“iResearch”</b>	Shanghai iResearch Co., Ltd, an independent industry consultant commissioned by the Group to prepare an independent research report
<b>“Joint Bookrunners”</b>	in respect of the Hong Kong Public Offering, Citigroup Global Markets Asia Limited and Merrill Lynch International, and in respect of the International Offering, Citigroup Global Markets Limited and Merrill Lynch International
<b>“Joint Global Coordinators”</b>	Citigroup Global Markets Asia Limited and Merrill Lynch International
<b>“Joint Lead Managers”</b>	in respect of the Hong Kong Public Offering, Citigroup Global Markets Asia Limited, Merrill Lynch Far East Limited and Guotai Junan Securities (Hong Kong) Limited, and in respect of the International Offering, Citigroup Global Markets Limited, Merrill Lynch International and Guotai Junan Securities (Hong Kong) Limited
<b>“Joint Sponsors”</b>	Citigroup Global Markets Asia Limited and Merrill Lynch Far East Limited

## DEFINITIONS

<b>“Jolly Spring International Limited”</b>	a BVI business company incorporated under the laws of the British Virgin Islands on January 15, 2014 and as nominee of TMF (Cayman) Ltd., the trustee of The Yao Family Trust
<b>“Kailuo Tianxia”</b>	Beijing Kailuo Tianxia Technology Co., Ltd. (北京凱羅天下科技有限公司), a limited company incorporated under the laws of the PRC on May 3, 2012 and a direct and wholly-owned subsidiary of Xiamen Guanghuan since December 31, 2013
<b>“Latest Practicable Date”</b>	November 16, 2014, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus
<b>“LINCHEN Holdings Limited”</b>	a BVI business company incorporated under the laws of the British Virgin Islands on February 21, 2014 and wholly owned by Sheen Field Limited as nominee of TMF (Cayman) Ltd., the trustee of The Zhi Family Trust
<b>“LINT Holdings Limited”</b>	a BVI business company incorporated under the laws of the British Virgin Islands on February 21, 2014 and wholly owned by Supreme Top Global Limited, as nominee of TMF (Cayman) Ltd., the trustee of The Lin Family Trust
<b>“Listing”</b>	the listing of the Shares on the Main Board of the Stock Exchange
<b>“Listing Committee”</b>	the Listing Committee of the Stock Exchange
<b>“Listing Date”</b>	the date expected to be on or about Friday, December 5, 2014, on which the Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange
<b>“Listing Rules”</b>	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time)
<b>“M&amp;A Rules”</b>	Regulation on Mergers and Acquisitions of Domestic Companies by Foreign Investors (關於外國投資者併購境內企業的規定), as amended, supplemented or otherwise modified from time to time
<b>“Main Board”</b>	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange. For the avoidance of doubt, the Main Board excludes the Growth Enterprise Market

## DEFINITIONS

<b>“Maximum Offer Price”</b>	HK\$2.55 (being the high end of the Offer Price range stated in this prospectus)
<b>“Memorandum of Association” or “Memorandum”</b>	the memorandum of association of our Company adopted on November 17, 2014, as amended from time to time
<b>“MIIT”</b>	Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部) (formerly known as the Ministry of Information Industry)
<b>“MOC”</b>	Ministry of Culture of the PRC (中華人民共和國文化部)
<b>“MOFCOM”</b>	Ministry of Commerce of the PRC (中華人民共和國商務部), or its competent local branches
<b>“NDRC”</b>	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) or its competent local branches
<b>“Non-Restricted Business”</b>	business which is not a Restricted Business
<b>“Offer Price”</b>	the final Hong Kong dollar price per Offer Share (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) of not more than HK\$2.55 and expected to be not less than HK\$1.85, at which Hong Kong Offer Shares are to be subscribed for and to be determined in the manner further described in the sub-section headed “Structure of the Global Offering — Pricing and Allocation — Determining the Offer Price” in this prospectus
<b>“Offer Shares”</b>	the Hong Kong Offer Shares and the International Offer Shares, where relevant, together with any additional Shares pursuant to the exercise of the Over-allotment Option
<b>“Over-allotment Option”</b>	the option expected to be granted by the Company to the International Underwriters, exercisable by the Joint Global Coordinators (on behalf of the International Underwriters) pursuant to the International Underwriting Agreement, at any time from the date of International Underwriting Agreement until the 30th day following the last day for the lodging of applications under the Hong Kong Public Offering, to require the Company to issue up to 45,000,000 additional Shares, representing approximately 15% of the Offer Shares initially available under the Global Offering, at the Offer Price to cover over-allocations in the International Offering, if any, details of which are described in the section headed “Structure of the Global Offering” in this prospectus

## DEFINITIONS

<b>“PBOC”</b>	the People’s Bank of China (中國人民銀行), the central bank of the PRC
<b>“PBOC Rate”</b>	the exchange rate for foreign exchange transactions set daily by PBOC based on the China interbank foreign exchange market rate of the previous day and with reference to current exchange rates of the global financial markets
<b>“Post-IPO RSU Plan”</b>	the post-IPO restricted share unit plan conditionally adopted by our Shareholders on November 17, 2014; a summary of the principal terms is set forth in the section headed “Appendix IV — Statutory and General Information — G. Post-IPO RSU Plan”
<b>“Post-IPO Share Option Scheme”</b>	the post-IPO share option scheme conditionally adopted by our Shareholders on November 17, 2014; a summary of the principal terms is set forth in the section headed “Appendix IV — Statutory and General Information — E. Post-IPO Share Option Scheme”
<b>“PRC Contractual Entities”</b>	Xiamen Guanghuan, Xiamen Youli and Kailuo Tianxia and “PRC Contractual Entity” means any one of them
<b>“PRC GAAP”</b>	generally accepted accounting principles in the PRC
<b>“PRC Government”</b>	the government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local government entities) and their instrumentalities or, where the context requires, any of them
<b>“PRC Laws”</b>	The publicly available laws, administrative regulations and governmental rules of the PRC
<b>“PRC Operating Entities”</b>	Xiamen Guanghuan and its subsidiaries and “PRC Operating Entity” means any one of them
<b>“PRC Subsidiaries”</b>	Xiamen Feiyou and its subsidiaries and “PRC Subsidiary” means any one of them
<b>“Pre-IPO Share Option Scheme”</b>	the pre-IPO share option scheme conditionally adopted by our Shareholders on November 17, 2014; a summary of the principal terms is set forth in the section headed “Appendix IV — Statutory and General Information — D. Pre-IPO Share Option Scheme”
<b>“Pre-IPO RSU Plan”</b>	the pre-IPO restricted share unit plan conditionally adopted by our Shareholders on November 17, 2014; a summary of the principal terms is set forth in the section headed “Appendix IV — Statutory and General Information — F. Pre-IPO RSU Plan”

## DEFINITIONS

<b>“Price Determination Agreement”</b>	the agreement to be entered into among our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on the Price Determination Date to record and fix the Offer Price
<b>“Price Determination Date”</b>	the date, expected to be on or around Friday, November 28, 2014 (Hong Kong time) on which the Offer Price is to be determined and fixed by the Price Determination Agreement
<b>“prospectus”</b>	this prospectus being issued in connection with the Hong Kong Public Offering
<b>“QIBs”</b>	qualified institutional buyers within the meaning of Rule 144A
<b>“Rayoon Limited”</b>	a BVI business company incorporated under the laws of the British Virgin Islands on July 25, 2014 and the nominee of TMF (Cayman) Ltd., the trustee of The Bi Family Trust
<b>“Regulation S”</b>	Regulation S under the U.S. Securities Act
<b>“Relevant Shareholder(s)”</b>	Xiamen Guanghuan, being the registered shareholder of Xiamen Youli and Hailuo Tianxia; and Messrs. Yao Jianjun, Bi Lin, Chen Jianyu, Sun Zhiyan, Lin Jiabin, Lin Zhibin, Cai Wensheng and Ms. Chen Yongchun, being the registered shareholders of Xiamen Guanghuan
<b>“Remuneration Committee”</b>	the remuneration committee of the Board
<b>“Renminbi” or “RMB”</b>	Renminbi yuan, the lawful currency of the PRC
<b>“Reorganization”</b>	the reorganization arrangements undergone by our Group in preparation for the Listing as described in the section headed “Our History, Reorganization and Corporate Structure” in this prospectus
<b>“Restricted Business”</b>	business over which the Guidance Catalogue of Industries for Foreign Investment (《外商投資產業指導目錄》), Provisions on Administration of Foreign Invested Telecommunications Enterprises (《外商投資電信企業管理規定》), Notice on Strengthening the Administration of Foreign Investment in Operating Value-added Telecommunications Business (《關於加強外商投資經營增值電信業務管理的通知》) and the Circular on Implementation of the Newly Revised Interim Provisions on the Administration of Internet Culture (《關於實施新修訂〈互聯網文化管理暫行規定〉的通知》) impose restrictions on foreign ownership
<b>“RSU(s)”</b>	restricted share units granted pursuant to the Pre-IPO RSU Plan and Post-IPO RSU Plan

## DEFINITIONS

<b>“Rule 144A”</b>	Rule 144A under the U.S. Securities Act
<b>“SAFE”</b>	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局), and its branch(es)
<b>“SAIC”</b>	the State Administration of Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)
<b>“SAT”</b>	the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
<b>“SEC”</b>	the U.S. Securities and Exchange Commission
<b>“SFC”</b>	the Securities and Futures Commission of Hong Kong
<b>“SFO”</b>	the Securities and Futures Ordinance of Hong Kong (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
<b>“Share(s)”</b>	ordinary share(s) in the share capital of our Company with nominal value of US\$0.0000001 each
<b>“Shareholder(s)”</b>	holder(s) of Shares
<b>“Sheen Field Limited”</b>	a BVI business company incorporated under the laws of the British Virgin Islands on July 7, 2014 and the nominee of TMF (Cayman) Ltd., the trustee of The Zhi Family Trust
<b>“Shenzhen Zhangxin”</b>	Shenzhen Zhangxin Interactive Technology Co., Ltd. (深圳掌心互動科技有限公司), a limited company incorporated under the laws of the PRC on March 10, 2014, 30% equity interest of which was owned by Xiamen Guanghuan and 70% owned by Ms. Tu Qin; Shenzhen Zhangxin was disposed by Xiamen Guanghuan to Ms. Tu Qin subsequently in November 2014
<b>“Stabilizing Manager”</b>	Citigroup Global Markets Asia Limited
<b>“State Council”</b>	State Council of the PRC (中華人民共和國國務院)
<b>“Stock Borrowing Agreement”</b>	the stock borrowing agreement to be entered into between Stabilizing Manager and YAO Holdings Limited on or around the Price Determination Date
<b>“subsidiary” or “subsidiaries”</b>	has the meaning ascribed thereto in section 15 of the Companies Ordinance
<b>“Substantial Shareholder(s)”</b>	has the meaning ascribed thereto under the Listing Rules

## DEFINITIONS

<b>“Supreme Top Global Limited”</b>	a BVI business company incorporated under the laws of the British Virgin Islands on July 25, 2014 and the nominee of TMF (Cayman) Ltd., the trustee of The Lin Family Trust
<b>“Takeovers Code”</b>	the Codes on Takeovers and Mergers and Share Repurchases issued by the SFC, as amended, supplemented or otherwise modified from time to time
<b>“The Bi Family Trust”</b>	a discretionary trust set up by Mr. Bi Lin for which TMF (Cayman) Ltd. acts as the trustee, and the beneficiaries of which are Mr. Bi Lin and his family members
<b>“The Chen Family Trust”</b>	a discretionary trust set up by Mr. Chen Jianyu for which TMF (Cayman) Ltd. acts as the trustee, and the beneficiaries of which are Mr. Chen Jianyu and his family members
<b>“The Lin Family Trust”</b>	a discretionary trust set up by Mr. Lin Jiabin for which TMF (Cayman) Ltd. acts as the trustee, and the beneficiaries of which are Mr. Lin Jiabin and his family members
<b>“The Sun Family Trust”</b>	a discretionary trust set up by Mr. Sun Zhiyan for which TMF (Cayman) Ltd. acts as the trustee, and the beneficiaries of which are Mr. Sun Zhiyan and his family members
<b>“The Yao Family Trust”</b>	a discretionary trust set up by Mr. Yao Jianjun for which TMF (Cayman) Ltd. acts as the trustee, and the beneficiaries of which are Mr. Yao Jianjun and his family members
<b>“The Zhi Family Trust”</b>	a discretionary trust set up by Mr. Lin Zhibin for which TMF (Cayman) Ltd. acts as the trustee, and the beneficiaries of which are Mr. Lin Zhibin and his family members
<b>“Tianxia Jiayou”</b>	Shenzhen Tianxia Jiayou Technology Co., Ltd. (深圳市天下嘉游科技有限公司), a limited company incorporated under the laws of the PRC on December 13, 2012, 60% equity interest of which was owned by Xiamen Guanghuan and 40% owned by Mr. Guo Jia, the executive director and general manager of Tianxia Jiayou; Tianxia Jiayou was disposed to an Independent Third Party in August 2014
<b>“TMF (Cayman) Ltd.”</b>	the trustee of each of the Family Trusts, an Independent Third Party
<b>“Track Record Period”</b>	the periods comprising the three financial years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014



## DEFINITIONS

<b>“Trust Holding Companies”</b>	Jolly Spring International Limited, Rayoon Limited, Honour Gate Limited, Ace Kingdom Limited, Supreme Top Global Limited and Sheen Field Limited
<b>“U.S. Person”</b>	has the meaning given to it in Regulation S
<b>“U.S. Securities Act”</b>	the United States Securities Act of 1933 (as amended, supplemented or otherwise modified from time to time), and the rules and regulations promulgated thereunder
<b>“Underwriters”</b>	the International Underwriters and the Hong Kong Underwriters
<b>“Underwriting Agreements”</b>	the International Underwriting Agreement and the Hong Kong Underwriting Agreement
<b>“United States” or “U.S.”</b>	the United States of America, as defined in Regulation S
<b>“US\$,” “U.S. dollars” or “USD”</b>	United States dollars, the lawful currency of the United States
<b>“VAT”</b>	value-added tax; all amounts are exclusive of VAT in this prospectus except indicated otherwise
<b>“VATS License”</b>	Value-added Telecommunication Operation License issued by the Ministry of Industry and Information Technology of the PRC
<b>“WFOE”</b>	wholly foreign owned enterprise, a specific form of company in the PRC, which in our Group refers to Xiamen Feiyu
<b>“White Form eIPO”</b>	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of <b>White Form eIPO</b> at <a href="http://www.eipo.com.hk">www.eipo.com.hk</a>
<b>“White Form eIPO Service Provider”</b>	Computershare Hong Kong Investor Services Limited
<b>“Xiamen Feiyu”</b>	Xiamen Feiyu Information Technology Co., Ltd. (廈門飛游信息科技有限公司), a direct and wholly-owned subsidiary of Feiyu Hong Kong and a limited company incorporated under the laws of the PRC on June 24, 2014

## DEFINITIONS

<b>“Xiamen Guanghuan”</b>	Xiamen Guanghuan Information Technology Co., Ltd. (廈門光環信息科技有限公司), a limited company incorporated under the laws of the PRC on January 12, 2009. Messrs. Yao Jianjun, Bi Lin, Lin Zhibin, Lin Jiabin, Cai Wensheng, Sun Zhiyan, Chen Jianyu and Ms. Chen Yongchun hold 39.200%, 10.560%, 3.720%, 3.720%, 5.752%, 11.624%, 22.424% and 3.000% equity interest of Xiamen Guanghuan, respectively
<b>“Xiamen Heihuo”</b>	Xiamen Heihuo Internet Technology Co., Ltd. (廈門黑火網絡科技有限公司), a direct and wholly-owned subsidiary of Xiamen Guanghuan, a limited company incorporated under the laws of the PRC on June 7, 2013
<b>“Xiamen Maisi”</b>	Xiamen Maisi Internet Technology Co., Ltd. (廈門麥斯網絡科技有限公司), a limited company incorporated under the laws of the PRC on September 25, 2008, which was owned by Xiamen Guanghuan (75%) and Mr. Zhou Yangsi (25%), the executive director and general manager of Xiamen Maisi, immediately before its dissolution process
<b>“Xiamen Yidou”</b>	Xiamen Yidou Internet Technology Co., Ltd. (廈門翼逗網絡科技有限公司), a limited company incorporated under the laws of the PRC on June 11, 2012, 75% equity interest of which is owned by Xiamen Guanghuan and 25% owned by Mr. Dong Ting, the executive director and general manager of Xiamen Yidou
<b>“Xiamen Youli”</b>	Xiamen Youli Information Technology Co., Ltd. (廈門游力信息科技有限公司), a direct and wholly-owned subsidiary of Xiamen Guanghuan, a limited company incorporated under the laws of the PRC on September 19, 2011
<b>“YAO Holdings Limited”</b>	a BVI business company incorporated under the laws of the British Virgin Islands on February 21, 2014 and wholly owned by Jolly Spring International Limited, as nominee of TMF (Cayman) Ltd., the trustee of The Yao Family Trust
<b>“%”</b>	per cent

## DEFINITIONS

In this prospectus:

- The English translation of the PRC nationals, entities, enterprises, government authorities, departments, facilities, certificates, titles, laws and regulations in Chinese, etc., or another language included in this prospectus is included for identification purposes only. In the event of any inconsistency, the Chinese name or the names in their original languages prevails.
- Unless otherwise expressly stated or the context otherwise requires, all data in this prospectus is as of Latest Practicable Date.
- Unless otherwise specified, all references to any shareholdings in our Company assume that the Over-allotment Option has not been exercised. Please refer to the section headed “Underwriting.”
- Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.
- Unless otherwise specified, all references to “2011,” “2012” and “2013” are to the years ended December 31, 2011, 2012 and 2013, respectively.

## GLOSSARY

*This glossary contains explanations of certain terms used in this prospectus in connection with our Company and our business. The terms and their meanings may not correspond to standard industry meaning or usage of these terms.*

<b>“Android”</b>	an operating system developed and maintained by Google Inc.
<b>“ARPPU”</b>	average revenue per paying user, calculated by dividing monthly average revenue from the sale of virtual items and premium features during a certain period by the number of average MPUs during the same period
<b>“casual games”</b>	online games that are generally less time consuming, easy to learn and typically have a simple story line with challenges for players to overcome in order to progress
<b>“client-based games”</b>	online games that require game software to be downloaded and actively installed by players before they can log on and play the games
<b>“collectible card games”</b>	card games involving specially designed sets of playing cards in which players put together their own decks and then use the decks to play against other players
<b>“console games”</b>	video games that are played through a console as opposed to a personal computer
<b>“gross billings”</b>	monetary value of all virtual currency and virtual items and premium features sold during a certain period
<b>“interactive pet game”</b>	a casual game in which players interact with a character to train and develop it to increase its abilities and perform tasks
<b>“iOS”</b>	a mobile operating system developed and maintained by Apple Inc. used exclusively in Apple touchscreen technology including, iPhones, iPods, and iPads
<b>“item-based revenue model”</b>	under the item-based revenue model, players can play the basic features of the games for free. Game developers and publishers generate revenues when players purchase virtual items and virtual services that enhance their in-game experience

## GLOSSARY

<b>“MAUs”</b>	monthly active users, which is the number of players who logged into a particular game in the relevant calendar month. Under this metric, a player who logged into two different games in the same month is counted as two MAUs. Similarly, a player who plays the same game on two different publishing platforms in a month would be counted as two MAUs. Average MAUs for a particular period is the average of the MAUs in each month during that period
<b>“mobile games”</b>	games that can be played on mobile devices
<b>“MPUs”</b>	monthly paying users, which is the number of paying players in the relevant calendar month. Average MPUs for a particular period is the average of the MPUs in each month during that period
<b>“MUD”</b>	Multiple user domain games, which are usually text-based and combine elements of role-playing games, hack and slash, player versus player and interactive fiction
<b>“parkour game”</b>	a casual game in which players direct a character to a destination as fast as possible through various actions, including running, jumping, sliding and swinging
<b>“paying users”</b>	users who purchase virtual items or premium features at least once during a certain period. If a user made a payment in our games on two separate publishing platforms or two different games, the user would be counted as two unique users
<b>“premium features”</b>	in-game features and services that enhance players’ in-game experience, by, for example, enabling them to advance in the game more quickly
<b>“RPGs”</b>	role-playing games, which involve a large number of players who interact with each other in an evolving fictional world. Each player adopts the role of one or more “characters” who develop specific skill sets (such as melee combat or casting magic spells) and control the character’s actions. There are unlimited possible game scenarios where the evolution of the game world is determined by the actions of the players, and the storyline continuously evolves even while the players are offline and away from the games
<b>“server”</b>	a computer system that provides services to other computing systems over a computer network
<b>“switcher game”</b>	a casual game in which players match objects in specific combinations to win points and defeat obstacles

## GLOSSARY

<b>“turn-based RPGs”</b>	turn-based RPGs, where the flow of combat is split into turns and each player is allowed a designated time period to formulate his or her game actions. One round is considered to be completed once every player has taken his or her turn, after which the next round begins
<b>“users”</b>	with respect to games, users refer to players
<b>“virtual items”</b>	in-game items that enhance players’ in-game experience, by, for example, enhancing the powers or abilities.
<b>“web games”</b>	games that can be played within a web browser with flash support and which do not require active installation of client software

## FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that relate to our current expectations and views of future events. These forward-looking statements are contained principally in the sections headed “Summary,” “Risk Factors,” “Future Plans and Use of Proceeds,” “Financial Information,” “Industry Overview” and “Business.” These statements relate to events that involve known and unknown risks, uncertainties and other factors, including those listed under “Risk Factors,” which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

In some cases, these forward-looking statements can be identified by words or phrases such as “may,” “will,” “expect,” “anticipate,” “aim,” “estimate,” “intend,” “plan,” “believe,” “potential,” “continue,” “is/are likely to” or other similar expressions. These forward-looking statements include, among other things, statements relating to:

- our business strategies and initiatives as well as our business plans;
- our future business development, results of operations and financial condition;
- expected changes in our revenues and certain cost or expense items;
- our expectations with respect to increased revenue growth and our ability to sustain profitability;
- our services and products under development or planning;
- our ability to attract users and further enhance our brand recognition;
- our dividend distribution plans;
- trends and competition in the online gaming market and industry; and
- changes in general economic, regulatory and operating conditions in the markets in which we operate.

These forward-looking statements are subject to risks, uncertainties and assumptions, some of which are beyond our control. In addition, these forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. Actual outcomes may differ materially from the information contained in the forward-looking statements as a result of a number of factors, including, without limitation, the risk factors set forth in the section headed “Risk Factors.”

The forward-looking statements made in this prospectus relate only to events or information as of the date on which the statements are made in this prospectus. Except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events. You should read this prospectus completely and with the understanding that our actual future results or performance may be materially different from what we expect.



## RISK FACTORS

*You should carefully consider all of the information in this prospectus, including the risks and uncertainties described below, before making an investment in the Offer Shares. Our business, financial condition, results of operations or prospects could be materially and adversely affected by any of these risks and uncertainties. The market price of the Offer Shares could significantly decrease due to any of these risks and uncertainties, and you may lose all or part of your investment.*

We believe that there are certain risks involved in our operations, many of which are beyond our control. These risks can be categorized into (i) risks relating to our business; (ii) risks relating to our Contractual Arrangements; (iii) risks relating to our industry; (iv) risks relating to conducting business in the PRC; and (v) risks relating to the Global Offering. You should consider our business and prospects in light of the challenges we face, including the ones discussed in this section.

### **RISKS RELATING TO OUR BUSINESS**

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

We developed and launched our first web game in 2011 and our first mobile game in 2012. Our short operating history makes it difficult to effectively assess our future prospects. As part of our growth strategy, we intend to develop and offer new mobile games and web games, with a focus on mobile games, to meet the evolving needs of our players. The new games we may offer in the future present further operating and marketing challenges. In addition, the markets for mobile games and web games are highly competitive. If we fail to successfully develop and launch new games in competitive markets, we may not be able to capture the growth opportunities associated with these new games or recover the costs associated with developing and marketing such games, which may materially and adversely affect our business, financial condition, results of operations and growth strategies.

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

A small number of games have contributed a majority of our revenue during the Track Record Period. Our most successful game, *Shen Xian Dao* (神仙道) in web and mobile formats, contributed 100%, 89.5%, 67.9% and 29.2% of our total revenue from game operations and licensing income for 2011, 2012 and 2013, and the six months ended June 30, 2014, respectively. As a result, our growth depends largely on our ability to consistently develop and launch new games that achieve significant popularity. Each of our games requires significant time, engineering, marketing and other resources to develop. Our ability to successfully develop and launch games and attract and retain players largely depends on our ability to:

- anticipate and effectively respond to changing interests and preferences of game players;
- develop, sustain and expand games that are attractive, interesting and engaging;
- effectively market new games and enhancements to our existing and potential players;
- minimize launch delays and cost overruns on new games and game expansions;
- attract, retain and motivate talented game designers, product managers and engineers;

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- anticipate and respond to changes in the competitive landscape; and
- provide superior customer service or address player complaints in a timely manner.

It is difficult to consistently anticipate player demand on a large scale, particularly as we develop games in new genres, platforms or markets. Furthermore, the launch timing of our new games has a significant impact on the performance and popularity of these games. If we launch our new games at the same time as other popular games developed by third parties, the competition may make it difficult to attract new players to games and our distribution and publishing partners may commit fewer resources to promoting our games. If we do not successfully develop and launch games that attract and retain a significant number of players or launch new games during a favorable market window, our business, financial condition, results of operations and prospects may be materially and adversely affected.

**If we are unable to extend the relatively short expected life cycle of our web games and mobile games or if our games do not maintain their popularity during their expected life cycle, our business, financial condition, results of operations and prospects could be material and adversely impacted.**

According to iResearch, a web game has an average life cycle of six months and a mobile game has an average life cycle of three to six months, with only high quality games reaching longer life cycles. As a result, when a game begins to reach the late stage of its expected life cycle, the amount of revenue it generates may start to decrease. We actively try to extend the life cycle of our games. However, even if we successfully extend the life cycle of some or even most of our games, we may not be able to maintain or increase the profitability of such games indefinitely. For instance, we launched our most successful game to date, the web version of *Shen Xian Dao* (神仙道), in May 2011, which began reaching the late stage of its life cycle in 2013 and started to show a decrease in revenue for the year ended December 31, 2013 and the six months ended June 30, 2014. Therefore, in addition to extending the life cycle of our games, we must also continually develop new games that are attractive to a significant number of players, which we may not be able to do.

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

Any failure to extend the life cycle of our games, develop new games or maintain the popularity of our existing games could have a material and adverse effect on our business, financial condition, results of operations and prospects.

**Our business could suffer if we do not successfully manage our current and future growth, which involves optimizing our game portfolio, building our workforce and balancing our growth.**

We have experienced rapid revenue growth since the inception of our operations. We may not be able to maintain our historical growth rates in the future. Revenue growth may slow down or even decline for a number of reasons, including failure to attract and retain players, failure to continuously develop new popular games, failure to effectively market and promote our games to

## RISK FACTORS

distribution and publishing platforms, our limited resources, decreased player spending, increasing competition, slowdown in the overall growth of the mobile game and web game markets, the emergence of alternative business models or changes in regulatory environment or general economic conditions.

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

### **Our growth prospects will suffer if we are unable to continue to implement our game development strategy focusing on mobile games.**

The number of individuals who access the Internet through mobile devices, such as smartphones and tablets, has increased dramatically in recent years. To capitalize on the anticipated growth potential offered by the booming mobile game market, we began focusing on developing mobile games for mobile devices and platforms. We launched our first mobile game, the mobile version of *Shen Xian Dao* in 2012 followed by *Jiong Xi You* (囧西遊) and *Luan Shi Zhi Ren 2* (亂世之刃2) (now titled *San Guo Zhi Ren* (三國之刃)) in 2013. In addition, in late 2013, we acquired Kailuo Tianxia, the developer of the successful Carrot Fantasy (保衛蘿蔔) series of mobile casual games. We plan to continue devoting substantial resources to the development of games that are suitable for mobile devices and platforms. We plan to launch nine games in 2015, all of which we expect will be mobile games. However, it is difficult to predict whether we will succeed in developing and operating games that appeal to mobile game players. The uncertainties we face include:

- given the fast pace with which mobile game technologies have been and will continue to be developed, we may not be able to continuously identify, develop, operate and upgrade games that are suitable for rapidly evolving mobile devices and platforms in a timely and cost-effective manner, or at all;
- we may not be able to anticipate and effectively respond to the interests of players on mobile devices and platforms, or effectively market our mobile games to our existing players and attract new mobile game players;
- each mobile device manufacturer or mobile platform provider may establish unique technological requirements or restrictive terms and conditions for game developers on their devices or platforms, and our games may not be compatible or functional on these devices and platforms, especially immediately after such devices and platforms are upgraded;
- as new mobile devices or new platforms are continuously launched or updated, we may encounter various technological difficulties in providing new versions of our games that function as intended on new mobile devices or platforms, and we need to devote significant resources for the creation, support and maintenance of our games to keep pace with the evolving mobile devices and platforms; and
- we will need to adapt to accept a greater variety of payment methods and systems based on mobile platforms, geographies and other factors.

## RISK FACTORS

These and other uncertainties make it difficult to assess whether we will succeed in implementing our mobile strategy and continue to develop commercially viable games for mobile devices and platforms. Any failure to continue to implement our mobile strategy will materially and adversely affect our business and growth prospects. In addition, if the costs associated with developing our mobile game business exceed revenue generated therefrom, our overall profitability will be negatively impacted.

**We rely on third-party distribution and publishing platforms to distribute and publish our games, and our business, financial condition, results of operations and prospects may be materially and adversely affected if these third-party distribution and publishing platforms breach their obligations to us, or if we fail to maintain relationships with a sufficient number of platforms, or if the platforms lose popularity among mobile game and web game users.**

Our games are distributed and published on over 300 distribution and publishing platforms owned and operated by third parties. We rely on these third parties to promote and publish our games on their platforms, record purchases and collect payments from players, maintain the security of their platforms to prevent cheating and other fraudulent activities, provide a certain portion of player services and, in most cases, make timely payments to us of our share of the revenues generated from our games. If these third-party distribution and publishing platforms fail to effectively promote our games on their platforms or otherwise fulfill their obligations to us, in particular, if we are unable to collect our share of revenue from these third-party platforms in a timely manner, our business and results of operations will be materially and adversely affected. In addition, we may be negatively impacted if these third-party platforms do not obtain or maintain relevant government licenses to publish our games. Please refer to the section headed “Regulatory Overview — Regulations on Value-Added Telecommunication Services — Licenses for Value-Added Telecommunication Services” for details of licensing requirements of distribution and publishing platforms.

Disputes with third-party distribution and publishing platforms may also arise from time to time and we cannot assure that we will be able to resolve such disputes in a timely manner or at all, and these disputes may further divert our management’s attention and adversely affect our ability to collect our share of revenues generated from the games distributed and published on the relevant platforms. If our cooperation with a major third-party distribution and publishing platform terminates for any reason, we may not be able to find a replacement in a timely manner or at all and the publication and distribution of our games may be adversely affected. Any failure on our part to maintain good relationships with a sufficient number of distribution and publishing platforms for the distribution of our games could have a material adverse effect on our business, financial condition, results of operations and prospects.

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

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In addition, early in our operating history, our business was primarily limited to online game development, without the capability for effective customer service and promotion and marketing. As a result, we viewed exclusive licensing arrangements as the optimal way to distribute and publish our games. In particular, we entered into exclusive licensing agreements for the distribution and publishing of the web and mobile versions of *Shen Xian Dao* (神仙道) and *Da Hua Shen Xian* (大话神仙) and the licensee made these games available on its own platforms as well as on the platforms of more than 300 sub-licensees, as of the Latest Practicable Date. Pursuant to the exclusive licensing agreement, we receive all payments for the purchase of our virtual currency through the exclusive licensee, regardless of which platform the player accessed the game through. As a result, although these games were available on a number of distribution and publishing platforms, a significant amount of our revenue during the Track Record Period is received directly through the exclusive licensee. For the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, we had licensing agreements with 1, 6, 8 and 44 third party distribution and publishing platforms. Our five largest third-party distribution and publishing partners for each of the years ended December 31, 2011, 2012 and 2013 and for the six months ended June 30, 2014 accounted for approximately 100.0%, 99.2%, 92.0% and 72.1% of our total revenue during those periods, respectively. In addition, our largest distribution and publishing partner for each of the years ended December 31, 2011, 2012 and 2013 and for the six months ended June 30, 2014 accounted for approximately 100.0%, 77.8%, 57.4% and 24.9% of our total revenue during those periods, respectively. While we have begun to increase the number of distribution and publishing platforms with which we enter into exclusive licenses and non-exclusive licenses, we cannot assure you that we will be successful in distributing and publishing our games with other exclusive licensees or non-exclusive licensees. See “Business — Game Distribution and Publishing Platforms and Payment Collection.”

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

The distribution and publishing platforms that publish and distribute our games rely on a number of collection channels, including mobile carriers and various third-party payment channel providers, to collect the significant majority of our revenue. If any of the major payment service providers were to become unable or unwilling to settle the receivable in a timely manner or at all, the liquidity of our distribution and publishing platforms could be adversely affected and they may have to write off receivables or increase provisions against bad debts, which may in turn affect revenue we are entitled to receive. Also, if any of such payment service providers were to become unable or unwilling to provide payment processing services, including processing payments made with credit cards and debit cards, our business, financial condition, results of operations and prospects could be materially and adversely affected.

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

The mobile game and web game industries are highly competitive. The market for web game development is relatively concentrated with increasing competition in recent years. Competition from other web game developers, based both in China as well as overseas, is likely to increase in the future. In addition, while we believe that the mobile game industry is currently fragmented with no clear market leaders, we cannot assure you that we will be able to compete effectively in the future. We compete primarily with other game developers in China, including mobile game and web game developers such as IGG Inc. and Forgegame Holdings Limited. We also compete with other private companies in China devoted to game development and

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operation, many of which are backed by venture capital funds and international competitors. In addition, as we continue to implement our strategy to place more emphasis on the mobile game market, we will face increasing competition with other mobile game developers. Some of our competitors, especially major foreign and China-based publicly listed game operators, have significantly greater financial and marketing resources and name recognition than we have. Moreover, the mobile game and web game industries in China are constantly evolving, and unforeseen changes in these industries may prove to be more advantageous to certain competitors than they will be to us. In particular, any of these competitors may offer products and services that provide significant improvements in performance, price, creativity, or other advantages over our products, which may weaken our competitive position.

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

Increased competition in the mobile game and web game industries in China may make it more difficult for us to retain existing players and attract new players. In addition, our users face a vast array of entertainment choices. Other forms of entertainment, such as traditional personal computer and console games, other Internet-based activities such as social networking and online video, as well as offline games and activities such as television, movies and sports, are much larger and more well-established markets and may be perceived by our users to offer greater variety, affordability, interactivity and enjoyment. Our games compete against these other forms of entertainment for the discretionary time and spending of our users. Further, we also compete for players with various other offline games, such as arcade games and handheld games, as well as various other forms of traditional or online entertainment. If we are unable to compete effectively, our business, financial condition, results of operations and prospects may be materially and adversely affected.

### **We face uncertainties in the continued growth of the mobile game and web game industries and the market acceptance of our mobile games and web games.**

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

- the level of penetration and growth rate in the number of users of mobile devices, personal computers, the Internet and broadband in China;
- whether the mobile game and web game industries in China will continue to grow and the rate of such growth;
- changes in consumer demographics, tastes or preferences;
- the popularity of new games and price of virtual items and premium features that we and our competitors launch and distribute;



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- our ability to upgrade and improve our existing games in a timely manner to effectively extend their life cycle and maintain or expand their market share in the industry;
- the availability and popularity of other forms of entertainment, particularly social games offered on social network platforms and console games, which are already popular in many other countries and may gain popularity in China; and
- general economic conditions and consumer sentiment that impact the level of discretionary consumer spending.

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

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

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

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



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

Our new games may attract players away from our existing games and shrink the player base of our existing games, which could in turn make those existing games less attractive to other players, resulting in decreased revenue from our existing games. Players of our existing games may also spend less money purchasing virtual items and premium features in our existing games than they would have spent if they had continued playing our existing games without the introduction of new games. The occurrence of any of the above may have a material adverse effect on our business, financial condition, results of operations and prospects.

In addition, we have been focusing on and expect to continue to focus on the development of mobile games. As a result, we expect that in the future we will develop and launch more mobile games than web games. For 2014 we plan to launch four games, three of which will be mobile games and for 2015, we plan to launch nine new games, all of which we expect will be mobile games. Our new mobile games may attract players away from our existing and new games. If we fail to capture and retain a significant portion of mobile game players, or if we lose our existing web game players, our business, financial condition, results of operations and prospects will be materially and adversely affected.

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

All of our games adopt the item-based revenue model and we have generated, and expect to continue to generate substantially all of our revenue through this revenue model. However, it may not be the optimal revenue model for our games. The item-based revenue model requires us to develop games that encourage players to spend more time playing our games and purchase virtual items and premium features. The sale and pricing of virtual items and premium features require us to closely track players' tastes and preferences, specifically in-game consumption patterns, and respond quickly to changes in player preferences and consumer spending. If we fail to develop virtual items and premium features that are attractive to players or fail to price virtual items and premium features effectively to maximize ARPPU, we may not be able to effectively increase the number of paying players or maximize our revenue.

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

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

We acquired Kailuo Tianxia on December 31, 2013 to expand our mobile game development capability. See "Our History, Reorganization and Corporate Structure — Our Corporate History and Development Before Reorganization — Kailuo Tianxia." We may in the future continue to evaluate and enter into discussions regarding a wide array of potential merger

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or acquisition transactions. We cannot assure you that we will be able to identify suitable opportunities in the future. The process of integrating an acquired company, business, asset, or technology may create unexpected operating difficulties, expenditures, and risks, and any such transaction that we enter into could prove to be adverse to our business, financial condition, results of operations and prospects. The areas where we face risks include:

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

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

From time to time, we may also enter into strategic relationships with other development teams to license games or bring development talent in-house. See “Our History, Reorganization and Corporate Structure — Our Group’s Reorganization — Acquisition of Chengdu Guangcheng.” We may also enter into strategic alliances with various third parties to further our business purposes from time to time. Strategic alliances with third parties could subject us to a number of risks, including risks associated with sharing proprietary information, non-performance by the counterparties, reputational risks and an increase in expenses incurred in establishing new strategic alliances, any of which may materially and adversely affect our business. To the extent the third parties suffer negative publicity or harm to their reputations from events relating to their business, we may also suffer negative publicity or harm to our reputation by virtue of our association with such third parties.

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### **Goodwill impairment could negatively affect our reported results of operations.**

As of June 30, 2014, we had RMB407.3 million of goodwill, the substantial majority of which was related to our acquisition Kailuo Tianxia on December 31, 2013. Goodwill is initially measured at cost. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Testing for impairment requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires us to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. There are inherent uncertainties related to these factors and to our judgment in applying these factors to the assessment of goodwill recoverability. We could be required to evaluate the recoverability of goodwill prior to the annual assessment if there are any impairment indicators which could potentially be caused by our failure to successfully integrate the operations of Kailuo Tianxia with our other operations. Impairment charges could substantially affect our reported results of operations in the periods of such charges. In addition, impairment charges would negatively impact our financial ratios and could limit our ability to obtain financing in the future.

### **We may be subject to the risk of loss of principal on certain of our investments.**

As of June 30, 2014, we had RMB13.9 million of available-for-sale investments, which consisted of non-principal protected structured financial products. As a result of being non-principal protected, our maximum loss exposure under such investments included the potential loss of our principal investment. While as of the Latest Practicable Date all of our available-for-sale investments outstanding as of June 30, 2014 have fully matured without any loss to our principal investment, in the future we may continue to invest a certain portion of our total investment amount in non-principal protected financial products. As a result, we may be subject to the risk of loss of principal on certain of our investments. See “Financial Information — Liquidity and Capital Resources — Available-For-Sale Investments” for a more detailed description of our available-for-sale investments and investment management policies.

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

As of the Latest Practicable Date, we offer four games internationally through game distribution and publishing platforms in a number of overseas countries or regions. We plan to further license our existing and new games in more countries and regions. For the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, revenue contributed by players of our games offered outside of China, as determined by payment currency, accounted for approximately 0.0%, 16.4%, 18.0% and 14.1% of our total revenue, respectively.

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

- identifying and maintaining good relations with game publishers who are knowledgeable of, and can effectively distribute and publish our online games in, international markets;
- negotiating licensing agreements with game publishers on terms that are commercially acceptable to us, enforcing the provisions of those agreements and renewing those agreements upon expiration;

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- developing and updating online games catering to overseas markets, which involves challenges caused by languages and cultural differences and local competition;
- maintaining the reputation of our Company and our online games, given that our online games are published by game publishers in the international markets with different standards;
- protecting our intellectual property rights overseas and managing the related costs;
- dealing with credit risk and payment fraud, and auditing the royalties we are entitled to receive;
- complying with the different commercial and legal requirements of the international markets in which our online games are offered, such as game content and import regulatory procedures, taxes and other restrictions and expenses; and
- managing our foreign currency risks.

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

**If we are unable to accurately assess our operating performance through certain key performance indicators, our ability to form appropriate business growth strategies may be impaired and our business, financial condition, results of operations and prospects may be materially and adversely affected.**

We assess our operating performance using a set of key performance indicators, which include MAUs, MPUs and ARPPU. Capturing accurate data is subject to various limitations, as is true with many internet companies. For example, we may need to collect certain data from third-party distribution and publishing platforms or other third parties, which limits our ability to verify the reliability of such data, or we may not be able to collect any data from third parties at all. As another example, historically, we did not have systematic in-house mechanism to track the number of MAUs for our games. Therefore we were not able to provide accurate MAU numbers for the periods prior to March 1, 2014, we cannot assure you that going forward we will always be able to capture accurate user information. The key operating performance indicators we use may not always reflect our actual operating performance. Similarly, we may incorrectly assess our key operating performance indicators and in turn make incorrect operational and strategic decisions. Failure to capture accurate data or an incorrect assessment of this data may materially harm our business and operating results.

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

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capture the latest market trends and player preferences. If any of the above occurs, our business, financial condition, results of operations and prospects may be materially and adversely affected.

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

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

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

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

**We may not be successful in effectively promoting our brand or enhancing our brand recognition, and any negative publicity, regardless of its veracity, may materially and adversely affect our business.**

There is no assurance that we will be able to effectively establish our brand recognition and if we fail to do so, we may not be able to capitalize on our brand to further expand our business. In addition, publicity regarding our brand has a large impact on public perception of our games. Any negative publicity or disputes in relation to our brand, our games, our services or products, or our company or management, regardless of its veracity, could harm our brand image perceived by our users and, in turn, result in decreases in user number and spending, or even long-term disapproval of our games by our users in China. Our business, financial condition, results of operations, prospects and growth prospects will therefore be materially and adversely affected.

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**Hacking or cheating activities could harm our business and reputation and materially and adversely affect our results of operations.**

With the increase in the number of online game players in China, online game operators have increasingly encountered problems arising from hacking or cheating activities. We did not encounter significant hacking attacks during the Track Record Period, but we have from time to time detected a number of players who have gained an unfair in-game advantage by using cheating tools. In response to these activities, we have installed built-in detection mechanisms in our games to identify various hacking and cheating activities to detect unauthorized activities and abnormal changes in virtual items and premium features. However, these measures may not be successful against hacking. Continued occurrences of hacking and cheating activities may negatively impact the image of our online games and players' perception of their reliability, decrease the number of players, reduce the players' interest in purchasing our virtual goods and adversely affect our results of operations.

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

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

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

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



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**Our games may contain undetected programming errors, flaws or other defects and may encounter external interruptions.**

Our games may contain undetected programming errors, bugs, flaws, corrupted data or other defects that only become apparent after the launch of such games. The occurrence of undetected errors or defects in our games and our failure to discover and stop the external interruptions could disrupt our business, damage our reputation and deliver a negative game experience. As a result, such errors, defects and external interruptions could materially and adversely affect our business, financial condition, results of operations and prospects.

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

Our future success is heavily dependent upon the continued services of our key executive officers and other key employees. In particular, we rely on the expertise, experience and leadership ability of Mr. Yao Jianjun, our chief executive officer, chairman of our Board of Directors and co-founder, Mr. Chen Jianyu, our president and founder of Kailuo Tianxia, which we acquired on December 31, 2013, Mr. Bi Lin, our executive Director and co-founder, Mr. Lin Jiabin, our executive Director and co-founder, Mr. Sun Zhiyan, our chief technical officer, and Mr. Cheung Man Yu, our chief financial officer. We also rely on a number of key technology officers and staff and our top performing game development studios for the development and operation of our online games and to maintain our competitiveness.

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

**Unauthorized use of our intellectual property by third parties, and the expenses that we may incur in protecting our intellectual property rights, may materially and adversely affect our business.**

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



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

**We cannot be certain that our business operations do not or will not infringe on any patents, valid copyrights or other intellectual property rights held by third parties.**

We may in the future be subject to legal proceedings and claims from time to time relating to the intellectual property of others in the ordinary course of our business. If we are found to have violated the intellectual property rights of others, we may be prohibited from using such intellectual property, and we may incur licensing fees or be forced to develop alternatives. In addition, we may incur substantial expenses in defending against these third party infringement claims, regardless of their merits. We did not encounter any legal claims relating to patents, copyrights, trademarks or other intellectual property rights held by third parties concerning our own games or licensed games during the Track Record Period and the subsequent period up to the Latest Practicable Date. However, we cannot assure you that we or any of our licensors will not be perceived or alleged to infringe upon patents, copyrights, trademarks or other intellectual property rights held by third parties and become subject to legal proceedings and claims from time to time relating to the intellectual property rights of others in the future. Furthermore, our employees may install and use software which may violate the intellectual property rights of others. We may be liable for such behavior of our employees. Successful infringement or licensing claims against us may result in substantial monetary liabilities, which may materially disrupt the continuity of our business and the stability of our financial situation.

In addition, we use open source software, including Centos, Nginx, MySQL and MongoDB, in our games and may use open source software in the future. While such software is placed in the public domain for public use, companies incorporating such software into their products may claim ownership thereof and as a result, may bring claims claiming ownership of, or demanding release of, the source code, the open source software and/or derivative works that were developed using these software, or otherwise seeking to enforce the terms of the applicable open source license. We have not faced any such claims during the Track Record Period and believe that we have complied with the license terms of these open source software and have not sub-licensed any source code or binary package of the open source software to any other party. However, we cannot assure you that such claims will not be brought against us. These claims could also result in litigation, require us to purchase a costly license or require us to devote additional research and development resources to change our games, any of which could have a materially adverse effect on our business, results of operations and prospects.

## RISK FACTORS

**Past incidents of non-compliance with PRC laws and regulations may subject us to administrative penalties, which may materially and adversely affect our business operations.**

Conducting operations in the PRC industry requires numerous government filing, permits and approvals. We have in the past launched and operated products without obtaining the relevant filings, permits or approvals. Past incidents of non-compliance may subject us to fines and other administrative penalties, which may materially and adversely affect our business and reputation. In addition, the suspension of the operation of our games or our other online product offerings due to similar non-compliance in the future may materially and adversely affect our ability to retain our users.

In addition, our PRC Subsidiaries and PRC Operating Entities are required by relevant laws and regulations to update their certificates, permits and approvals in a timely manner for the changes to any information contained thereunder and failure of which will subject them to administrative penalties.

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

We receive, store and process personal information and other player data. There are numerous laws around the world regarding privacy and the storing, sharing, using, processing, disclosure and protection of personal information and other player data on the Internet and mobile platforms, the scope of which is changing, subject to differing interpretations, and may be inconsistent between countries or conflict with other rules. It is possible that these obligations may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another and may conflict with other rules or our practices. Any failure or perceived failure by us to comply with our privacy policies, our privacy-related obligations to players or other third parties, or our privacy-related legal obligations, or any compromise of security that results in the unauthorized release or transfer of personally identifiable information or other player data, may result in governmental enforcement actions, litigation or public statements against us by consumer advocacy groups or others and could cause our players to lose trust in us, which could have a materially adverse effect on our business. Additionally, if third parties we work with, such as players or vendors, violate applicable laws or our policies, such violations may also put our players' information at risk and could in turn have an adverse effect on our business.

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

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

## RISK FACTORS

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

Messrs. Yao Jianjun and Bi Lin, our ultimate Controlling Shareholders, have established their respective Family Trusts, which are discretionary trusts, the beneficiaries of which are them and their respective family members and of which TMF (Cayman) Ltd. serves as the trustee. They have transferred their entire equity interest in their respective BVI Holding Companies to the Trust Holding Companies owned by their respective Family Trusts, which would aggregate control approximately 37.320% of our issued capital upon completion of the Global Offering (assuming that the Over-allotment Option is not exercised and without taking into account any Shares to be issued upon the exercise of share options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme and any Shares to be issued upon vesting of the RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan). Accordingly, they will be able to exert significant control and influence over our business and on matters of significance to us and other Shareholders by voting at the general meetings of Shareholders. There is no assurance that our Controlling Shareholders will not prevent us from taking actions or exercising our rights under agreements that are beneficial to us. When conflicts of interest arise between our Controlling Shareholders and other Shareholders, our Controlling Shareholders may prevent or delay us from entering into transactions that might be desirable to other Shareholders, such as takeovers or changes in our control or management, causing loss of opportunities on the part of other Shareholders.

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

### **RISKS RELATING TO OUR CONTRACTUAL ARRANGEMENTS**

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

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

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

In addition, under the PRC Enterprise Income Tax Law and its implementation rules, dividends generated from Xiamen Feiyou's business in the PRC after January 1, 2008 and payable to Feiyu Hong Kong, Xiamen Feiyou's immediate holding company incorporated in Hong Kong, generally will be subject to a withholding tax rate of 10%. If certain conditions and requirements under the Arrangement between the Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (《內地和香港特別行政區關於對所得稅避免雙重徵稅和防止偷稅漏稅的安排》) entered into between Hong Kong and the PRC are met, the withholding rate could be reduced to 5%.

In October 2009, the SAT further issued the Circular on How to Interpret and Recognize the "Beneficial Owner" in Tax Treaties (《關於如何理解和認定稅收協定中“受益所有人”的通知》) ("Circular 601") and certain other related rules. According to Circular 601, non-resident enterprises or individuals that cannot provide valid supporting documents as "beneficial owners" may not enjoy the benefits of the tax treaty. "Beneficial owners" refers to individuals, enterprises or other organizations that are normally engaged in substantive operations. These rules also set forth certain adverse factors on the recognition of a "beneficial owner," expressly excluding "conduit companies," or any company established for the purposes of avoiding or reducing tax obligations or transferring or accumulating profits and not engaged in actual operations such as manufacturing, sales or management, from being a "beneficial owner." As a result, although Xiamen Feiyou is currently wholly owned by Feiyu Hong Kong, our Hong Kong subsidiary, Feiyu Hong Kong may not qualify as a beneficial owner of Xiamen Feiyou and therefore we may not be able to enjoy the preferential withholding tax treatment under the tax treaty with respect to dividends paid by Xiamen Feiyou to Feiyu Hong Kong.

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

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

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In addition, SAFE promulgated the Circular on the Relevant Operating Issues concerning Administration Improvement of Payment and Settlement of Foreign Currency Capital of Foreign-invested Enterprises (《關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知》) (“Circular 142”) on August 29, 2008. Under Circular 142, foreign exchange capital of a foreign-invested company may only be converted into RMB for the purpose of the uses within the business scope approved by the applicable governmental authority and may not be used for equity investments in the PRC. In addition, foreign-invested companies may not change how they use such capital without SAFE approval, and may not use such capital to repay RMB loans if the proceeds of such loans have not been utilized. Violations of Circular 142 may result in severe penalties, including heavy fines. As a result, Circular 142 may significantly limit our ability to transfer the net proceeds from the Global Offering and subsequent financings eventually to our PRC Operating Entities through Xiamen Feiyou, which may materially and adversely affect the business expansion of our PRC Operating Entities, and we may not be able to convert the net proceeds from the Global Offering into RMB to invest in or acquire any other PRC companies, or establish other PRC Operating Entities in the PRC.

SAFE also promulgated the Circular on Further Clarification and Regulation of the Issues Concerning the Administration of Certain Capital Account Foreign Exchange Business (《進一步明確和規範部分資本項目外匯業務管理有關問題的通知》) (“Circular 45”) in November 2011, which, among other things, expressly prohibits foreign-invested enterprises from using registered capital settled in RMB converted from foreign currencies to grant loans through entrustment arrangements with a bank, repay inter-company loans or repay bank loans that have been transferred to a third party. In July 2014, the SAFE promulgated the Circular on Issues concerning the Pilot Reform of the Administrative Approach Regarding the Settlement of the Foreign Exchange Capitals of Foreign-invested Enterprises in Certain Areas (《關於在部分地區開展外商投資企業外匯資本金結匯管理方式改革試點有關問題的通知》) (“Circular 36”), which launched a pilot reform of the administration of the settlement of the foreign exchange capitals of foreign-invested enterprises in certain designated areas from August 4, 2014. However, the Circular 36 continues to prohibit foreign-invested enterprises from using the Renminbi fund converted from its foreign exchange capitals for expenditure beyond its business scope. Under the pilot program, some of the restrictions under Circular 142 will not apply to the settlement of the foreign exchange capitals of the foreign-invested enterprises established within the designate areas. Our PRC subsidiary is not established within the designated areas. Circular 142 and Circular 45 may significantly limit our ability to transfer the net proceeds from the Global Offering to Xiamen Feiyou and convert the net proceeds into RMB, which may materially and adversely affect our liquidity and our ability to fund and expand our business in the PRC.

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

We are a Cayman Islands company, and as such, are classified as a foreign enterprise under PRC Laws, and our wholly-owned PRC subsidiary, Xiamen Feiyou, is a foreign-invested enterprise. Various regulations in China restricted foreign-invested enterprises from holding certain licenses required to operate online games and including regulations on value-added



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telecommunication services, internet content provision and internet culture operation. In light of these restrictions, we rely on our the PRC Contractual Entities to hold and maintain the licenses necessary to operate our online games in China. Although we do not have any equity interest in the PRC Contractual Entities, we are able to exercise effective control over the PRC Contractual Entities and receive substantially all of the economic benefits of their operations through the Contractual Arrangements.

On December 11, 2001, the State Council promulgated Provisions on Administration of Foreign Invested Telecommunications Enterprises (《外商投資電信企業管理規定》) (the “FITE Regulations”), which were subsequently amended on September 10, 2008. Under the FITE Regulations, foreign ownership of companies that provide value-added telecommunication services, which include the operation of online games and mobile games, is limited to 50%. In addition, a foreign investor who invests in a value-added telecommunications business in the PRC must possess prior experience in operating value-added telecommunications businesses and a proven track record of business operations overseas (“Qualification Requirement”). Currently, none of the applicable PRC laws, regulations or rules provides clear guidance or interpretation on the Qualification Requirement. We have been gradually building up our track record of overseas telecommunications business operations for the purposes of being qualified to acquire the entire equity interest of the PRC Operating Entities when the PRC laws allow foreign investors to invest in value-added telecommunication enterprises in China. However, we cannot assure you that the steps we have taken or plan to take will ultimately be sufficient to satisfy the Qualification Requirement.

According to the Guidance of Industries for Foreign Investment (revised in 2011) (《外商投資產業指導目錄》) (the “Catalog”), which was promulgated and is amended from time to time jointly by MOFCOM and the NDRC, the value-added telecommunications services are considered “restricted” and the Internet culture business (other than online music business) is considered “prohibited” business for foreign investment.

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

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On September 28, 2009, the GAPP, together with the National Copyright Administration (國家版權局) and the National Office of Combating Pornography and Illegal Publications (全國“掃黃打非”工作小組辦公室), jointly issued the Notice Regarding the Consistent Implementation of the “Regulation on Three Provisions” of the State Council and the Relevant Interpretations of the State Commission Office for Public Sector Reform and the Further Strengthening of the Administration of Pre-examination and Approval of Online Games and the Examination and Approval of Imported Online Games (關於貫徹落實國務院〈“三定”規定〉和中央編辦有關解釋，進一步加強網絡遊戲前置審批和進口網絡遊戲審批管理的通知), or the GAPP Notice.

Article 4 of the GAPP Notice provides that foreign investors are not permitted to invest or engage in online game operations in China through wholly-owned subsidiaries, equity joint ventures or cooperative joint ventures, and expressly prohibits foreign investors from gaining control over or participating in domestic online game operations indirectly by establishing other joint venture companies, establishing contractual arrangements or providing technical support. In the event that we, Xiamen Feiyou, our PRC Subsidiaries or our PRC Operating Entities are found to be in violation of the GAPP Notice, the competent government authorities would have the power to investigate and penalize such violations, including in the most serious cases suspending or revoking the relevant licenses or registrations. Please refer to the section headed “Contractual Arrangements — Legality of the Contractual Arrangements” for detailed discussion of the GAPP Notice.

In the opinion of our PRC legal adviser, Han Kun Law Offices, (i) the ownership structures of our Company, Xiamen Feiyou and the PRC Operating Entities are in compliance with existing PRC laws and regulations, and (ii) the Contractual Arrangements between Xiamen Feiyou, on the one hand, and the PRC Contractual Entities and the Relevant Shareholders, on the other hand, are valid, binding and enforceable, and will not result in any violation of PRC laws or regulations currently in effect, except that (a) the arbitral tribunal has no power to grant injunctive relief, nor will it be able to order the winding up of the PRC Contractual Entities pursuant to the current PRC laws; (b) interim remedies or enforcement order granted by overseas courts such as the courts of Hong Kong and the Cayman Islands may not be recognizable or enforceable in China. However, there are substantial uncertainties regarding the interpretation and application of PRC laws and regulations, including the MITT Circular, the FITE Regulations, the GAPP Notice and the relevant regulatory measures concerning the online game industry. In addition, recent press articles have reported that certain PRC court rulings and arbitral decisions invalidated certain contractual agreements which were considered to be entered into with the intention of circumventing foreign investment restrictions in the PRC in contravention of the PRC Contract Law and the General Principles of the PRC Civil Law. Please refer to the section headed “Contractual Arrangements — Legality of the Contractual Arrangements” for detailed discussion. Accordingly, there can be no assurance that the PRC regulatory authorities that regulate the online game industry, in particular, the MITT, the GAPP, the MOC, the PRC courts or arbitration panels will ultimately take a view that is consistent with the opinion of our PRC legal adviser.

The relevant PRC regulatory authorities have broad discretion in determining whether a particular contractual structure violates PRC laws and regulations. If our corporate and contractual structures were deemed by the MIIT, the GAPP, the MOC or other competent authorities to be illegal, either in whole or in part, we may have to modify such structures to comply with regulatory requirements. However, we cannot assure you that we can achieve this without material disruption to our business. Further, if our corporate and contractual structure



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were found to be in violation of any existing or future PRC laws or regulations, the relevant regulatory authorities would have broad discretion in dealing with such violations, including:

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

Furthermore, any of the assets under the name of any record holder of equity interest in our PRC Operating Entities, including such equity interest, may be put under court custody in connection with litigation, arbitration or other judicial or dispute resolution proceedings against that record holder. We cannot be certain that the equity interest will be disposed of in accordance with the Contractual Arrangements. In addition, new PRC laws, rules and regulations may be introduced to impose additional requirements that may impose additional challenges to our corporate structure and Contractual Arrangements. Because our PRC Operating Entities contributed all of our total net revenues for the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, the occurrence of any of these events could materially and adversely affect our business, financial condition, results of operations and prospects. In addition, if the imposition of any of these penalties or requirement to restructure our corporate structure causes us to lose the rights to direct the activities of our PRC Operating Entities or our right to receive their economic benefits, we would no longer be able to consolidate the financial results of the PRC Operating Entities in our financial statements.

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

Since PRC laws limit foreign equity ownership in Internet and other related businesses in the PRC, we operate our online game operation business through the PRC Contractual Entities. We have no equity ownership interests in the PRC Contractual Entities and rely on the Contractual Arrangements to control and operate these businesses. A Substantial portion of our revenue and cash flow are attributed to the PRC Contractual Entities. The Contractual Arrangements may not be as effective as direct ownership in providing us with control over the PRC Contractual Entities. Direct ownership would allow us, for example, to directly or indirectly exercise our rights as a shareholder to effect changes in the boards of directors of the PRC Contractual Entities, which, in turn, could effect changes, subject to any applicable fiduciary

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obligations, at the management level. However, under the Contractual Arrangements, as a legal matter, if the PRC Contractual Entities or the Relevant Shareholders fail to perform its, his or her respective obligations under the Contractual Arrangements, we may have to incur substantial costs and expend significant resources to enforce those arrangements and resort to litigation or arbitration and rely on legal remedies under PRC laws. These remedies may include seeking specific performance or injunctive relief and claiming damages, any of which may not be effective. For example, if the Relevant Shareholders were to refuse to transfer their equity interest in the PRC Contractual Entities to us or our designee when we exercise the call option pursuant to the Contractual Arrangements, or if they were otherwise to act in bad faith toward us, we might have to take legal action to compel them to perform their respective contractual obligations. Furthermore, uncertainties presented by the PRC legal system could impede our ability to exercise the option to acquire ownership and subject us to substantial costs.

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

Our PRC Operating Entities hold certain assets that are critical to our business operations. The Contractual Arrangements contain terms that specifically obligate the Relevant Shareholders to ensure the valid existence of the PRC Operating Entities and that it may not be voluntarily liquidated without the consent of Xiamen Feiyou. However, should the Relevant Shareholders breach this obligation and voluntarily liquidate the PRC Operating Entities, or should the PRC Operating Entities declare bankruptcy, all or part of assets of our PRC Operating Entities may become subject to liens or rights of third-party creditors and we may be unable to continue some or all of our business operations, which could materially and adversely affect our business, financial condition, results of operations and prospects.

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

According to applicable PRC laws and regulations, arrangements and transactions among related parties may be subject to challenge by the PRC tax authorities, and additional taxes and interest may be imposed. We would be subject to adverse tax consequences if the PRC tax authorities were to determine that transactions under the Contractual Arrangements were not conducted on an arm's-length basis as the PRC tax authorities have the authority to make special tax adjustments on the tax position of Xiamen Feiyou and the PRC Contractual Entities. Moreover, in accordance with the Implementation Measures of Special Tax Adjustments (Trial Version) Guoshuifa 2009 No. 2 (《特別納稅調整實施辦法》(試行)(國稅發2009 2號)), additional corporate income tax payable under a special tax adjustment made by the PRC tax authorities on or after January 1, 2008 shall be subject to an interest levy calculated on a daily basis. In addition, pursuant to our Reorganization we transferred our Non-Restricted Business previously engaged by Xiamen Guanghuan and its subsidiaries to Xiamen Feiyou and/or its subsidiaries. This transfer may be subject to additional taxes depending on decisions of the local tax authority.

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

For the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, the PRC Operating Entities retained all net profits generated by them. However, under the Contractual Arrangements, which we entered into on September 4, 2014 and October 31, 2014, respectively, all of the net income of the PRC Operating Entities shall be paid to Xiamen Feiyou in the form of service fees, subject to adjustments made by Xiamen Feiyou at its sole discretion, which are subject to a sales tax in the PRC, at the tax rate of 6% for value-added tax, which may change in the future.

In addition, each of Xiamen Guanghuan, Xiamen Youli and Kailuo Tianxia is accredited as a “software enterprise” under the relevant PRC laws, regulations and rules. Under the relevant PRC tax regulations, prior to December 31, 2017, an accredited “software enterprise” is exempted from PRC enterprise income tax for two years from the first year when it gains profit and will enjoy a reduced income tax rate of 12.5% for 3 years thereafter. Xiamen Feiyou was subject to a 25% income tax rate throughout the Track Record Period which is expected to remain the same. As a result of the higher income tax rate applicable to Xiamen Feiyou than the Contractual Entities in future periods, if the Contractual Entities transfers a larger portion of its before-tax profits to Xiamen Feiyou in any future period in the Track Record Period, such transfer may result in increased income tax expenses for the Group on a consolidated basis, which may materially and adversely affect our results of operations, particularly, our net profit and net profit margin.

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

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

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

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

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

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

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

Pursuant to the Contractual Arrangements, Xiamen Feiyou (or its designee(s)) has the exclusive right to purchase all or any part of the equity interests in the PRC Contractual Entities from the Relevant Shareholders for a price equal to the paid-in capital contribution amount corresponding to such purchased equity interests, unless the relevant government authorities request that a higher amount be used as the purchase price and in which case the purchase price shall be such amount. The shareholders of Xiamen Guanghuan will be subject to PRC individual income tax on the difference between the purchase price and the registered capital that has been paid in by such shareholders to the PRC Contractual Entities. The shareholders of Xiamen Guanghuan will pay, after deducting any such tax and other applicable government fees, the remaining amount to Xiamen Feiyou as a gift under the Contractual Arrangements. The amount to be received by Xiamen Feiyou may also be subject to enterprise income tax. As such, the costs incurred from Xiamen Feiyou’s exercise of the purchase option under the Contractual Arrangements could be substantial.

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### RISKS RELATING TO OUR INDUSTRY

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

The Internet industry, including the operation of mobile games and web games, in China is highly regulated by the PRC government. Various regulatory authorities of the central PRC government, such as the State Council, the MIIT, the SAIC, the MOC, and the GAPP, and the Ministry of Public Security, are empowered to promulgate and implement regulations governing various aspects of the Internet and the online game industry.

Xiamen Youli and Kailuo Tianxia are required to obtain applicable permits or approvals from different regulatory authorities in order to provide their services. For example, an operator of value-added telecommunications business, must obtain a value-added telecommunications License, from the MIIT or its local offices in order to engage in any commercial network content provision operations within China. An online game operator must also obtain a Network Culture Operation License from the MOC. Furthermore, pursuant to the Interim Measures on Administration of Online Games (網絡遊戲管理暫行辦法) (the “Online Game Measures”), each online game is subject to the filing requirement with the MOC within 30 days after the online game is operated via the networks. All our games were not filed with the MOC within the required time limit as provided in the Online Game Measures. However, as of the Latest Practicable Date, Carrot Fantasy (保衛蘿蔔), *Shen Xian Dao* (神仙道) web, *Shen Xian Dao* (神仙道) mobile, *Da Hua Shen Xian* (大話神仙) and Carrot Fantasy 2 (保衛蘿蔔2) have been filed with the MOC. Our application for the MOC filing for *Jiong Xi You* (囧西遊) has been accepted by the MOC and we are coordinating with our exclusive licensee with respect to the filing with MOC of *Luan Shi Zhi Ren 2* (亂世之刃2) (now titled *San Guo Zhi Ren* (三國之刃)). As *Shen Xian Dao* (神仙道) web, *Shen Xian Dao* (神仙道) mobile and *Da Hua Shen Xian* (大話神仙) are offered by third party platforms, the third party platform is responsible for the filing with MOC of these three games. We have not received any notice of administrative investigation or penalties from the relevant authorities. In the opinion of our PRC Legal Advisor, our historical non-compliance as described herein will not have a material adverse effect on our business operations. Each online game operated in China shall also be approved by the GAPP. We distribute all our online games through third party platforms and therefore we do not think we need to obtain a separate operating license in addition to the VATS License and Network Culture Operation Licenses, which we have already obtained. We believe this is in line with the current market practice. However, there can be no assurance that the competent authorities in the PRC share the same view as us or that we will not be required to apply for an operating license for our mobile applications in future. If any of the PRC Operating Entities fails to obtain or maintain any of the required permits or approvals or if our practice is later challenged by government authorities, they may also be subject to various penalties, including fines and the discontinuation of or restriction on our operations. Any such disruption in business operations would materially and adversely affect our financial condition, results of operations and prospects.

**Our PRC Subsidiaries and PRC Operating Entities are subject to certain PRC regulations on online game administration, which regulate, among others, game development, publishing and issuance and trading of virtual currency.**

As the online game industry is at an early stage of development in China, new laws and regulations may be adopted in the future to address new issues that arise from time to time. If our operations do not comply with these new laws and regulations at the time they become effective, or if we fail to obtain any licenses required under these new laws and regulations, we



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could be subject to penalties. Also, different regulatory authorities may have different views regarding the licensing requirements for the operation of online games and related businesses. As a result, substantial uncertainties exist regarding the interpretation and implementation of current and any future PRC laws and regulations applicable to the online game industry and related businesses. While we believe that we comply in all material respects with all applicable PRC laws and regulations currently in effect, we cannot assure you that we will not be found in violation of any current or future PRC laws and regulations.

### **Three games we currently offer in the PRC are still in the process of publication and filing with the GAPP.**

Among our seven games, the publication and filing procedures for four of our games i.e. *Shen Xian Dao* (神仙道) Web, *Da Hua Shen Xian* (大話神仙), *Jiong Xi You* (囧西遊) and *Carrot Fantasy 2* (保衛蘿蔔2), were completed in June 2011, January 2013, October 2014 and November 2014, respectively. As of the Latest Practicable Date, the publication and filing of the other three games, namely *Carrot Fantasy* (保衛蘿蔔), *Shen Xian Dao* (神仙道) Mobile and *Luan Shi Zhi Ren 2* (亂世之刃2) (now titled *San Guo Zhi Ren* (三國之刃)) are still pending. For *Carrot Fantasy* (保衛蘿蔔), the Tianjin branch of the GAPP has completed the reviewing of our filing in September 2014 and submitted our filing to the GAPP for final review. For *Shen Xian Dao* (神仙道) Mobile and *Luan Shi Zhi Ren 2* (亂世之刃2) (now titled *San Guo Zhi Ren* (三國之刃)), our filings have been accepted by the Fujian branch of the GAPP in September 2014 and are currently under its review.

As stated in “Regulatory Overview,” relevant regulations define Internet publication activities as the “provision of interactive online game playing or downloading service to the public through the Internet.” Our games are offered on third party distribution channels. We have been advised by our PRC Legal Advisor that we do not have the statutory obligation to complete the publication and filing procedures for our games offered on third parties’ distribution channels on the basis that the game distribution channels, not us, provide interactive online game playing and downloading service directly to game players. However, if the third parties’ game distribution channels fail to obtain, maintain proper licenses or to complete such publication and filing procedures in time, or at all, these games may be ordered to be suspended or ceased in operation. As a result, our PRC Subsidiaries and PRC Operating Entities may suffer certain indirect adverse effects, including loss of revenue. Pursuant to the distribution agreement for *Shen Xian Dao* (神仙道) Mobile, in addition to its statutory obligations, the distribution channel has agreed to compensate us for all losses incurred by us for failure of completing the required filings for the game, which, subject to the final determination of competent PRC courts, may include our anticipated revenue generated from the game within the remaining term of the relevant distribution agreement. For *Luan Shi Zhi Ren 2* (亂世之刃2) (now titled *San Guo Zhi Ren* (三國之刃)), as the distribution agreement is silent on the distribution channel’s obligations for compensating us for their failure of completing the required filing, the distribution channel would only be liable for statutory fines as provided under the PRC laws. Furthermore, in a limited number of agreements we entered into with the relevant game distribution channels for *Carrot Fantasy* (保衛蘿蔔), we have agreed to be liable for all losses incurred by the third party distribution channels for the failure of completing the required filings for the game, which, subject to the final determination of the competent PRC courts, may include the anticipated loss of revenue sustained by the distribution channels for the game within the remaining term of the relevant distribution agreement.

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Given that (i) our games are published through third party channels and our PRC Subsidiaries and PRC Operating Entities have no statutory obligation for the publication filing with the GAPP for our online games; (ii) our applications for publication filing for the remaining three games have been accepted by the local GAPP offices; (iii) we had a telephone interview with the responsible officer from the Integrated Law Enforcement on Culture Market of the Fujian Province (福建省文化稽查總隊), a government authority independent from the Fujian branch of the GAPP and in charge of investigations and punishments for culture activities (including without limitation operation of online games) in Fujian Province under the guidance of the MOC Fujian office, whereby we obtained oral confirmation from the officer we interviewed that they would not impose penalties (including suspension of game) on the online games operated without completing GAPP publication filing as long as the application for filing was filed with the GAPP offices, and based on the description of the powers and authorities of the Officer, our PRC Legal Advisor is of the view that the Officer is competent to give the above opinions, we and our PRC Legal Advisor are of the opinion that the possibility of adverse effects on our PRC Operating Entities due to the delay to complete the relevant publication and filing procedures in time is remote. For more details, see “Regulatory Overview — Regulations on Internet Publication.” However, there can be no assurance that the relevant governmental authorities will not take views contrary to the above in the future. If the relevant game distribution channel or PRC Operating Entity is penalized by relevant governmental authorities for failure to complete the required publication and filing procedures in time, our results of operations may be adversely affected.

During the Track Record Period, none of the games we offered through game distribution channels in the PRC were affected due to the non-completion of the publication and filing procedures. As of the Latest Practicable Date, none of our PRC Subsidiaries and PRC Operating Entities has been informed by any game distribution channels that they have suffered any loss, nor have we identified any loss suffered by game distribution channels as the result of our PRC Subsidiaries and PRC Operating Entities’ non-completion of the publication and filing procedures for the online games offered on those game distribution channels. Furthermore, none of our PRC Subsidiaries and PRC Operating Entities which are parties to the agreements entered into with the game distribution channels, has received any claim of compensation from such game distribution channels in this respect. However, there can be no assurance that the relevant game distribution channels will not claim for losses they may have suffered due to relevant PRC Subsidiaries and PRC Operating Entities’ failure to complete the publication and filing procedures for the games that are currently in the process of going through the publication and filing procedures. Any losses claimed against our PRC Subsidiaries and PRC Operating Entities by any game distribution channel due to the above reasons may adversely affect our results of operations.

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

We issue game credits to players for them to exchange for virtual items to be used in our games. The issuance and use of “virtual currency” is regulated in the PRC. In January 2007, the Ministry of Public Security, the MOC, the MIIT and the GAPP jointly issued a circular regarding online gambling having implications for the use of virtual currency. To curtail online games that involve online gambling, as well as address concerns that virtual currency could be used for money laundering or illicit trade, the circular (i) prohibits online game operators from charging commissions in the form of virtual currency in relation to winning or losing of games; (ii) requires online game operators to impose limits on the use of virtual currency in guessing and betting games; (iii) bans the conversion of virtual currency into real currency or property; and (iv)



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prohibits services that enable players to transfer virtual currency to other players. In February 2007, 14 PRC regulatory authorities jointly promulgated a circular to further strengthen the oversight of Internet cafés and online games. Under the circular, the PBOC has authority to regulate virtual currency, including: (i) setting limits on the aggregate amount of virtual currency that can be issued by online game operators and the amount of virtual currency that can be purchased by an individual; (ii) stipulating that virtual currency issued by online game operators can only be used for purchasing virtual products and services within the online games and not for purchasing tangible or physical products; (iii) requiring that the price for redemption of virtual currency shall not exceed the respective original purchase price; and (iv) banning the trading of virtual currency.

On June 4, 2009, the MOC and the MOFCOM jointly issued the Notice on Strengthening Administration of Virtual Currency of Online Games (《關於加強網絡遊戲虛擬貨幣管理工作的通知》) (the “Virtual Currency Notice”). The notice requires businesses that (i) issue online game virtual currency (in the form of prepaid cards or prepayment or prepaid card points) or (ii) offer online game virtual currency transaction services to apply for approval from the MOC within three months following the date of the notice. The notice also prohibits businesses that issue online game virtual currency from providing services that would enable the trading of such virtual currency. The business scope in our Network Culture Operation Licenses includes the issuance of virtual currency.

According to the Virtual Currency Notice, “in-game virtual currency trading services” shall refer to the platform service that allows users to trade their in-game virtual currency. Since we have not engaged in the operation of such platform service, we believe we do not offer in-game virtual currency trading services. However, we cannot assure you that the PRC regulatory authorities will not take a view contrary to ours. In that event, we may be required to cease either our game credit issuance activities or such deemed “trading service” activities and may be subject to certain penalties, including but not limited to mandatory corrective measures and fines. The occurrence of any of the foregoing could have a material adverse effect on our business and results of operations.

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

### **Additional government regulations resulting from negative publicity in China regarding online games may have a material adverse effect on our business, financial condition, results of operations and prospects.**

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

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superstitious or socially unstabilizing. Certain non-governmental organizations may also organize protests or publicity campaigns against online game companies in order to protect youth from the risk of becoming addicted to certain online games. The PRC government may decide to adopt more stringent policies to monitor the online gaming industry as a result of adverse public reaction to perceived addiction to such games, particularly by minors. In 2007, eight PRC government authorities, including the GAPP, the Ministry of Education and the MIIT, jointly issued a notice requiring all Chinese online game operators to adopt an “anti-fatigue compliance system” in an effort to curb addiction to online games by minors (“Anti-addiction Notice”). Under the anti-fatigue compliance system, three hours or less of continuous play is defined to be “healthy,” three to five hours is defined to be “fatiguing” and five hours or more is defined to be “unhealthy.” Game operators, including us, are required to reduce the value of game benefits for minor players by half when those players reach the “fatigue” level, and to zero when they reach the “unhealthy” level. In July 2011, these governmental authorities further issued the Notice Regarding Commencement of Authentication of Real Names for Anti-addiction System on Online Games (關於啟動網絡遊戲防沉迷實名驗證工作的通知), which provides, among other things, that the relevant authorities should strengthen the implementation of authentication of real names for anti-addiction system in online games (but excluding mobile games). This system allows game operators to identify which players are minors. It is unclear whether these restrictions would be expanded to apply to adult players in the future. We have implemented an “anti-fatigue compliance system” in all of our web games. In respect of our mobile games, neither GAPP nor the MOC requires mobile games to be equipped with the anti-fatigue compliance system in order to be approved or filed for operation in practice. As such, we believe that anti-fatigue compliance system is not a compulsory requirement for mobile games, and have therefore only implemented the anti-fatigue system in our web games. However, we cannot assure you that the governmental authorities will not take a view contrary to our understanding or our current anti-fatigue compliance system will not be regarded as insufficient by relevant government authorities in the PRC. Failure to comply with the requirements under the Anti-addiction Notice may subject us to penalties, including but not limited to suspension of our operation of online games, revocation of the licenses and approvals for our operations, rejection to or suspension of our application for approvals, licenses, or filings for any new game, or prohibiting us from operating any new game. Besides, more stringent government regulations, including stricter anti-fatigue rules, could discourage players from playing our games, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

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

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

Internet cafés are one of the places for players to play web games in China. In March 2001, the PRC government began tightening its regulation and supervision of Internet cafés. In particular, a large number of unlicensed Internet cafés have been closed. The PRC government has also imposed higher capital and facility requirements for the establishment of Internet cafés. Furthermore, the PRC government’s policy, which encourages the development of a limited number of national and regional Internet café chains and discourages the establishment of

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independent Internet cafés, has slowed down the growth of Internet cafés. In February 2004, the government agencies in charge of Internet café licensing jointly issued a notice suspending the issuance of new Internet café licenses for a period of six months. In February 2007, 14 PRC government departments jointly issued a circular to strengthen the regulation of Internet cafés and online games. Governmental authorities may from time to time impose stricter requirements, such as the customers' age limit and hours of operation, among others, as a result of the occurrence and perception of, and the media attention on, gang fights, arson and other incidents in or related to Internet cafés.

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

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

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

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

We may also be subject to potential liability for the unlawful actions of our players or for content we distribute on the Internet or use for the promotion of our games that is deemed inappropriate. Furthermore, we may be required to delete content that violates PRC laws and report content that we suspect may violate PRC laws. We may also be subject to negative publicity resulting from such incidents and our reputation may be harmed.

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

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

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On May 19, 2009, the MIIT issued a circular regarding the Pre-installment of Green Dam Web Filter Software on Computers. According to this circular, commencing on July 1, 2009, all computers sold in China are required to be installed with a government-designated software, called Green Dam — Youth Escort, to block “unhealthy words or pictures.” However, according to media reports, such software may compromise the security of personal information. Given the controversy generated by this circular, the MIIT announced on June 30, 2009 that it would extend the deadline for the implementation of the circular. According to further media reports, the minister of the MIIT stated on August 13, 2009 that the PRC government will not require all computers sold in China to be installed with the filter software but that computers used in schools, Internet cafés and other public places will be required to be installed with the filter software in order to prevent young people from being harmed by unhealthy online content. It is currently unclear to what extent this circular would be implemented. If any content of our web games is found by the filter software to contain “unhealthy words or pictures,” our web games may be blocked by the software, and as a result players will not be able to access our web games, which would have a material and adverse effect on our business, financial condition, results of operations and prospects.

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

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

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

### **RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC**

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

Substantially all of our operations are conducted in China and substantially all of our revenue are sourced from China. Accordingly, our results of operations, financial condition and prospects are influenced by economic, political and legal developments in China. Economic reforms begun in the late 1970s have resulted in significant economic growth. However, any economic reform policies or measures in China may from time to time be modified or revised.

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China's economy differs from the economies of most developed countries in many respects, including with respect to the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. While the PRC economy has experienced significant growth in the past 30 years, growth has been uneven across different regions and among various economic sectors.

The PRC government exercises significant control over China's economic growth through strategically allocating resources, controlling the payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Since late 2003, the PRC government has implemented a number of measures, such as increasing the People's Bank of China's statutory deposit reserve ratio and imposing commercial bank lending guidelines, which have had the effect of slowing the growth of credit availability. In 2008 and 2009, however, in response to the global financial crisis, the PRC government has loosened such requirements. In response to the global financial crisis and economic downturn, the PRC government adopted various measures aimed at expanding credit and stimulating economic growth, such as decreasing the PBOC statutory deposit reserve ratio and lowering benchmark interest rates. For example, the PBOC decreased the statutory reserve ratio three times consecutively in December 2011, February 2012 and May 2012, respectively. It also decreased the benchmark interest rates by 25 basis points in June 2012. In particular, the PBOC decided to cut financial institutions' RMB benchmark deposit and lending interest rates as of July 6, 2012. The one-year benchmark deposit rate was cut by 0.25 percentage points, and the one-year benchmark lending interest rate was cut by 0.31 percentage points.

The Chinese economy has grown significantly in the past decade. However, the rate of growth in recent years has slowed and any further slow down may have a negative effect on our business. The overall Chinese economy affects our profitability, since player spending for games may decrease or grow at a slower rate in a slowing economy. Any adverse changes in economic conditions in China, in the policies of the PRC government or in the laws and regulations in China, could have a material adverse effect on the overall economic growth of China and investment in the game industry. Such developments could materially and adversely affect our businesses, lead to reduction in demand for our services and materially and adversely affect our competitive position.

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

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



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### **We may be required to obtain prior approval from the CSRC for the listing and trading of our Shares on the Hong Kong Stock Exchange.**

On August 8, 2006, six PRC regulatory authorities, including the MOFCOM, the State Assets Supervision and Administration Commission, the State Administration for Taxation, the SAIC, the CSRC, and the SAFE, jointly issued the M&A Rules, which became effective on September 8, 2006 and was subsequently amended on June 22, 2009. This regulation, among other things, purports to require that an offshore special purpose vehicle formed for purposes of overseas listing of equity interests in PRC companies and controlled directly or indirectly by PRC companies or individuals obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange.

While the application of the M&A Rules remains unclear, our PRC legal adviser, Han Kun Law Offices, is of the opinion that prior CSRC approval for this offering is not required because (i) Xiamen Feiyou was incorporated by a foreign-owned enterprise, and there was no acquisition of the equity or assets of a "PRC domestic company" as such term is defined under the M&A Rules and (ii) there is no provision in the M&A Rules that clearly classifies the Contractual Arrangements as a type of transaction falling under the M&A Rules. As a result, we did not seek prior CSRC approval for this offering. However, we cannot assure you that the relevant PRC government authorities, including the CSRC, will reach the same conclusion as our PRC legal adviser. If the CSRC or other relevant PRC government authorities subsequently determine that prior CSRC approval is required, we may face regulatory actions or other sanctions from the CSRC or other PRC regulatory authorities. These regulatory authorities may impose fines and penalties on our operations in the PRC, limit our operating privileges in the PRC, delay or restrict the repatriation of the proceeds from this offering into the PRC or take other actions that could have a material adverse effect on our business, as well as the trading price of our Shares. The CSRC or other PRC regulatory authorities may also take actions requiring us, or making it advisable for us, to halt this offering before settlement and delivery of the Shares offered by this prospectus. Consequently, if you engage in market trading or other activities in anticipation of and prior to settlement and delivery, you do so at the risk that settlement and delivery may not occur.

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

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

On April 22, 2009, the SAT released the Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies (《關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》) ("Circular 82"), as amended on January 29, 2014, which sets out the standards and procedures for determining whether the "de facto management body" of an enterprise registered outside of the PRC and controlled by PRC enterprises or PRC enterprise groups is located within the PRC. Under Circular 82, a foreign enterprise controlled by a PRC enterprise or PRC enterprise group is considered a PRC resident enterprise if all of the following apply: (i) the senior management and core management departments in charge of daily operations are located mainly within the PRC; (ii) financial and human resources decisions are

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subject to determination or approval by persons or bodies in the PRC; (iii) major assets, accounting books, company seals and minutes and files of board and shareholders' meetings are located or kept within the PRC; and (iv) at least half of the enterprise's directors with voting rights or senior management reside within the PRC. Further to Circular 82, the SAT issued a bulletin, known as Bulletin 45, which took effect in September 2011, to provide more guidance on the implementation of Circular 82 and clarify the reporting and filing obligations of such "Chinese-controlled offshore incorporated resident enterprises." Bulletin 45 provides procedures and administrative details for the determination of resident status and administration of post-determination matters. Although Circular 82 and Bulletin 45 explicitly provide that the above standards apply to enterprises which are registered outside the PRC and controlled by PRC enterprises or PRC enterprise groups, Circular 82 may reflect SAT's criteria for determining the tax residence of foreign enterprises in general. If we were treated as a PRC resident enterprise, the 25% PRC income tax on our global taxable income could materially and adversely affect our ability to satisfy any cash requirements we may have.

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

Pursuant to the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises (《關於加強非居民企業股權轉讓所得企業所得稅管理的通知》) ("SAT Circular 698") issued by the SAT in December 2009 with retroactive effect from January 1, 2008, where a non-resident enterprise transfers the equity interests of a PRC resident enterprise indirectly by disposition of the equity interests of an overseas non-public holding company, or an Indirect Transfer, and such overseas holding company is located in a tax jurisdiction that (i) has an effective tax rate of less than 12.5% or (ii) does not impose income tax on foreign income of its residents, the non-resident enterprise, being the transferor, must report to the competent tax authority of the PRC resident enterprise this Indirect Transfer. Using a "substance over form" principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such Indirect Transfer may be subject to PRC withholding tax at a rate of up to 10%. SAT Circular 698 also provides that, where a non-PRC resident enterprise transfers its equity interests in a PRC resident enterprise to its related parties at a price lower than the fair market value, the relevant tax authority has the power to make a reasonable adjustment to the taxable income of the transaction.

On March 28, 2011, the SAT released the Notice on Certain Issues Regarding Administration of Enterprise Income Tax of Non-PRC Resident Enterprises (《關於非居民企業所得稅管理若干問題的公告》) ("SAT Public Notice 24"), to clarify several issues related to Circular 698. SAT Public Notice 24 became effective on April 1, 2011. According to SAT Public Notice 24, the term "effective tax" refers to the effective tax on the gain derived from disposition of the equity interests of an overseas holding company; and the term "does not impose income tax" refers to the cases where the gain derived from disposition of the equity interests of an overseas holding company is not subject to income tax in the jurisdiction where the overseas holding company is a resident.



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There is uncertainty as to the application of SAT Circular 698. For example, while the term “Indirect Transfer” is not clearly defined, it is understood that the relevant PRC tax authorities have jurisdiction regarding requests for information over a wide range of foreign entities having no direct contact with China. Moreover, the relevant authority has not yet promulgated any formal provisions or made any formal declaration as to the process and format for reporting an Indirect Transfer to the competent tax authority of the relevant PRC resident enterprise. In addition, there are not any formal declarations with regard to how to determine whether a foreign investor has adopted an abusive arrangement in order to reduce, avoid or defer PRC tax. SAT Circular 698 may be determined by the tax authorities to be applicable to previous investments by non-resident investors in our Company, if any of such transactions were determined by the tax authorities to lack reasonable commercial purpose. As a result, we and our existing non-resident investors may become at risk of being taxed under SAT Circular 698 and may be required to expend valuable resources to comply with SAT Circular 698 or to establish that we should not be taxed under SAT Circular 698, which may have a material adverse effect on our business, financial condition, results of operations and prospects or such non-resident investors’ investments in us. We have conducted and may conduct acquisitions involving changes in corporate structures, and historically our shares were transferred by certain then shareholders to our current shareholders. We cannot assure you that the PRC tax authorities will not, at their discretion, adjust any capital gains and impose tax return filing obligations on us or require us to provide assistance for the investigation of PRC tax authorities with respect thereto. Any PRC tax imposed on a transfer of our Shares or any adjustment of such gains would cause us to incur additional costs and may have a negative impact on the value of your investment in us.

**Discontinuation of any of the preferential tax treatments or imposition of any additional taxes could materially and adversely affect our business, financial condition, results of operations and prospects.**

China passed the EIT Law and its implementation rules, both of which became effective on January 1, 2008, which provided the statutory rate of the enterprise income tax of 25%. Xiamen Guanghuan, Xiamen Youli, Xiamen Yidou and Kailuo Tianxia were accredited as a “software enterprise” respectively in December and October 2013 under the relevant PRC laws, regulations and rules. Under the relevant PRC tax regulations, an accredited “software enterprise” is exempted from PRC enterprise income tax for two years from the first year when such enterprise gains profit and will enjoy a reduced income tax rate of 12.5% for subsequent three years. The qualification as a “software enterprise” is subject to annual evaluation by the relevant authorities in China. If Xiamen Guanghuan, Xiamen Youli, Xiamen Yidou or Kailuo Tianxia fails to maintain its “software enterprise” qualification or renew its qualification when the relevant term expires, its applicable corporate income tax rate would increase to 25%, which could have a material adverse effect on our business, financial condition, results of operations and prospects. We cannot assure you that we will be able to maintain our current effective tax rate in the future.

**Failure to comply with PRC regulations regarding the registration requirements for employee stock incentive plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.**

In February 2012, the SAFE promulgated the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plans of Overseas Publicly Listed Company (國家外匯管理局關於境內個人參與境外上市公司股權激勵計劃管理有關問題的通知) (the “Stock Option Rules”), which replaced the earlier rules promulgated by the SAFE in March 2007. Under the Stock Option Rules, PRC residents who participate in

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stock incentive plans in an overseas publicly listed company are required, through a PRC agent or PRC subsidiary of such overseas publicly listed company, to register with the SAFE and complete certain other procedures. Such participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, the purchase and sale of corresponding stocks or interests and fund transfers. In addition, the PRC agent is required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agent or the overseas entrusted institution or other material changes.

We and our PRC resident employees who have been granted stock options will be subject to the Stock Option Rules upon completion of this offering. Failure of the PRC resident holders of our share options to complete their SAFE registrations may subject these PRC residents to fines and legal sanctions and may also limit our ability to contribute additional capital into our PRC subsidiaries, limited our PRC subsidiaries' ability to distribute dividends to us, or otherwise materially adversely affect our business.

### **PRC laws and regulations establish more complex procedures for some acquisitions of Chinese companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in China.**

A number of PRC laws and regulations, including the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定) adopted by six PRC regulatory agencies in 2006 (the "M&A Rules") and amended in 2009, the Antimonopoly Law (反壟斷法), and the Rules of Ministry of Commerce on Implementation of Security Review System of Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (商務部實施外國投資者併購境內企業安全審查制度的規定) promulgated by the MOFCOM in August 2011 (the "Security Review Rules"), have established procedures and requirements that are expected to make merger and acquisition activities in China by foreign investors more time consuming and complex. These include requirements in some instances that the MOFCOM be notified in advance of any change of control transaction in which a foreign investor takes control of a PRC domestic enterprise, or that the approval from the MOFCOM be obtained in circumstances where overseas companies established or controlled by PRC enterprises or residents acquire affiliated domestic companies. PRC laws and regulations also require certain merger and acquisition transactions to be subject to merger control review or security review.

The Security Review Rules were formulated to implement the Notice of the General Office of the State Council on Establishing the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (國務院辦公廳關於建立外國投資者併購境內企業安全審查制度的通知), also known as Circular 6, which was promulgated in 2011. Under these rules, a security review is required for mergers and acquisitions by foreign investors having "national defense and security" concerns and mergers and acquisitions by which foreign investors may acquire the "de facto control" of domestic enterprises have "national security" concerns. In addition, when deciding whether a specific merger or acquisition of a domestic enterprise by foreign investors is subject to the security review, the MOFCOM will look into the substance and actual impact of the transaction.

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The Security Review Rules further prohibits foreign investors from bypassing the security review requirement by structuring transactions through proxies, trusts, indirect investments, leases, loans, control through contractual arrangements or offshore transactions. It is unclear whether our business would be deemed to be in an industry that raises “national defense and security” or “national security” concerns. However, as these rules are relatively new and there is a lack of clear statutory interpretation on the implementation of the same, there is no assurance that the MOFCOM will not apply these national security review-related rules to the acquisition of equity interest in our PRC subsidiaries. If we are found to be in violation of the Security Review Rules and other PRC laws and regulations with respect to the merger and acquisition activities in China, or fail to obtain any of the required approvals, the relevant regulatory authorities would have broad discretion in dealing with such violation, including levying fines, confiscating our income, revoking our PRC subsidiary’s business or operating licenses, requiring us to restructure or unwind the relevant ownership structure or operations. Any of these actions could cause significant disruption to our business operations and may materially and adversely affect our business, financial condition and results of operations. Further, if the business of any target company that we plan to acquire falls into the ambit of security review, we may not be able to successfully acquire such company either by equity or asset acquisition, capital contribution or through any contractual arrangement. We may grow our business in part by acquiring other companies operating in our industry. Complying with the requirements of the relevant regulations to complete such transactions could be time consuming, and any required approval processes, including approval from the MOFCOM, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

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

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

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

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

The SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Offshore Investment and Financing and Round Trip Investment via Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the “Circular 37”) and its implementation guidelines in July 2014, which abolishes and supersedes the SAFE’s Circular on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Round Trip Investment via Overseas Special Purpose Vehicles (《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》) (the “Circular 75”) and its related implementation rules and guidelines. Pursuant to the Circular 37 and its implementation guidelines, PRC residents (including PRC institutions and individuals) must register with local branches of SAFE in connection with their direct or indirect offshore investment in an overseas special purpose vehicle (“SPV”) directly established or indirectly controlled by PRC residents for the purposes of offshore investment and financing with their legally owned assets or interests in domestic enterprises, or their legally owned offshore assets or interests. Such PRC residents are also required to amend their registrations with SAFE when there is a significant change to the registered SPV, such as changes of its PRC resident individual shareholder, name, operation period or other basic information or the PRC individual resident’s increase or decrease of its capital contribution in the SPV, or any share transfer or exchange, merger, division of the SPV. Under this regulation, failure to comply with the registration procedures set forth in the Circular 37 may result in restrictions being imposed on the foreign exchange activities of our PRC Subsidiary, Xiamen Feiyou, including the payment of dividends and other distributions to its offshore parent or affiliate, the capital inflow from the offshore entities and its settlement of foreign exchange capital, and may also subject relevant onshore company or PRC residents to penalties under PRC foreign exchange administration regulations.

All of our PRC individual shareholders have completed the SAFE registration pursuant to Circular 75 in June 2014, among whom, Messrs. Yao Jianjun, Bi Lin, Chen Jianyu, Sun Zhiyan, Lin Jiabin and Lin Zhibin are in the process of updating their SAFE registration pursuant to Circular 37 to reflect the establishment of their respective family trust. We are committed to complying with and to ensuring that our shareholders who are subject to the regulations will comply with the relevant rules. However, we cannot assure you that all of our shareholders who are PRC residents will comply with our request to make or obtain any applicable registrations or comply with other requirements required by Circular 37 or other related rules. Any future failure by any of our shareholders who is a PRC resident, or controlled by a PRC resident, to comply with relevant requirements under this regulation could subject us to penalties or sanctions imposed by the PRC government.

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**It may be difficult to effect service of process upon us or our Directors or senior management who reside in China or to enforce non-PRC court judgments against them in China.**

Substantially all of our assets are situated in China and most of our Directors and officers reside in, and substantially all of their respective assets are located in, China. As a result, it may be difficult to effect service of process outside China upon most of our Directors and officers, including with respect to matters arising under applicable securities laws. China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom and most other countries. Consequently, it may be difficult for you to enforce against us or our Directors or officers in China any judgments obtained from non-PRC courts.

**Governmental control over currency conversion may limit the ability of our PRC subsidiaries to remit payments to us.**

At present, the Renminbi is not freely convertible to other foreign currencies, and conversion and remittance of foreign currencies are subject to the PRC foreign exchange regulations. Under current PRC laws and regulations, payments of current account items, including profit distributions may be made in foreign currencies without prior approval from SAFE, but are subject to procedural requirements including presenting relevant documentary evidence of such transactions and conducting such transactions at designated foreign exchange banks within the PRC that have the licenses to carry out foreign exchange business. Strict foreign exchange control continues to apply to capital account transactions. These transactions must be approved by or registered with SAFE, and repayment of loan principal, distribution of return on direct capital investment and investment in negotiable instruments are also subject to restrictions.

Under our current corporate structure, our source of funds will primarily consist of dividend payments and repayment of inter-company loans by our subsidiaries in the PRC denominated in Renminbi. We cannot assure you that we will be able to meet all of our foreign currency obligations or to remit profits out of PRC. If the subsidiaries are unable to obtain SAFE approval to repay loans to our Company, or if future changes in relevant regulations were to place restrictions on the ability of the subsidiaries to remit dividend payments to our Company, our Company's liquidity and ability to satisfy its third-party payment obligations, and its ability to distribute dividends in respect of the Shares, could be materially and adversely affected.

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

The value of the Renminbi against the Hong Kong dollar, the U.S. dollar and other currencies fluctuates, is subject to changes resulting from the PRC government's policies and depends to a large extent on domestic and international economic and political developments as well as supply and demand in the local market. From 1994 to July 2005, the official exchange rate for the conversion of Renminbi to the U.S. dollar was generally stable. In July 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar and the Renminbi appreciated more than 20% against the U.S. dollar over the following three years. From July 2008 to June 2010, the Renminbi traded within a narrow range against the U.S. dollar. Since June 2010, the Renminbi has appreciated against the U.S. dollar, from approximately RMB6.83 per U.S. dollar to approximately RMB6.1290 per U.S. dollar as of November 14, 2014. It is difficult to predict how Renminbi exchange rates may change going forward. With an increased floating range of the Renminbi's value against foreign currencies, the Renminbi may further appreciate or depreciate significantly in value against the Hong Kong



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dollar and the U.S. dollar or other foreign currencies in the long term, depending on the fluctuation of the basket of currencies against which it is currently valued, or it may be permitted to enter into a full float, which may also result in a significant appreciation or depreciation of the Renminbi against the U.S. dollar or other foreign currencies.

We also generate revenue from players in countries and regions outside China, who make in-game purchases in foreign currencies through our distribution and publishing. As a result, we are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the U.S. dollar and also including Hong Kong dollars, and Thai Baht. There are limited hedging instruments available in China to reduce our exposure to exchange rate fluctuations between the Renminbi and other currencies. The cost of such hedging instruments may fluctuate significantly over time and can outweigh the potential benefit from the reduced currency volatility. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risks. In any event, the availability and effectiveness of these hedges may be limited and we may not be able to hedge our exposure successfully, or at all.

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

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

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

### **RISKS RELATING TO THE GLOBAL OFFERING**

#### **There has been no prior public market for our Shares and the liquidity and market price of our Shares may be volatile.**

Prior to the completion of the Global Offering, there has been no public market for our Shares. The Offer Price is the result of negotiations between us and the Joint Global Coordinators (for themselves and on behalf of the Underwriters), which may not be indicative of the price at which our Shares will be traded following completion of the Global Offering. In addition, there can be no guarantee that an active trading market for our Shares will develop; or, if it does develop, that it will be sustained following completion of the Global Offering; or that the market price of our Shares will not decline below the Offer Price.

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**The trading price of our Shares may be volatile, which could result in substantial losses to you.**

The trading price of our Shares may be volatile and could fluctuate widely in response to factors beyond our control, including general market conditions of the securities markets in Hong Kong, China, the United States and elsewhere in the world. In particular, the performance and fluctuation of the market prices of other companies with business operations located mainly in China that have listed their securities in Hong Kong may affect the volatility in the price of and trading volumes for our Shares. Recently, a number of PRC-based companies have listed their securities, or are in the process of preparing for listing their securities, in Hong Kong. Some of these companies have experienced significant volatility, including significant price declines after their initial public offerings. The trading performances of the securities of these companies at the time of or after their offerings may affect the overall investor sentiment towards PRC-based companies listed in Hong Kong and consequently may impact the trading performance of our Shares. These broad market and industry factors may significantly affect the market price and volatility of our Shares, regardless of our actual operating performance.

In addition to market and industry factors, the price and trading volume for our Shares may be highly volatile for specific business reasons. In particular, factors such as variations in our revenue, earnings and cash flow could cause the market price of our Shares to change substantially. Any of these factors may result in large and sudden changes in the volume and trading price of our Shares.

**You will incur immediate and substantial dilution and may experience further dilution in the future.**

As the Offer Price of our Shares is higher than the net tangible book value per Share of our Shares immediately prior to the Global Offering, purchasers of our Shares in the Global Offering will experience an immediate dilution.

We have granted Pre-IPO share Options pursuant to the Pre-IPO Share Option Scheme and Pre-IPO RSUs pursuant to the Pre-IPO RSU Plan, and intend to grant Post-IPO share Options pursuant to the Post-IPO Share Option Scheme and Post-IPO RSUs pursuant to the Post-IPO RSU Plan, which will entitle participants in these share incentive schemes to receive Shares under certain circumstances. Please refer to the sections headed “Appendix IV — Statutory and General Information — D. Pre-IPO Share Option Scheme,” “Appendix IV — Statutory and General Information — E. Post-IPO Share Option Scheme,” “Appendix IV — Statutory and General Information — F. Pre-IPO RSU Plan” and “Appendix IV — Statutory and General Information — G. Post-IPO RSU Plan” for more details. Exercise of options and vesting of the RSUs may result in an increase in our issued share capital, which in turn may result in a dilution of our shareholders’ shareholding interest in our Company and a reduction in earnings per Share.

**The sale or availability for sale of substantial amounts of our Shares, especially by our Directors, senior management members and current shareholders, could materially and adversely affect the market price of our Shares.**

Future sales of a substantial number of our Shares by our existing shareholders, or the possibility of such sales, could materially and negatively impact the market price of our Shares in Hong Kong and our ability to raise equity capital in the future at a time and price that we deem appropriate.



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The Shares held by our Controlling Shareholders are subject to certain lock-up periods beginning on the date on which trading in our Shares commences on the Hong Kong Stock Exchange. While we currently are not aware of any intention of our Controlling Shareholders to dispose of significant amounts of their Shares after the completion of the lock-up periods, we cannot assure you that they will not dispose of any Shares they may own now or in the future.

**You may experience difficulties in enforcing your Shareholder rights because we are incorporated in the Cayman Islands; Cayman Islands law is different from the law of Hong Kong and other jurisdictions and may not provide the same protections to minority shareholders.**

We are an exempted company incorporated in the Cayman Islands with limited liability, and the law of the Cayman Islands differs in some respects from that of Hong Kong or other jurisdictions where investors may be located.

Our corporate affairs are governed by our memorandum and articles of association, the Cayman Companies Law and the common law of the Cayman Islands. The rights of shareholders to take legal action against us and our Directors, actions by minority shareholders and the fiduciary responsibilities of our Directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive but not binding authority on a court in the Cayman Islands. The rights of our Shareholders and the fiduciary responsibilities of our Directors under Cayman Islands law may not be as clearly established as they would be under statutes or judicial precedents in Hong Kong, the United States or other jurisdictions where investors may be located. In particular, the Cayman Islands has a less developed body of securities law.

As a result, our Shareholders may have more difficulty in protecting their interests in the face of actions taken by our management, Directors or major shareholders than they would as shareholders of a Hong Kong company, a United States company or companies incorporated in other jurisdictions. For example, the Cayman Islands do not have a statutory equivalent of sections 723 to 726 of the Hong Kong Companies Ordinance, which provide a remedy for shareholders who have been unfairly prejudiced by the conduct of the company's affairs.

**There can be no assurance of the accuracy or completeness of certain facts, forecasts and other statistics obtained from various government publications, market data providers and other independent third-party sources, including the industry expert report, contained in this prospectus.**

Certain facts, forecasts and other statistics relating to China and other countries and regions and the mobile game and web game market in China contained in this prospectus have been derived from various government publications, market data providers and other independent third-party sources, including iResearch and App Annie, both independent industry experts, and generally are believed to be reliable. However, we cannot guarantee the accuracy and completeness of such information. These facts, forecasts and other statistics have not been independently verified by us, the Joint Global Co-ordinators, the Joint Bookrunners, the Joint Sponsors, the Joint Lead Managers, their respective directors and advisers or any other parties involved in the Global Offering and none of them make any representation as to the accuracy or completeness of such information. Furthermore, such facts, forecasts and other statistics may not be prepared on a comparable basis or may not be consistent with other information compiled within or outside China. For these reasons, you should not place undue reliance on such information as a basis for making your investment in our Shares.

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**You should read the entire prospectus carefully and should not rely on any information contained in press articles or other media regarding us and the Global Offering.**

We strongly caution you not to rely on any information contained in press articles or other media regarding us and the Global Offering. Prior to the publication of this prospectus, there has been press and media coverage regarding us and the Global Offering. Such press and media coverage may include references to certain information that does not appear in this prospectus, including certain operating and financial information and projections, valuations and other information. We have not authorized the disclosure of any such information in the press or media and do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information or publication. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information is inconsistent or conflicts with the information contained in this prospectus, we disclaim responsibility for it and you should not rely on such information.

## **WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND EXEMPTION FROM THE STRICT COMPLIANCE WITH THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

In preparation for the Listing, we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules:

### **WAIVER IN RELATION TO MANAGEMENT PRESENCE IN HONG KONG**

Rule 8.12 of the Listing Rules provides that an applicant applying for a primary listing on the Stock Exchange must have a sufficient management presence in Hong Kong. This will normally mean that at least two of its executive directors must be ordinarily resident in Hong Kong.

Our Executive Directors do not ordinarily reside in Hong Kong. All of them spend the majority of their time supervising our Company's principal business operations in the PRC. We consider that it would be of the best interest of our Group for our Executive Directors and our management being based in the PRC to supervise and manage our daily business operations.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from strict compliance with Rule 8.12 of the Listing Rules, and the following arrangements have been made for maintaining regular and effective communication with the Stock Exchange to fulfill the conditions of the waiver:

- (a) We have appointed two authorized representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our principal channel of communication with the Stock Exchange. The two appointed authorized representatives are Messrs. Bi Lin and Cheung Man Yu, who will be readily contactable by the Stock Exchange and can meet with the Stock Exchange on reasonable notice. Their contact details (including office and mobile phone numbers, facsimile numbers, email addresses and residential addresses) have been provided to the Stock Exchange.
- (b) We have retained the services of a compliance adviser, Guotai Junan Capital Limited, in compliance with Rule 3A.19 of the Listing Rules. Guotai Junan Capital Limited will, in addition to the Company's authorized representatives, act as an additional channel of communication of the Company with the Stock Exchange and be available to answer enquiries from the Stock Exchange.
- (c) Each Director will provide his/her respective mobile phone number, office phone number, email address and fax number. Our authorized representatives have means for contacting all Directors promptly at all times as and when the Stock Exchange wishes to contact the Directors for any matters. Each of our Directors either possesses, or can apply for, valid travel documents to visit Hong Kong in order to meet with members of the Stock Exchange within a reasonable period, when required.

### **WAIVER IN RESPECT OF NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS**

We have entered into the Contractual Arrangements which would constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules following the completion of the Global Offering. We have applied for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements under Chapter 14A of the Listing Rules in relation to the non-exempt continuing connected transactions. Details of such non-exempt continuing connected transactions and the waiver are set out in the sections headed "Contractual Arrangements" and "Connected Transactions."

<p style="text-align: center;"><b>WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND EXEMPTION FROM THE STRICT COMPLIANCE WITH THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE</b></p>
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**WAIVER AND EXEMPTION IN RELATION TO PRE-IPO SHARE OPTION SCHEME**

Under Rule 17.02(1)(b) of the Listing Rules, paragraph 27 of Appendix 1A and paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, this prospectus is required to include, among other things, details of the number, description and amount of any of our Shares which any person has, or is entitled to be given, an option to subscribe for, together with certain particulars of each option, namely the period during which it is exercisable, the price to be paid for Shares subscribed for under it, the consideration (if any) given or to be given for it or for the right to it and the names and addresses of the persons to whom it was given, full details of all outstanding options and their potential dilution effect on the shareholdings upon the Listing as well as the impact on the earnings per share arising from the exercise of such outstanding options. We have granted options to 122 persons to subscribe for 105,570,000 Shares on the terms set out in the section headed “Appendix IV — Statutory and General Information — D. Pre-IPO Share Option Scheme” including 2 members of the senior management of our Company and 120 other employees of the Group (of which two are connected persons of the Group) (the “**Grantees**” and each a “**Grantee**”). Save as disclosed in the section headed “Appendix IV — Statutory and General Information — D. Pre-IPO Share Option Scheme,” no other Grantee under the Pre-IPO Share Option Scheme is a Director, senior management or connected person of our Group under the Pre-IPO Share Option Scheme.

We have applied for (i) a waiver from the Stock Exchange from strict compliance with the requirements under Rule 17.02(1)(b) and paragraph 27 of Appendix 1A to the Listing Rules and (ii) an exemption from the SFC from strict compliance with paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance in connection with the disclosure of certain details relating to the option to subscribe for the Shares in the Company and certain Grantees under the Pre-IPO Share Option Scheme on the ground that it will be unduly burdensome to disclose full details of all options under the Pre-IPO Share Option Scheme in the prospectus. In light of the requirements under the relevant regulations indicated above, we have made the following submission to the Stock Exchange and the Securities and Futures Commission:

1. The businesses that the Group operates are fairly new in the PRC and thus it is of crucial importance to the Company’s continuous business development to recruit and retain talents with relevant business experiences with the Group;
2. Employee incentive plans, in particular, the Pre-IPO Share Option Scheme, constitute an important component in the compensations of employees of the Group, and the information on share options granted to the Grantees under the Pre-IPO Share Option Scheme is highly sensitive and confidential to the Group;
3. The full disclosure on the Grantees, as well as detailed information on the share options granted to each of them, would provide the Group’s competitors with the Group’s employees’ compensation details and their addresses, which would facilitate the soliciting activities from the Group’s competitors and thus endanger the Group’s strategic plan in recruiting and retaining valuable personnel with the Group;
4. The full disclosure on share options granted to each of the Grantees would also allow the employees of the Group to be aware of each other’s compensation, which may affect the employees’ morale, cause negative internal competitions and increase the recruiting costs of the Group;
5. Full exercise of the options granted under the Pre-IPO Share Option Scheme will not cause any material adverse change in the financial position of the Company;

**WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND  
EXEMPTION FROM THE STRICT COMPLIANCE WITH THE COMPANIES  
(WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

6. The options under the Pre-IPO Share Option Scheme were granted to a total of 122 Grantees. The Directors consider that it would be unduly burdensome to disclose full details of all options under the Pre-IPO Share Option Scheme granted by the Company in the Prospectus, which would involve additional pages of content to be inserted into the Prospectus, increasing the cost and timing for information compilation, prospectus preparation and printing;
7. Key information of the options under the Pre-IPO Share Option Scheme granted to Directors, members of the senior management, connected persons and grantees who have been granted options to subscribe for more than 3,000,000 Shares under the Pre-IPO Option Scheme have already been disclosed in the section headed “Appendix IV — Statutory and General Information — D. Pre-IPO Share Option Scheme,” of the Prospectus which is sufficient to provide potential investors with information to make an informed assessment of the potential dilution effect and impact on earnings per share of the options granted under the Pre-IPO Share Option Scheme in their investment decision making process; and
8. The lack of full compliance of the disclosure requirements set out above will not prevent potential investors from making an informed assessment of the activities, assets and liabilities, financial position, management and prospects of the Group and will not prejudice the interest of the investing public.

The Stock Exchange has granted the waiver to us subject to the conditions that:

- (a) the grant of a certificate of exemption from strict compliance with the relevant Companies (Winding Up and Miscellaneous Provisions) Ordinance requirements by the SFC;
- (b) on an individual basis, full details of all options under the Pre-IPO Share Option Scheme granted by our Company to the Directors, members of the senior management, connected persons of our Group or any other Grantee(s) who have the right to subscribe for more than 3,000,000 Shares under the Pre-IPO Share Option Scheme upon listing, including all the particulars required under Rule 17.02(1)(b) of the Listing Rules, paragraph 27 of Appendix 1A to the Listing Rules and paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, be disclosed in this prospectus;

**WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND  
EXEMPTION FROM THE STRICT COMPLIANCE WITH THE COMPANIES  
(WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

- (c) in respect of the options granted by our Company to the Grantees other than those referred to in sub-paragraph (b) above, on an aggregate basis, the following details be fully disclosed in this prospectus:
  - (1) the aggregate number of Grantees;
  - (2) the number of Shares underlying such options;
  - (3) the consideration paid for the options;
  - (4) the exercise period of the options; and
  - (5) the exercise price for the options;
- (d) the dilution effect and impact on earnings per Share upon full exercise of the options under the Pre-IPO Share Option Scheme;
- (e) the aggregate number of Shares subject to outstanding options granted under the Pre-IPO Share Option Scheme and the percentage of our Company's issued share capital represented by them;
- (f) a summary of the Pre-IPO Share Option Scheme be disclosed in this prospectus; and
- (g) the list of all the Grantees (including the persons referred to in paragraph (b) above), containing all details as required under Rule 17.02(1)(b), paragraph 27 of Appendix 1A to the Listing Rules and paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance be made available for public inspection in accordance with the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix V in this prospectus.

The SFC has issued a certificate of exemption under section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance exempting our Company from strict compliance with paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance subject to the conditions that:

- (a) on an individual basis, full details of all options under the Pre-IPO Share Option Scheme granted to each of the Directors, members of the senior management, connected persons of the Group and other Grantee(s) who have the right to subscribe for more than 3,000,000 Shares under the Pre-IPO Share Option Scheme are disclosed in this prospectus, such details to include all the particulars required under paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance;
- (b) in respect of the options granted by our Company under the Pre-IPO Share Option Scheme to the Grantees other than those referred to in sub-paragraph (a) above, the following details are disclosed in this prospectus:
  - (1) the aggregate number of Grantees;

**WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND EXEMPTION FROM THE STRICT COMPLIANCE WITH THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

- (2) the number of Shares underlying such options;
  - (3) the consideration paid for the grant of such options;
  - (4) the exercise period of the options; and
  - (5) the exercise price for the options;
- (c) a list of all the Grantees (including the persons referred to in sub-paragraph (a) above) who have been granted options to subscribe for Shares under the Pre-IPO Share Option Scheme, containing all the details as required under paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance be made available for public inspection in accordance with “Documents Delivered to the Registrar of Companies and Available for Inspection — Documents available for inspection” in Appendix V to this prospectus; and
- (d) the particulars of the exemption will be disclosed in this prospectus.

Further details of the Pre-IPO Share Option Scheme are set out in “Appendix IV — Statutory and General Information — D. Pre-IPO Share Option Scheme” in this prospectus.



## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

### **DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS**

This prospectus includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information to the public with regard to the Group. Our Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus. Our Directors confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

### **UNDERWRITING AND INFORMATION ON THE GLOBAL OFFERING**

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. The Global Offering comprises the Hong Kong Public Offering of initially 30,000,000 Shares and the International Offering of initially 270,000,000 Shares (subject, in each case, to reallocation on the basis referred to under the section headed "Structure of the Global Offering" and without taking into account the Over-allotment Options).

The listing of our Shares on the Stock Exchange is sponsored by the Joint Sponsors and the Global Offering is managed by the Joint Global Coordinators. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters pursuant to the Hong Kong Underwriting Agreement. The International Underwriting Agreement relating to the International Offering is expected to be entered into on or about the Price Determination Date, subject to determination of the pricing of the Offer Shares. Further information regarding the Underwriters and the underwriting arrangements are set out in the section headed "Underwriting."

The Hong Kong Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this prospectus and the relevant Application Forms, and any information or representation not contained herein and therein must not be relied upon as having been authorized by our Company, the Joint Global Coordinators, the Joint Bookrunners, the Joint Sponsors, the Joint Lead Managers, the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering.

Neither the delivery of this prospectus nor any subscription or acquisition made under it shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as of any date subsequent to the date of this prospectus.

Further information regarding the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering," and the procedures for applying for our Shares are set out in the section headed "How to Apply for the Hong Kong Offer Shares" of this prospectus and in the relevant Application Forms.

### **DETERMINATION OF THE OFFER PRICE**

The Offer Shares are being offered at the Offer Price which will be determined by the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us on or around Friday, November 28, 2014, and in any event no later than Wednesday, December 3, 2014.

## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

If the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and the Company are unable to reach an agreement on the Offer Price on or before Wednesday, December 3, 2014, or such later date or time as may be agreed between the Joint Global Coordinators (on behalf of the Underwriters) and us, the Global Offering will not become unconditional and will lapse.

### **RESTRICTIONS ON OFFER AND SALE OF THE SHARES**

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his acquisition of the Shares to, confirm that he is aware of the restrictions on offers and sales of the Shares described in this prospectus and the relevant Application Forms.

No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, without limitation to the following, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Hong Kong Offer Shares have not been publicly offered or sold, directly or indirectly, in the PRC or the United States.

### **APPLICATION FOR LISTING ON THE STOCK EXCHANGE**

We have applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued by us pursuant to the Global Offering (including the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option, exercise of options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and vesting of the RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan).

Dealings in the Shares on the Stock Exchange are expected to commence on Friday, December 5, 2014. Save as disclosed in this prospectus, no part of our share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought on the Stock Exchange or any other stock exchange as of the date of this prospectus. All the Offer Shares will be registered on the Hong Kong Share Registrar of our Company in order to enable them to be traded on the Stock Exchange.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, the Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company for permission by or on behalf of the Stock Exchange.

## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

Potential investors in the Global Offering are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposal of, and/or dealing in the Shares or exercising rights attached to them. None of us, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, officers, employees, agents or representatives or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding, disposition of, or dealing in, the Shares or exercising any rights attached to them.

### **OVER-ALLOTMENT AND STABILIZATION**

Details of the arrangement relating to the Over-allotment Option and stabilization are set out under the sections headed “Structure of the Global Offering” and “Underwriting” in this prospectus.

### **HONG KONG REGISTER OF MEMBERS AND HONG KONG STAMP DUTY**

Our Company’s principal register of members will be maintained by its principal share registrar, Codan Trust Company (Cayman) Limited, in the Cayman Islands and our Company’s Hong Kong register of members will be maintained by our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, in Hong Kong. All Offer Shares will be registered on the Company’s Hong Kong register of members in Hong Kong. Dealings in the Shares registered on our Company’s Hong Kong register of members will be subject to Hong Kong stamp duty.

### **SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS**

Subject to the granting of the listing of, and permission to deal in, the Shares on the Stock Exchange and compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangements and how such arrangements will affect your rights and interests as such arrangements may affect your rights and interests.

### **PROCEDURES FOR APPLICATION FOR HONG KONG OFFER SHARES**

The procedures for applying for Hong Kong Offer Shares is set out in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus and on the relevant Application Forms.

### **STRUCTURE OF THE GLOBAL OFFERING**

Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus.

## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

### EXCHANGE RATE CONVERSION

For the purpose of illustration only, this prospectus contains translations among certain amounts denominated in Renminbi, Hong Kong dollars and U.S. dollars. No representation is made that the amounts denominated in one currency could actually be converted into the amounts denominated in another currency at the rates indicated or at all. Unless indicated otherwise, (i) the translations between Renminbi and HK dollars were made at the rate of RMB0.7917 to HK\$1.00, being the PBOC Rate prevailing on November 14, 2014 and (ii) the translations between U.S. dollars and Hong Kong dollars were made at the rate of HK\$7.7540 to US\$1.00, being the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Board on November 14, 2014. Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

### LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. However, the translated English names of the PRC nationals, entities, departments, facilities, certificates, titles, laws, regulations and the like are translations of their Chinese names and are included for identification purposes only. If there is any inconsistency, the Chinese name prevails.

### ROUNDING

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments, or have been rounded to one or two decimal places. Any discrepancies in any table, chart or elsewhere between totals and sums of amounts listed therein are due to rounding.

## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

### DIRECTORS

Name	Address	Nationality
<i>Executive Director</i>		
YAO Jianjun (姚劍軍)	Room 2302 Strait International Community No. 1 Huizhan Bei Road Siming District, Xiamen Fujian Province, PRC	Chinese
CHEN Jianyu (陳劍瑜)	Room 301, Unit 1, Block 2 Beijing CBD International Golf Course Villa 99 Gaobeidian Road Chaoyang District, Beijing, PRC	Chinese
BI Lin (畢林)	Flat D, 23/F, Guanghua Mansion Hexiang West Road, Xiamen Fujian Province, PRC	Chinese
SUN Zhiyan (孫志炎)	Room 402, Unit 1, Block 23 Shuangyu Garden, Houshayu Town Shunyi District, Beijing, PRC	Chinese
LIN Jiabin (林加斌)	Room 1103, No. 78 Dongpu Road Xiamen, Fujian Province, PRC	Chinese
LIN Zhibin (林志斌)	No. 28 Dongping Sanli Dongpingshan Road Dongping Community Neighborhood Committee Xiamen, Fujian Province, PRC	Chinese
<i>Independent Non-executive Director</i>		
LIU Qianli (劉千里)	Room 1601, Unit 1, Block 1 Yangguang Shangdong The Second Area No.6 Dongsihuanbei Road Chaoyang District, Beijing, PRC	American
LAI Xiaoling (賴曉凌)	Room 502, Unit 3, Block 612 Guofeng Beijing Futongda Street, Wangjing, Chaoyang District, Beijing, PRC	Chinese
MA Suen Yee Andrew (馬宣義)	Flat H, 26/F Tien Sing Mansion Tai Koo Shing Quarry Bay, Hong Kong	Chinese

## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

### OTHER PARTIES INVOLVED IN THE GLOBAL OFFERING

#### Joint Sponsors

Citigroup Global Markets Asia Limited  
50th Floor, Citibank Tower  
Citibank Plaza  
3 Garden Road  
Central  
Hong Kong

Merrill Lynch Far East Limited  
55/F, Cheung Kong Center  
2 Queen's Road Central  
Hong Kong

#### Joint Global Coordinators and Joint Bookrunners *(in alphabetical order)*

*Hong Kong Public Offering*  
Citigroup Global Markets Asia Limited  
50th Floor, Citibank Tower  
Citibank Plaza  
3 Garden Road  
Central  
Hong Kong

Merrill Lynch International  
2 King Edward Street  
London EC1A 1HQ  
United Kingdom

*International Offering*  
Citigroup Global Markets Limited  
Citigroup Centre  
33 Canada Square  
Canary Wharf  
London E14 5LB  
United Kingdom

Merrill Lynch International  
2 King Edward Street  
London EC1A 1HQ  
United Kingdom



## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

**Joint Lead Managers**  
(in alphabetical order)

*Hong Kong Public Offering*  
Citigroup Global Markets Asia Limited  
50th Floor, Citibank Tower  
Citibank Plaza  
3 Garden Road  
Central  
Hong Kong

Merrill Lynch Far East Limited  
55/F, Cheung Kong Center  
2 Queen's Road Central  
Hong Kong

Guotai Junan Securities (Hong Kong) Limited  
27th Floor, Low Block  
Grand Millennium Plaza  
181 Queen's Road Central  
Hong Kong

*International Offering*  
Citigroup Global Markets Limited  
Citigroup Centre  
33 Canada Square  
Canary Wharf  
London E14 5LB  
United Kingdom

Merrill Lynch International  
2 King Edward Street  
London EC1A 1HQ  
United Kingdom

Guotai Junan Securities (Hong Kong) Limited  
27th Floor, Low Block  
Grand Millennium Plaza  
181 Queen's Road Central  
Hong Kong

**Reporting Accountants**

Ernst & Young  
*Certified Public Accountants*  
22nd Floor, CITIC Tower  
1 Tim Mei Avenue  
Central  
Hong Kong

## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

### **Legal Advisers to our Company**

*As to Hong Kong law:*  
Brandt Chan & Partners  
in association with Dentons HK LLP  
Suite 3201, Jardine House  
1 Connaught Place  
Central, Hong Kong

*As to United States law:*  
Dentons US LLP  
1221 Avenue of the Americas  
New York, NY10020-1089  
United States

*As to PRC law:*  
Han Kun Law Offices  
Suite 906, Office Tower C1  
Oriental Plaza  
No. 1 East Chang An Avenue  
Beijing

*As to Cayman Islands law:*  
Conyers Dill & Pearman (Cayman) Limited  
Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

### **Legal Advisers to the Underwriters**

*As to Hong Kong law and United States law:*  
Kirkland & Ellis  
26th Floor, Gloucester Tower  
The Landmark  
15 Queen's Road Central  
Hong Kong

*As to PRC Law:*  
King and Wood Mallesons  
20th Floor, East Tower  
World Financial Center  
1 Dongsanhuan Zhonglu  
Chaoyang District  
Beijing

### **Independent Industry Consultant**

Shanghai iResearch Co., Ltd.  
Room 701, Building B  
CCIG International Plaza  
333 North Caoxi Road  
Shanghai 200030  
PRC

## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

**Independent Application Store  
Market Data Provider**

App Annie Inc.  
35/F, Central Plaza  
18 Harbour Road  
Wanchai, Hong Kong

**Receiving Banks**

Standard Chartered Bank (Hong Kong) Limited  
15/F Standard Chartered Tower  
388 Kwun Tong Road  
Kowloon  
Hong Kong

Wing Lung Bank Limited  
45 Des Voeux Road Central  
Hong Kong

## CORPORATE INFORMATION

<b>Registered office</b>	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
<b>Headquarters in China</b>	Floor 2, Block 2 No.14 Wanghai Road Ruanjian Yuan Two Siming District Xiamen, Fujian Province, PRC
<b>Principal place of business in Hong Kong</b>	Rooms 801 & 803, 8/F Beverley House 93–107 Lockhart Road Wan Chai, Hong Kong
<b>Company secretary</b>	CHEUNG Man Yu (Member of Hong Kong Institute of Certified Public Accountants) Flat 10, 31/F, Lung Sing House Kam Lung Court, Ma On Shan New Territories, Hong Kong
<b>Authorized representatives</b>	BI Lin Flat D, 23/F., Guanghua Mansion Hexiang West Road Xiamen City, the PRC  CHEUNG Man Yu Flat 10, 31/F, Lung Sing House Kam Lung Court, Ma On Shan New Territories, Hong Kong
<b>Audit Committee</b>	LIU Qianli (Chairwoman) LAI Xiaoling MA Suen Yee Andrew
<b>Nomination Committee</b>	YAO Jianjun (Chairman) LIU Qianli MA Suen Yee Andrew
<b>Remuneration Committee</b>	LIU Qianli (Chairwoman) BI Lin LAI Xiaoling

## CORPORATE INFORMATION

**Cayman Islands principal share registrar and transfer office**

Codan Trust Company (Cayman) Limited  
Cricket Square  
Hutchins Drive,  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

**Hong Kong Share Registrar**

Computershare Hong Kong Investor Services Limited  
Shops 1712–1716, 17th Floor  
Hopewell Centre, 183 Queen’s Road East  
Wanchai, Hong Kong

**Principal bankers**

The Industrial and Commercial Bank of China  
Xiamen Branch, Chengjian sub-branch  
No. 270 Lujiang Road  
Xiamen, Fujian Province  
PRC

China Merchants Bank, Beijing branch  
Jianwaidajie sub-branch  
No. 0668, Block 6, Jianwai SOHO  
No. 39 Dongsanhuan Zhonglu  
Chaoyang District  
Beijing, PRC

**Compliance adviser**

Guotai Junan Capital Limited  
27/F, Low Block, Grand Millennium Plaza  
181 Queen’s Road Central  
Hong Kong

**Company’s website**

**[www.feiyuhk.com](http://www.feiyuhk.com)**  
*(information contained in this website does not form part of this prospectus)*

## INDUSTRY OVERVIEW

*Certain information and statistics set out in this section and elsewhere in the prospectus have been derived from various government publications, market data providers and other independent third-party sources. In addition, certain information and statistics set forth in this section and elsewhere in this prospectus have been derived from an industry report commissioned by us and independently prepared by Shanghai iResearch Co., Ltd., or iResearch, in connection with the Global Offering, or the iResearch Report. We believe that the sources of such information and statistics are appropriate and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information and statistics are false or misleading in any material respect. None of our Company, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, nor any other party involved in the Global Offering or their respective directors, advisers and affiliates have independently verified such information and statistics. Accordingly, none of our Company, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, nor any other party involved in the Global Offering or their respective directors, advisers and affiliates makes any representation as to the correctness or accuracy of such information and the statistics contained in this prospectus. For the above reasons, information contained in this section should not be unduly relied upon.*

### SOURCE OF INFORMATION

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

In addition, we have commissioned iResearch, an international market intelligence provider and an Independent Third Party, to conduct an analysis of the web game and mobile game market and industry in China. The industry report prepared by iResearch was based on their specific knowledge of the PRC web game and mobile game industry. We have paid a fee of RMB300,000 to iResearch in connection with its preparation of the industry report for this prospectus. Our payment of such fee is not contingent upon the results of its analysis.

### CNNIC

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

### iResearch Report

iResearch's independent research was undertaken through both primary and secondary research conducted in China. The primary research involved in-depth interviews with industry experts, enterprises and channels. The secondary research utilized Internet-based methods for Internet research and involved comprehensive in-house research of public information for



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industry research, including government data and information, relevant economic data, industry data, company annual reports, quarterly reports, publications by industry experts and data from iResearch's own research database.

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

### INTERNET AND MOBILE INTERNET INDUSTRY IN CHINA

According to CNNIC, China has the world's largest Internet user base. According to the iResearch Report, China's Internet population has experienced rapid growth and the number of Internet users increased from 300 million in 2008 to 620 million in 2013, representing a CAGR of 15.6%. In addition, users in China are increasingly using multiple devices to access the Internet. In particular, mobile devices have become an increasingly popular means to access the Internet. According to iResearch, the total shipments of smartphones and tablets in China reached 343 million in 2013, up from 42 million in 2010. Due to the popularity of such devices as well as improvements in and expansion of 3G and 4G infrastructure, mobile Internet users in China have also increased significantly. According to the iResearch Report, mobile Internet users in China have increased from 120 million at the end of 2008 to 500 million at the end of 2013. In addition, according to the iResearch Report, it is estimated that the number of mobile Internet users will further increase to 800 million by the end of 2018, representing a penetration rate of mobile Internet users over total Internet users of approximately 88.9%.

The tables below set forth certain details of China's Internet population, mobile Internet population and smartphone shipments in China:

#### China's Internet population

	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E	2018E
China's Internet population (in millions) . . . .	300	380	460	510	560	620	670	730	790	850	900
Growth . . . . .		28.9%	19.0%	12.3%	9.9%	9.4%	8.4%	9.3%	8.1%	7.6%	6.0%

Source: iResearch Report

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### China's Mobile Internet population

	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E	2018E
China's Mobile Internet population (in millions) . . . .	120	230	300	360	420	500	580	640	690	750	800
Growth . . . . .		97.5%	29.6%	17.5%	18.3%	19.0%	15.6%	10.2%	8.2%	8.1%	7.7%

Source: iResearch Report

### Smartphone Shipments and Tablets in China

	2010	2011	2012	2013	2014E	2015E	2016E	2017E	2018E
Smartphone shipments in China (in millions) .	42	75	201	343	413	474	527	591	645
Growth . . . . .		103.7%	165.5%	66.3%	19.9%	15.1%	12.5%	10.8%	10.3%

Source: iResearch Report

The Internet has gradually become one of the primary channels for distributing digital entertainment in China and mobile devices are quickly becoming one of the most popular mediums for consuming such entertainment. Consumers are able to access audio and video content online, either by downloading content from online stores, such as Apple's iTunes, or by streaming it directly from media sites, such as Youku and Tudou, which have become increasingly popular with improvements in Internet infrastructure. Moreover, online gaming is now one of the most popular forms of Internet digital entertainment in China.

### ONLINE GAME MARKET IN CHINA

According to iResearch, the online game market, consisting of client-based games, web games and mobile games, has strong driving forces every year. Meanwhile, the development of domestic and overseas markets also creates promising potential. In addition, the innovative business and operating models can bring about even higher earning potential. The online game market has grown rapidly in recent years, driven by an expanding player base, increasing competition among overseas and domestic game developers, and increasing capital investments. According to the iResearch Report, the revenue-based market size of online games in China has increased from RMB53.9 billion in 2011 to RMB89.2 billion in 2013 and is expected to grow to RMB266.7 billion in 2018. The table below sets forth the estimated growth of the online game market in China, in terms of revenue for the periods indicated:

### China online games revenue-based market size

	2011	2012	2013	2014E	2015E	2016E	2017E	2018E
China online games revenue-based market size (in RMB billions) . . . . .	53.9	67.1	89.2	115.0	146.8	183.7	224.6	266.7
Growth . . . . .		24.6%	32.9%	28.9%	27.7%	25.1%	22.3%	18.8%

Source: iResearch Report

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In addition, among all mobile entertainment, mobile gaming is one of the most popular activities. Two major segments of the online gaming industry in China, in addition to client-based games, are web games and mobile games.

### Web Games

Web games can be played directly from Internet browsers without actively installing client software. With increased broadband penetration in China as well as the wide adoption of flash as the primary web game development format, web games have grown in popularity.

Web games are characterized by the following attributes:

- *User base.* Unlike client-based games, web games only require an Internet connection and a web browser with flash support. As a result, web games have a lower entry barrier for new players as they can be played anywhere, and are better received by players who are less tech-savvy. In addition, web games are more mass market targeted, combining both the characteristics of hardcore games and easier to play casual games, thereby appealing to a broader base of users as compared to client-based games. Such characteristics have also contributed to the relatively high attrition rates of web game players. According to iResearch, web games typically have a life cycle of approximately six months, with only high quality games reaching life cycles of one year or longer.
- *Game play time.* Web games typically involve less complex game play compared to client-based games. Players generally have more control over the duration of their game sessions without compromising their game experience. However, web games still incorporate many aspects of hardcore games, including the ability to develop the skill and level of characters and complex plots. Accordingly web games typically have high levels of player engagement and long playing time.
- *Monetization.* Web games can be modified and improved more easily after being launched and better adapted to player preferences than client-based games. Web game developers often have access to in-game behavior data, such as at which stage players purchase virtual items, which virtual items are the most popular, and which stage of a particular in-game task leads to most player attention. Such data enable web game developers to conduct more customized marketing activities to drive better monetization, and more effectively optimize their monetization strategies.

According to the iResearch Report, the web game market in 2013 still maintained a relatively high speed of growth in terms of revenue, showing more than two times the growth rate of the entire online game market. An increasing number of platforms entered into the web game market, bringing in more diversified products and more choices for players. As the web game sector matures in China, more and more game producers are expanding to the overseas market and mobile game market. According to the iResearch Report, the revenue-based market size of web games in China has increased from RMB6.7 billion in 2011 to RMB15.9 billion in 2013 and

## INDUSTRY OVERVIEW

is expected to grow to RMB48.8 billion in 2018. The table below sets forth the estimated growth in terms of revenue for the web games market in China for the specified periods:

### China web games revenue-based market size

	2011	2012	2013	2014E	2015E	2016E	2017E	2018E
China web games revenue-based market size (in RMB billions) . . . . .	6.7	9.8	15.9	21.1	26.5	33.2	40.6	48.8
Growth . . . . .		47.1%	61.8%	32.7%	25.8%	25.3%	22.3%	20.1%

Source: iResearch Report

The tables below set forth major web games in China's web game market in 2013 and 2012, ranked by gross billings generated by each game during the corresponding periods. The vast majority of such games are RPGs, which has become the prevailing trend in the web game market.

### Top 20 Web Game Rankings by Gross Billings in China in 2013

Ranking	Game	Launch Date	Developer	Estimated gross billings (RMB million)
1.	神曲 <i>Wartune</i>	December 2011	第七大道 <i>7 Road</i>	>1,400
2.	凡人修真2 <i>Soul Guardian 2</i>	June 2011	雲遊控股 <i>Forgame</i>	>600
3.	七雄爭霸 <i>The War of Seven Heroes</i>	August 2010	遊戲谷 <i>Gamegoo</i>	>500
4.	彈彈堂 <i>BoomZ</i>	August 2009	第七大道 <i>7 Road</i>	>500
5.	醉西遊 <i>Charmed West Journey</i>	August 2012	雲遊控股 <i>Forgame</i>	>500
6.	街機三國 <i>Three Kingdoms Action</i>	January 2013	江遊信息 <i>Jiangyou Information</i>	>500
7.	秦美人 <i>Qin Beauty</i>	September 2012	墨麟集團 <i>Mokylin Group</i>	>400
8.	門破乾坤 <i>Conquest of the Universe</i>	January 2013	雲遊控股 <i>Forgame</i>	>400
9.	傲劍 <i>Ao Jian</i>	December 2010	天神互動 <i>Zeus Interactive</i>	>400
10.	大將軍 <i>The General</i>	September 2012	遊族信息 <i>Youzu Information</i>	>400
11.	烈焰 <i>Lie Yan</i>	August 2013	廣州創思 <i>Guangzhou Chuangsi</i>	>400
12.	古劍奇俠 <i>Ancient Swordsman</i>	January 2013	雲遊控股 <i>Forgame</i>	>400
13.	大俠傳 <i>Life of Warriors</i>	July 2013	遊族信息 <i>Youzu Information</i>	>400
14.	斬仙 <i>Zhan Xian</i>	July 2013	北京互愛 <i>Hoolai Games</i>	>400
15.	戰龍三國 <i>Dragon of Three Kingdoms</i>	August 2012	墨麟集團 <i>Mokylin Group</i>	>300
16.	武尊 <i>Wu Zun</i>	May 2013	江蘇易樂 <i>Jiangsu Yile</i>	>300
17.	倚天 <i>Yi Tian</i>	May 2013	廣州天拓 <i>Guangzhou Tiantuo</i>	>300
18.	神仙道 <i>Shen Xian Dao</i>	May 2011	光環科技 <i>Xiamen Guanghuan</i>	>300
19.	勇者之塔 <i>Brave Tower</i>	September 2012	上海易娛 <i>Shanghai Yiyu</i>	>300
20.	烈火戰神 <i>Warlord Flame</i>	September 2012	廣州仙海 <i>Guangzhou Xianhai</i>	>300

Source: iResearch Report

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### Top 15 Web Game Rankings by Gross Billings in China in 2012

Ranking	Game	Launch Date	Developer	Estimated gross billings (RMB million)
1.	神曲 <i>Wartune</i>	December 2011	第七大道 <i>7 Road</i>	>1,100
2.	七雄爭霸 <i>The War of Seven Heroes</i>	August 2010	遊戲谷 <i>Gamegoo</i>	>1,000
3.	神仙道 <i>Shen Xian Dao</i>	May 2011	光環科技 <i>Xiamen Guanghuan</i>	>700
4.	凡人修真2 <i>Soul Guardian 2</i>	June 2011	雲遊控股 <i>Forgame</i>	>700
5.	彈彈堂 <i>BoomZ</i>	August 2009	第七大道 <i>7 Road</i>	>500
6.	蜀山傳奇 <i>Shushan Legend</i>	September 2011	愷英網絡 <i>KingNet</i>	>500
7.	傲劍 <i>Ao Jian</i>	December 2010	天神互動 <i>Zeus Interactive</i>	>500
8.	龍將 <i>Long Jiang</i>	November 2011	廣州九娛 <i>Guangzhou Game</i>	>400
9.	夢幻飛仙 <i>Menghuan Feixian</i>	March 2012	雲遊控股 <i>Forgame</i>	>200
10.	QQ九仙 <i>QQ Jiushen</i>	November 2011	龍圖遊戲 <i>Longtu Youxi</i>	>100
11.	神魔仙界 <i>Shenmo Xianjie</i>	May 2012	愛族信息 <i>Aizu Xinxi</i>	>100
12.	醉西遊 <i>Charmed West Journey</i>	August 2012	雲遊控股 <i>Forgame</i>	>100
13.	神魔遮天 <i>Shenmo Zhetian</i>	June 2011	愛族信息 <i>Aizu Xinxi</i>	>100
14.	飛升 <i>Feisheng</i>	April 2012	天神互動 <i>Zeus Interactive</i>	>100
15.	大俠傳 <i>Life of Warriors</i>	July 2013	遊族網絡 <i>Youzu Interactive</i>	>100

Source: iResearch Report

In terms of players, iResearch estimates that there are still growth prospects for the web game industry. One of the driving factors for this potential growth is the growing number of client-based game players growing in age and turning to web based games, which typically require less time commitment. Another driving factor is the aggressive marketing strategies that have attracted new players from major Internet platforms. While such new players may not be stable in terms of game loyalty, the free-to-play model, with in-game purchases of virtual items, works well to cultivate game playing habits. According to the iResearch Report, web game players in China also increased from 130 million in 2011 to 220 million in 2013 and are expected to continue to increase to 410 million in 2018. The table below sets forth the estimated growth of web game players in China for the specified periods:

### Number of web game players in China

	2011	2012	2013	2014E	2015E	2016E	2017E	2018E
Number of web game players in China (in millions) . . . . .	130	170	220	260	300	340	380	410
Growth . . . . .		30.8%	29.4%	18.2%	15.4%	13.3%	10.3%	9.9%

Source: iResearch Report

## INDUSTRY OVERVIEW

### Mobile Games

Mobile game development has a relatively short history in China but has experienced rapid growth in recent years. According to iResearch, this growth is largely a result of the massive increase in the popularity of smartphones. According to iResearch, the number of mobile internet users in China reached 500 million in 2013, representing a 80.7% penetration among the total mobile phone subscriber base. In addition, China is experiencing strong growth in smartphone ownership.

In addition, other factors have contributed to this growth, including the following:

- increased commuting time for the ever growing numbers of urban workers, which creates demand for mobile entertainment;
- the low time commitment requirement and easy-to-play model of most mobile games; and
- improvements in the connection speed of mobile networks as well as reductions in the cost of mobile Internet connection for individual users.

According to iResearch, the proliferation of smartphones will further drive the growth in the mobile Internet market, which presents a significant opportunity for online gaming industry participants to further extend their content reach beyond personal computers and web games. In addition, casual mobile games will represent a significant portion of this future growth, according to iReserach. Moreover, mobile games have shorter development cycles and lower development costs, as compared to client-based games or web games. Using the diverse and established mobile app distribution channels for Android and iOS, developers are able to reach a broad user base and upload frequent updates to cater to player feedback and preferences.

Mobile games are characterized by the following attributes:

- *User base.* Given the growing prevalence of smartphones and other mobile devices, mobile games tap into a broad range of users, including those that do not have Internet access through a PC. In addition, mobile games are typically less complex than client-based games and certain web games and accordingly appeal to a larger demographic. According to iResearch, mobile game players in China increased from 80 million in 2011 to 190 million in 2013 and are expected to continue to increase to 590 million in 2018. According to iReserach, mobile games have a shorter life cycle than web games, typically between three and six months, with only high quality games reaching longer life cycles.

### Number of mobile game players in China

	2011	2012	2013	2014E	2015E	2016E	2017E	2018E
Number of mobile game players in China (in millions) . . . . .	80	120	190	300	390	460	530	590
Growth . . . . .		46.3%	56.7%	60.6%	27.5%	18.4%	15.4%	12.0%

Source: iResearch Report



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- *Game play time.* As smartphones allow players to have real-time Internet access, mobile games can improve player engagement by capturing time spent away from personal computers. Users have greater flexibility to utilize small time fragments during certain times of day, such as lunch breaks and before bedtime.
- *Monetization.* Mobile games typically have a larger paying user base, but with lower ARPPU, as compared to web games. However, increasingly diverse mobile payment channels are facilitating conversion of players into paying players.

According to iResearch, the mobile game market has become the main driver of the growth of the online gaming industry in China and will account for an increasing percentage of the overall online gaming market in the future. According to the iResearch Report, the revenue-based market size of mobile games in China has increased from RMB6.2 billion in 2011 to RMB14.9 billion in 2013 and is expected to grow to RMB91.8 billion in 2018.

### China mobile games revenue-based market size

	2011	2012	2013	2014E	2015E	2016E	2017E	2018E
China mobile games revenue-based market size (in RMB billions) .....	6.2	8.8	14.9	23.6	36.1	51.9	70.6	91.8
Growth .....		40.7%	69.3%	59.1%	52.7%	43.7%	36.1%	30.1%

Source: iResearch Report

According to iResearch, the top 20 mobile games accounted for 42.1% of the total China mobile game market in 2013 in terms of gross billings. The table below sets forth major mobile games ranked by 2013 gross billings:

### Top 20 Mobile Game Rankings by Gross Billings in China in 2013

Ranking	Game	Launch Date	Developer	Estimated gross billings (RMB million)
1.	我叫 MT online <i>My name is MT</i>	January 2013	樂動卓越 <i>Locojoy</i>	>800
2.	擴散性百萬阿瑟王 <i>Million Arthur</i>	December 2012	Square Enix	>500
3.	捕魚達人系列 <i>Fishing Joy</i>	January 2011	觸控科技 <i>Chukong Technology</i>	>400
4.	時空獵人 <i>Space-time Hunters</i>	October 2012	銀漢科技 <i>Yin Han Technology</i>	>400
5.	王者之劍 <i>Excalibur</i>	January 2013	藍港 <i>LineKong (Beijing) Technology</i>	>300
6.	忘仙 <i>Wang Xian</i>	June 2012	神奇時代 <i>Shen Qi Shi Dai</i>	>300
7.	大掌門 <i>Big Head</i>	September 2012	玩蟹科技 <i>Playcrab</i>	>300
8.	天天酷跑 <i>GunZ Dash</i>	September 2013	騰訊 <i>Tencent</i>	>200
9.	植物大戰僵屍系列 <i>Plants vs Zombies</i>	October 2011	寶開遊戲 <i>PopCap</i>	>200
10.	神仙道 <i>Shen Xian Dao</i>	January 2012	光環科技 <i>Xiamen Guanghuan</i>	>200
11.	君王II <i>Emperor II</i>	March 2013	美峰數碼 <i>MoreFun Digital</i>	>200

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Ranking	Game	Launch Date	Developer	Estimated gross billings (RMB million)
12.	英雄戰魂 <i>Armed Warrior</i>	July 2012	艾格拉斯 <i>Entertainment Game Lab</i>	>200
13.	博雅德州撲克 <i>Boyaa Texas Hold'em</i>	April 2010	博雅互動 <i>Boyaa</i>	>200
14.	歡樂鬥地主 <i>Fight the Landlord</i>	January 2010	騰訊 <i>Tencent</i>	>200
15.	萌江湖 <i>Q Jianghu</i>	March 2013	遊族 <i>You Zu</i>	>100
16.	部落衝突 <i>Clash of Clans</i>	August 2012	SuperCell	>100
17.	神廟逃亡系列 <i>Temple Run Series</i>	January 2013	Imangi Studios	>100
18.	武俠Q傳 <i>Wu Xia Q Chuan</i>	August 2013	火穀 <i>Fireyale</i>	>100
19.	QQ御劍天涯 <i>QQ Sword Horizon</i>	November 2011	騰訊 <i>Tencent</i>	>100
20.	魔卡幻想 <i>Fantasy Magic Card</i>	October 2012	慕和網絡 <i>MuHe Net</i>	>100

Source: iResearch Report

Popular mobile games typically achieve high user penetration rates as measured by the number of users of an individual mobile game during a certain period as a percentage of the total mobile game users during the same period. The tables below set forth penetration rates of top mobile games during the first half of 2014 and in 2013:

### Top 10 Mobile Game Rankings by Monthly User Penetration Rates in China for the first half of 2014

Ranking	Game	Monthly user penetration rate (%)	Developer
1.	天天酷跑 <i>GunZ Dash</i>	19.2	騰訊遊戲 <i>Tencent</i>
2.	天天飛車 <i>Speed Up</i>	12.0	騰訊遊戲 <i>Tencent</i>
3.	全民飛機大戰 <i>Quanmin Feiji Dazhan</i>	11.9	騰訊遊戲 <i>Tencent</i>
4.	天天愛消除 <i>Craz3 Match</i>	10.8	騰訊遊戲 <i>Tencent</i>
5.	QQ歡樂鬥地主 <i>QQFight the Landlord</i>	9.1	騰訊遊戲 <i>Tencent</i>
6.	保衛蘿蔔 <i>Carrot Fantasy</i>	7.0	凱羅天下 <i>Kailuo Tianxia</i>
7.	節奏大師 <i>Rhythm Master</i>	6.9	騰訊遊戲 <i>Tencent</i>
8.	植物大戰僵尸2 <i>Plants vs Zombies 2</i>	5.6	寶開遊戲 <i>PopCap</i>
9.	神廟逃亡 <i>Temple Run</i>	4.9	樂逗遊戲 <i>iDreamsky</i>
10.	保衛蘿蔔 2 <i>Carrot Fantasy 2</i>	4.3	凱羅天下 <i>Kailuo Tianxia</i>

Source: iResearch Report

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### Top 10 Mobile Game Rankings by Daily User Penetration Rates in China for the first half of 2014

Ranking	Game	Daily user penetration rate (%)	Developer
1.	天天酷跑 GunZ Dash	16.7	騰訊遊戲 Tencent
2.	天天愛消除 CraZ3 Match	8.9	騰訊遊戲 Tencent
3.	天天飛車 Speed Up	8.7	騰訊遊戲 Tencent
4.	全民飛機大戰 Quanmin Feiji Dazhan	8.4	騰訊遊戲 Tencent
5.	QQ歡樂鬥地主 QQFight the Landlord	5.8	騰訊遊戲 Tencent
6.	節奏大師 Rhythm Master	3.4	騰訊遊戲 Tencent
7.	瘋狂的玩具 Toy Crush	3.1	Ezjoy
8.	保衛蘿蔔 Carrot Fantasy	2.9	凱羅天下 Kailuo Tianxia
9.	糖果粉碎傳奇 Candy Crush Saga	2.7	King
10.	JJ鬥地主 JJ Dou Dizhu	2.5	競技世界 JJWorld (Beijing)

Source: iResearch Report

### Top 10 Mobile Game Rankings by Monthly User Penetration Rates in China in 2013

Ranking	Game	Monthly user penetration rate (%)	Developer
1.	天天愛消除 CraZ3 Match	29.0	騰訊遊戲 Tencent
2.	天天酷跑 GunZ Dash	24.2	騰訊遊戲 Tencent
3.	天天連萌 Link Link	12.6	騰訊遊戲 Tencent
4.	神廟逃亡 Temple Run	12.1	樂逗遊戲 iDreamsky
5.	保衛蘿蔔 Carrot Fantasy	11.0	凱羅天下 Kailuo Tianxia
6.	水果忍者 Fruit Ninja	10.9	樂逗遊戲 iDreamsky
7.	植物大戰僵屍2 Plants vs Zombies 2	10.8	寶開遊戲 PopCap
8.	找你妹 Find Something	9.1	分播時代 ReKoo
9.	節奏大師 Rhythm Master	8.0	騰訊遊戲 Tencent
10.	捕魚達人 Fishing Joy	7.8	觸控科技 Chukong Technology

Source: iResearch Report

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### Top 10 Mobile Game Rankings by Daily User Penetration Rates in China in 2013

Ranking	Game	Daily user penetration rate (%)	Developer
1.	天天愛消除 Craz3 Match	24.8	騰訊遊戲 Tencent
2.	天天酷跑 GunZ Dash	21.2	騰訊遊戲 Tencent
3.	天天連萌 Link Link	7.3	騰訊遊戲 Tencent
4.	植物大戰僵屍2 Plants vs Zombies 2	6.9	寶開遊戲 PopCap
5.	保衛蘿蔔 Carrot Fantasy	6.9	凱羅天下 Kailuo Tianxia
6.	神廟逃亡 Temple Run	6.5	樂逗遊戲 iDreamsky
7.	找你妹 Find Something	5.1	分播時代 Pekoo
8.	節奏大師 Rhythm Master	5.0	騰訊遊戲 Tencent
9.	捕魚達人 Rishing Joy	4.4	觸控科技 Chukong Technology
10.	消滅星星 Pop Star	4.2	嘉豐永道 Jia Feng Yong Dao

Source: *iResearch Report*

## REGULATORY OVERVIEW

This section sets out a summary of the main laws, regulations and policies that govern our business operations.

### REGULATIONS ON VALUE-ADDED TELECOMMUNICATION SERVICES

#### Licenses for Value-Added Telecommunication Services

On September 25, 2000, the Telecommunications Regulations of the People's Republic of China (《中華人民共和國電信條例》) (the "Telecom Regulations") was issued by the State Council as the primary governing law on telecommunication services. The Telecom Regulations set out the general framework for the provision of telecommunication services by PRC companies. Under the Telecom Regulations, it is a requirement that telecommunications service providers procure operating licenses prior to their commencement of operations. The Telecom Regulations draw a distinction between "basic telecommunications services" and "value-added telecommunications services." The Catalog of Telecommunications Business (《電信業務分類目錄》) (the "Telecommunication Catalog") attached to the Telecom Regulations to categorizes telecommunications services as basic or value-added. In February 2003, the Telecommunication Catalog was updated and information services such as content service, entertainment and online games services are classified as value-added telecommunications services.

On September 25, 2000, the State Council promulgated the Administrative Measures on Internet Information Services (《互聯網信息服務管理辦法》) (the "Internet Measures"), which was amended in January 2011. Pursuant to the Internet Measures, "Internet information services" refers to services that provide Internet information to online users, and are categorized into commercial Internet information services and non-commercial Internet information services. Under the Internet Measures, commercial Internet information services providers shall obtain a value-added telecommunications license for Internet information service (ICP License) from the relevant government authorities before engaging in any commercial Internet information services operations within the PRC.

On March 1, 2009, the MIIT issued the Administrative Measures for Telecommunications Business Operating Permit (《電信業務經營許可管理辦法》) (the "Telecom Permit Measures"), which took effect on April 10, 2009. The Telecom Permit Measures confirm that there are two types of telecom operating licenses for operators in China, namely, licenses for basic telecommunications services and the VATS Licenses. The operation scope of the VATS License includes details on the permitted activities of the enterprise to which it is granted. An approved added-value telecommunication services provider shall conduct its business in accordance with the specifications recorded on its VATS License. In addition, the holder of a VATS License is required to obtain approval from the original permit-issuing authority prior to any change to its shareholders and business scope. The VATS License has a term of five years subject to annual inspection and shall be applied for renewal no later than 90 days before expiration.

Besides, the Internet Measures and other relevant measures also prohibit Internet activities that constitute publication of any content that, among others, propagates obscenity, pornography, gambling and violence, incite the commission of crimes or infringe upon the lawful rights and interests of third parties. If an Internet information service provider detects information transmitted on their system that falls within the specifically prohibited scope, such provider must terminate such transmission, delete such information immediately, keep records and report to the government in charge. Any provider's violation of these prescriptions will lead to the revocation of its ICP License and, in serious cases, the shutting down of its website.

## REGULATORY OVERVIEW

Xiamen Youli and Kailuo Tianxia have each obtained an ICP License, which will expire in March 14, 2019 and June 11, 2019, respectively. In addition, Kailuo Tianxia has obtained a VATS License for the provision of information services through mobile networks, which will expire on June 26, 2019.

### Foreign Investment in Value-Added Telecommunication Services

Pursuant to the Provisions on Administration of Foreign Invested Telecommunications Enterprises (《外商投資電信企業管理規定》) (the “FITE Regulations”) promulgated by the State Council on December 11, 2001 and amended on September 10, 2008, the ultimate foreign equity ownership in a value-added telecommunications services provider shall not exceed 50%. Moreover, for a foreign investor to acquire any equity interest in a value-added telecommunication business in China, it must satisfy a number of stringent performance and operational experience requirements, including demonstrating good track records and experience in operating value-added telecommunication business overseas (the “Qualification Requirements”). Since no written guidelines have been publicly issued by the MIIT to specify the Qualification Requirements, such as what constitutes “a good track record,” the MIIT retains considerable discretion in determining whether a foreign investor has satisfied the Qualification Requirements and in granting approvals in each case of application.

The most updated version of Guidance Catalogue of Industries for Foreign Investment (《外商投資產業指導目錄》), which was promulgated jointly by the MOFCOM and the NDRC on December 24, 2011 and became effective from January 30, 2012 and is amended from time to time (the “Catalogue”), imposes the same restrictions on the percentage of foreign ownership in value-added telecommunication business as imposed by the Provisions on Foreign Invested Telecommunications Enterprises as discussed above.

On July 13, 2006, the MIIT issued the Circular on Strengthening the Administration of Foreign Investment in and Operation of Value-added Telecommunications Business (《關於加強外商投資經營者增值電信業務管理的通知》) (the “MIIT Circular”). The MIIT Circular reiterated the regulations on foreign investment in telecommunications businesses, which require foreign investors to set up foreign-invested enterprises and obtain telecommunication business operation license to conduct any value-added telecommunications business in China. Under the MIIT Circular, a value-added telecommunication service provider may not rent, transfer or sell a telecommunications business operation license to foreign investors in any form, nor may they provide any resources, premises, facilities and other assistance in any form to foreign investors for their illegal operation of any telecommunications business in the PRC. Furthermore, the relevant trademarks and domain names that are used in the value-added telecommunications business must be owned by the value-added telecommunication service provider or its shareholder. The MIIT Circular further requires value-added telecommunication service provider to have the necessary facilities for its approved business operations and to maintain such facilities in the regions covered by its license. In addition, all value-added telecommunications services providers are required to maintain network and Internet security in accordance with the standards set out in relevant PRC regulations. If a license holder fails to comply with the requirements in the MIIT Circular and remedy such non-compliance, MIIT or its local counterparts has the discretion to take administrative measures against such license holder, including revocation of its VATS License and/or ICP License.

Our PRC Operating Entities, as holders of ICP Licenses, own the domain names and registered trademarks used in their value-added telecommunication related services.

## REGULATORY OVERVIEW

### REGULATIONS ON ONLINE GAMES, CULTURE PRODUCTS AND FOREIGN OWNERSHIP RESTRICTIONS

On February 17, 2011, the MOC issued the revised Interim Provisions on the Administration of Internet Culture (《互聯網文化管理暫行規定》) (the “Internet Culture Interim Provisions”), which became effective on April 1, 2011. Pursuant to the Internet Culture Interim Provisions, “Internet cultural products” are defined as including the online games specially produced for Internet and games disseminated or distributed through Internet. Provision of Internet cultural products and related services for commercial purpose is subject to the approval of the provincial counterparts of the MOC.

On June 3, 2010, the MOC promulgated the Interim Measures on Administration of Online Games (《網絡遊戲管理暫行辦法》) (the “Online Game Measures”), which came into effect on August 1, 2010. The Online Game Measures governs the research, development and operation of online games and the issuance and trading services of virtual currency. Under the Online Game Measure, all operators of online games, issuers of virtual currency and providers of virtual currency trading services are required to obtain Network Culture Operation Licenses. A Network Culture Operation License is valid for three years and in case of renewal, the renewal application should be submitted 30 days prior to the expiry date of such license. Each of Xiamen Youli and Kailuo Tianxia, holds an Network Culture Operation License with service scope covering operation of online games and issuance of virtual currency.

The Online Game Measures also provides that the MOC is responsible for censorship of online games and supervision of filings of domestic online games. Filings of domestic online games must be conducted with the MOC within 30 days after the commencement date of the online operation of such online games or the occurrence date of any material alteration of such online games. The competent supervision authority may require the company who fails to comply with this requirement to rectify the non-compliance and impose penalties up to RMB20,000 for the failure to file each game. In addition, the filing numbers of the games must be displayed at the designated places of the websites on which the games are operated or at a prominent place in the games. Online game operators are also required to establish self-censorship systems and have dedicated personnel for the purpose to ensure the lawfulness of the content of online games. As of the Latest Practicable Date, Carrot Fantasy (保衛蘿蔔), *Shen Xian Dao* (神仙道) web, *Shen Xian Dao* (神仙道) mobile, *Da Hua Shen Xian* (大話神仙) and Carrot Fantasy 2 (保衛蘿蔔2), have been filed at the MOC. Our application for the MOC filing for *Jiong Xi You* (囧西遊) has been accepted by the MOC and we are coordinating with our exclusive licensed game operator with respect to the filing with MOC of *Luan Shi Zhi Ren 2* (亂世之刃2) (now titled *San Guo Zhi Ren* (三國之刃)).

Pursuant to the Online Game Measures, online game operators should request the valid identity certificate of game users for registration, and notify the public 60 days ahead of the termination of any online game operations or the transfer of online game operational rights. Online game operators are also prohibited from (a) setting compulsory fights in the online games without game users’ consent; (b) advertising or promoting the online games that contain prohibited content, such as anything that compromises state security or divulges state secrets; and (c) inducing game users to input legal currencies or virtual currencies to gain online game products or services, by way of random draw or other incidental means. The Online Game Measures also states that the cultural administration authorities of the State Council will formulate the Compulsory Clauses of a Standard Online Game Service Agreement (《網絡遊戲服務格式化協定必備條款》), which have been promulgated on July 29, 2010 and are required to be incorporated into the service agreements entered into between online game business operators and users, without conflicts against the rest of clauses in such service agreements.



## REGULATORY OVERVIEW

The MOC issued the Circular on Implementation of the Newly Revised Interim Provisions on the Administration of Internet Culture (《關於實施新修訂〈互聯網文化管理暫行規定〉的通知》) on March 18, 2011, which provides that the authorities will temporarily not accept applications by foreign-invested Internet information services providers for operation of Internet culture business (other than online music business). Furthermore, the Catalog also provides that the Internet culture business (other than online music business) falls within the category of industries prohibiting foreign investment. On September 28, 2009, the GAPP, together with the National Copyright Administration (國家版權局) and the National Office of Combating Pornography and Illegal Publications (全國“掃黃打非”工作小組辦公室), jointly issued the Notice Regarding the Consistent Implementation of the “Regulation on Three Provisions” of the State Council and the Relevant Interpretations of the State Commission Office for Public Sector Reform and the Further Strengthening of the Administration of Pre-examination and Approval of Online Games and the Examination and Approval of Imported Online Games (關於貫徹落實國務院“三定”規定和中央編辦有關解釋，進一步加強網絡遊戲前置審批和進口網絡遊戲審批管理的通知) (the “GAPP Notice”). Pursuant to the GAPP Notice, foreign investors are not allowed to indirectly control or participate in online game operations, whether (a) by establishing other joint ventures, entering into contractual arrangements or providing technical support for such operating companies; or (b) in a disguised form such as by incorporating or directing user registration, user account management or game card consumption into online gaming platforms that are ultimately controlled or owned by foreign companies. For more details, see “Contractual Arrangements — Legality of the Contractual Arrangements.”

### REGULATIONS ON INTERNET PUBLICATION

The Tentative Measures for Internet Publication Administration (《互聯網出版管理暫行規定》) (the “Internet Publication Measures”) were jointly promulgated by the GAPP and the MIIT on June 27, 2002 and became effective on August 1, 2002. The Internet Publication Measures imposed a license requirement for Internet publication activities, which include online game publication. In addition, pursuant to the GAPP Notice, provision of interactive online game playing or downloading service of games to the public through the Internet is regarded as an Internet Publication activity and subject to the approval by the GAPP. The GAPP Notice further provides that any person or company that intends to engage in such Internet Publication activities shall be approved by the GAPP and obtain an Internet Publication License (互聯網出版許可證), and an online game shall not be launched without the prior approval of the GAPP.

All our games are offered through third-party distribution channels. As of the Latest Practicable Date, in respect of the online games developed and/or operated by us and offered through third-party game distribution channels within the PRC, the game distribution channels, instead of our PRC Operating Entities, provide downloading and online interactive play services to game players and have the statutory obligation to conduct the publication and filing requirement under the GAPP Notice. Therefore, it is not necessary for our PRC Operating Entities to obtain the Internet Publication License and each of our PRC Operating Entities may engage qualified publishers to publish, or rely on its licensed game operators to publish the online games operated and/or developed by us, which is acceptable to the GAPP. Nevertheless, in consideration of our future business development, Xiamen Guanghuan, Xiamen Youli and Kailuo Tianxia are now in the process of applying for the Internet Publication License.

## REGULATORY OVERVIEW

Each of Xiamen Youli and Kailuo Tianxia has engaged qualified publishers to publish all games that it is operating in the PRC and undertake the filing procedure with the GAPP. The licensed operators of the two games owned by Feiyou Guangyu have published these games and undertaken the filing procedure with the GAPP either by themselves or through qualified publishers while each of Feiyou Zhangxin and Feiyou Guangyu has entrusted Xiamen Youli to engage qualified publication companies to publish a game owned by it, respectively. As of the Latest Practicable Date, our games of *Shen Xian Dao* (神仙道) web, *Da Hua Shen Xian* (大話神仙), *Jiong Xi You* (囧西遊) and *Carrot Fantasy 2* (保衛蘿蔔2) have obtained the GAPP approval. We have submitted applications for GAPP approval for our remaining games, namely *Shen Xian Dao* (神仙道) mobile and *Carrot Fantasy* (保衛蘿蔔) and *Luan Shi Zhi Ren 2* (亂世之刃2) (now titled *San Guo Zhi Ren* (三國之刃)). Nevertheless, as the GAPP Notice does not provide a time limit for GAPP's review process in connection with these publication and filing procedures, we are not able to provide assurance as to when we can obtain the GAPP approval for these games. For more details, see "Risk Factors — Three games we currently offer in the PRC are still in the process of publication and filing with the GAPP." We understand, and our PRC Legal Advisor also hold the same view that, the above-mentioned cooperation with qualified publisher and operation of such duly published online games is in line with current practice.

Considering that (i) under the Notice on Circulating the Interpretation of the State Commission Office for Public Sector Reform on Some of the Articles in the Three Provisions for the Ministry of Culture, the State Administration of Radio, Film and Television and the General Administration of Press and Publication Concerning Animated Games, Online Games and Comprehensive Law Enforcement in the Culture Market issued by the State Commission Office for Public Sector Reform on September 7, 2009 (《中央編辦對文化部、廣電總局、新聞出版社屬〈“三定”“規定”〉中有關動漫、網絡遊戲和文化市場綜合執法的部分條文的解釋》) (the "Three Provisions Notice"), investigations on the operation of online games without prior examination and approval of the GAPP shall be conducted by cultural market administrative enforcement team under the MOC's guidance and the GAPP shall not directly handle such investigations; (ii) no regulations promulgated by MOC impose direct and specific penalties on the operation of mobile games without first completing such procedures; (iii) we and our PRC Legal Advisor are not aware of any PRC entity that has been penalized by the cultural market administrative enforcement team as referred to in the Three Provisions Notice for such non-compliance and there is no publicly-available access for us to search information with respect to the penalties imposed by the MOC; and (iv) each of Feiyou Guangyu, Xiamen Youli, Kailuo Tianxia and Feiyou Zhangxin has engaged by itself or through a third party, or its licensed game operators have engaged, qualified publishers to conduct and handle the publication and filing procedures for all of our games with the GAPP, we are of the view that the likelihood of material adverse effects on Feiyou Guangyu, Xiamen Youli, Kailuo Tianxia or Feiyou Zhangxin due to their failure to complete the relevant publishing and filing procedures in time is remote.

## REGULATIONS ON VIRTUAL CURRENCY

On January 25, 2007, the Ministry of Public Security (公安部), the MOC, the MIIT and the GAPP jointly issued Notice on Regulating Operation Order of Online Games and Inspection of Gambling via Online Games (《關於規範網絡遊戲經營秩序查禁利用網絡遊戲賭博的通知》) (the "Anti-gambling Notice"). To curtail online games that involve online gambling and address concerns that virtual currency might be used for money laundering or illicit trade, the Anti-gambling Notice (a) prohibits online game operators from charging commissions in connection with winning or losing of games in the form of virtual currency; (b) requires online game operators to impose limits on use of virtual currency in guessing and betting games; (c) bans the conversion of virtual currency into real currency or property; and (d) prohibits services that enable game players to transfer virtual currency to other players.

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In February 2007, 14 PRC regulatory authorities jointly issued the Notice on Further Strengthening Administration of Internet Cafes and Online Games (《關於進一步加強網吧及網絡遊戲管理工作的通知》). In accordance with this notice, the PBOC, has the authority to regulate virtual currency, including: (a) setting limits on the aggregate amount of virtual currency that can be issued by online game operators and the amount of virtual currency that can be purchased by an individual; (b) stipulating that virtual currency issued by online game operators can only be used for purchasing virtual products and services within the online games and not for purchasing tangible or physical products; (c) requiring that the price for redemption of virtual currency shall not exceed the respective original purchase price; and (d) banning the trading of virtual currency.

On June 4, 2009, the MOC and the MOFCOM jointly issued the Notice on Strengthening Administration of Virtual Currency of Online Games (《關於加強網絡遊戲虛擬貨幣管理工作的通知》) (the “Virtual Currency Notice”). Pursuant to the Virtual Currency Notice, the “in-game virtual currency” shall refer to a virtual exchange tool that is issued by game operators and purchased directly or indirectly by game users with legal currency in a certain exchange rate and that is electronically stored in servers and represented in a specific digital unit outside the game programmes. The Virtual Currency Notice requires online game operators that (a) issue online game virtual currency (in the form of prepaid cards and/or pre-payment or prepaid card points), or (b) offer online game virtual currency transaction services to apply for approval from the MOC through its provincial branches within three months after the issuance of the notice. The issuance of virtual currency is included in the business scope on our Network Culture Operation Licenses. The Virtual Currency Notice prohibits online game operators issuing online game virtual currency from providing services that would enable the trading of such virtual currency. Any online game operator that fails to submit the requisite application will be subject to sanctions, including without limitation, mandatory rectification measures and fines.

Under the Virtual Currency Notice, an online game virtual currency transaction service provider means an online game operator providing platform services relating to trading of online game virtual currency among game users. The Virtual Currency Notice further requires an online game virtual currency transaction service provider to comply with relevant e-commerce regulations issued by the MOFCOM.

The Virtual Currency Notice regulates, among others, the amount of virtual currency an online game operator can issue, the retention period of user records, the function of virtual currency and the return of unused virtual currency upon the termination of online services. It prohibits online game operators from distributing virtual items or virtual currency to players based on random selection through lucky draw, wager or lottery which involves cash or virtual currency directly paid by the players. The Virtual Currency Notice bans the issuance of virtual currency by online game operators to game players through means other than purchases with legal currency. Any online game operator that does not provide online game virtual currency transaction services is required to adopt technical measures to prohibit the transfer of online game virtual currency among accounts of different game players. The Virtual Currency Notice defines “virtual currency” as currency in virtual form that shall have, *inter alia*, the following features, (a) it exists outside the program of the game; and (b) it does not include the tools obtained by the players during the process of playing the game. The “virtual currencies” we offer are different from the virtual currencies as defined under the Virtual Currency Notice, because they are: (i) embedded in the game programme and used as in-game tool to exchange for other virtual items in the game; and (ii) granted to players for free only after the players have accomplished certain tasks as designed in the game, which is part of the Company’s designed game process. Furthermore, for the same reason (i.e., we grant our “virtual currencies” to

## **REGULATORY OVERVIEW**

players for free only when they accomplished certain game tasks), and we do not induce game players to invest legal currencies or virtual currencies to win in-game products or services, we do not engage in any “lucky draw” as prohibited by the Virtual Currency Notice. Given the above, our PRC Legal Advisor is of the view that the aforesaid “virtual currency” we offer is not in violation of the Virtual Currency Notice.

In addition, the Online Game Measures further provide that (i) virtual currency may only be used to purchase services and products in games provided by the online service provider that issues the currency; (ii) the purpose of issuing virtual currency shall not be malicious appropriation of the user’s advance payment; (iii) the storage period of online gamers’ purchase record shall not be shorter than 180 days from the date of last service received by the game player; (iv) the types, price and total amount of virtual currency shall be filed with the cultural administration department at the provincial level. Pursuant to the Online Game Measures, virtual currency service providers may not provide virtual currency transaction services to minors or for online games that fail to obtain the necessary approval or filings, and such providers should keep transaction records, accounting records and other relevant information for their users for at least 180 days.

### **REGULATIONS ON ANTI-FATIGUE COMPLIANCE SYSTEM AND REAL-NAME REGISTRATION SYSTEM**

On April 15, 2007, eight PRC government authorities, including the GAPP, the Ministry of Education (教育部), the Ministry of Public Security and the MIIT, jointly issued the Notice Regarding the Implementation of Anti-addiction System on Online Games in Protecting the Physical and Mental Health of Minors (《關於保護未成年人身心健康實施網絡遊戲防沉迷系統的通知》), which requires the implementation of an anti-fatigue compliance system and a real-name registration system by all PRC online game operators. Under the anti-fatigue compliance system, three hours or less of continuous playing by minors, defined as game players under 18 years of age, is considered to be “healthy,” three to five hours is deemed “fatiguing,” and five hours or more is deemed “unhealthy.” Game operators are required to reduce the value of in-game benefits to a game player by half if it discovers that the amount of a time a game player spends online has reached the “fatiguing” level, and to zero in the case of the “unhealthy” level.

To identify whether a game player is a minor and thus subject to the anti-fatigue compliance system, a real-name registration system should be adopted to require online game players to register their real identity information before playing online games. Pursuant to Notice Regarding Commencement of Authentication of Real Names for Anti-addiction System on Online Games (《關於啟動網絡遊戲防沉迷實名驗證工作的通知》) issued by the relevant eight government authorities on July 1, 2011, online game operators must submit the identity information of game players to the National Citizen Identity Information Center, a subordinate public institution of the Ministry of Public Security, for verification since October 1, 2011.

### **REGULATIONS ON INFORMATION SECURITY AND PRIVACY PROTECTION**

On December 28, 2000, the Standing Committee of the PRC National People’s Congress (全國人民代表大會常務委員會) introduced legislation for protection of the Internet security, which prohibits (i) the use of the Internet that violates the PRC laws and regulations or damages the public security; (ii) dissemination of illegal or socially destabilizing content or leakage of state secrets through the Internet; or (iii) infringement on trade secret or other legal rights and interests. According to the Regulations on Protection of Computer Information System Security (《計算機信息系統安全保護條例》) issued by the State Council and effective as of February 18, 1994, as amended in 2011, the public security authorities are responsible for supervising,

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inspecting and guiding the Internet security protection work of the information system users and investigating and penalizing activities breaching the mandatory Internet security requirements.

On December 13, 2005, the Ministry of Public Security issued the Regulations on Technological Measures for Internet Security Protection (《互聯網安全保護技術措施規定》) (the “Internet Protection Measures”) which took effect from March 1, 2006. The Internet Protection Measures require Internet service providers to take proper measures including anti-virus, data back-up and other related measures, and keep records of certain information about their users (including user registration information, log-in and log-out time, IP address, content and time of posts by users) for at least 60 days, and detect illegal information, stop transmission of such information, and keep relevant records. Internet services providers are prohibited from unauthorized disclosure of users’ information to any third parties unless such disclosure is required by the laws and regulations. They are further required to establish management systems and take technological measures to safeguard the freedom and secrecy of the users’ correspondences.

In December 2012, the Standing Committee of the PRC National People’s Congress promulgated the Decision on Strengthening Network Information Protection (《關於加強網絡信息保護的決定》) to enhance the legal protection of information security and privacy on the Internet. In July 2013, the MIIT promulgated the Provisions on Protection of Personal Information of Telecommunication and Internet Users (《電信和互聯網用戶個人信息保護規定》) to regulate the collection and use of users’ personal information in the provision of telecommunication services and Internet information services in China and the personal information includes a user’s name, birth date, identification card number, address, phone number, account name, password and other information that can be used for identifying a user. Telecommunication business operators and Internet service providers are required to constitute its own rules for collecting and use of users’ information and cannot collect or use of user’s information without users’ consent. Telecommunication business operators and Internet service providers must specify the purposes, manners and scopes of information collection and uses, obtain consent of the relevant citizens, and keep the collected personal information confidential. Telecommunication business operators and Internet service providers are prohibited from disclosing, tampering with, damaging, selling or illegally providing others with, collected personal information. Telecommunication business operators and Internet service providers operators are required to take technical and other measures to prevent the collected personal information from any unauthorized disclosure, damage or loss.

### REGULATIONS ON DIVIDEND DISTRIBUTION

The principal regulations governing distribution of dividends of foreign invested enterprises include the PRC Foreign Invested Enterprise Law (《中華人民共和國外資企業法》), as amended on October 31, 2000, and the Implementation Rules of the PRC Foreign Invested Enterprise Law (《中華人民共和國外資企業法實施細則》), as amended on April 12, 2001 and February 28, 2014. Under these laws and regulations, wholly foreign owned enterprises in China may pay dividends only out of their accumulated after-tax profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, wholly foreign owned enterprises in China are required to allocate at least 10% of their respective accumulated profits each year, if any, to fund certain reserve funds until these reserves have reached 50% of the registered capital of the enterprises. Wholly foreign owned companies may, at their discretion, allocate a portion of their after-tax profits based on PRC accounting standards to staff welfare and bonus funds. These reserves are not distributable as cash dividends.



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### **REGULATIONS ON OVERSEAS LISTINGS**

On August 8, 2006, six PRC regulatory agencies, namely, the MOFCOM, the State Assets Supervision and Administration Commission (國有資產監督管理委員會), the SAT, the SAIC, the CSRC and the SAFE, jointly adopted the M&A Rules, which became effective on September 8, 2006 and was amended on June 22, 2009. The M&A Rules purport, among other things, to require offshore special purpose vehicles formed for overseas listing purposes through acquisitions of PRC domestic companies and controlled by PRC companies or individuals, to obtain the approval of CSRC prior to publicly listing their securities on an overseas stock exchange.

The application of this regulation remains unclear. Based on the understanding on the current PRC laws, rules and regulations of our PRC Legal Advisor, (a) Xiamen Feiyou was established by means of direct investment other than by merger or acquisition of PRC domestic companies, and (b) no explicit provision in the M&A Rules classifies the Contractual Arrangements as a type of acquisition transaction falling under the M&A Rules. However, as there has been no official interpretation or clarification of the M&A Rules, there is uncertainty as to how this regulation will be interpreted or implemented.

Considering the uncertainties that exist with respect to the issuance of new laws, regulations or interpretation and implementing rules, the opinion of our PRC Legal Advisor, Han Kun Law Offices, summarized above, is subject to change.

### **REGULATIONS ON FOREIGN EXCHANGE REGISTRATION OF OVERSEAS INVESTMENT BY PRC RESIDENTS**

In July 2014, SAFE issued the Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in offshore Investment and Financing and Round Trip Investment via Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the “Circular 37”) and its implementation guidelines, which abolishes and supersedes the Circular 75 and its related implementation rules and guidelines. Pursuant to the Circular 37 and its implementation guidelines, PRC residents (including PRC institutions and individuals) must register with local branches of SAFE in connection with their direct or indirect offshore investment in an overseas special purpose vehicle (“SPV”) directly established or indirectly controlled by PRC residents for the purposes of offshore investment and financing with their legally owned assets or interests in domestic enterprises, or their legally owned offshore assets or interests. Such PRC residents are also required to amend their registrations with SAFE when there is a significant change to the SPV, such as changes of the PRC individual resident’s increase or decrease of its capital contribution in the SPV, or any share transfer or exchange, merger, division of the SPV. Failure to comply with the registration procedures set forth in the Circular 37 may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including the payment of dividends and other distributions to its offshore parent or affiliate, the capital inflow from the offshore entities and settlement of foreign exchange capital, and may also subject relevant onshore company or PRC residents to penalties under PRC foreign exchange administration regulations.

These regulations apply to our direct and indirect shareholders who are PRC residents and may apply to any offshore acquisitions or share transfers that we make in the future if our shares are issued to PRC residents. We have requested PRC residents who we know currently hold direct or indirect interests in our company to make the necessary applications, filings and amendments as required under Circular No. 37 and other related rules. To the best of our knowledge, all of our shareholders who are PRC residents have filed with local SAFE branches

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for SAFE registration and some of them are in the process of amending certain applicable registrations pursuant to Circular No. 37 to reflect the establishment of their respective family trust. See “Risk Factors — Regulations relating to offshore investment activities by PRC residents may subject us to fines or sanctions imposed by the PRC government, including restrictions on our PRC subsidiary’s abilities to pay dividends or make distributions to us and our ability to increase our investment in our PRC subsidiary.”

### REGULATIONS ON STOCK INCENTIVE PLANS

In February 2012, SAFE promulgated the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly-Listed Company (《國家外匯管理局關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知》) (the “Stock Option Rules”), replacing the previous rules issued by SAFE in March 2007. Under the Stock Option Rules and other relevant rules and regulations, PRC residents who are employees, directors, supervisors or other senior management of an overseas publicly-listed company and participate in stock incentive plan of such overseas publicly listed company are required to register with SAFE or its local branches and complete certain other procedures. Participants of a stock incentive plan who are PRC residents must retain a qualified PRC agent, which could be a PRC subsidiary of the overseas publicly listed company or another qualified institution selected by the PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the stock incentive plan on behalf of its participants. The participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, the purchase and sale of corresponding stocks or interests and fund transfers. In addition, the PRC agent is required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agent or the overseas entrusted institution or other material changes. The PRC agents must, on behalf of the PRC residents who have the right to exercise the employee share options, apply to SAFE or its local branches for an annual quota for the payment of foreign currencies in connection with the PRC residents’ exercise of the employee share options. The foreign exchange proceeds received by the PRC residents from the sale of shares under the stock incentive plans granted and dividends distributed by the overseas listed companies must be remitted into the bank accounts in the PRC opened by the PRC agents before distribution to such PRC residents.

We have adopted a Pre-IPO Share Option Scheme and a Post-IPO Share Option Scheme on November 17, 2014. Pursuant to this scheme, we may issue options, restricted shares, restricted share units or other type of awards to our qualified employees and directors and consultants on a regular basis. After this offering, we plan to advise our employees and directors participating in the employee stock option scheme to handle foreign exchange matters in accordance with the Stock Option Rules.

In addition, the State Administration for Taxation has issued circulars concerning employee share options, under which our employees working in the PRC who exercise share options will be subject to PRC individual income tax. Our PRC subsidiaries have obligations to file documents related to employee share options with relevant tax authorities and to withhold individual income taxes of those employees who exercise their share options. If our employees fail to pay or if we fail to withhold their income taxes as required by relevant laws and regulations, we may face sanctions imposed by the PRC tax authorities or other PRC government authorities.



## REGULATORY OVERVIEW

### PRC ENTERPRISE INCOME TAX LAW

On March 16, 2007, the National People's Congress, the PRC legislature, enacted the EIT Law (《企業所得稅法》) and on December 6, 2007, the State Council promulgated the EIT Rules (《企業所得稅法實施條例》), both of which became effective on January 1, 2008. Under the EIT Law, enterprises are classified as resident enterprises and non-resident enterprises. PRC resident enterprises typically pay an enterprise income tax at the rate of 25% while non-PRC resident enterprises without any branches in PRC should pay an enterprise income tax in connection with their income from PRC at the tax rate of 10%. The EIT Law and the EIT Rules permit certified “software enterprises” to enjoy an income tax exemption for two years beginning with their first profitable year and a 50% tax reduction to an income tax rate of 12.5% for the subsequent three years. In addition, an enterprise established outside of the PRC with its “de facto management bodies” located within the PRC is considered a “resident enterprise,” meaning that it can be treated in a manner similar to a PRC domestic enterprise for enterprise income tax purposes. The EIT Rules of the EIT Law define de facto management body as a managing body that in practice exercises “substantial and overall management and control over the production and operations, personnel, accounting, and properties” of the enterprise.

The Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies (《依據實際管理機構標準實施居民企業認定有關問題的通知》) (“Circular 82”) promulgated by the SAT on April 22, 2009 and amended on January 29, 2014 sets out the standards and procedures for determining whether the “de facto management body” of an enterprise registered outside of the PRC and controlled by PRC enterprises or PRC enterprise groups is located within the PRC.

The EIT Law and EIT Rules provide that an income tax rate of 10% will normally be applicable to dividends payable to investors that are “non-resident enterprises,” and gains derived by such investors, which (a) do not have an establishment or place of business in the PRC or (b) have an establishment or place of business in the PRC, but the relevant income is not effectively connected with the establishment or place of business to the extent such dividends and gains are derived from sources within the PRC. Such income tax on the dividends may be reduced pursuant to a tax treaty between China and the jurisdictions in which our non-PRC shareholders reside. Pursuant to an Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation on Income (《內地和香港特別行政區關於所得避免雙重徵稅和防止偷稅漏稅的安排》) (the “Double Tax Avoidance Arrangement”), and other applicable PRC laws, if a Hong Kong resident enterprise is determined by the competent PRC tax authority to have satisfied the relevant conditions and requirements under such Double Tax Avoidance Arrangement and other applicable laws, the 10% withholding tax on the dividends the Hong Kong resident enterprise receives from a PRC resident enterprise may be reduced to 5% upon receiving approval from in-charge tax authority. However, based on the Notice on Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties (《關於執行稅收協定股息條款有關問題的通知》) issued on February 20, 2009 by the SAT, or Circular 81, if the relevant PRC tax authorities determine, in their discretion, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment; and based on the Notice on the Interpretation and Recognition of Beneficial Owners in Tax Treaties (《關於如何理解和認定稅收協定中“受益所有人”的通知》), which was issued on October 27, 2009 by the SAT, or Circular 601, and the Announcement on the Recognition of Beneficial Owners in Tax Treaties (《關於認定稅收協定中“受益所有人”的公告》), which was issued on June 29, 2012 by the SAT, or Circular 30, conduit companies, which are established for the purpose of evading or reducing tax, or transferring or accumulating profits, shall not be recognized as beneficial owners and thus are not entitled to the above-mentioned reduced income tax rate of 5% under the Double Tax Avoidance Arrangement.

## REGULATORY OVERVIEW

### REGULATION ON PRC BUSINESS TAX AND VAT

Since January 1, 2012, the Ministry of Finance (財政部) and the SAT have been implementing the VAT Pilot Program, which imposes VAT in lieu of business tax for certain industries in Shanghai. Such Pilot Program has been expanded to other regions, including Beijing, since September 1, 2012, and has been further expanded nationwide since August 1, 2013. VAT is applicable at a rate of 6% in lieu of business tax for the online game services rendered by Xiamen Feiyou and certain PRC Operating Entities. VAT payable on goods sold or taxable services provided by a general VAT taxpayer for a taxable period is the net balance of the output VAT for the period after crediting the input VAT for the period.

### Regulations on Intellectual Property Rights

#### *Copyright and Software Products*

The National People's Congress adopted the PRC Copyright Law (中華人民共和國著作權法) in 1990 and amended it in 2001 and 2010, respectively. The amended Copyright Law extends copyright protection to Internet activities, products disseminated over the Internet and software products. In addition, there is a voluntary registration system administered by the China Copyright Protection Center (中國版權保護中心). The amended Copyright Law also requires registration of a copyright pledge.

To address the problem of copyright infringement related to the content posted or transmitted over the Internet, the National Copyright Administration (國家版權局) and the MIIT jointly promulgated the Measures for Administrative Protection of Copyright Related to Internet (互聯網著作權行政保護辦法) on April 29, 2005. This measure became effective on May 30, 2005. The Administrative Measures on Software Products (軟件產品管理辦法), issued by the MIIT on March 5, 2009, and became effective on April 10, 2009, provide a registration and filing system with respect to software products made in or imported into China. These software products may be registered with the relevant local authorities in charge of software industry administration. Registered software products may enjoy preferential treatment status granted by relevant software industry regulations. Software products can be registered for five years, and the registration is renewable upon expiration.

In order to further implement the Computer Software Protection Regulations (計算機軟件保護條例) promulgated by the State Council on December 20, 2001 and amended on January 30, 2013, the State Copyright Bureau issued the Rules on Registration of Computer Software Copyright (計算機軟件著作權登記辦法) on February 20, 2002, which apply to software copyright registration, license contract registration and transfer contract registration.

#### **Trademarks**

Trademarks are protected by the PRC Trademark Law (中華人民共和國商標法) which was adopted in 1982 and subsequently amended in 1993, 2001 and 2013 as well as the Implementation Regulation of the PRC Trademark Law (中華人民共和國商標法實施條例) adopted by the State Council in 2002. The Trademark Office under the SAIC handles trademark registrations and grants a term of ten years to registered trademarks which may be renewed for consecutive ten-year periods upon request by the trademark owner. Trademark license agreements must be filed with the Trademark Office for record. The PRC Trademark Law has adopted a "first-to-file" principle with respect to trademark registration. Where a trademark for which a registration has been made is identical or similar to another trademark which has already been registered or been subject to a preliminary examination and approval for use on the same kind of or similar commodities or services, the application for registration of such

## REGULATORY OVERVIEW

trademark may be rejected. Any person applying for the registration of a trademark may not prejudice the existing right first obtained by others, nor may any person register in advance a trademark that has already been used by another party and has already gained a “sufficient degree of reputation” through such party’s use.

### **Domain Names**

In September 2002, the CNNIC issued the Implementing Rules for Domain Name Registration (域名名稱註冊實施細則) setting forth detailed rules for registration of domain names. On November 5, 2004, the MIIT promulgated the Measures for Administration of Domain Names for the Chinese Internet (中國互聯網域名名稱管理辦法), which regulate the registration of domain names, such as the first tier domain name “.cn.” In February 2006, the CNNIC issued the Measures on Domain Name Dispute Resolution (中國互聯網路資訊中心域名名稱爭議解決辦法) and relevant implementing rules, pursuant to which the CNNIC can authorize a domain name dispute resolution institution to decide disputes.

### **Employment Laws**

PRC National Labor Law (中華人民共和國勞動法), which became effective on January 1, 1995, and PRC National Labor Contract Law (中華人民共和國勞動合同法), which became effective on January 1, 2008 and was amended on December 28, 2012, permit workers in both state-owned and private enterprises in China to bargain collectively. The PRC National Labor Law and the PRC National Labor Contract Law provide for collective contracts to be developed through collaboration between the labor union (or worker representatives in the absence of a union) and management that specify such matters as working conditions, wage scales, and hours of work. The laws also permit workers and employers in all types of enterprises to sign individual contracts, which are to be drawn up in accordance with the collective contract. The National Labor Contract Law has enhanced rights for the nation’s workers, including permitting open-ended labor contracts and severance payments. The legislation requires employers to provide written contracts to their workers, restricts the use of temporary labor and makes it harder for employers to lay off employees. It also requires that employees with fixed-term contracts be entitled to an indefinite-term contract after a fixed-term contract is renewed twice or the employee has worked for the employer for a consecutive ten-year period.

On October 28, 2010, the National People’s Congress of China promulgated the PRC Social Insurance Law (中華人民共和國社會保險法), which became effective on July 1, 2011. In accordance with the PRC Social Insurance Law and other relevant laws and regulations, China establishes a social insurance system including basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance. An employer shall pay the social insurance for its employees in accordance with the rates provided under relevant regulations and shall withhold the social insurance that should be assumed by the employees. The authorities in charge of social insurance may request an employer’s compliance and impose sanctions if such employer fails to pay and withhold social insurance in a timely manner. Under the Regulations on the Administration of Housing Fund (住房公積金管理條例) effective in 1999, as amended in 2002, PRC companies must register with applicable housing fund management centers and establish a special housing fund account in an entrusted bank. Both PRC companies and their employees are required to contribute to the housing funds.

## OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

### OUR HISTORY

Our Group's history can be traced back to January 2009 when Xiamen Guanghuan, our first PRC operating entity and the holding company of the other PRC Operating Entities, was established in Xiamen, Fujian province, the PRC by Messrs. Yao Jianjun, Bi Lin, Ye Bin, Lin Jiabin and Lin Zhibin (our **"Founders"**) and began to engage in the web game development business. Four of our Founders, namely Messrs. Yao Jianjun, Bi Lin, Lin Jiabin and Lin Zhibin, are Directors of the Company. For their background, please refer to the section headed "Directors and Senior Management" in this prospectus. Messrs. Lin Jiabin and Lin Zhibin are siblings. Our business has grown rapidly since our Group's inception. In April 2010, the Group conducted beta testing of its first developed game, *Kingdom of Magic* (魔法之城), a war strategy RPG web game, through which the Group started recording revenue and cash flows. The level of revenue received was below the expectation of the Founders, therefore, the Group did not launch *Kingdom of Magic* (魔法之城). In August 2010, the Founders sold *Kingdom of Magic* (魔法之城) to an Independent Third Party and focused on developing other games. In May 2011, we launched our first game, *Shen Xian Dao* (神仙道), a highly successful fantasy martial arts RPG web game. In late 2011, we established a dedicated mobile game development team in anticipation of the growing popularity of mobile games and, in January 2012, we launched our first mobile game, the mobile version of *Shen Xian Dao* (神仙道). In December 2013, we acquired 100% of the equity interest of Kailuo Tianxia, the developer of the tower defense casual mobile game series Carrot Fantasy (保衛蘿蔔). Throughout our history and development, we have also been setting up subsidiaries or associate companies, such as Xiamen Yidou, to acquire promising game development teams. Our headquarter is located in Xiamen, Fujian province, the PRC.

### OUR BUSINESS DEVELOPMENT

The following table illustrates the key milestones of our business development since inception:

Year	Milestone
2009	<ul style="list-style-type: none"><li>In January, we established Xiamen Guanghuan, our first PRC operating entity, and began to engage in the web game development business</li></ul>
2010	<ul style="list-style-type: none"><li>In April, we conducted beta testing of our first developed game, <i>Kingdom of Magic</i> (魔法之城), a war strategy RPG web game</li></ul>
2011	<ul style="list-style-type: none"><li>In May, we launched our first game, <i>Shen Xian Dao</i> (神仙道), a fantasy martial arts RPG web game</li><li>In late 2011, we established a dedicated mobile game development team</li></ul>
2012	<ul style="list-style-type: none"><li>In January, we launched our first mobile game, the mobile version of <i>Shen Xian Dao</i> (神仙道)</li><li>In February, we launched our second web game, <i>Da Hua Shen Xian</i> (大話神仙), a fantasy martial arts RPG game and companion to <i>Shen Xian Dao</i> developed specifically for the Tencent game publishing platforms</li></ul>

## OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Year	Milestone
	<ul style="list-style-type: none"> <li>In July, Kailuo Tianxia (a company subsequently acquired by us) launched its first game, Carrot Fantasy (保衛蘿蔔), a tower defense casual mobile game</li> <li>In September, we launched <i>Chuang San Guo</i> (闖三國), a RPG mobile game based on the historical epic Romance of the Three Kingdoms story lines (subsequently renamed as <i>Luan Shi Zhi Ren</i> (亂世之刃))</li> </ul>
2013	<ul style="list-style-type: none"> <li>In July, we launched <i>Jiong Xi You</i> (囧西遊), a fantasy martial arts RPG mobile game based on the Journey to the West story lines</li> <li>In November, Kailuo Tianxia launched Carrot Fantasy 2: Polar Adventure (保衛蘿蔔 2: 極地冒險), the sequel game to Carrot Fantasy</li> <li>In December, we launched <i>Luan Shi Zhi Ren 2</i> (亂世之刃2), the sequel game to <i>Luan Shi Zhi Ren</i> (亂世之刃)</li> <li>In December, we acquired 100% of the equity interest of Kailuo Tianxia</li> </ul>
2014	<ul style="list-style-type: none"> <li>In April, we entered into an agreement with Shenzhen Tencent to exclusively license <i>Luan Shi Zhi Ren 2</i> (亂世之刃2) for distribution and publishing through its platforms. We have also changed the game's title to <i>San Guo Zhi Ren</i> (三國之刃) in connection with this exclusive license</li> <li>In May, we granted Glu Mobile Inc., a global game distributor, an exclusive right to publish and distribute Carrot Fantasy 2: Polar Adventure (保衛蘿蔔 2: 極地冒險) outside the PRC, Taiwan and Hong Kong</li> <li>In August and October, the Android and iOS versions of <i>San Guo Zhi Ren</i> (三國之刃), respectively, were launched on Tencent platforms</li> </ul>

### OUR CORPORATE HISTORY AND DEVELOPMENT BEFORE REORGANIZATION

The following table illustrates the key milestones in our corporate history and development before the Reorganization:

Year	Milestone
2008	<ul style="list-style-type: none"> <li>In July, our Founders entered into an agreement to jointly develop a web game</li> </ul>
2009	<ul style="list-style-type: none"> <li>In January, our Founders established Xiamen Guanghuan, our first PRC operating entity and the holding company of the other PRC Operating Entities</li> </ul>
2011	<ul style="list-style-type: none"> <li>In April, Xiamen Long Ling Investment Limited Partnership Enterprises (廈門隆領投資有限合伙企業) ("<b>Xiamen Longling</b>"), an investment company controlled by Mr. Cai Wensheng, one of our existing shareholders, became a 25.000% shareholder in Xiamen Guanghuan</li> </ul>

## OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Year	Milestone
2012	<ul style="list-style-type: none"> <li>• In February, Xiamen Guanghuan became a 97% shareholder in Xiamen Youli, which was jointly established by Mr. Yao Jianjun (through his wife Ms. Li Zhenzhu as nominee) and Mr. Bi Lin and mainly engages in the game operating business</li> <li>• In September, Xiamen Guanghuan became a 51% shareholder in Xiamen Yidou, which was jointly established by Xiamen Guanghuan Partnership (an entity established and controlled by Messrs. Yao Jianjun and Bi Lin) and Mr. Dong Ting, an Independent Third Party at the time, and mainly engages in the mobile game development business</li> <li>• In November, Xiamen Longling ceased to be a shareholder of Xiamen Guanghuan after transferring its remaining 8.000% shareholding interest to Ms. Dai Rihe, an Independent Third Party</li> </ul>
2013	<ul style="list-style-type: none"> <li>• In April, Mr. Ye Bin ceased to be a shareholder of Xiamen Guanghuan</li> <li>• In November, Xiamen Youli became a wholly-owned subsidiary of Xiamen Guanghuan</li> <li>• In December, Xiamen Yidou became a 75%-owned subsidiary of Xiamen Guanghuan</li> <li>• In December, Xiamen Guanghuan acquired 100% equity interest in Kailuo Tianxia, which was established by Mr. Chen Jianyu (through his wife Ms. Tao Lili as nominee)</li> </ul>
2014	<ul style="list-style-type: none"> <li>• In February, Ms. Dai Rihe ceased to be a shareholder of Xiamen Guanghuan after transferring all of her shares to Ms. Chen Yongchun and Mr. Cai Wensheng, who became new shareholders of Xiamen Guanghuan</li> <li>• In April, Messrs. Chen Jianyu and Sun Zhiyan (two original shareholders of Kailuo Tianxia) became new shareholders of Xiamen Guanghuan</li> <li>• In June, we established Xiamen Feiyou as our wholly-foreign owned enterprise</li> <li>• In June, Xiamen Feiyou entered into an investment agreement with the founders of Chengdu Guangcheng to subscribe for 60% interest in Chengdu Guangcheng</li> </ul>



## OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

### Our Founders' Agreement to Develop Web Game

On July 19, 2008, our Founders, all of whom were from Fujian province, the PRC, had known each other from prior personal and/or business dealings (Messrs. Lin Jiabin and Lin Zhibin are siblings) and had experience in the internet industry, entered into an agreement to jointly develop a web game (the “**2008 Game Development Agreement**”). According to the agreement, Messrs. Yao Jianjun and Bi Lin would contribute a cash capital of RMB240,000 and RMB130,000, respectively, into the project, while the rest of the Founders, Messrs. Ye Bin, Lin Jiabin and Lin Zhibin, would not contribute any cash capital but would contribute their technology expertise to the project. The Founders would respectively receive the following equity interest in the project: Mr. Yao Jianjun, 40%; Mr. Bi Lin, 21%; Mr. Ye Bin, 13%; Mr. Lin Jiabin, 13%; and Mr. Lin Zhibin, 13%. The agreement also provided that if the Founders agreed to jointly establish a company, such company's relevant shareholding percentages would follow the above allocations.

### Xiamen Guanghuan

Xiamen Guanghuan was our first PRC operating entity. It engaged in the web and mobile game development business before our Reorganization. Currently, Xiamen Guanghuan serves as the holding company of the other PRC Operating Entities.

On January 12, 2009, pursuant to the 2008 Game Development Agreement, our Founders established Xiamen Guanghuan with an initial registered capital of RMB30,000. The initial shareholding percentages of Xiamen Guanghuan were as follows: Mr. Yao Jianjun, 40.000%; Mr. Bi Lin, 21.000%; Mr. Lin Jiabin, 13.000%; Mr. Lin Zhibin, 13.000%; and Mr. Ye Bin, 13.000%. In accordance with the 2008 Game Development Agreement, Messrs. Yao Jianjun and Bi Lin funded all of the initial registered capital and working capital of Xiamen Guanghuan using their personal financial resources.

Since its inception, Xiamen Guanghuan has undergone a series of shareholding changes. The material ones include:

- On August 7, 2009, our Founders entered into an amendment to the 2008 Game Development Agreement (the “**2009 Game Development Agreement Amendment**”). Pursuant to the 2009 Game Development Agreement Amendment, Messrs. Yao Jianjun and Bi Lin contributed an additional cash capital of RMB300,000 and RMB200,000, respectively, to Xiamen Guanghuan for its working capital use and the Founders' respective equity interests in Xiamen Guanghuan were changed to the following: Mr. Yao Jianjun, 51.000%; Mr. Bi Lin, 28.000%; Mr. Ye Bin, 9.000%; Mr. Lin Jiabin, 6.000%; and Mr. Lin Zhibin, 6.000%.
- In April 2011, Xiamen Longling, an Independent Third Party and investment company that was based in Xiamen, Fujian province, the PRC, specializing in investments in internet enterprises, acquired an aggregate of 25.000% equity interest in Xiamen Guanghuan through a series of transfers from our Founders for a total cash consideration of RMB125,000 (equal to the amount of the registered capital of such equity interests). However, it soon became clear that Xiamen Guanghuan did not need the financial and operational assistance that Xiamen Longling was expected to provide. As a result, in December 2011, Xiamen Longling reduced its shareholding in Xiamen Guanghuan from 25.000% to 8.000% through transfers to the Founders. The consideration for each such transfer was the amount of the registered capital of the relevant equity interests. In November 2012, Xiamen Longling transferred its remaining 8.000% equity interest in Xiamen Guanghuan to Ms. Dai Rihe, a passive



## OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

financial investor and an Independent Third Party, and ceased to be a shareholder of Xiamen Guanghuan. The consideration was RMB10 million and negotiated between the buyer and the seller on their own.

Following Xiamen Longling's exit, Xiamen Guanghuan's shareholding structure was as follows: Mr. Yao Jianjun, 51.000%; Mr. Bi Lin, 19.600%; Mr. Ye Bin, 9.000%; Mr. Lin Jiabin, 6.200%; Mr. Lin Zhibin, 6.200%; and Ms. Dai Rihe, 8.000%.

- In April 2013, Mr. Ye Bin, one of the Founders of Xiamen Guanghuan, decided to focus on developing his own gaming and internet business and left Xiamen Guanghuan. Mr. Ye Bin's previous interest in Xiamen Guanghuan (9.000%) (the "**Ye Bin Interest**") was to be transferred to the then shareholders of Xiamen Guanghuan, namely Mr. Bi Lin, Ms. Dai Rihe, Mr. Lin Jiabin and Mr. Lin Zhibin (collectively, the "**Remaining Shareholders**") and Mr. Yao Jianjun, on a pro-rata basis for a nominal consideration of RMB1. The Remaining Shareholders and Mr. Yao Jianjun entered into a nominee arrangement pursuant to which Mr. Yao Jianjun would hold the Remaining Shareholders' proportional entitlement in the Ye Bin Interest as nominee. In connection with Mr. Ye Bin's departure, it was also agreed between the parties that Mr. Ye Bin would cease to be an employee of Xiamen Guanghuan and take with him a small team of employees and a game project from Xiamen Guanghuan.

Pursuant to the confirmation letters signed by Mr. Yao Jianjun and the Remaining Shareholders in September and October 2014, the Remaining Shareholders confirmed that (i) the nominee arrangement entered into with Mr. Yao Jianjun with respect to their respective equity interest in the Ye Bin Interest was terminated in June 2013 out of consideration that Mr. Yao Jianjun provided valuable services to Xiamen Guanghuan, and (ii) Mr. Yao Jianjun is the sole owner of the Ye Bin Interest.

Following Mr. Ye Bin's exit, Xiamen Guanghuan's shareholding interests were as follows: Mr. Yao Jianjun, 60.000%; Mr. Bi Lin, 19.600%; Mr. Lin Jiabin, 6.200%; Mr. Lin Zhibin, 6.200%; and Ms. Dai Rihe, 8.000%.

- In February 2014, Ms. Dai Rihe sold all of her 8.000% shareholding in Xiamen Guanghuan to Ms. Chen Yongchun (5.000%) and Mr. Cai Wensheng (3.000%), each an Independent Third Party and passive financial investor. The consideration for the transfers were RMB6.25 million and RMB3.75 million, respectively, and were negotiated between the buyers and the seller on their own.

Following these transfers, Xiamen Guanghuan's shareholding structure was as follows: Mr. Yao Jianjun, 60.000%; Mr. Bi Lin, 19.600%; Mr. Lin Jiabin, 6.200%; Mr. Lin Zhibin, 6.200%; Ms. Chen Yongchun, 5.000%; and Mr. Cai Wensheng, 3.000%.

- In April 2014, in connection with the acquisition of Kailuo Tianxia (see the subsection headed "— Kailuo Tianxia" below for further details), Messrs. Chen Jianyu, Sun Zhiyan and Cai Wensheng contributed cash capital of RMB373,733, RMB227,066 and RMB65,867, respectively, to Xiamen Guanghuan and received 22.424%, 13.624% and 3.952% equity interest in Xiamen Guanghuan, respectively, while the equity interests of Xiamen Guanghuan's existing shareholders were diluted on a pro rata basis.

Following these new investments, Xiamen Guanghuan's shareholding structure was as follows: Mr. Yao Jianjun, 36.000%; Mr. Bi Lin, 11.760%; Mr. Chen Jianyu, 22.424%; Mr. Sun Zhiyan, 13.624%; Mr. Lin Jiabin, 3.720%; Mr. Lin Zhibin, 3.720%; Ms. Chen Yongchun, 3.000%; and Mr. Cai Wensheng, 5.752%.

## OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

As a result of the above and certain other shareholding changes, as of the Latest Practicable Date, Xiamen Guanghuan's shareholding structure was as follows: Mr. Yao Jianjun, 39.200%; Mr. Bi Lin, 10.560%; Mr. Chen Jianyu, 22.424%; Mr. Sun Zhiyan, 11.624%; Mr. Lin Zhibin, 3.720%; Mr. Lin Jiabin, 3.720%; Ms. Chen Yongchun, 3.000%; and Mr. Cai Wensheng, 5.752%.

### Kailuo Tianxia

Kailuo Tianxia mainly engages in the mobile game development and operating business. It launched its first mobile game *Carrot Fantasy* (保衛蘿蔔) in August 2012 and then *Carrot Fantasy 2: Polar Adventure* (保衛蘿蔔2: 極地冒險) in November 2013.

On May 3, 2012, Kailuo Tianxia was established by Mr. Chen Jianyu (through his wife Ms. Tao Lili as nominee), with an initial registered capital of RMB1 million. Mr. Chen Jianyu funded all of the initial registered capital using his personal financial sources.

Pursuant to the equity transfer agreements dated December 31, 2013 between Xiamen Guanghuan, and each of Messrs. Chen Jianyu, Sun Zhiyan and Cai Wensheng, all of whom were shareholders of Kailuo Tianxia and Independent Third Parties at the time of the transaction (the "**Kailuo Shareholders**"), along with the parties' additional mutual understanding, on December 31, 2013, each of the Kailuo Shareholders transferred to Xiamen Guanghuan his respective equity interests in Kailuo Tianxia (i.e., Mr. Chen Jianyu, 45%; Mr. Sun Zhiyan, 45%; and Mr. Cai Wensheng, 10%) for consideration of (i) issuance of an aggregate of 40% new equity interests in Xiamen Guanghuan and (ii) a cash consideration of RMB13,954,500 to Mr. Chen Jianyu, RMB13,954,500 to Mr. Sun Zhiyan and RMB3,101,000 to Mr. Cai Wensheng. The parties' mutual understanding of the consideration were memorialized in the supplemental equity transfer agreements dated August 26, 2014 between Xiamen Guanghuan and each of the Kailuo Shareholders.

The consideration for the acquisition, including the percentage of the new equity interests in Xiamen Guanghuan (i.e. 40%) received by the Kailuo Shareholders, was negotiated at arm's length between Xiamen Guanghuan and the Kailuo Shareholders, based on the parties' estimate of the approximate underlying fair value of both Xiamen Guanghuan and Kailuo Tianxia. At the time of the acquisition, the parties did not engage an independent professional valuer or appraiser to conduct a valuation or appraisal of the assets and liabilities of Xiamen Guanghuan or Kailuo Tianxia for purposes of determining the consideration for the acquisition. The parties at the time did not consider engaging such a valuer or appraiser because:

- all of the parties involved had in-depth knowledge of the PRC online gaming industry and business and believed that they themselves were competent to estimate the relative value of both Xiamen Guanghuan and Kailuo Tianxia;
- Mr. Yao Jianjun, one of the founders and the largest shareholder of Xiamen Guanghuan, and Mr. Chen Jianyu, one of the founders and the largest shareholder of Kailuo Tianxia, were both from Fujian province and had known each other from prior personal dealings and had long desired to cooperate with each other in the game development business. As such, each had paid attention to, and understood, the businesses and prospects of Xiamen Guanghuan and Kailuo Tianxia long before the acquisition;

## OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- the vast majority of the consideration was in the form of the shares of Xiamen Guanghuan, rather than cash. As such, the parties focused more on the fact that if the combined company after the acquisition performs well, then all parties will be rewarded, and focused less on the exact amount of consideration; and
- both companies were privately held companies at the time and there was no legal or regulatory requirement for them to engage an independent professional valuer or appraiser for purposes of the acquisition. Rather, all of the parties involved at the time were willing to move ahead with the acquisition and negotiated the consideration on an arm's length basis, in each case, without engaging an independent professional valuer or appraiser.

The Directors believe that the above decision to not engage an independent professional valuer or appraiser was reasonable given the then circumstances.

Although no professional valuation or appraisal was conducted, the parties nonetheless believed that they had done sufficient work at the time, which, combined with Mr. Yao Jianjun's and Mr. Chen Jianyu's previous understanding of the businesses of Xiamen Guanghuan and Kailuo Tianxia as stated above, enabled the parties to reach a reasonable estimate of the approximate underlying fair value of the both Xiamen Guanghuan and Kailuo Tianxia. In particular, the parties reviewed and considered a number of relevant factors, including (i) net assets and net profits of both companies, which indicated that Kailuo Tianxia roughly represented 40% of Xiamen Guanghuan combined with Kailuo Tianxia (i.e., the enlarged group after the acquisition) in both measures; (ii) the player basis of both companies; (iii) the synergy of the combined group in operating web games and mobile games; (iv) the potential growth of the combined group after the acquisition; and (v) the respective expected expertise and human resources contribution by Xiamen Guanghuan and Kailuo Tianxia to the combined group in the future.

Messrs. Chen Jianyu, Sun Zhiyan and Cai Wensheng split among themselves the 40% equity interests allocation in Xiamen Guanghuan by contributing to the increase in registered capital of Xiamen Guanghuan in the amount of RMB373,733, RMB227,066 and RMB65,867, respectively, and received 22.424%, 13.624% and 3.952% equity interests in Xiamen Guanghuan, respectively, diluting the then existing shareholders' equity interests on a pro rata basis. The contributions were made in April 2014. According to an independent valuation report dated August 2014 conducted by ValueLink Management Consultants (Beijing) Limited which was appointed by Xiamen Guanghuan in late April 2014 for purposes of preparing our consolidated financial statements, the fair value of the aggregate 40% equity interests in Xiamen Guanghuan as of December 31, 2013 amounted to approximately RMB487.6 million. For the basis of such valuation, please see "Financial Information — Critical Accounting Policies and Estimates — Estimation uncertainty — Acquisition of Kailuo Tianxia." The cash consideration paid by Xiamen Guanghuan to the Kailuo Shareholders represented the net asset value of Kailuo Tianxia at the time of the acquisition by Xiamen Guanghuan and were paid in January 2014. We have been advised by our PRC Legal Advisor that no approvals were needed from the relevant PRC authorities in connection with the above transactions, except for the registrations in respect of the above equity transfers in Kailuo Tianxia and capital increase in Xiamen Guanghuan at the local AIC, which have been completed.

## OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

The key reasons and considerations leading to our decision to acquire Kailuo Tianxia include:

- Mr. Yao Jianjun, one of our Founders and Controlling Shareholders, and Mr. Chen Jianyu, one of the founders and the largest shareholder of Kailuo Tianxia, were both from Fujian province and had known each other from prior personal dealings long before the acquisition of Kailuo Tianxia. They had long desired to cooperate with each other in the game development business, which eventually led to the acquisition;
- We considered the strong game development capability of the Kailuo Tianxia team, as led by Mr. Chen Jianyu, the popularity and profitability of Kailuo Tianxia's existing Carrot Fantasy games and the potential of Kailuo Tianxia's future games in the development pipeline, including any future games based on the Carrot Fantasy theme; and
- The businesses of Xiamen Guanghuan and Kailuo Tianxia were complimentary to each other and the acquisition was expected to bring synergy to the combined company. Firstly, the acquisition would broaden and diversify the game offerings of the combined company because the two pre-acquisition companies focused on two different types of games: RPG games for Xiamen Guanghuan and casual games for Kailuo Tianxia. Secondly, Xiamen Guanghuan had longer operating history, stronger research and development resources and capabilities, more established relationship with distributors and publishing platforms, and more overseas operating experience, all of which could help Kailuo Tianxia's business. Thirdly, Kailuo Tianxia's popular mobile casual games had a large player base, which could be beneficial to Xiamen Guanghuan if its games could get access to the player base of Kailuo Tianxia's games.

### ***Retention of personnel of Kailuo Tianxia***

The transaction documents in relation to the acquisition of Kailuo Tianxia did not have provisions regarding the retention of developers and programmers who were from Kailuo Tianxia. However, we have adopted the following measures in order to retain them within the Group:

#### *Founders and shareholders of Kailuo Tianxia*

- Messrs. Chen Jianyu and Sun Zhiyan, the founders and then controlling shareholders of Kailuo Tianxia and two of its most important game developers and programmers, are interested in approximately 22.424% and 11.624% in the equity interests of the Company respectively (assuming the Over-allotment Option is not exercised, and without taking into account any Shares to be issued upon the exercise of options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan). Each of them has signed an undertaking to the Joint Global Coordinators that their equity interests in the Company will be subject to a lock-up period of one year after the Listing.
- Each of Messrs. Chen Jianyu and Sun Zhiyan is an executive Director of the Company and has entered into a director service contract with the Company for a renewable term of three years commencing from the Listing Date.
- In addition to his director service contract, each of Messrs. Chen Jianyu and Sun Zhiyan, together with our Controlling Shareholders, has entered into a deed of non-competition in favour of the Company. Please see "Relationship with Controlling Shareholders — Non-competition Undertakings" for details.

## OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

### *Other management team and key personnel of Kailuo Tianxia*

- We have granted options under the pre-IPO Share Option Scheme and RSUs under the Pre-IPO RSU Plan to four key game developer and programmers and personnel who were from Kailuo Tianxia to subscribe for or to be granted a total of approximately 15,810,000 Shares. For options granted under the Pre-IPO Share Option Scheme, the exercise price represents approximately 75% discount to the midpoint of the indicative Offer Price range of HK\$1.85 and HK\$2.55. The grantees of the RSUs granted under the Pre-IPO RSU Plan are not required to pay for the grant of any RSU under the Pre-IPO RSU Plan. The RSUs will be vested on April 1, 2015 and the options will be vested, in four equal installments, by the end of 2015, 2016, 2017 and 2018 respectively.
- The Company has recently renewed the employment contracts of certain key programmers and personnel who were from Kailuo Tianxia for a renewable contract term of one year.

### **Xiamen Youli**

Xiamen Youli mainly engages in the game operating business and serves as one of our Group's game operating channels.

On September 19, 2011, Xiamen Youli was established by Mr. Yao Jianjun (through his wife Ms. Li Zhenzhu as nominee) and Mr. Bi Lin with an initial registered capital of RMB300,000. Mr. Yao Jianjun (through his wife Ms. Li Zhenzhu as nominee) and Mr. Bi Lin each contributed RMB150,000 using their own financial resources and received a shareholding interest of 50%. In February 2012, through a new cash capital injection of RMB9.7 million (determined based on the amount of the registered capital), Xiamen Guanghuan became a 97% shareholder in Xiamen Youli, while the shareholding interests of Messrs. Yao Jianjun and Bi Lin were diluted to 1.5% each. In November 2013, Messrs. Yao Jianjun and Bi Lin transferred their remaining shareholding interests in Xiamen Youli to Xiamen Guanghuan for a cash consideration of RMB150,000 each (determined based on the amount of the registered capital). Following these transfers, Xiamen Youli became a wholly-owned subsidiary of Xiamen Guanghuan.

### **Xiamen Yidou**

Xiamen Yidou had a dedicated game development team and mainly engaged in the mobile game development business before our Reorganization. Xiamen Yidou developed our mobile game series *Luan Shi Zhi Ren* (亂世之刃).

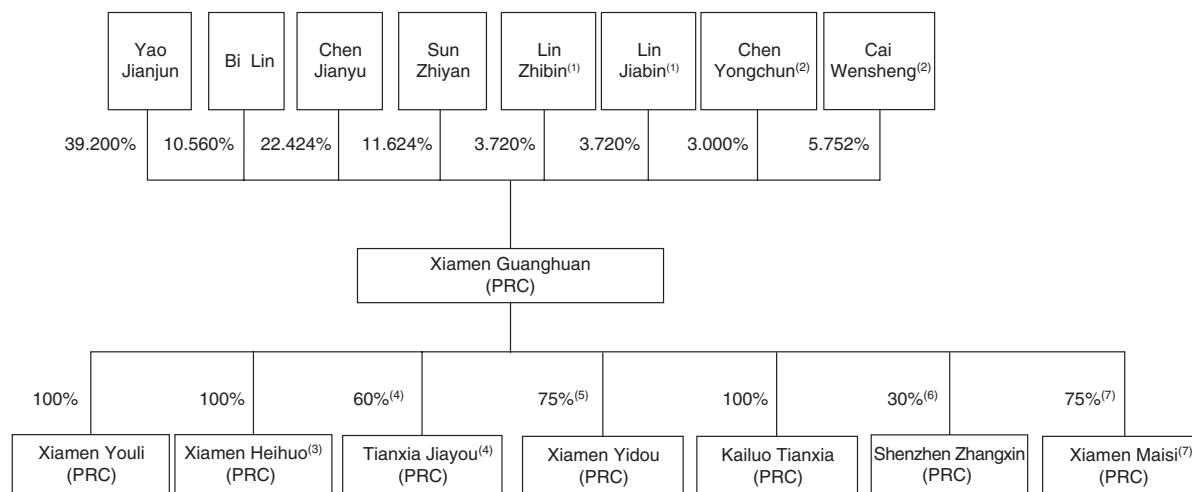
On June 11, 2012, Xiamen Guanghuan Investment Partnership Enterprise (Limited Partnership) (廈門光環投資合伙企業(有限合伙)) ("**Xiamen Guanghuan Partnership**"), an entity controlled by Mr. Yao Jianjun (50%) and Mr. Bi Lin (50%), and Mr. Dong Ting, then an Independent Third Party who later became the executive director and general manager of Xiamen Yidou, jointly established Xiamen Yidou with an initial registered capital of RMB1 million. Xiamen Guanghuan Partnership and Mr. Dong Ting contributed capital of RMB510,000 and RMB490,000, respectively, using their own financial resources, and received 51% and 49% of Xiamen Yidou's equity interest, respectively.

## OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

In September 2012, Xiamen Guanghuan Partnership transferred all of its equity interest in Xiamen Yidou (51%) to Xiamen Guanghuan for a consideration of RMB510,000 (equal to the amount of the registered capital of such equity interests).

On December 31, 2013, pursuant to a share transfer agreement (the “**2013 Yidou Share Transfer Agreement**”), Mr. Dong Ting transferred 24% of the equity interest in Xiamen Yidou owned by him to Xiamen Guanghuan (the “**Yidou 24% Share Transfer**”) for cash consideration of RMB240,000 (equal to the amount of the registered capital of such shares). Following the transfer, Xiamen Yidou became a 75%-owned subsidiary of Xiamen Guanghuan. On February 28, 2014, Xiamen Guanghuan and Mr. Dong Ting entered into a supplemental agreement to the 2013 Yidou Share Transfer Agreement (as supplemented, the “**Yidou Share Transfer Agreement**”). Pursuant to the Yidou Share Transfer Agreement, the consideration for the Yidou 24% Share Transfer was adjusted to benchmark against the financial and operational performance of Xiamen Yidou. The benchmark was fully met in and the additional consideration of RMB4,885,000 was fully paid by Xiamen Guanghuan in August 2014. The Yidou Share Transfer Agreement also provides that Xiamen Guanghuan has a priority right to purchase Mr. Dong Ting’s remaining 25% equity interest in Xiamen Yidou if Mr. Dong Ting intends to sell his interests in Xiamen Yidou in the future.

The corporate and shareholding structure of our Group immediately before the Reorganization was as follows:



**Notes:**

- (1) Mr. Lin Zhibin and Mr. Lin Jiabin are siblings.
- (2) Both Ms. Chen Yongchun and Mr. Cai Wensheng are passive financial investors in our Group and Independent Third Parties.
- (3) As of the Latest Practicable Date, Xiamen Heihuo is wholly-owned by Xiamen Guanghuan and is a dormant company. Its personnel and business operations, which were immaterial to our Group, had been transferred to Xiamen Feiyou in August 2014.
- (4) Xiamen Guanghuan became a 60% owner of Tianxia Jiayou, which mainly engaged in web game development, in December 2012. Mr. Guo Jia, the then executive director and general manager of Tianxia Jiayou, owned the remaining 40% equity interest in Tianxia Jiayou. Xiamen Guanghuan disposed its entire interests in Tianxia Jiayou in August 2014 to an Independent Third Party for a consideration of RMB600,000 based on arm’s length negotiations between the parties taking into account the total investment made by Xiamen Guanghuan. The disposal did not have a material impact on our Group as Tianxia Jiayou had no material business contribution to the Group.
- (5) Mr. Dong Ting, the executive director and general manager of Xiamen Yidou, owns the remaining 25% equity interest in Xiamen Yidou. See the above subsection headed “— Xiamen Yidou” for further details.



## OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- (6) Xiamen Guanghuan became a 30% owner of Shenzhen Zhangxin, which mainly engaged in web game development, in May 2014. Ms. Tu Qin, the executive director and general manager of Shenzhen Zhangxin, owns the remaining 70% equity interest in Shenzhen Zhangxin.
- (7) Xiamen Guanghuan became a 75% owner of Xiamen Maisi, which mainly engaged in internet technology development, in November 2012. Mr. Zhou Yangsi, the then executive director and general manager of Xiamen Maisi, owned the remaining 25% equity interest in Xiamen Maisi. We commenced the governmental procedures to dissolve Xiamen Maisi in April 2014. Its personnel and business operations, which were immaterial to our Group, had been transferred to Xiamen Heihuo in July 2013.

### OUR GROUP'S REORGANIZATION

In order to comply with the relevant Listing Rules and PRC laws and regulations while availing ourselves of international capital markets and maintaining effective control over all our operations in the PRC, our Group commenced a series of offshore and onshore reorganization steps in March 2014.

#### Incorporation of Our Company

On March 6, 2014, our Company was incorporated in Cayman Islands as an exempted company with limited liability and authorized share capital of US\$50,000 divided into 50,000,000 shares of a par value of US\$0.001 each. Immediately after the incorporation, the Company issued an aggregate of 100,000 shares, par value US\$0.001, to each of the then shareholders of Xiamen Guanghuan through their respective 100% owned BVI Holding Companies, namely, YAO Holdings Limited (Mr. Yao Jianjun), BILIN Holdings Limited (Mr. Bi Lin), Fishchen Holdings Limited (Mr. Chen Jianyu), Eastep Holdings Limited (Mr. Sun Zhiyan), LINCHEN Holdings Limited (Mr. Lin Zhibin), LINT Holdings Limited (Mr. Lin Jiabin) and Dinglin Investment Partners Limited (Ms. Chen Yongchun) and at the direction of Mr. Cai Wensheng, Baolink Capital Ltd, which is owned by Ms. Wang Baoshan, Mr. Cai Wensheng's wife, representing 39.200%, 10.560%, 22.424%, 11.624%, 3.720%, 3.720%, 3.000% and 5.752% of the equity interests in the Company, respectively. These shareholding percentages mirror the shareholding percentages of such shareholders in Xiamen Guanghuan as of the Latest Practicable Date.

On November 17, 2014, each ordinary share of our Company, par value US\$0.001, was sub-divided into 10 ordinary shares of par value US\$0.0001 each. On the same date, an additional 200,000 shares of par value US\$0.0001 each were allotted and issued, at par, on a pro rata basis, to our then Shareholders. Subsequently, on the same date, each share of par value US\$0.0001 was further sub-divided into 1,000 Shares of par value US\$0.0000001 each. There was no change to the shareholding interests held by our then Shareholders pursuant to the above allotment and sub-divisions.

#### Establishment of Our Hong Kong Subsidiary

On March 25, 2014, Feiyu Hong Kong was incorporated in Hong Kong as a limited company with an authorized share capital of HK\$10,000 divided into 10,000 shares of a par value of HK\$1.00 each. It is the holding company of Xiamen Feiyu. Since the date of its incorporation and up to the Latest Practicable Date, our Company has held 100% equity interest in Feiyu Hong Kong.

## OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

### **Establishment of Xiamen Feiyou**

On June 24, 2014, Xiamen Feiyou was incorporated as a wholly-foreign owned enterprise in the PRC with an initial registered capital of US\$1 million. Since the date of its incorporation and up to the Latest Practicable Date, Feiyu Hong Kong has held 100% shareholding interest in Xiamen Feiyou. Our PRC Legal Advisor has advised us that Xiamen Feiyou has obtained all relevant approvals from the competent regulatory authorities in the PRC under the applicable PRC laws and regulations for its incorporation and operations.

### **Acquisition of Chengdu Guangcheng**

Chengdu Guangcheng has a dedicated game development team and mainly engages in the mobile game and software development business.

On May 13, 2014, Messrs. Liu Shaoyu, Cao Jun and Zhou Kaisheng (the “**Guangcheng Founders**”), all Independent Third Parties at that time, established Chengdu Guangcheng with an initial registered capital of RMB40,000, using their personal financial resources. On June 30, 2014, Xiamen Feiyou and the Guangcheng Founders entered into an investment agreement, pursuant to which the Guangcheng Founders contributed into Chengdu Guangcheng a game development team and certain game development projects and received 40% equity interest in Chengdu Guangcheng, while Xiamen Feiyou paid RMB1,000,000 on August 25, 2014 for the increase of registered share capital of Chengdu Guangcheng to RMB100,000 and received 60% equity interest in Chengdu Guangcheng.

### **Establishment of Feiyou Guangqu**

On November 10, 2014, Feiyou Guangqu was established as a wholly-owned subsidiary of Xiamen Feiyou with an initial registered capital of RMB100,000. Since the date of its incorporation and up to the Latest Practicable Date, Xiamen Feiyou has held 100% shareholding interest in Feiyou Guangqu. Our PRC Legal Advisor has advised us that Feiyou Guangqu has obtained all relevant approvals from the competent regulatory authorities in the PRC under the applicable PRC laws and regulations for its incorporation.

### **Establishment of Feiyou Guangyu**

On November 10, 2014, Feiyou Guangyu was established as a wholly-owned subsidiary of Xiamen Feiyou with an initial registered capital of RMB100,000. Since the date of its incorporation and up to the Latest Practicable Date, Xiamen Feiyou has held 100% shareholding interest in Feiyou Guangyu. Our PRC Legal Advisor has advised us that Feiyou Guangyu has obtained all relevant approvals from the competent regulatory authorities in the PRC under the applicable PRC laws and regulations for its incorporation.

### **Establishment of Feiyou Zhangxin**

On October 27, 2014, Feiyou Zhangxin was established by Xiamen Feiyou and Mr. Dong Ting (who as at the Latest Practicable Date is interested in 25% equity interests in Xiamen Yidou), each contributing an initial registered capital of RMB75,000 and RMB25,000, respectively. Since the date of the establishment and up to the Latest Practicable Date, Xiamen Feiyou and Mr. Dong Ting have been interested in 75% and 25% of the equity interests of Feiyou Zhangxin, respectively. Our PRC Legal Advisor has advised us that Feiyou Zhangxin has obtained all relevant approvals from the competent regulatory authorities in the PRC under the applicable PRC laws and regulations for its incorporation. The charter documents of Feiyou

## OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Zhangxin provide, inter alia, that Xiamen Feiyou has a priority right to purchase Mr. Dong Ting's remaining 25% equity interest in Feiyou Zhangxin if Mr. Dong Ting intends to sell his interests in Feiyou Zhangxin in the future.

### Transfer of Non-Restricted Business

Our Group undertook the following steps to transfer all Non-Restricted Business previously engaged by Xiamen Guanghuan, Xiamen Yidou and Shenzhen Zhangxin to Xiamen Feiyou and/or its subsidiaries, which are controlled by the Company through direct or indirect share ownership interests, or otherwise disposed of such business:

- *Xiamen Guanghuan and Xiamen Yidou.* In November 2014, Xiamen Guanghuan and Xiamen Yidou commenced transferring all of their businesses to Xiamen Feiyou, Feiyou Guangqu, Feiyou Guangyu and/or Feiyou Zhangxin. All such transfers either have been completed or will be completed before the Listing, except for the transfers of trademarks. In particular, all of Xiamen Guanghuan's and Xiamen Yidou's personnel, physical assets (such as computer equipment and facilities), copyrights, domain names and operations have been transferred; and all of their business contracts, including contracts with third party game distribution and publishing platforms, have been either transferred to Feiyou Guangqu, Feiyou Guangyu and/or Feiyou Zhangxin, or terminated and Feiyou Guangqu, Feiyou Guangyu and/or Feiyou Zhangxin have entered into new business contracts with the same business parties under the same terms and conditions. With respect to trademarks, which consists of logos of some of the Company's games and Xiamen Guanghuan's company logos, all relevant transfer agreements have been executed and all relevant applications with the PRC Trademark Office to register such transfers have been filed by November 30, 2014. The completion of such registrations of transfers, upon which the transfers of trademark will be completed, is expected to occur no later than June 30, 2015. However, the relevant trademark transfer agreements will grant the transferees (Xiamen Feiyou and/or its subsidiaries) exclusive right to fully control the relevant trademarks until the completion of the registrations of such transfers. Furthermore, the Company's PRC Legal Advisor is of the view that there is no legal impediment in completing the registrations of such transfers. In addition, the Company undertakes, and has adopted the following measures to ensure, that the public investors will be provided with sufficient information and protection regarding the pending registrations of such transfers:
  1. the Company will provide an update in its annual report for fiscal year 2014, which will be released by April 30, 2015, to inform the public investors of the then status of such registrations of transfers;
  2. our independent non-executive Directors will meet regularly after the Listing to discuss the status of such registrations of transfers;
  3. the Company will issue an announcement upon completion of such registrations of transfers; and
  4. our Controlling Shareholders have entered into a deed of indemnity in favor of our Group against any claims, actions, losses, liabilities, costs incurred by our Group as a result of any failure to complete the registrations of such transfers by June 30, 2015.

## OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

After the completion of the aforesaid business transfer steps, Xiamen Guanghuan and Xiamen Yidou will each become a dormant company (in the case of Xiamen Guanghuan, apart from holding the shares in its subsidiaries). In addition, the Company and the Relevant Shareholders have undertaken, and have adopted certain measures to ensure, that going forward no business operations will be conducted via Xiamen Guanghuan, Xiamen Yidou and Xiamen Heihuo. Please refer to the section headed “Contractual Arrangements — Details of Contractual Arrangements — Operations in Compliance with the Contractual Arrangements” for further details.

- *Shenzhen Zhangxin*. Between May and November 2014, Xiamen Guanghuan had been a 30% owner of Shenzhen Zhangxin, which has a dedicated a game development team and mainly engages in the mobile game development business. In November 2014, Xiamen Guanghuan disposed its 30% equity interests to Tu Qin, the other shareholder of Shenzhen Zhangxin, for RMB4.0 million, which was the purchase price Xiamen Guanghuan paid for such equity interests and was determined based on arm’s length negotiations between the parties. Pursuant to the arrangements of such transfer, Xiamen Youli shall have the right to be the sole agent and operator of *Mei Ren Wu Shuang* (美人無雙), a collectible card RPG game developed by Shenzhen Zhangxin.

### Contractual Arrangements

On September 4, 2014 and October 31, 2014, respectively, Xiamen Feiyou entered into a series of agreements with the PRC Contractual Entities and the Relevant Shareholders for Xiamen Feiyou to exercise and maintain control over the operations of the PRC Contractual Entities and obtain their economic benefits and to prevent leakage of assets and values to the Relevant Shareholders. Please refer to the section headed “Contractual Arrangements” for further details.

### Establishment of Family Trust

On August 13, 2014, Messrs. Yao Jianjun, Bi Lin, Chen Jianyu, Sun Zhiyan, Lin Jiabin and Lin Zhibin, each as the settlor and protector, established their respective Family Trusts of which TMF (Cayman) Ltd. serves as the trustee. On August 15, 2014, Messrs. Yao Jianjun, Bi Lin, Chen Jianyu, Sun Zhiyan, Lin Zhibin and Lin Jiabin transferred 100% shareholding interests in their respective 100% owned BVI Holding Companies to their respective Trust Holding Companies, which are held by TMF (Cayman) Ltd., by way of gift.

The Family Trusts are discretionary trusts, the beneficiaries of which are Messrs. Yao Jianjun, Bi Lin, Chen Jianyu, Sun Zhiyan, Lin Jiabin and Lin Zhibin, respectively, and their respective family members. Pursuant to the Family Trusts, TMF (Cayman) Ltd., through the Trust Holding Companies, hold the equity interests in the BVI Holding Companies on trust for the beneficiaries of the Family Trusts.

### Circular 37 Registration

As of June 17, 2014 all of our Shareholders who are PRC citizens have registered with the SAFE branch in Fujian Province as required under the Circular 37. Messrs. Yao Jianjun, Bi Lin, Chen Jianyu, Sun Zhiyan, Lin Jiabin and Lin Zhibin are in the process to update their SAFE Circular 37 registrations to reflect the establishment of their respective family trust.

## OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

### **Pre-IPO Share Option Scheme**

On November 17, 2014, we conditionally adopted the Pre-IPO Share Option Scheme, pursuant to which 105,570,000 Shares (representing approximately 7.04% of the issued share capital of the Company immediately upon the completion of the Global Offering assuming that the Over-allotment Option is not exercised and without taking into account any Shares to be issued pursuant to the exercise of options granted under the Pre-IPO Share Option Scheme, Post-IPO Share Option Scheme, and vesting of RSUs granted under the Pre-IPO RSU Plan and the Post-IPO RSU Plan) were reserved for the exercise of options granted under this scheme. As of the Latest Practicable Date, none of the granted share options under the scheme has been exercised by any grantee.

Please refer to the section headed “Statutory and General Information — D. Pre-IPO Share Option Scheme” in Appendix IV to this prospectus for details.

### **Post-IPO Share Option Scheme**

On November 17, 2014, we conditionally adopted the Post-IPO Share Option Scheme. The total number of Shares which may be issued upon exercise of options granted under the Post-IPO Share Option Scheme (together with the Pre-IPO Share Option Scheme) shall not exceed 10% of total number of Shares in issue immediately upon the completion of the Global Offering assuming that the Over-allotment Option is not exercised and without taking into account any Shares to be issued pursuant to the exercise of options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and vesting of RSUs granted under the Pre-IPO RSU Plan and the Post-IPO RSU Plan), which is expected to be 150,000,000 Shares. This scheme will comply with Chapter 17 of the Listing Rules and other relevant rules and regulations.

Please refer to the section headed “Statutory and General Information — E. Post-IPO Share Option Scheme” in Appendix IV to this prospectus for details.

### **Pre-IPO RSU Plan**

On November 17, 2014, we conditionally adopted the Pre-IPO RSU Plan, pursuant to which 13,850,000 Shares (representing approximately 0.92% of the issued share capital of the Company immediately upon the completion of the Global Offering assuming that the Over-allotment Option is not exercised and without taking into account any Shares to be issued upon pursuant to the exercise of options granted under the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme, and vesting of RSUs granted under the Pre-IPO RSU Plan and the Post-IPO RSU Plan) were reserved for the vesting of RSUs granted under this plan. As of the Latest Practicable Date, none of the granted RSUs under the plan has been vested.

Please refer to the section headed “Statutory and General Information — F. Pre-IPO RSU Plan” in Appendix IV to this prospectus for details.

### **Post-IPO RSU Plan**

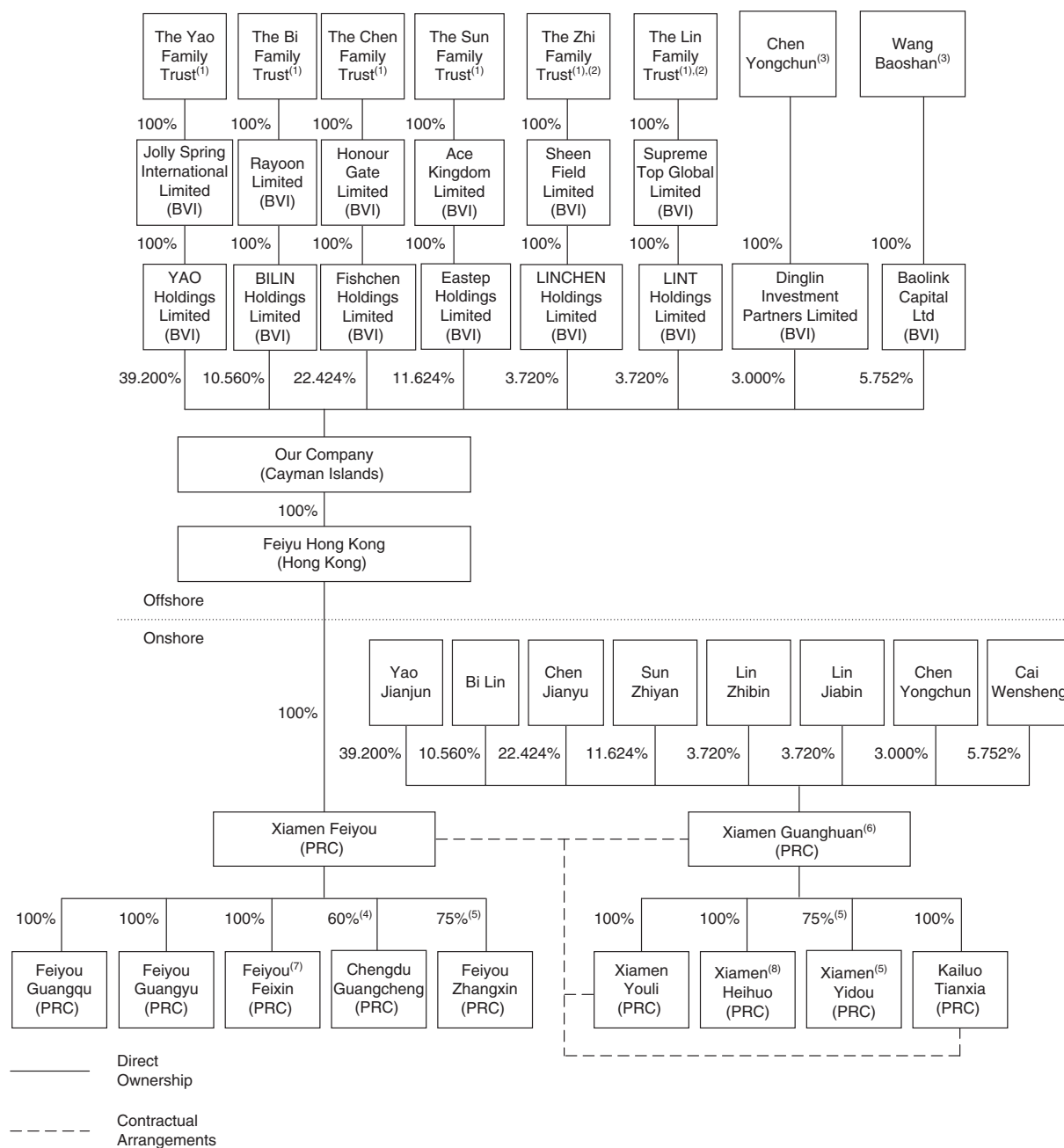
On November 17, 2014, we conditionally adopted the Post-IPO RSU Plan, pursuant to which 45,000,000 Shares (representing 3% of the issued share capital of the Company immediately upon the completion of the Global Offering assuming that the Over-allotment Option is not exercised and without taking into account any Shares to be issued pursuant to the exercise of options granted under the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme and the vesting of RSUs granted under the Pre-IPO RSU Plan and the Post-IPO RSU Plan), were reserved for the vesting of RSUs granted under this plan.

## OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Please refer to the section headed “Statutory and General Information — G. Post-IPO RSU Plan” in Appendix IV to this prospectus for details.

### OUR SHAREHOLDING AND CORPORATE STRUCTURES

Our corporate and shareholding structure after the Reorganization and immediately before the completion of the Global Offering is as follows (without taking into account any Shares to be issued upon exercise of share options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme and any Shares to be issued upon vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan):





## OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

### Notes:

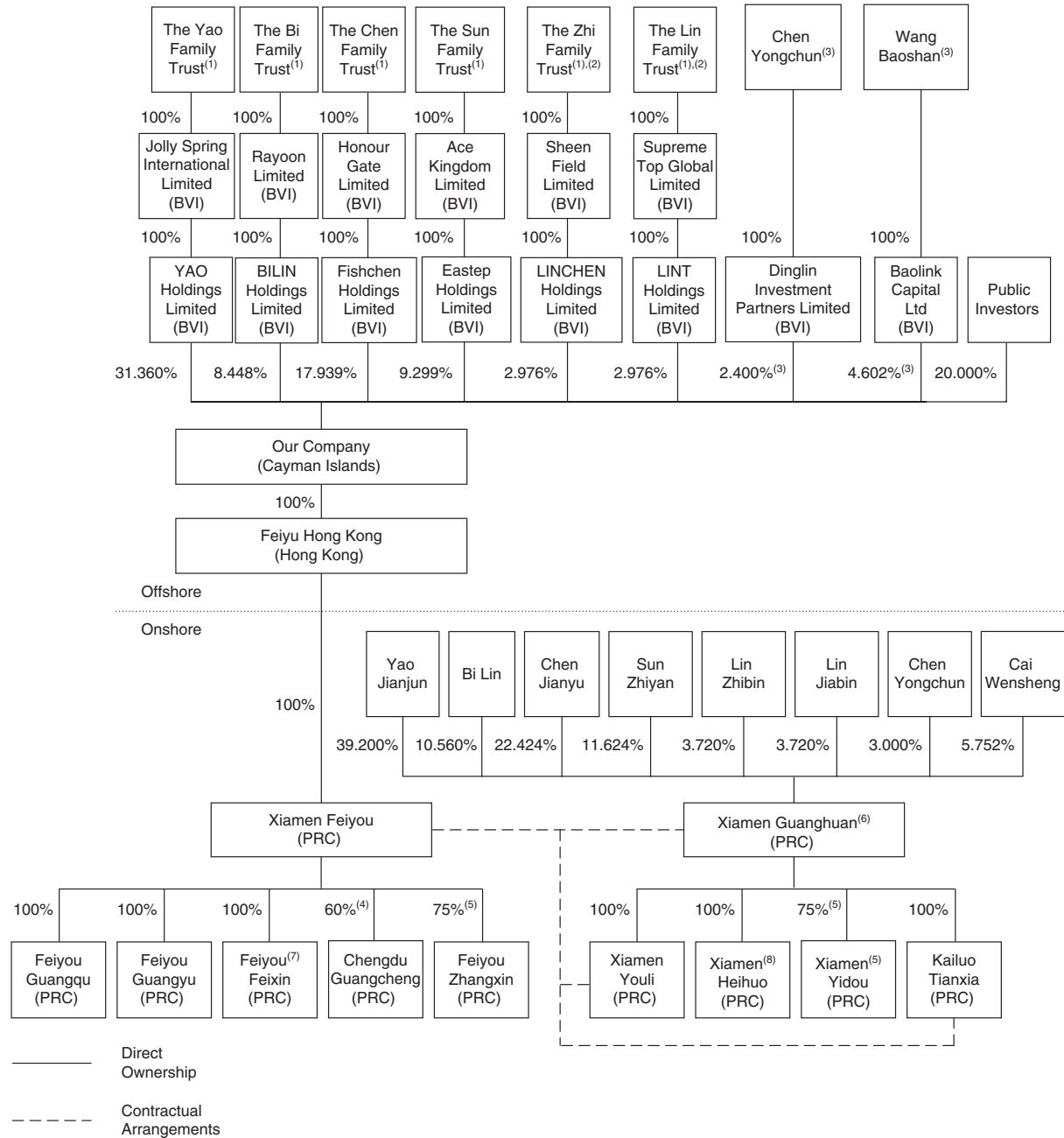
- (1) The entire share capital of each of YAO Holdings Limited, BILIN Holdings Limited, Fishchen Holdings Limited, Eastep Holdings Limited, LINT Holdings Limited and LINCEN Holdings Limited is wholly owned by Jolly Spring International Limited, Rayoon Limited, Honour Gate Limited, Ace Kingdom Limited, Supreme Top Global Limited and Sheen Field Limited, respectively. Each of Jolly Spring International Limited, Rayoon Limited, Honour Gate Limited, Ace Kingdom Limited, Supreme Top Global Limited and Sheen Field Limited is the nominee of TMF (Cayman) Ltd., the trustee of The Yao Family Trust, The Bi Family Trust, The Chen Family Trust, The Sun Family Trust, The Lin Family Trust and The Zhi Family Trust, respectively. These trusts are established by Messrs. Yao Jianjun, Bi Lin, Chen Jianyu, Sun Zhiyan, Lin Jiabin and Lin Zhibin (as the settlor), respectively, for the benefit of each of them and their family members.
- (2) Messrs. Lin Jiabin and Lin Zhibin are siblings.
- (3) Ms. Wang Baoshan is the wife of Mr. Cai Wensheng. Ms. Chen Yongchun, Mr. Cai Wensheng and Ms. Wang Baoshan are passive financial investors in our Group and Independent Third Parties.
- (4) Mr. Liu Shaoyu, director of Chengdu Guangcheng, and Messrs. Cao Jun and Zhou Kaisheng collectively own the remaining 40% equity interest in Chengdu Guangcheng. Please see the subsection headed “— Our Group’s Reorganization — Acquisition of Chengdu Guangcheng” for further details.
- (5) Mr. Dong Ting, the executive director and general manager of Xiamen Yidou and the supervisor of Feiyou Zhangxin, owns the remaining 25% equity interest in Xiamen Yidou and Feiyou Zhangxin. Please see the subsections headed “— Our Corporate History and Development before Reorganization — Xiamen Yidou” and “— Our Group’s Reorganization — Establishment of Feiyou Zhangxin” for further details.

In November 2014, Xiamen Yidou commenced transferring all of its personnel and business operations to Feiyou Zhangxin. After the completion of these transfers, Xiamen Yidou will become a dormant company. In addition, the Company and the Relevant shareholders have undertaken, and have adopted certain measures to ensure, that going forward no business operations will be conducted via Xiamen Yidou. Please see the subsections headed “— Our Group’s Reorganization — Transfer of Non-Restricted Business” and “Contractual Arrangements — Details of Contractual Arrangements — Operations in Compliance with the Contractual Arrangements” for further details.

- (6) In November 2014, Xiamen Guanghuan commenced transferring all of its personnel and business operations to Xiamen Feiyou, Feiyou Guangqu and/or Feiyou Guangyu. After the completion of these transfers, Xiamen Guanghuan will become a dormant company (apart from holding shares in its subsidiaries). In addition, the Company and the Relevant shareholders have undertaken, and have adopted certain measures to ensure, that going forward no business operations will be conducted via Xiamen Guanghuan. Please see the subsections headed “— Our Group’s Reorganization — Transfer of Non-Restricted Business” and “Contracted Arrangements — Details of Contractual Arrangements — Operations in Compliance with the Contractual Arrangements” for further details.
- (7) As of the Latest Practicable Date, Feiyou Feixin has not commenced any business operations.
- (8) As of the Latest Practicable Date, Xiamen Heihuo was a dormant company. Its personnel and business operations, which were immaterial to our Group, were transferred to Xiamen Feiyou in August 2014.

## OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Our corporate and shareholding structure immediately after the completion of the Global Offering will be as follows (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be issued upon exercise of the share options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme and any Shares to be issued upon vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan):



## OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

### Notes:

- (1) The entire share capital of each of YAO Holdings Limited, BILIN Holdings Limited, Fishchen Holdings Limited, Eastep Holdings Limited, LINT Holdings Limited and LINCHEN Holdings Limited is wholly owned by Jolly Spring International Limited, Rayoon Limited, Honour Gate Limited, Ace Kingdom Limited, Supreme Top Global Limited and Sheen Field Limited, respectively. Each of Jolly Spring International Limited, Rayoon Limited, Honour Gate Limited, Ace Kingdom Limited, Supreme Top Global Limited and Sheen Field Limited is the nominee of TMF (Caymen) Ltd., the trustee of The Yao Family Trust, The Bi Family Trust, The Chen Family Trust, The Sun Family Trust, The Lin Family Trust and The Zhi Family Trust, respectively. These trusts are established by Messrs. Yao Jianjun, Bi Lin, Chen Jianyu, Sun Zhiyan, Lin Jiabin and Lin Zhibin (as the settlor), respectively, for the benefit of each of them and their family members.
- (2) Messrs. Lin Jiabin and Lin Zhibin are siblings.
- (3) Ms. Wang Baoshan is the wife of Mr. Cai Wensheng. Ms. Chen Yongchun, Mr. Cai Wensheng and Ms. Wang Baoshan are passive financial investors in our Group and Independent Third Parties. The Shares held by Dinglin Investment Partners Limited and Baolink Capital Ltd are counted towards our public float under Rule 8.08 of the Listing Rules.
- (4) Mr. Liu Shaoyu, director of Chengdu Guangcheng, and Messrs. Cao Jun and Zhou Kaisheng collectively own the remaining 40% equity interest in Chengdu Guangcheng. Please see the subsection headed “— Our Group’s Reorganization — Acquisition of Chengdu Guangcheng” for further details.
- (5) Mr. Dong Ting, the executive director and general manager of Xiamen Yidou and the supervisor of Feiyou Zhangxin, owns the remaining 25% equity interest in Xiamen Yidou and Feiyou Zhangxin. Please see the subsections headed “— Our Corporate History and Development before Reorganization — Xiamen Yidou” and “— Our Group’s Reorganization — Establishment of Feiyou Zhangxin” for further details.

In November 2014, Xiamen Yidou commenced transferring all of its personnel and business operations to Feiyou Zhangxin. After the completion of these transfers, Xiamen Yidou will become a dormant company. In addition, the Company and the Relevant shareholders have undertaken, and have adopted certain measures to ensure, that going forward no business operations will be conducted via Xiamen Yidou. Please see the subsections headed “— Our Group’s Reorganization — Transfer of Non-Restricted Business” and “Contractual Arrangements — Details of Contractual Arrangements — Operations in Compliance with the Contractual Arrangements” for further details.
- (6) In November 2014, Xiamen Guanghuan commenced transferring all of its personnel and business operations to Xiamen Feiyou, Feiyou Guangqu and/or Feiyou Guangyu. After the completion of these transfers, Xiamen Guanghuan will become a dormant company (apart from holding shares in its subsidiaries). In addition, the Company and the Relevant shareholders have undertaken, and have adopted certain measures to ensure, that going forward no business operations will be conducted via Xiamen Guanghuan. Please see the subsections headed “— Our Group’s Reorganization — Transfer of Non-Restricted Business” and “Contractual Arrangements — Details of Contractual Arrangements — Operations in Compliance with the Contractual Arrangements” for further details.
- (7) As of the Latest Practicable Date, Feiyou Feixin has not commenced any business operations.
- (8) As of the Latest Practicable Date, Xiamen Heihuo was a dormant company. Its personnel and business operations, which were immaterial to our Group, were transferred to Xiamen Feiyou in August 2014.

## **OVERVIEW**

We are a reputable developer and operator of mobile games and web games, with a strategic focus on mobile games. As of the Latest Practicable Date, our game portfolio included five mobile games and two web games, most of which are top ranked games in China according to either iResearch or App Annie. Our most successful games are our *Shen Xian Dao* (神仙道) series of RPGs, consisting of the web version of *Shen Xian Dao* (神仙道), its companion web game *Da Hua Shen Xian* (大話神仙), designed exclusively for Tencent platforms, and the mobile version of *Shen Xian Dao* (神仙道), and our Carrot Fantasy (保衛蘿蔔) games, a series of mobile casual games consisting of Carrot Fantasy (保衛蘿蔔) and Carrot Fantasy 2 (保衛蘿蔔2), which we acquired through our acquisition of Kailuo Tianxia in 2013. According to the iResearch Report, *Shen Xian Dao* (神仙道) was ranked third in terms of gross billings for all web games in China for 2012 (>RMB700 million), and eighteenth in 2013 (>RMB300 million) and tenth in terms of gross billings for all mobile games in China for 2013 (>RMB200 million). In addition, according to the iResearch Report, Carrot Fantasy (保衛蘿蔔) was ranked first among tower defense games in China in terms of average number of monthly active users in 2013 and the first half of 2014, with over 16.9 million and over 12.9 million active users per month, respectively, while for the first half of 2014, Carrot Fantasy 2 (保衛蘿蔔2) was ranked third, with over 7.9 million active users per month. Also, according to App Annie's daily analysis of Apple Inc.'s App Store rankings, during the six months ended June 30, 2014, our more recently launched game Jiong Xi You (囧西遊) was ranked among the daily top 20 adventure games in terms of gross billings in China for 181 days and *Luan Shi Zhi Ren 2* (亂世之刃2) (now titled *San Guo Zhi Ren* (三國之刃) and exclusively distributed on Tencent platforms) was ranked among the daily top 20 action games in terms of gross billings in China for 142 days. In addition, after the iOS version of *San Guo Zhi Ren* (三國之刃) was launched on Tencent platforms on October 19, 2014, for the period from October 22 through November 16, 2014, it was ranked first based on App Annie's daily analysis of Apple Inc.'s App Store rankings in terms of gross billings in China for 23 days and ranked second for three days.

We offer a diverse selection of games consisting of mobile games and web games. Our mobile games include RPGs and casual games, such as tower defense games, while our web games are all RPGs. Our casual games are generally easy to learn and typically have a simple story line with challenges for players to overcome in order to progress. They are usually played in multiple short periods of time and are suitable for play on a wide range of devices, including iPhones, iPads, and Android-based smartphones and tablets. Our RPGs typically require a higher time commitment and create an evolving virtual world within which players can play and interact with each other. Our RPGs typically draw upon themes such as fantasy martial-arts, strategy and historical events. We are one of the few PRC game development companies that offers games in both the casual and RPG categories.

We develop the majority of our games in-house and also acquire or license games from third parties. Our creative and talented game development teams, led by our senior management, focus on developing player-centric game environments that provide superior game experience in order to foster longer-term player retention. In addition, we have personnel in each of our operations teams dedicated to data collection and analysis, based on which we are able to better tailor our games for our target audience and attract distribution and publishing partners to feature our games. All of our launched games are free to play, which enables us to quickly attract new players to experience our games and achieve a critical mass for growth. We generate the significant majority of our revenue by selling virtual currency, which players who wish to enhance their entertainment experience can exchange for in-game virtual items and premium features, including powers and equipment for their characters and access to new levels or content. As of June 30, 2014, our RPGs, including mobile games and web games, had 173.2 million cumulative registered users and our casual games had 198.5 million cumulative activated downloads. For the month of June 2014, our RPGs, including mobile games and web games, had 2.3 million MAUs and our casual games had 22.5 million MAUs. For the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, average MPUs for our web games were approximately 67,000, 206,000, 121,000 and 62,000. In addition, for the same periods, our average MPUs for our mobile RPGs were approximately nil, 30,000, 34,000 and 40,000, respectively. Average MPUs for our mobile casual games, the first of which we

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acquired pursuant to our acquisition of Kailuo Tianxia in 2013, were approximately 1.0 million for the six months ended June 30, 2014. Fluctuations in our operating data are primarily a result of changes in the number of players that play, download (in the case of mobile games) and pay for virtual items and premium features in our games. Factors affecting the number of our players include general factors affecting the online game industry in China, competition in the online game industry, our ability to offer highly engaging online games, the continued popularity of our games, the monetization of our player base and our relationships with game distribution and publishing platforms. For a detailed discussion of such factors, see “Financial Information — Factors Affecting our Results of Operation” and for a detailed discussion of fluctuations in our operating data during the Track Record Period, see “Financial Information — Period to Period Comparison of Results of Operations.”

We currently have a strong game pipeline of mobile games and web games. We plan to launch four new games in 2014, two of which were already in beta-testing as of the Latest Practicable Date. One game is an action-based web RPG titled *Ba Qin* (霸秦), with a theme based on the historical warring states period in China and an expected launch date in December of 2014. The second is a parkour game titled Battery Run (電池快跑), also with an expected launch date in December of 2014. As of the Latest Practicable Date, we also had two mobile games in different stages of development that we expect to launch in December of 2014, including a Carrot Fantasy (保衛蘿蔔) themed game and a mobile RPG collectible card game titled *Mei Ren Wu Shuang* (美人無雙). We plan to launch nine new games in 2015, all of which we expect will be mobile games and include additions to our Carrot Fantasy (保衛蘿蔔) and *Shen Xian Dao* (神仙道) series, among other new games.

We have grown rapidly during the Track Record Period. Our revenue for the years ended December 31, 2011, 2012 and 2013, excluding Kailuo Tianxia, which we acquired on December 31, 2013, was RMB33.0 million, RMB158.7 million and RMB145.0 million, respectively, and for the six months ended June 30, 2014, including Kailuo Tianxia, was RMB129.2 million. Our profit for the years ended December 31, 2011, 2012 and 2013, excluding Kailuo Tianxia, was RMB24.6 million, RMB121.1 million and RMB51.0 million, respectively, and for the six months ended June 30, 2014, including Kailuo Tianxia, was RMB52.6 million. Our adjusted net profit for the years ended December 31, 2011, 2012 and 2013, excluding Kailuo Tianxia, was RMB24.6 million, RMB121.1 million and RMB79.8 million, respectively, and for the six months ended June 30, 2014, including Kailuo Tianxia, was RMB66.6 million. See “Financial Information — Non-IFRS Measure.” Kailuo Tianxia had revenue of RMB57.6 million and profit of RMB42.2 million for the year ended December 31, 2013, which was its first full year of operation.

### OUR STRENGTHS

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

#### **A Mobile Game and Web Game Developer and Operator with Strong Brand Recognition, Strategically Positioned to Benefit from the Growth of China’s Online Game Industry**

We are a reputable developer and operator of mobile games and web games, with a strategic focus on mobile games. As of the Latest Practicable Date, our game portfolio included five mobile games and two web games, most of which are top ranked according to either iResearch or App Annie. Our most successful games are our *Shen Xian Dao* (神仙道) series of RPGs and our Carrot Fantasy (保衛蘿蔔) games. Our *Shen Xian Dao* (神仙道) games are fantasy adventure-themed RPGs, the web version of which was our highly successful debut offering in late 2011. In 2012, we developed *Shen Xian Dao* (神仙道) into a mobile game and developed *Da Hua Shen Xian* (大話神仙) as a companion web game exclusively for Tencent platforms. *Shen Xian Dao* (神仙道) is one of the few online games in the PRC that has been successful in both web and mobile formats. Kailuo Tianxia, which we acquired in 2013, introduced Carrot Fantasy (保衛蘿蔔) in the second quarter of 2012 and Carrot Fantasy 2 (保衛蘿蔔2) in the fourth quarter of 2013. Our Carrot Fantasy (保衛蘿蔔) games are casual tower-defense games, making us one of the few PRC game development companies that offers games in both the casual and RPG categories.

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Our *Shen Xian Dao* (神仙道) and Carrot Fantasy (保衛蘿蔔) games have strong brand recognition among online game players and have been recognized as top games in the PRC. According to the iResearch Report, the web version of *Shen Xian Dao* (神仙道) was ranked third in terms of gross billings for all web games in China for 2012 (>RMB700 million), and the eighteenth in 2013 (>RMB300 million) and the mobile version was ranked tenth in terms of gross billings for all mobile games in China for 2013 (>RMB200 million). In addition, according to the iResearch Report, Carrot Fantasy (保衛蘿蔔) was ranked first among tower defense games in China in terms of average number of monthly active users in 2013 and the first half of 2014, with over 16.9 million and over 12.9 million active users per month, respectively, while for the first half of 2014, Carrot Fantasy 2 (保衛蘿蔔2) was ranked third, with over 7.9 million active users per month. According to the iResearch Report, Carrot Fantasy (保衛蘿蔔) was also ranked number two in terms of monthly users' time spent in 2013 and first for the first half of 2014, with over 2.4 billion and 1.8 billion minutes spent playing per month, respectively, while for first half of 2014, Carrot Fantasy 2 (保衛蘿蔔2) was ranked second, with over 1.8 billion minutes spent playing per month. For the fourth quarter of 2013 and the first quarter of 2014, Carrot Fantasy (保衛蘿蔔) was also ranked first according to the iResearch Report in terms of popularity among tower defense games in the PRC, as measured by the frequency of appearance in the daily rankings of Android distribution platforms, and for the first half of 2014, Carrot Fantasy (保衛蘿蔔) was ranked second and Carrot Fantasy 2 (保衛蘿蔔2) was ranked third. In addition, according to App Annie, some of our key games were ranked among the top 20 games in terms of gross billings and number of free downloads based on its daily analysis of Apple Inc.'s App Store's rankings for the number of days and in the categories listed in the table below.

### Number of Days Ranked among Top 20 Games by Gross Billings in China

Game	Category <sup>(1)</sup>	Game Release Date	For the year ended December 31, 2012	For the year ended December 31, 2013	For the six months ended June 30, 2014
<i>Shen Xian Dao</i> (神仙道)					
<i>Mobile</i> . . . . .	RPG	January 2012	353	365	130
<i>Jiong Xi You</i> (囧西游) . . . . .	Adventure	July 2013	–	152	181
<i>Luan Shi Zhi Ren 2</i> (亂世之刃2) (now titled <i>San Guo Zhi Ren</i> (三國之刃)) <sup>(2)</sup> . . . . .	Action	December 2013	–	–	142

Source: App Annie

Notes:

- (1) Based on the categories available on Apple Inc.'s App Store. Game developers may select more than one game category for games to be categorized.
- (2) We recently entered into an agreement with Shenzhen Tencent to exclusively license *Luan Shi Zhi Ren 2* (亂世之刃2) (now titled *San Guo Zhi Ren* (三國之刃)) for distribution and publishing on Tencent platforms. The Android version of *San Guo Zhi Ren* (三國之刃) was launched on August 7, 2014 and the iOS version was launched on October 19, 2014.



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### Number of Days Ranked among Top 20 Games by Number of Free Download in China

Game	Category <sup>(1)</sup>	Game Release Date	For the year ended December 31, 2012	For the year ended December 31, 2013	For the six months ended June 30, 2014
Carrot Fantasy (保衛蘿蔔) . . .	Strategy	July 2012 <sup>(2)</sup>	20	291	48
Carrot Fantasy 2 (保衛蘿蔔2)	Strategy	November 2013	–	41	181

Source: App Annie

Notes:

- (1) Based on the categories available on Apple Inc.'s App Store. Game developers may select more than one game category for games to be categorized.
- (2) Carrot Fantasy (保衛蘿蔔) was offered as a paid download upon launch in July 2012 and was changed to a free download in December 2012. As a result, its 2012 rankings as a free download began in December 2012.

In addition, after the iOS version of *San Guo Zhi Ren* (三國之刃) was launched on Tencent platforms on October 19, 2014, for the period from October 22 through November 16, 2014, it was ranked first based on App Annie's daily analysis of Apple Inc.'s App Store rankings in terms of gross billings in China for 23 days and ranked second for three days.

We intend to continue to capitalize on these established brands by releasing additional Carrot Fantasy (保衛蘿蔔) themed games, including Carrot Fantasy 3 (保衛蘿蔔3) and a new installment of our *Shen Xian Dao* (神仙道) series. In addition to extending the life of these brands, we believe maintaining their popularity will also help us gain even stronger industry recognition. Due to our established game portfolio and our strong brand recognition, we believe that we are well positioned to further capitalize on the tremendous growth opportunities offered by the fast growing online game market in China and abroad.

### Strong Monetization Capability and Superior Game Experience that Attracted a Large Player Base

Since our inception, we have been committed to creating a player-focused game environment that offers users a superior game experience in order to retain longer-term players. We provide appealing game design, settings and functions, all presented in easy-to-use interfaces. All of our games are designed to present players with increasingly difficult challenges while at the same time rewarding their progress. We also roll out upgrades frequently to enhance the features of our games and maintain user interest. Our web games are usually upgraded once every two weeks while our mobile games are typically upgraded every three to four weeks.

Since the launch of *Shen Xian Dao* (神仙道) in 2011, we have established a large player base. As of June 30, 2014, our RPGs, including mobile games and web games, had 173.2 million cumulative registered users and our casual games had 198.5 million cumulative activated downloads. For the month of June 2014, our RPGs, including mobile games and web games had 2.3 million MAUs and our casual games had 22.5 million MAUs. For the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, average MPUs for our web games were approximately 67,000, 206,000, 121,000 and 62,000. In addition, for the same periods, our average MPUs for our mobile RPGs were approximately nil, 30,000, 34,000 and 40,000, respectively. Average MPUs for our casual games, the first of which we acquired pursuant to our acquisition of Kailuo Tianxia in 2013 were approximately 1.0 million for the six months ended June 30, 2014. We believe that due to the superior game experience we offer, in combination with ongoing improvements and upgrades to our games, we have been able to improve player stickiness, as evidenced by our most successful games. For instance, according to the iResearch Report, Carrot Fantasy was ranked number two in 2013 in terms of the monthly users' time spent among tower-defense games in China.

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We have built an effective business model to monetize our player base and increase our number of paying players and ARPPU. All of our launched games are free to play, which enables us to quickly attract new players to experience our games and achieve a critical mass for future growth. We generate the significant majority of our revenue by selling in-game virtual items and premium features for players to enhance their entertainment experience with powers and equipment and access to new levels or content. We offer a wide variety of such virtual items and premium features and frequently introduce new in-game activities to sustain players' interest in our games, facilitate their interaction and communication and increase their in-game purchases and rounds of games played. We also initiate various promotions to increase in-game spending and our number of active users, which also typically leads to an overall increase in in-game spending. ARPPU for our web games were RMB40.1 for the year ended December 31, 2011, RMB55.8 for the year ended December 31, 2012, RMB53.2 for the year ended December 31, 2013 and RMB78.5 for the six months ended June 30, 2014. ARPPU for our mobile RPGs increased from nil for the year ended December 31, 2011 to RMB47.3 for the year ended December 31, 2012 to RMB142.8 for the year ended December 31, 2013 and RMB242.0 for the six months ended June 30, 2014. ARPPU for our casual games, the first of which we acquired pursuant to our acquisition of Kailuo Tianxia in 2013, was RMB5.2 for the six months ended June 30, 2014. For a detailed discussion of fluctuations in our operating data during the Track Record Period, see "Financial Information — Period to Period Comparison of Results of Operations."

### Diverse Distribution and Publishing Platforms

We have access to multiple tiers of game distribution and publishing platforms to market and promote our games. For our mobile games, we closely cooperate with major online application stores in order to reach a variety of mobile device users. Certain of our games are available for download on iOS and Android and we also utilize various other online application stores in China. In addition, we utilize websites that promote and distribute online games in China to expand our distribution network beyond online application stores. For web games we utilize web game portals to attract web game players. As of the Latest Practicable Date, our games were available on an extensive network of over 300 distribution and publishing platforms, which covers substantially all of China's mobile and web game population. Our games are available on some of the most visited game distribution and publishing platforms in China, including Baidu, Tencent, 37wan.com, 91wan.com, 360.cn and duowan.com, enabling us to tap into a large and diversified player base.

Key distribution and publishing platforms have recognized the high quality of our games and have offered to prioritize resources in marketing our games on their platforms. We have been provided specialized marketing campaigns, at no cost to us that single out our games to site visitors. We have also designed games specifically for particular platforms, such as *Da Hua Shen Xian* (大話神仙), developed exclusively for Tencent platforms. In addition, we have recently granted Shenzhen Tencent the exclusive right to distribute and publish *Luan Shi Zhi Ren 2* (亂世之刃2) (now titled *San Guo Zhi Ren* (三國之刃)) on Tencent platforms. The massive traffic of the distribution and publishing platforms on which our games are available allows us to ramp up our games quickly to attract a critical mass of players within a short period of time. These publishing and distributing platforms are familiar with online game markets and possess strong marketing capabilities to help us deepen market penetration in the countries and regions they serve.

In addition, while China is currently our main market of focus, we have also developed a global presence by releasing certain of our games on distribution and publishing platforms internationally. We have licensed certain of our games to be published in markets such as Hong Kong, Macau, Taiwan, South Korea, Indonesia, and Vietnam. For the years ended December 31,

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2011, 2012 and 2013 and the six months ended June 30, 2014, we generated 0.0%, 16.4%, 18.0% and 14.1% of our revenue from outside of the PRC, respectively as determined by payment currency. We continuously evaluate opportunities to release our games internationally. For instance, we have recently entered into an agreement with Glu Mobile Inc., a global game distributor, for the release of Carrot Fantasy 2 (保衛蘿蔔2) on iOS and Android in the U.S., Europe and other regions outside China, Hong Kong and Taiwan. Carrot Fantasy 2 (保衛蘿蔔2) began to be available in certain of these regions, including Singapore and Canada, in November of 2014 and will gradually become available in other regions.

### **Strong Game Development Expertise with a Data-driven Approach and Track Record of Successful Games**

Anchored by our core game development talent and led by our experienced senior management team, we have strong game development expertise. The majority of our games are developed in-house. In addition, we also work to identify promising external game development teams and aim to form strategic relationships through acquisition or game licensing. For example, our Carrot Fantasy (保衛蘿蔔) games were developed in-house by the development team of Kailuo Tianxia, which we acquired on December 31, 2013. We undertake game development from a scientific and data driven approach. We actively monitor the latest trends relating to entertainment and popular culture to develop games with themes and storylines that attract a wide base of players. All of the elements in our games, such as the storyline, progression of players' characters' attributes, artwork and pricing of virtual items, are carefully analyzed by our senior management and design teams. In addition, through our previous successes, including our *Shen Xian Dao* (神仙道), Carrot Fantasy (保衛蘿蔔), *Jiong Xi You* (囧西游) and *Luan Shi Zhi Ren 2* (亂世之刃2) (now titled *San Guo Zhi Ren* (三國之刃)) games, we have accumulated in-depth knowledge of the gaming market, player preferences and industry trends. We accumulate data relating to user behavior and preferences from our servers and third-party distribution and publishing platforms on which our games are available. Leveraging this data we have been able to react quickly to changing customer preferences and market trends in China to continually develop successful new games.

Our core development teams are led by our senior management, members of which come from a diverse background in the Internet industry. For instance, Mr. Yao Jianjun, our chief executive officer and chairman of our Board of Directors, is the founder of CNZZ.com, a website providing statistical services for PRC websites that was subsequently acquired by Alibaba. Mr. Chen Jianyu, our president, is a co-founder of Beijing Meitu Creative Advertisement Co., Ltd., the developer of *Meitu Viewer*, an image viewing software, and the founder of Kailuo Tianxia, the developer of Carrot Fantasy (保衛蘿蔔) and Carrot Fantasy 2 (保衛蘿蔔2), which we acquired on December 31, 2013. Through these diverse backgrounds, our senior management team has a deep understanding of Internet users of various kinds that they have been able to leverage into successful game development.

### **Stable and Experienced Management Team with Long-term Vision**

We have a stable and experienced management team that has successfully led our game development and overall operations. Our senior management possesses extensive industry experience, a deep understanding of market trends and rich operational expertise that has enabled us to successfully adapt to the changing industry and competitive landscape. The members of our senior management have an average of 9 years of experience in China's Internet industry. In particular, Mr. Yao Jianjun, our chief executive officer and chairman of our Board of Directors, and Mr. Chen Jianyu, our president, each has over 13 years of experience in China's Internet industry. Mr. Cheung Man Yu, our chief financial officer, has over 16 years of experience in finance and accounting and previously worked in investment banking. Moreover,

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many of our senior management and core game development talent have been with us since our inception, and are actively involved in our business, in particular game development, and continue to play an instrumental role in our success. Together, our management team has a long-term vision for the Company and has developed a cohesive and vibrant corporate culture to inspire and encourage collaboration. We believe this helps us attract, retain and motivate a talented game development team to drive our planned business growth.

### OUR STRATEGIES

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

#### Expand Our Game Portfolio and Focus on the Development of Mobile Games

We will continue to develop and launch more fun and exciting mobile and web game titles and diversify our game portfolio into diverse genres to capture broader segments of the game population in China. We aim to do so by leveraging the creativity of our team and our data-driven development process and continuing to invest in our in-house game development by hiring more engineers. We will also continue to seek out promising game development teams with the goal of expanding our game development capacity.

We currently have a strong game pipeline of mobile games and web games. We plan to launch four new games in 2014, two of which were already in beta-testing as of the Latest Practicable Date. One game is an action-based web RPG titled *Ba Qin* (霸秦), with a theme based on the historical warring states period in China and an expected launch date in December of 2014. The second is a parkour game titled *Battery Run* (電池快跑), also with an expected launch date in December of 2014. As of the Latest Practicable Date, we also had two mobile games in different stages of development that we also expect to launch in December of 2014, including a new *Carrot Fantasy* (保衛蘿蔔) themed game and a mobile RPG collectible card game titled *Mei Ren Wu Shuang* (美人無雙).

We recognize the enormous opportunities provided by connected mobile devices and have already begun shifting the focus of our game development to mobile games. For instance, we launched the mobile version of *Shen Xian Dao* (神仙道) in 2012, *Jiong Xi You* (囧西遊) and *Luan Shi Zhi Ren 2* (亂世之刃2) (now titled *San Guo Zhi Ren* (三國之刃)) in 2013 and acquired Kailuo Tianxia, the developer of the *Carrot Fantasy* series on December 31, 2013. We plan to continue this shift towards mobile games and expect that in the future the majority of the games we develop will continue to be for mobile platforms. Accordingly, we expect each of the nine new games we anticipate launching in 2015 will be mobile games.

#### Strengthen Our Brand and Continue to Extend the Life Cycle of Our Games

Our most successful games to date are our *Shen Xian Dao* (神仙道) series of RPG web and mobile games and our *Carrot Fantasy* series of mobile casual games. As of June 30, 2014, our *Shen Xian Dao* (神仙道) series, including *Da Hua Shen Xian* (大話神仙) and the web and mobile versions *Shen Xian Dao* (神仙道), had over 169.0 million cumulative registered users. Similarly, as of June 30, 2014, our *Carrot Fantasy* series, including *Carrot Fantasy* and *Carrot Fantasy 2* (保衛蘿蔔2), had over 198.5 million cumulative activated downloads. These two series have strong brand recognition among online game players and continue to attract a diverse and growing base of players years after their initial launch. As these series have been continuously successful, we plan to continue to expand them to maintain and grow their respective player bases and extend their life cycles. For instance, over two years after the launch of our *Shen Xian Dao* (神仙道) web and mobile

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versions, we are planning to extend the series by launching the sequel to *Shen Xian Dao* (神仙道), titled *Shen Xian Dao Wai Zhuan* (神仙道外傳), in 2015. Similarly, over two years after the launch of Carrot Fantasy (保衛蘿蔔), and one year after the launch of Carrot Fantasy 2 (保衛蘿蔔2), we plan to expand the series again with the launch of a new Carrot Fantasy (保衛蘿蔔) themed game in December of 2014 and Carrot Fantasy 3 (保衛蘿蔔3) and a Carrot Fantasy (保衛蘿蔔) themed interactive pet game in 2015. Moreover, we plan to duplicate the model of these series by developing games with potential to grow into successful brands.

In addition, we have begun rolling out our unified marketing strategy. Going forward we plan to have all of our games, including our *Shen Xian Dao* (神仙道) and Carrot Fantasy (保衛蘿蔔) series, under our *Feiyu* (飛魚) umbrella brand. We believe this marketing strategy will enhance our brand recognition and expand our player base.

### Further Explore Monetization Opportunities

We intend to explore monetization opportunities through various initiatives aimed at expanding our player base and increasing ARPPU for both our mobile and web games. These initiatives include enhancing player engagement through improving the design and settings of our games to make them more competitive and engaging, frequently updating our games with new features and contents, creating new and innovative gameplay and extending the life cycle of our games. We will also utilize our data analysis capability to better understand player behavior and preferences, address player demands and improve their game experience. As our primary source of revenue is our in-game virtual items and premium features, we often offer new and attractive virtual items based on the data generated from our data analysis team. We also initiate various promotions to increase in-game spending and increase our number of active users, which also typically leads to an overall increase in in-game spending. We intend to continue using and creating such innovative methods to increase in-game spending and our number of active users. In addition, as our player base continues to grow, we expect to broaden our use of advertisements within our games, especially for casual games, as a source of revenue. In addition, we will also continue to explore ways to optimize revenue sharing arrangements with the distribution and publishing platforms that feature our games. Finally, we also actively monitor and intend to take advantage of newly developed payment methods as and when they become available in China to further enhance our monetization capabilities.

### Continue to Expand Global User Base

Our existing and continually expanding player base is critical to our success, especially players of our *Shen Xian Dao* (神仙道) and Carrot Fantasy (保衛蘿蔔) series. We plan to continue to increase this customer base in China and also expand our operations to capture market opportunities in the international markets. Going forward we intend to leverage our existing distribution and publishing network to further expand our global presence and broaden our geographic penetration. We will work to strengthen our relationships with major international game publishing and distribution partners to expand the reach of our games into new countries and regions. We plan to further expand our international operations by customizing existing games to target overseas audiences. Given the shared cultural heritage of the greater Asia region with that of China, we expect our RPGs with historical and fantasy martial-arts themes to gain popularity in this region. In addition, as our mobile casual games are typically based on simple story lines and rules allowing them to transcend cultural borders, we expect them to become popular on an international scale, especially in North America and Europe, and plan to distribute them overseas accordingly.



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### **Pursue Strategic Alliances and Acquisition Opportunities**

In order to increase our market share in China's highly fragmented mobile games industry, we plan to expand our business through both organic growth and strategic acquisitions and partnerships. We intend to selectively invest in or enter into strategic partnerships with complementary game developers or development teams to broaden our game genres and player reach, with a particular focus on mobile games. We may also acquire intellectual property or invest in or acquire mobile game publishers. We believe such acquisitions will help broaden our game categories, expand our development team and obtain access to other valuable resources. We currently do not have any identified acquisition interests.

### **OUR GAMES**

#### **Overview**

We develop and operate online mobile games and web games that appeal to mainstream players. Mobile games are games that can be played on mobile devices, such as smartphones and tablets, which enable players to utilize fragmented time to play our games anytime and anywhere with an available wifi, 3G or 4G network. In addition, certain mobile games, including some casual games like our Carrot Fantasy (保衛蘿蔔) games, can be played without an Internet connection once they are downloaded to a mobile device. Web games are online games that can be played without the installation of client software and can be accessed through any computer with an Internet connection. We offer a diverse selection of games consisting primarily of RPGs in both mobile and web formats and mobile casual games. We have been gradually shifting our strategic focus to the development of mobile games and plan to continue doing so in the future.

Our RPGs typically draw upon themes such as fantasy martial-arts, strategy and historical narratives. Each of our RPGs creates an evolving virtual world within which game players can play and interact with each other in various ways over the Internet. Because RPGs require more time and commitment from players in order to develop the skills and character attributes required to progress to the next level, our RPGs tend to develop game player loyalty.

Our mobile casual games are generally less time-consuming and require less focus and attention to play than RPGs. They are usually easy to learn and typically have a simple story line with challenges for players to overcome in order to progress. Our most popular mobile casual game, Carrot Fantasy (保衛蘿蔔), is a tower defense game, in which players set up various structures along a path in order to protect their carrot from being eaten by monsters.



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### Existing Game Portfolio

As of the Latest Practicable Date, our game portfolio included five mobile games and two web games. The following table sets forth certain information relating to our games.

Title	Category	Details	Launch Date <sup>(1)</sup>	Life Cycle Stage as of the Latest Practicable Date <sup>(5)</sup>
<i>Shen Xian Dao</i> (神仙道) Web . . . . .	Web RPG	Fantasy martial arts theme	May 2011	Late stage
<i>Shen Xian Dao</i> (神仙道) Mobile . . . .	Mobile RPG	Fantasy martial arts theme	January 2012	Late stage
<i>Da Hua Shen Xian</i> (大話神仙) <sup>(2)</sup> . . . .	Web RPG	Fantasy martial arts theme	February 2012	Late stage
<i>Carrot Fantasy</i> (保衛蘿蔔) <sup>(3)</sup> . . . . .	Mobile Casual	Tower defense game	July 2012	Late stage
<i>Jiong Xi You</i> (囧西遊) . . . . .	Mobile RPG/Adventure	Fantasy martial arts — Journey to the West theme	July 2013	Stable stage
<i>Luan Shi Zhi Ren 2</i> (亂世之刃2) (now titled <i>San Guo Zhi Ren</i> (三國之刃)) <sup>(4)</sup> . . . . .	Mobile RPG/Action	Romance of the Three Kingdoms theme	December 2013	Early stage
<i>Carrot Fantasy 2: Polar Adventure</i> <sup>(3)</sup> (保衛蘿蔔：極地冒險) . . . . .	Mobile Casual	Tower defense theme	November 2013	Stable stage

**Notes:**

- (1) We consider a game to be “launched” when we have concluded beta-testing and the game becomes available for players to access through our third-party distribution and publishing platforms.
- (2) Designed specifically for Tencent platforms as a companion game to *Shen Xian Dao* (神仙道).
- (3) *Carrot Fantasy* (保衛蘿蔔) and *Carrot Fantasy 2* (保衛蘿蔔2) were developed by Kailuo Tianxia, which we acquired on December 31, 2013.
- (4) *Luan Shi Zhi Ren 2* (亂世之刃2) is the sequel to *Luan Shi Zhi Ren* (亂世之刃), which we no longer offer. We recently entered into an agreement with Shenzhen Tencent to exclusively license *Luan Shi Zhi Ren 2* (亂世之刃2) (now titled *San Guo Zhi Ren* (三國之刃)) for distribution and publishing on Tencent platforms. The Android version of *San Guo Zhi Ren* (三國之刃) was launched on August 7, 2014 and the iOS version was launched on October 19, 2014.
- (5) According to the iResearch Report, a web game has an average life cycle of six months and a mobile game has an average life cycle of three to six months, with only high quality games reaching longer life cycles. Historically, most of our games have had life cycles longer than this estimate and as a result we have estimated their current stage as either early stage, stable stage or late stage, based on whether revenues derived from such games are increasing, stable or decreasing, respectively. For instance, the web version of *Shen Xian Dao* (神仙道), which we launched in May 2011, began reaching the late stages of its life cycle in 2013 and is currently still generating revenue. Similarly, the mobile version of *Shen Xian Dao* (神仙道), *Da Hua Shen Xian* (大話神仙), *Carrot Fantasy* (保衛蘿蔔), *Jiong Xi You* (囧西遊), *Luan Shi Zhi Ren 2* (亂世之刃2) (now titled *San Guo Zhi Ren* (三國之刃)), and *Carrot Fantasy 2* (保衛蘿蔔2) were launched in January of 2012, February of 2012, July of 2012, July of 2013, December of 2013 and November of 2013, respectively, and all continue to generate revenue. We believe our games have historically had life cycles longer than the typical expected life cycle due to our commitment to creating a player-focused game environment that offers users a superior game experience in order to retain longer-term players. We provide appealing game design, settings and functions, all presented in easy-to-use interfaces. All of our games are designed to present players with increasingly difficult challenges while at the same time rewarding their progress. We also roll out upgrades frequently to enhance the features of our games and maintain user interest. Our web games are usually upgraded once every two weeks while our mobile games are typically upgraded every three to four weeks.

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Descriptions of our existing games are provided below.

### *Shen Xian Dao* (神仙道)



*Shen Xian Dao* (神仙道) is a turn-based, side-scrolling RPG based on fantasy and mythic storylines. Players can choose from three roles, including *Wusheng* (武聖), a martial artist, *Jianling* (劍靈), wielding a sword, and *Feiyu* (飛羽), an archer, to embark on adventures slaying demons and enemies with martial arts and magic. Players' equipment and strength can be upgraded by completing various missions and defeating enemies. *Shen Xian Dao* (神仙道) is a multi-player game in which players can play and interact with each other online. Players purchase virtual currency, the price of which is 10 units of virtual currency for RMB1.00, which they can exchange for such virtual items and premium features. As of the Latest Practicable Date, we offer more than 40 virtual items and premium features in *Shen Xian Dao* (神仙道), including character enhancements, such as upgrading weapons, magical potions, armour and experience levels. We determine the prices of individual virtual items and premium features, which vary widely from two units to 6,000 units of virtual currency. See “— Revenue Model and Pricing.” *Shen Xian Dao* (神仙道) is available in web version on over 300 platforms in China, Hong Kong, Macau, Taiwan, South Korea, Vietnam and Indonesia. The mobile version of *Shen Xian Dao* (神仙道) was launched in 2012 and is available for download globally on iOS and Android.

### *Da Hua Shen Xian* (大話神仙)



*Da Hua Shen Xian* (大話神仙) is a companion game to *Shen Xian Dao* (神仙道) that we designed exclusively for Tencent platforms. *Da Huan Shen Xian* (大話神仙) is a turn-based, side-scrolling RPG based on romanticized immortal myth storylines. Similar to *Shen Xian Dao* (神仙道), players can choose from three roles as a martial artist, swordsman, or archer to slay demons and save the world from evil spirits. *Da Hua Shen Xian* (大話神仙) is a multi-player game in which players can play and interact with each other online. Players purchase virtual currency, the price of which is 10 units of virtual currency for RMB1.00, which they can exchange for such virtual items and premium features. As of the Latest Practicable Date, we offer more than 40 virtual items and premium features in *Da Hua Shen*

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*Xian* (大話神仙), including character enhancements, such as upgrading weapons, magical potions, armour and experience levels. We determine the prices of individual virtual items and premium features, which vary widely from 20 units to 3,399 units of virtual currency. See “— Revenue Model and Pricing.” *Da Hua Shen Xian* (大話神仙) is a web game and is available on Tencent platforms in China.

*Carrot Fantasy* (保衛蘿蔔)



Carrot Fantasy (保衛蘿蔔) is an easy-to-play single-player mobile casual game. It is a tower-defense game in which the goal is to protect the player’s carrot from being eaten by monsters by creating different towers along their path to attack the enemy. Players can also attack surrounding structures to pick up treasure and to make space for more towers. The game takes place in various settings including forests, deserts and the ocean. As of the Latest Practicable date, we offer more than 15 virtual items and premium features in Carrot Fantasy (保衛蘿蔔), including food and medicine for pet monsters, unlocking levels and removal of in-game advertisements, which players can purchase directly using legal currencies. We determine the prices of virtual items and premium features, which vary between RMB2 to RMB68. Carrot Fantasy (保衛蘿蔔) is a mobile game and was first launched in July 2012 and is available for download globally on iOS and Android.

*Jiong Xi You* (囧西游)



*Jiong Xi You* (囧西游) is a mobile RPG based on Journey to the West, one of the four major classical Chinese novels. Adopting a cartoon visual style, players can choose from various roles to partake in a humorous and whimsical retelling of the Chinese classic. Players can upgrade their character’s attributes and equipment by participating in the main storyline and completing tasks based on the Journey to the West storyline. *Jiong Xi You* (囧西游) is a multi-player game in which players can play and interact with each other online. Players purchase virtual currency, the price of which is units of virtual currency for RMB1.00, which they can exchange for such virtual items and premium features. As of the

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Latest Practicable Date, we offer more than 50 virtual items and premium features in *Jiong Xi You* (囧西遊), including character enhancements, such as increasing fighting ability and upgrading endurance and experience levels. We determine the prices of individual virtual items and premium features, which vary widely from one unit to 800 units of virtual currency. See “— Revenue Model and Pricing.” *Jiong Xi You* (囧西遊) is a mobile game and was first launched in July 2013. It is available for download in China on iOS and Android.

*Luan Shi Zhi Ren 2* (亂世之刃2) (now titled *San Guo Zhi Ren* (三國之刃))



*Luan Shi Zhi Ren 2* (亂世之刃2) is a side-scrolling mobile RPG battle game based on the historical epic Romance of the Three Kingdoms story lines, and is the sequel to *Luan Shi Zhi Ren* (亂世之刃), which we no longer offer. Players enter the Three Kingdoms world as a fighter wielding either a sword, a bow or a spear to follow storylines based on the classic historical novel, battle enemies, and enter one-on-one battle challenges with other players. *Luan Shi Zhi Ren 2* (亂世之刃2) is a multi-player game in which players can play and interact with each other online. As of the Latest Practicable Date, we offer more than 500 virtual items and premium features in *Luan Shi Zhi Ren 2* (亂世之刃2), including special weapons, gems and character enhancements, such as armour and equipment upgrades. Players purchase virtual currency, the price of which is units of virtual currency for RMB1.00, which they can exchange for such virtual items and premium features. We determine the prices of individual virtual items and premium features, which vary widely from three units to 450 units of virtual currency. See “— Revenue Model and Pricing.” We recently entered into an agreement with Shenzhen Tencent to exclusively license *Luan Shi Zhi Ren 2* (亂世之刃2) for distribution and publishing through on Tencent platforms as of August 2014. Now titled *San Guo Zhi Ren* (三國之刃), it is available for download for Android and iOS in China.

*Carrot Fantasy 2: Polar Adventure* (保衛蘿蔔2: 極地冒險)



*Carrot Fantasy 2* (保衛蘿蔔2) is the sequel to our popular *Carrot Fantasy* (保衛蘿蔔) game. In addition to adding a new polar-themed environment, *Carrot Fantasy 2* (保衛蘿蔔2) adds many new features, including 14 new towers, 195 special missions and new monsters.



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The goal of the game remains to protect the player's carrot from being eaten by monsters by creating different towers along their path to attack the enemy. As of the Latest Practicable date, we offer more than 30 virtual items and premium features in Carrot Fantasy 2 (保衛蘿蔔2), including unlimited lives, gems and unlocking levels, which players can purchase directly using legal currencies. We determine the prices of virtual items and premium features, which vary between RMB2 to RMB68. Carrot Fantasy 2 (保衛蘿蔔2) was first launched in November 2013 by Kailuo Tianxia and is available for download on iOS in China, Hong Kong, Macau and Taiwan and Android. In addition, we have recently entered into an agreement with Glu Mobile Inc., a global game distributor, for the release of Carrot Fantasy 2 (保衛蘿蔔2) on iOS and Android in the U.S., Europe and other regions outside China, Hong Kong and Taiwan. Carrot Fantasy 2 (保衛蘿蔔2) began to be available in certain of these regions, including Singapore and Canada, in November of 2014 and will gradually become available in other regions.

The following table sets forth revenue generated from our key games through the sale of virtual currency, which players can exchange for virtual items and premium features, in absolute amounts and as percentages of our total revenue during the Track Record Period.

	For the year ended December 31,						For the six months ended June 30,			
	2011 <sup>(1)</sup>		2012 <sup>(1)</sup>		2013 <sup>(1)</sup>		2013 <sup>(1)</sup>		2014	
	Revenue (RMB'000)	% of Revenue	Revenue (RMB'000)	% of Revenue	Revenue (RMB'000)	% of Revenue	Revenue (RMB'000)	% of Revenue	Revenue (RMB'000)	% of Revenue
<b>Web games (RPGs)</b>										
<i>Shen Xian Dao</i> (神仙道) . . . . .	32,205	97.6	122,400	77.1	57,766	39.8	33,471	44.4	25,242	19.5
<i>Da Hua Shen Xian</i> (大話神仙) . . . . .	—	—	15,292	9.6	19,557	13.5	12,471	16.5	4,089	3.2
<b>Mobile games</b>										
<b>RPGs</b>										
<i>Shen Xian Dao</i> (神仙道) . . . . .	—	—	16,874	10.7	38,818	26.8	22,514	29.9	11,901	9.2
<i>Jiong Xi You</i> (囧西游) . . . . .	—	—	—	—	18,175	12.5	—	—	19,683	15.2
<i>Luan Shi Zhi Ren 2</i> (亂世之刃2) (now titled <i>San Guo Zhi Ren</i> <i>Ren</i> (三國之刃)) <sup>(2)</sup>	—	—	—	—	257	0.2	—	—	26,489	20.5
<b>Casual</b>										
<i>Carrot Fantasy</i> (保衛蘿蔔) . . . . .	—	—	—	—	—	—	—	—	9,806	7.6
<i>Carrot Fantasy 2</i> (保衛蘿蔔2) . . . . .	—	—	—	—	—	—	—	—	22,119	17.1
<b>Key games total</b> . . . . .	<b>32,205</b>	<b>97.6</b>	<b>154,566</b>	<b>97.4</b>	<b>134,573</b>	<b>92.8</b>	<b>68,456</b>	<b>90.8</b>	<b>119,329</b>	<b>92.3</b>

**Notes:**

- (1) Excludes the revenue of our Carrot Fantasy games, which we acquired pursuant to our acquisition of Kailuo Tianxia on December 31, 2013.
- (2) We recently entered into an agreement with Shenzhen Tencent to exclusively license *Luan Shi Zhi Ren 2* (亂世之刃2) (now titled *San Guo Zhi Ren* (三國之刃)) for distribution and publishing on Tencent platforms. The Android version of *San Guo Zhi Ren* (三國之刃) was launched on August 7, 2014 and the iOS version was launched on October 19, 2014.

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The following table sets forth revenue generated from the sale of virtual items and premium features in our Carrot Fantasy (保衛蘿蔔) games, which we acquired as part of our acquisition of Kailuo Tianxia in 2013, in absolute amounts and as percentages of Kailuo Tianxia's total revenue during the Track Record Period:

Game	For the year ended December 31,			
	2012 <sup>(1)</sup>		2013	
	Revenue (RMB'000)	% of Revenue	Revenue (RMB'000)	% of Revenue
Carrot Fantasy (保衛蘿蔔) . . . . .	898	57.3	43,950	76.2
Carrot Fantasy 2 (保衛蘿蔔2) . . . . .	—	—	1,017	1.8
<b>Total</b> . . . . .	<b>898</b>	<b>57.3</b>	<b>44,967</b>	<b>78.0</b>

Note:

(1) Kailuo Tianxia began operation on May 3 of 2012. As a result revenue for this period is limited to the period from May 3, 2012 to December 31, 2012.

### Game Pipeline

Through the creativity, talent and expertise of our development teams and our data-driven approach to game development, we have developed a strong pipeline of mobile casual games and mobile and web RPGs. We develop new titles as well as expand our established games series, including sequels or companion titles, such as *Da Hua Shen Xian* (大話神仙) and Carrot Fantasy 2 (保衛蘿蔔2).

We plan to launch four new games in 2014, two of which were already in beta-testing as of the Latest Practicable Date. One game is an action-based web game titled *Ba Qin* (霸秦), with a theme based on the historical warring states period in China and an expected launch date in December of 2014. The second is a parkour game titled Battery Run (電池快跑), also with an expected launch date in December of 2014. As of the Latest Practicable Date, we also had two mobile games in different stages of development that we also expect to launch in December of 2014, including a Carrot Fantasy themed game and a mobile RPG collectible card game titled *Mei Ren Wu Shuang* (美人無雙). The table below sets out certain information regarding our games in development through 2014, including category, stage of development, and expected launch date.

Title <sup>(2)</sup>	Category	Theme	Development Stage as of the Latest Practicable Date <sup>(1)</sup>	Expected Launch Date
<i>Ba Qin</i> (霸秦) . . . . .	Web RPG	Warring states period theme	Beta-testing	December 2014
Battery Run (電池快跑) . . . . .	Mobile Casual	Parkour game	Beta-testing	December 2014
<i>Mei Ren Wu Shuang</i> (美人無雙) <sup>(3)</sup> . . . . .	Mobile RPG	Collectible card game	Internal review	December 2014
Carrot Fantasy – untitled (保衛蘿蔔 – 待定) . . . . .	Mobile casual	Switcher or tower defense game — Carrot Fantasy theme	Development	December 2014

Notes:

- (1) Our current game pipeline is indicative as of the Latest Practicable Date and the games we actually launch and expected launch dates may differ from those presented.
- (2) Game names are temporary and may be changed.
- (3) We are acting as the exclusive licensee to operate *Mei Ren Wu Shuang* for distribution through distribution and publishing platforms. See “Our History, Reorganization and Corporate Structure — Our Group's Reorganization — Transfer of Non-Restricted Business — Shenzhen Zhangxin.”



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We recognize the enormous opportunities provided by mobile devices and have already begun shifting the focus of our game development to mobile games. For instance, we launched the mobile version of *Shen Xiao Dao* in 2012, *Jiong Xi You* (囧西遊) and *Luan Shi Zhi Ren 2* (亂世之刃2) (now titled *San Guo Zhi Ren* (三國之刃)) and available exclusively on Tencent platforms in 2013 and acquired Kailuo Tianxia, the developer of the Carrot Fantasy series, on December 31, 2013. We plan to continue this shift towards mobile games and expect that in the future the majority of the games we develop will be for mobile platforms. Accordingly, we expect all of the nine new games we anticipate launching in 2015 will be mobile games.

Among the games we expect to launch in 2015 are sequels to our existing series, including *Shen Xian Dao Wai Zhuan* (神仙道外傳), Carrot Fantasy 3 (保衛蘿蔔3) and *Jiong Xi You 2* (囧西遊2). We also intend to launch two new interactive pet games, one of which we plan to be Carrot Fantasy (保衛蘿蔔) themed. Interactive pet games is a new game theme for us that requires players to interact with a character to train and develop it to increase its abilities and perform tasks. In addition, we plan to launch a tower defense game, a new Romance of the Three Kingdoms RPG, a Romance of the Three Kingdoms collectible card game as well as the mobile version of *Ba Qin* (霸秦). The table below sets out certain information regarding our games in development through 2015.

Title <sup>(1)</sup>	Category	Details	Development Stage as of the Latest Practicable Date <sup>(2)</sup>	Expected Launch Date <sup>(2)</sup>	Expected Life Cycle <sup>(4)(5)</sup> (years)
<b>2014 Pipeline</b>					
<i>Ba Qin</i> (霸秦) . . . . .	Web RPG	Warring states period theme	Beta-testing	December 2014	2.5–3
Battery Run (電池快跑) . . . . .	Mobile casual	Parkour game	Beta-testing	December 2014	1.5–2
<i>Mei Ren Wu Shuang</i> (美人無雙) <sup>(3)</sup> . . . . .	Mobile RPG	Collectible card game	Internal review	December 2014	2–2.5
Carrot Fantasy – untitled (保衛蘿蔔—待定) . . . . .	Mobile casual	Switcher or tower defense game — Carrot Fantasy theme	Development	December 2014	1.5–2
<b>2015 Pipeline</b>					
Game 1 — <i>Shen Xian Dao Wai Zhuan</i> (神仙道外傳) . . . . .					
	Mobile RPG	Fantasy martial arts	Development	First half of 2015	2.5–3
Game 2 . . . . .					
	Mobile casual	Tower defense game	Internal review	First half of 2015	1.5–2
Game 3 . . . . .					
	Mobile casual	Interactive pet game	Development	First half of 2015	1.5–2
Game 4 . . . . .					
	Mobile RPG	Romance of the Three Kingdoms theme	Development	First half of 2015	2–2.5
Game 5 . . . . .					
	Mobile RPG	Collectible card game — Romance of the Three Kingdoms theme	Development	First half of 2015	2–2.5
Game 6 — Carrot Fantasy 3 (保衛蘿蔔3) . . . . .					
	Mobile casual	Tower defense game	Development	First half of 2015	1.5–2
Game 7 — <i>Jiong Xi You 2</i> (囧西遊2) . . . . .					
	Mobile RPG	Fantasy martial arts — Journey to the West theme	Project Initiation	Second half of 2015	2–2.5
Game 8 — <i>Ba Qin</i> (霸秦) . . . . .					
	Mobile RPG	Warring states period theme	Development	Second half of 2015	2.5–3
Game 9 . . . . .					
	Mobile casual	Interactive pet game — Carrot Fantasy theme	Project Initiation	Second half of 2015	1.5–2

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### Notes:

- (1) Game names are temporary and may be changed.
- (2) Our current game pipeline is indicative as of the Latest Practicable Date and the games we actually launch and expected launch dates may differ from those presented.
- (3) We are acting as the exclusive licensee to operate *Mei Ren Wu Shuang* (美人無雙) for distribution through distribution and publishing platforms. See “Our History, Reorganization and Corporate Structure — Our Group’s Reorganization — Transfer of Non-Restricted Business — Shenzhen Zhangxin.”
- (4) We have based our estimates on the expected life cycles of our pipeline games on the performance of our previous games, which we believe is consistent with generally adopted practice in the web game and mobile game industries. According to the iResearch Report, a web game has an average life cycle of six months and a mobile game has an average life cycle of three to six months, with only high quality games reaching longer life cycles. Historically, most of our games have had life cycles longer than this estimate and as a result we estimate their current stage as either early stage, stable stage or late stage, based on whether revenues derived from such games are increasing, stable or decreasing, respectively. For instance, the web version of *Shen Xian Dao* (神仙道), which we launched in May 2011, began reaching the late stages of its life cycle in 2013 and is currently still generating revenue. Similarly, the mobile version of *Shen Xian Dao* (神仙道), *Da Hua Shen Xian* (大話神仙), *Carrot Fantasy* (保衛蘿蔔), *Jiong Xi You* (囧西遊), *Luan Shi Zhi Ren 2* (亂世之刃2) (now titled *San Guo Zhi Ren* (三國之刃)), and *Carrot Fantasy 2* (保衛蘿蔔2) were launched in January of 2012, February of 2012, July of 2012, July of 2013, December of 2013 and November of 2013, respectively, and all continue to generate revenue. Our games have historically had life cycles longer than the typical expected life cycle, which we believe due to our commitment to creating a player-focused game environment that offers users a superior game experience in order to retain longer-term players. We provide appealing game design, settings and functions, all presented in easy-to-use interfaces. All of our games are designed to present players with increasingly difficult challenges while at the same time rewarding their progress. We also roll out upgrades frequently to enhance the features of our games and maintain user interest. Our web games are usually upgraded once every two weeks while our mobile games are typically upgraded every three to four weeks.
- (5) These expected life cycles are estimates only and we cannot assure you that such estimates will be accurate. See “Risk Factors — If we are unable to extend the relatively short expected life cycle of our web games and mobile games or if our games do not maintain their popularity during their expected life cycle, our business, financial condition, results of operations and prospects could be material and adversely impacted.”

## GAME DEVELOPMENT AND OPERATION

### Development and Operations Teams

As of the Latest Practicable Date, we had five mobile games and two web games in operation. Through our previous successes, we have accumulated in-depth knowledge of the gaming market, player preferences, and industry trends. Coupled with our core game development talent and led by our senior management, we have established strong game development expertise.

As of June 30, 2014, we had 12 game teams, or project teams, which are responsible for the initial development and subsequent operation of each of our games. After a game has been developed and launched, members from the same team that developed the game are typically involved in its operation and ongoing monitoring, including resolving problems that may arise in the game, developing and releasing upgrades, and collecting and analyzing player data.

We believe the talent of our development teams is one of the keys to our success and we encourage all of our employees to suggest creative ideas and concepts for game development. We employ a number of methods to ensure that we are able to attract and retain the best development talent available, such as actively engaging with local universities and attending conventions. We provide frequent and timely training to our development teams to ensure that their skills remain sharp, and foster interaction, collaboration, and the sharing of information and experiences among our development teams through regular internal planning meetings and internal and external development competitions. As of June 30, 2014, we had 192 game

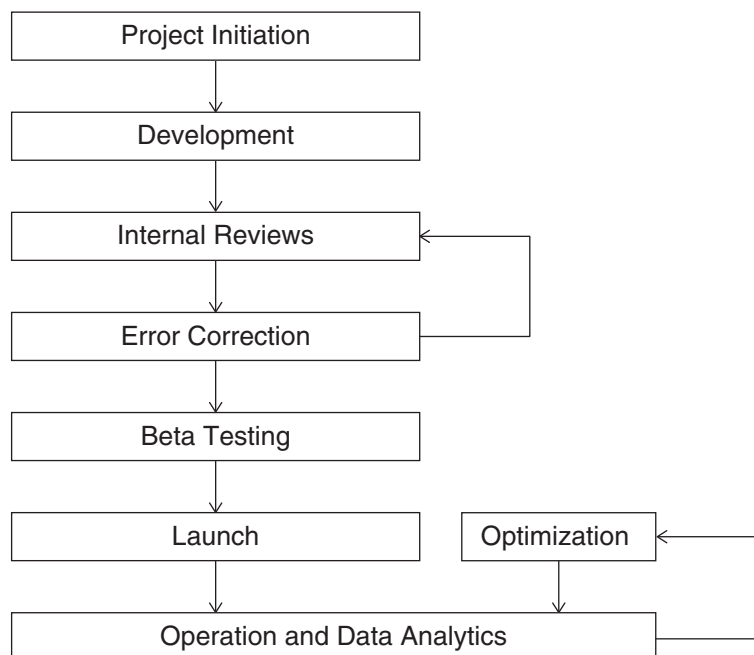
## BUSINESS

development personnel and our game development personnel accounted for approximately 75% of our total employees. We plan to continue to expand our game development team by recruiting from top universities in China.

In addition to our in-house game development capabilities, we may also seek to acquire already developed games and their development teams where there is a strategic opportunity. If we identify a game development team with strong potential, we typically approach it about joining us. We may then enter negotiations with such development team on potential acquisition or strategic relationships. For instance, we acquired our Carrot Fantasy (保衛蘿蔔) series of games as well as the games' core development team through the acquisition of Kailuo Tianxia on December 31, 2013. In addition, we may also license games to operate and distribute in cooperation with third-party distribution and publishing platforms. For instance, we have licensed *Mei Ren Wu Shuang* (美人無雙), an RPG collectible card game, which is expected to be launched in the fourth quarter of 2014. See "Our Corporate History, Reorganization and Corporate Structure — Our Group's Reorganization — Transfer of Non-Restricted Business — Shenzhen Zhangxin."

### Development Process

We have strong game development capabilities. Our games are either developed in-house by our existing and expanding development team or by third party teams from which we obtain licensing rights. We may also acquire existing teams and games if strategically optimal, as in the case of our acquisition of Kailuo Tianxia in 2013. The time to develop our games varies depending on the type and complexity of the game being developed. Our RPGs, which may be web games, mobile games or both, typically take six months to a year from project initiation to launch. Our mobile casual games are typically launched within three to six months from project initiation. Our game development process can be divided into the general stages set out below.



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### ***Project Initiation***

During the process of game development, our senior management and other employees will identify and evaluate potential new games that would complement our existing game portfolio. Potential new game ideas come from various sources, including our senior management, employees, and third parties. The person proposing a new game will submit a proposal to review by a committee made up of our senior management in charge of development, development team leaders and marketing teams. This review will take into account various factors, including an analysis of the target markets and potential player base, comparable games, the competitive environment as well as the latest trends relating to entertainment and popular culture, in order to develop games with themes and storylines that will attract a wide base of players. All of the elements in our games, such as the story line, progression of player characters' attributes, artwork and pricing of virtual items and premium features, are carefully analyzed by our senior management and design teams. Once the review is completed and the decision is made to progress with development, the project enters the development stage.

Project initiation is led by our senior management, whose members come from diverse backgrounds in the Internet industry. For instance, Mr. Yao Jianjun, our chief executive officer and chairman of our Board of Directors, is the founder of CNZZ.com, a website providing statistical services for PRC websites that was subsequently acquired by Alibaba. Mr. Chen Jianyu, our president, is a co-founder of Beijing Meitu Creative Advertisement Co., Ltd. and the developer of *Meitu Viewer*, an image viewing software, and the founder of Kailuo Tianxia, the developer of *Carrot Fantasy* (保衛蘿蔔) and *Carrot Fantasy 2* (保衛蘿蔔2), which we acquired on December 31, 2013. We believe that one of the keys to our success is that through these diverse backgrounds, our senior management team has a deep understanding of Internet users of various kinds, which enables them to identify potentially successful games.

### ***Development***

Once a new game development project is approved, our senior management team will assign the game to a project team, taking into account the experience, specialty and current workload of the team. The project team is comprised of a varying number of members and consists of a design team and an operations team. The assigned project team will be responsible for the design and implementation of the new game and eventually its operation and continuous enhancement of the game, including on-going monitoring, resolving problems that may arise in the game, developing and releasing upgrades and collecting and analyzing player data.

We may also engage third parties in our development process to assist us with certain aspects of the game development. For instance, we engaged a third party with which we collaborated to adapt our *Shen Xian Dao* (神仙道) web game into a mobile game for iOS and Android. Pursuant to the agreement, we authorized the third party to use the intellectual property associated with the web version of *Shen Xian Dao* to develop the mobile version. We maintain all ownership rights of the intellectual property of the web version of *Shen Xian Dao* while the ownership rights of the mobile versions of *Shen Xian Dao* are co-owned by us and the third party. As of the Latest Practicable Date, we do not have any other outsourcing agreements of a similar nature.

### ***Internal reviews***

Management conducts periodic reviews, usually once a month, to troubleshoot and adjust game design according to preliminary feedback received from employees with regard to their gaming experience and performance.

### ***Error correction***

Our development teams are responsible for fixing game errors detected during internal reviews. Normally correction of such errors will take seven to 30 days. A new version of the game will again undergo internal review.

### ***Beta Testing***

Once the project team has developed a test version of the game assigned to it, the game is put through several rounds of internal tests to resolve all major technological issues and software bugs that may exist. We subsequently put the new game into trial operations through third-party distribution and publishing platforms or directly onto application stores. Just prior to entering beta-testing, we typically invite specific players to play the game or publish advertisements to attract players. During beta testing, we capture, monitor and analyze player activity on a daily basis through our servers and through third-party distribution publishing platforms in order to optimize player engagement and monetization potential. We typically begin selling virtual currency for players to purchase virtual items and premium features to players during beta testing, thereby beginning to generate revenue.

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

### ***Launch***

We consider a game to be launched when we have concluded beta-testing and the game becomes available for players to access through third-party distribution and publishing platforms. If we experience no significant technical issues, the game will be considered officially launched and we will typically, often in cooperation with distribution and publishing platforms featuring the game, launch a marketing campaign.

### **Operation, Ongoing Optimization and Data Analytics**

Each of our project teams has a dedicated operations team responsible for the daily operation of its games. Once our games are available for players to access through third-party distribution and publishing platforms, these operations teams are responsible for facilitating game operation on a 24/7 basis including, providing content updates and on-going technical support, such as the back-end processing for purchase and delivery of virtual currency and virtual items and premium features, and preventing, detecting and resolving in-game cheating and hacking activities. Our operations teams maintain databases that track the virtual currency and virtual items and premium features sold in our games. The provision and maintenance of servers and bandwidth for the operation of our games is either the responsibility of our operations team or our third party distribution and publishing platforms, depending on the nature of the agreement with our distribution and publishing platforms. See “— Game Distribution and Publishing Platforms and Payment Collection — Exclusive Licensing.”

In order to continuously improve our games and player experience, we optimize our games on a real-time basis and roll out new content periodically. Our web games are upgraded approximately once every two weeks, and our mobile games are upgraded approximately every three to four weeks. We upgrade our games to fix bugs or programming and technical issues, install new in-game features and roll out updates for newly released mobile devices or updated operating systems. Our web game players can play the upgraded version of a game by simply

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accessing the game as they normally would after the upgrade has been uploaded onto our servers, while mobile players must download the upgraded version onto their devices.

As part of the ongoing optimization process, our operations teams collect data on player behavior from our own servers and third-party distribution and publishing platforms that publish our games. This information is then passed to the design team for that project. The design team analyzes this information to identify issues and trends and then uses their analyses to create improvements and upgrades.

We closely track and analyze players' in-game performance and behavior, such as preferred time of gameplay, number of rounds played, in-game activity levels, progress of skill levels, frequency of using specific in-game functions, social connections, reactions to newly-introduced activities, receptiveness of promotional activities, preference to specific types of virtual items and premium features, buying patterns and histories and effectiveness of our marketing activities. Through these efforts, we are able to understand our game players' behavior patterns, which helps us enhance the design of our game features through adjusting the difficulty levels of in-game missions and challenges. Our data analytics also enable us to anticipate and address players' reactions to our new game features and virtual items and premium features promotions, optimize our marketing efforts and effectiveness, attract more players to become paying players and drive sales of other virtual items and premium features.

### **Customer Service**

As of June 30, 2014, we had a dedicated customer service team with 22 service representatives, who are able to provide services in a timely manner. Players may submit inquiries, feedback or complaints relating to game operation via our toll-free number, instant messaging or dedicated online discussion forums. We currently provide customer service 24 hours a day, seven days a week. Players can also reach us at our accounts on social media outlets, such as Sina Weibo and WeChat, to seek game assistance and guidance to address their questions. Our distribution and publishing partners are responsible for aspects of customer service relating to payments made by individual players. See “— Game Distribution and Publishing Platforms and Payment Collection — Exclusive Licensing.”

Upon receipt of complaints or inquiries from our players relating to functions and features of our games, our customer service team will respond promptly and provide a detailed explanation and instructions to guide the players to resolve their issues. Complaints relating to in-game delivery of virtual currency and virtual items and premium features, programming errors or technical issues or claims for damages are reported to the project teams for the relevant games, who will be responsible for resolving the reported complaints.

We believe that outstanding customer service plays a significant role in retaining players. In serving our players, our customer service team also collects valuable first-hand player experience and feedback, which has helped us better understand player preferences and demands and further enhance our games.

### **Revenue Model and Pricing**

We use the item-based revenue model for all of our games. Under the item-based revenue model, players can play the basic features of the games for free. In our RPGs we generate revenue when players purchase virtual currency. The conversion rate of actual currency into our virtual currency is typically set out in our licensing agreements with our distribution and



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publishing partners and is typically 10 units of virtual currency for RMB1.00. Players may subsequently exchange their virtual currency for virtual items and premium features that enhance their in-game experience by, for example, enhancing the powers, abilities, attractiveness and social interaction of their characters, or enabling them to advance in the game more quickly. In our casual games we generate revenue when players purchase virtual items and premium features directly based on prices we determine, without purchasing virtual currency. Our mobile casual game players typically spend less per player on in-game virtual items and premium features than our RPGs players. Accordingly, we focus on increasing both the overall number of paying users as well as the average payment per user. Due to the nature of our business, our five highest paying players in aggregate generated substantially less than 5% of our total revenue during the Track Record Period.

As the game developer, we determine the standard price of each virtual item or premium feature based on an analysis of certain benchmarks, such as the extent of advantage that the virtual item or premium feature brings to the player's character, the level of demand for the virtual item or premium feature and the price of similar virtual items or premium features offered in other games. The types and prices of virtual items and premium features we offer vary from game to game. See “— Our Games — Existing Game Portfolio” for a description of the types and price ranges of such virtual items and premium features. Our operations teams maintain databases that track the virtual currency and virtual items and premium features sold in our games and our licensing agreements set forth the agreed upon conversion rate for the conversion of virtual currency, for our RPGs, into monetary value. As a result, we can calculate the estimated gross billings from our operations teams' records and verify the gross billings records provided by our distribution and publishing platforms. We then settle with our third party distribution and publishing platforms by receiving an agreed upon portion of the gross billings that we recognize as revenue accordingly. We do not track the marketing discounts offered by our distribution and publishing platforms as they bear the costs of such marketing discounts.

As our primary source of revenues is the sale of (i) in-game virtual currency exchangeable for virtual items and premium features for our RPGs, and (ii) such virtual items and premium features directly for our casual games, we often offer new and attractive virtual items or premium features based on the data generated from our data analysis. We also initiate various promotions to increase in-game spending and our number of active users, which also typically leads to an overall increase in in-game spending. For instance, we introduce rare items for which players can compete, which tends to increase in-game spending per user. We also host special in-game events to attract more users, which typically results in an increase in overall in-game spending. In addition, we often offer new items for purchase at progressive discounts. For such promotions, the first players to purchase the new item receive a small discount. As more players purchase the same item, the discount increases gradually, thereby attracting more players to purchase.

In addition to revenue from the sale of in-game virtual items and premium features, we also receive licensing fees when we grant exclusive licenses to our distribution and publishing partners. See “— Game Distribution and Publishing Platforms and Payment Collection — Exclusive Licensing.” We also receive revenue from in-game advertising which we offer in certain of our games, including Carrot Fantasy (保衛蘿蔔) and Carrot Fantasy 2 (保衛蘿蔔2).

### OUR TECHNOLOGY INFRASTRUCTURE

Our network infrastructure is administered by our operations teams, which handles hardware, system and network operations and maintenance. Our systems are designed for

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scalability and reliability to support growth in our user base. We believe that our current network facilities and broadband capacity provide us with sufficient capacity to carry out our current operations.

We have developed an extensive technology infrastructure to support our game development and operations, including a nationwide server network. Due to the real-time interaction among users for mobile and web games, the stable operation of our games requires a large number of servers and a significant amount of Internet connectivity bandwidth. Our server network consists of more than 800 owned and leased servers hosted in various locations throughout China. We constantly monitor our network infrastructure in order to ensure its stability and security.

While we believe that our network infrastructure and maintenance is sufficient to prevent network interruption resulting from attacks by hackers, there remains a possibility that such attacks could result in delays or interruptions on our network. For certain of our exclusive licensing arrangements, our distribution and publishing partners are responsible for providing bandwidth and servers for the operation of our games. See “— Game Distribution and Publishing Platforms and Payment Collection — Exclusive Licensing.”

### GAME DISTRIBUTION AND PUBLISHING PLATFORMS AND PAYMENT COLLECTION

We rely on game distribution and publishing platforms to distribute our games to game players. We provide our games to distributors and publishers who make them available for play on their websites or for download through online application stores. While the game distribution and publishing channels for our web and mobile games may be relatively distinguished, the former being through web game portals and the latter being through mobile game portals, the payment collection channels for these two types of games may overlap to the extent that certain web game and mobile game portals allow our players to use third-party payment vendors to make in-game purchases. Substantially all of the game distribution and publishing platforms on which our games are featured, including those for web games and mobile games, have their own payment systems that serve as our payment collection channel. Our players use the payment options offered by these platforms, which include payments by online wire transfer through third-party online payment vendors, such as Alipay, through mobile network carriers and by credit card, to make payments and purchase our virtual currency which players can exchange for in-game virtual items and premium features. We generally collect payments from the sales of virtual currency directly from distribution and publishing platforms and not from individual game players. In certain cases we also collect payments directly from mobile carriers for our Carrot Fantasy games.

We have access to multiple tiers of game distribution and publishing platforms to market and promote our games. For our mobile games, we closely cooperate with major online application stores in order to reach a variety of mobile device users. Our first game to become available on iOS was the mobile version of *Shen Xian Dao* (神仙道), which was offered in 2012 through an exclusive licensee and not directly by us. We subsequently offered some of our games in direct cooperation with Apple Inc.’s App Store and other application stores as well as through exclusive licensees. See “— Game Distribution and Publishing Platforms and Payment Collection — Exclusive Licensing.” We also utilize various other online application stores for the Android market in China. In addition, we utilize websites that promote and distribute online games in China to expand our distribution network beyond online application stores. For web games we utilize web game portals to attract web game players. As of the Latest Practicable Date, our games were available on an extensive network of over 300 distribution and publishing

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platforms, which covers substantially all of China's mobile and web game population. Our games are available on some of the most visited game distribution and publishing platforms in China, including Baidu, Tencent platforms, 37wan.com, 91wan.com, 360.cn and duowan.com, enabling us to tap into a large and diversified player base.

The high quality of our games has attracted the commitment of key distribution and publishing partners to prioritize resources in publishing our games on their platforms. Before we launch a new game, we evaluate different distribution and publishing partners to decide which partners are most suitable in terms of user traffic, user base, marketing resources and capability and certain other factors so as to maximize the gross billings of our new game. We enter into different forms of licensing arrangements with our distribution and publishing partners depending on our decided approach to the distribution of particular games. The forms of these licensing arrangements include exclusive licensing and non-exclusive licensing and are described out below.

### ***Exclusive licensing***

Exclusive licensing agreements grant the licensee the exclusive right to publish, promote, and distribute, including making available for download in the case of mobile games, the specified game within a specified territory. Such licensees have the right to publish the game on their own platform as well as license the game to other distribution and publishing platforms as sub-licensees to publish on their own platforms, thereby broadening distribution.

Pursuant to exclusive licensing agreements, the licensee is responsible for collecting the payments made by players using its own platform and through sub-licensee platforms to which they have licensed the game. Such payments are made by players through the individual platform's own payment systems, which include various channels, such as online wire transfer through third-party online payment vendors, including Alipay, through mobile network carriers and by credit card. In all cases, payments made by players of our games under exclusive license, regardless through which platform such players access the game, are paid to us through the primary licensee. During the term of the agreement we are entitled to a percentage of the gross billings generated by the sale of the virtual currency within our games to players. The percentage of gross billings we receive varies depending on the particular agreement, but ranges from 15% to 35% of gross billings. Payments from our distribution and publishing platforms to us are usually settled on a monthly basis. Prior to the settlement date, the relevant distribution and publishing platform will send us their record of gross billings for verification. Our operations teams maintain databases that track the virtual currency and virtual items and premium features sold in our games and our licensing agreements set forth the agreed upon conversion rate for the conversion of virtual currency, for our RPGs, into monetary value. As a result, we can calculate the estimated gross billings from our operations teams' records and verify the gross billings records provided by our distribution and publishing partners. We then settle with our third party distribution and publishing platforms by receiving an agreed upon portion of the gross billings that we recognize as revenue accordingly. We do not track the marketing discounts offered by our distribution and publishing platforms as they bear the costs of such marketing discounts. We also typically receive an upfront licensing fee from the licensee for entering into an exclusive licensing agreement and, in certain cases, an additional fee during the contracted license period, which is determined based on an agreed amount and paid when the accumulated amount of our virtual currency purchased exceeds certain specified amounts.

Our exclusive licensees are responsible for the sales and marketing of our games, customer service relating to payments made by individual player and typically the provision and maintenance of servers and bandwidth. Generally, we are responsible for providing game operation including, providing content updates and on-going technical support, such as the

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back-end processing for purchase and delivery of virtual currency and in-game virtual items and premium features, preventing, detecting and resolving in-game cheating and hacking activities and customer service relating to game operation. See “— Game Development and Operation — Operation, Ongoing Optimization and Analytics” and “Customer Service.”

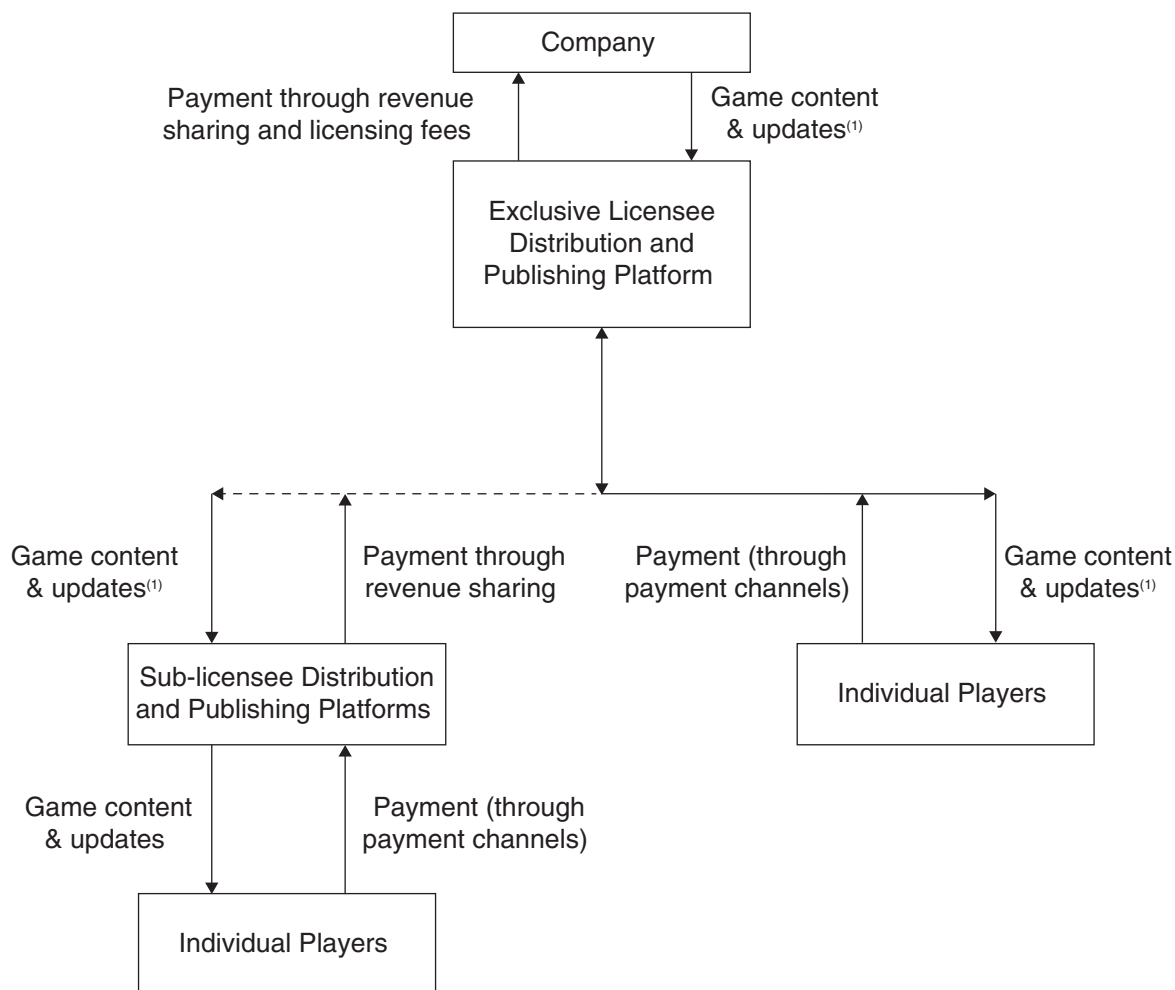
Set forth below are the key terms that are typical to our exclusive licensing agreements:

- we are generally responsible for game operation, including content updates and on-going technical support, such as the back-end processing for purchase and delivery of virtual currency and in-game virtual items and premium features, preventing, detecting and resolving in-game cheating and hacking activities and customer service relating to game operation;
- our exclusive licensees are responsible for sales and marketing of licensed games, user acquisition, payment collection, provision and maintenance of servers and customer services relating to payments;
- we obtain and maintain the relevant intellectual property rights to our games. We are responsible for all monetary damages caused, including direct damages, indirect damages and all reasonable expenses related to the compensation of any damages resulting from our failure to obtain and maintain such intellectual property rights;
- we grant an exclusive license to publish the games, typically including the right to authorize others to publish the games, in authorized territories, while we continue to hold the relevant intellectual property rights;
- our exclusive licensees obtain and maintain, or have confirmed to be in the process of obtaining, the relevant publishing licenses. Our exclusive licensees are responsible for all monetary damages caused, including direct damages, indirect damages and all reasonable expenses related to the compensation of any damages resulting from the failure to obtain and maintain such licenses; and
- the exclusive licensing agreements are typically for a term of three to five years, subject to automatic renewal unless terminated by either party.

Early in our operating history, our business was primarily limited to online game development and technical support for operation and we lacked the capability for effective promotion and marketing. As a result, we viewed exclusive licensing arrangements as the optimal way to distribute and publish our games as it allowed us to focus on game development, leaving certain aspects of customer service, marketing and promotion to distribution and publishing platforms with stronger industry experience. We first entered into an exclusive licensing agreement in 2011 for the publishing and distribution in China of the web version of *Shen Xian Dao* (神仙道) and we subsequently entered into agreements with the same licensee in 2012 for the mobile version of *Shen Xian Dao* (神仙道) and *Da Hua Shen Xian* (大話神仙) in China. Pursuant to these agreements, the licensee has made the web and mobile versions of *Shen Xian Dao* (神仙道) available on its own platforms as well as on the platforms of more than 300

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sub-licensees, as of the Latest Practicable Date. The diagram below illustrates our exclusive licensing arrangements with our distribution and publishing platforms:



Note:

- (1) Typically, servers, bandwidth, and customer service relating to payments made by individual players are provided by the exclusive licensee, while game operation, including content updates, on-going technical support and customer service relating to game operation are provided by us.

Exclusive licensing is the main method we use to distribute and publish our games internationally. We have entered into exclusive agreements for the distribution and publishing internationally of the mobile and web versions of *Shen Xian Dao* (神仙道) in Hong Kong, Macau, Taiwan, South Korea, Vietnam and Indonesia. In addition, we have recently entered into an exclusive agreement with Glu Mobile Inc., a global game distributor, for the release of *Carrot Fantasy 2* (保衛蘿蔔2) on iOS and Android in the U.S., Europe and other regions outside of China, Hong Kong and Taiwan. We expect *Carrot Fantasy 2* (保衛蘿蔔2) to be available in these regions in November of 2014.

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The international distribution and publishing platforms we use to distribute and publish our games internationally consist primarily of regional web game portals for our web games and global and regional application stores and regional mobile game portals for our mobile games. We evaluate different international distribution and publishing partners to decide which partners are most suitable in terms of user traffic, user base, marketing resources and capability and certain other factors so as to maximize the gross billings of our games we choose to distribute internationally. As of the Latest Practicable Date, none of the Company and its subsidiaries, their respective shareholders and directors or any of their respective associates had any interest in or any past or present relationships (including family, trust or employment relationships) with any of our third-party distribution and publishing platforms that distribute our games internationally. The key terms of our exclusive licensing agreements with our international distribution and publishing platforms are substantially similar to those with our other exclusive licensees, except that our international exclusive licensees are responsible for ensuring that all licenses, registrations and approvals for the game in the relevant local jurisdiction are obtained or that the game does not violate any laws or regulations of the relevant local jurisdiction. In addition, our international third party distribution and publishing platforms are typically responsible for the localization and translation of our games.

### ***Non-exclusive licensing***

We also enter into non-exclusive licensing agreements with distribution and publishing platforms. Pursuant to such agreements, we grant a non-exclusive license to individual platforms for the right to publish, promote, and distribute, including making available for download in the case of mobile games, the specified game within a specified territory.

As with our exclusive licensing agreements, the licensee is typically responsible for collecting the payments made by players using its own platform and payments made by players through such individual platform's own payment systems. We are entitled to a percentage of the gross billings generated by the sale of virtual currency or virtual items and premium features within our games to players. The revenue sharing arrangements differ depending on the particular agreement, but our portion ranges from 30% to 70% of gross billings. In certain cases, for instance, for our Carrot Fantasy (保衛蘿蔔) games, mobile network carriers, through which payment for virtual currency or virtual items and premium features are made, may make direct payments to us based on gross billings, less related payment fees. In such cases, revenue to be shared with our distribution and publishing platforms will either be distributed directly by such mobile network carrier or distributed by us. As with our exclusive licensing arrangements, payments from our distribution and publishing platforms to us are usually settled on a monthly basis and subject to the same verification process.

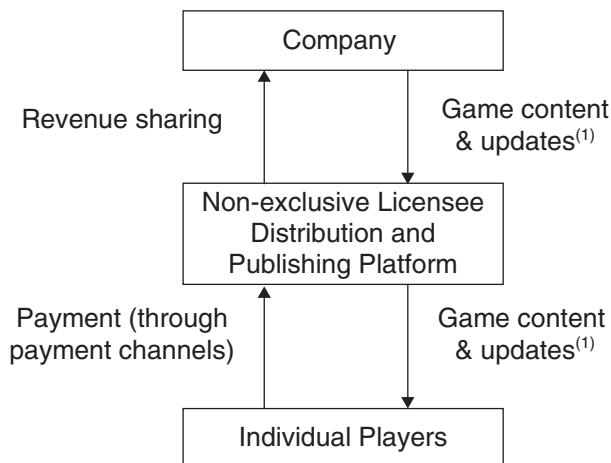
The key terms of our non-exclusive licensing agreements, including responsibility relating to operation and customer services, are substantially similar to our exclusive licensing agreements, except that under our non-exclusive licensing agreements:

- we grant non-exclusive licenses to publish our games;
- we typically are responsible for providing and maintaining servers for the operation of our games; and
- the terms of the agreement are typically for one to two years.



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The following diagram illustrates our non-exclusive licensing relationships with our distribution and publishing platforms:



Note:

- (1) Typically, we are responsible for providing servers, game operation, including content updates and on-going technical support, and customer service relating to game operation, while non-exclusive licensees are responsible for customer service relating to payments made by individual players.

During the Track Record Period, we generated a significant amount of our revenue pursuant to exclusive licensing. In particular, early in our operating history, we entered into exclusive licensing agreements for the distribution and publishing of the web and mobile versions of *Shen Xian Dao* (神仙道) and *Da Hua Shen Xian* (大話神仙). While as of the Latest Practicable Date, the exclusive licensee made these games available on its own platforms as well as on the platforms of more than 300 sub-licensees, pursuant to the exclusive licensing agreement, we received all payments during the Track Record Period for the purchase of our virtual currency through this one exclusive licensee, regardless of which platform the individual player accessed the game through. As a result, although these games were available on many distribution and publishing platforms acting as sub-licensees, a significant amount of our revenue during the Track Record Period was directly received through one distribution and publishing platform acting as exclusive licensee. As our games have grown in number and in popularity, we have begun, and plan to continue, to increase the number of distribution and publishing platforms with which we enter into exclusive licenses and non-exclusive licenses. For instance, we have recently entered into an exclusive licensing agreement with Shenzhen Tencent for the distribution and publishing of *Luan Shi Zhi Ren 2* (亂世之刃2) (now titled *San Guo Zhi Ren* (三國之刃)) on Tencent platforms. In addition, our Carrot Fantasy (保衛蘿蔔) games, which we acquired pursuant to our acquisition of Kailuo Tianxia, are distributed and published pursuant to non-exclusive licensing agreements.

Our third party distribution and publishing platforms consist primarily of PRC based web game portals for our web games and online application stores and mobile game portals for our mobile games. For the years ended December 31, 2011, 2012 and 2013, excluding Kailuo Tianxia, and the six months ended June 30, 2014, including Kailuo Tianxia, we had licensing agreements with 1, 6, 8 and 44 third party distribution and publishing platforms. Our five largest third-party distribution and publishing partners for each of the years ended December 31, 2011, 2012 and 2013, excluding Kailuo Tianxia, and for the six months ended June 30, 2014, including Kailuo Tianxia, accounted for approximately 100.0%, 99.2%, 92.0% and 72.1% of our

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total revenue during those periods, respectively. In addition, our largest third-party distribution and publishing partner for each of the years ended December 31, 2011, 2012 and 2013, excluding Kailuo Tianxian, and for the six months ended June 30, 2014, including Kailuo Tianxia, accounted for approximately 100.0%, 77.8%, 57.4% and 24.9% of our total revenue during those periods, respectively. As of the Latest Practicable Date, none of the Directors, their associates or any shareholders of the Company (who or which to the knowledge of the Directors owned more than 5% of the Company's issued share capital) had any interest in any of our five largest third-party distribution and publishing platforms. All of our licensees and sub-licensees are Independent Third Parties. See "Risk Factors — We rely on third-party distribution and publishing platforms to distribute and publish our games, and our business, financial condition, results of operations and prospects may be materially and adversely affected if these third-party distribution and publishing platforms breach their obligations to us, or if we fail to maintain relationships with a sufficient number of platforms, or if the platforms lose popularity among mobile game and web game users." The tables below set forth the identity and background of our five largest third-party distribution and publishing platforms during the Track Record Period.

### For the year ended December 31, 2011

Rank <sup>(1)</sup>	Platforms	% of Total Revenue	Background
1. ....	Shanghai Xindong Enterprise Development	100%	Shanghai Xindong Enterprise Development Co., Ltd., an Independent Third-Party, is an online game publisher and developer in the PRC.

Note:

(1) For the year ended December 31, 2011, we only had one third-party distribution and publishing platform with which we had a licensing agreement.

### For the year ended December 31, 2012<sup>(1)</sup>

Rank	Platforms	% of Total Revenue	Background
1. ....	Shanghai Xindong Enterprise Development	77.8%	See description above.
2. ....	Entermate Co., Ltd.	11.6%	Entermate Co., Ltd., an Independent Third-Party provides online gaming services in South Korea.

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Rank	Platforms	% of Total Revenue	Background
3. ....	Xindong Limited	6.2%	Xindong Limited, an Independent Third-Party, is a publisher and operator of online games outside of the PRC.
4. ....	Global Insight International Co., Ltd.	3.5%	Global Insight International Co., Ltd., an Independent Third-Party, is an online game publisher and operator in Vietnam.
5. ....	tongbu.com	0.1%	tongbu.com, an Independent Third-Party, is a platform for mobile Internet in the PRC, which focuses on interactive media for smart phones.

Note:

(1) Excludes the distribution and publishing platforms of Kailuo Tianxia, which we acquired on December 31, 2013.

### For the year ended December 31, 2013<sup>(1)</sup>

Rank	Platforms	% of Total Revenue	Background
1. ....	Shanghai Xindong Enterprise Development Co., Ltd.	57.4%	See description above.
2. ....	Xindong Limited	13.5%	See description above.
3. ....	Apple Inc.	12.7%	Apple Inc., an Independent Third-Party, is a U.S.-based multinational corporation that designs, develops, and sells consumer electronics, computer software and personal computers.
4. ....	Entermate Co., Ltd.	5.5%	See description above.
5. ....	Playcomet Inc.	2.9%	Playcomet Inc., an Independent Third-Party, is an online game publisher and operator in Taiwan

(1) Excludes the distribution and publishing platforms of Kailuo Tianxia, which we acquired on December 31, 2013.

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### For the six months ended June 30, 2014

Rank	Platforms	% of Total Revenue	Background
1. ....	Apple Inc.	24.9%	See description above.
2. ....	Shanghai Xindong Enterprise Development Co., Ltd.	22.3%	See description above.
3. ....	China Mobile Limited	15.0%	China Mobile Limited is a leading mobile services provider in the PRC.
4. ....	Xindong Limited	5.9%	See description above.
5. ....	China United Network Communications Group Co., Ltd.	4.0%	China United Network Communications Group Co., Ltd. or China Unicom, is a Chinese state-owned telecommunications operator in the PRC.

### SALES AND MARKETING

We implement various marketing and promotional measures to market and promote our online games. We typically promote our games to game players through online application stores and web based game portals and mobile game portals. Due to the different distribution publishing platforms that feature our web and mobile games, we design different marketing activities tailored for each game. For instance, for mobile games, we send push notifications to players to inform them when new version updates are available and help them to download and install these new versions, which in turn increases the number of downloads of our games and raises the ranking of these games in the mobile application stores and attracts more potential new players.

In China, our games are featured on game portals and application stores operated by some of China's most well-established games platform operators, such as Baidu, Tencent platforms, 37wan.com, 91wan.com, 360.cn and duowan.com. In the overseas markets, we primarily market and promote our mobile and web games through third-party distribution and publishing partners and our mobile games through Apple Inc.'s App Store and Google Play. We also attend trade fairs to enhance our brand recognition in both China and overseas markets.

Key distribution and publishing platforms have recognized the high quality of our games and have offered to prioritize resources in marketing our games on their platforms. We have been provided specialized marketing campaigns, at no cost to us, that single out our games to site visitors. We have also designed games specifically for particular platforms, such as *Da Hua Shen Xian* (大話神仙), developed exclusively for Tencent platforms and recently granted Shenzhen Tencent the exclusive right to distribute and publish *Luan Shi Zhi Ren 2* (亂世之刃2) (now titled *San Guo Zhi Ren* (三國之刃)). The massive traffic of the distribution and publishing platforms on which our games are available allows us to ramp up our games quickly to attract a critical mass of players within a shorter period of time. These publishing and distributing

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platforms are familiar with online game markets and possess strong marketing capabilities to help us deepen market penetration in the countries and regions they serve.

### INTERNATIONAL FOOTPRINT

We have an established international player base, particularly in Southeast Asian countries and regions. As of the Latest Practicable Date, we offered four of our launched games outside of China including Hong Kong, Macau, Taiwan, South Korea, Vietnam, Indonesia and other countries and regions. For the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, we generated 0.0%, 16.4%, 18.0% and 14.1% of our revenue from outside of the PRC, respectively, as determined by payment currency. For these games we typically grant exclusive licenses to use our games to distribution and publishing partners in those markets. See “Game Distribution and Publishing Platforms and Payment Collection — Exclusive Licensing.”

Our most successful and broadly distributed game is *Shen Xian Dao* (神仙道). The web version of *Shen Xian Dao* (神仙道) is currently available outside of China in Hong Kong, Macau, Taiwan, South Korea, Vietnam and Indonesia. The mobile version of *Shen Xian Dao* (神仙道) is available globally. *Carrot Fantasy* (保衛蘿蔔) is available globally and *Carrot Fantasy 2* (保衛蘿蔔2) is available in Hong Kong, Macau and Taiwan on Apple Inc.’s iOS system and on Google’s Android system. We typically rely on third-party translation and localization firms to help us adapt our games to suit local preferences.

We select target overseas markets by evaluating various factors, including the overall economy in the target market, the size of the potential online game population, and the competitive environment in the local online game industry. Going forward, we intend to leverage our existing distribution network to further expand our global presence and broaden our geographic penetration. We will work to strengthen our relationships with major international game distribution and publishing platforms to expand the reach of our games into new countries and regions. We plan to further expand our international operations by customizing existing games to target overseas audiences. Given the shared cultural heritage of the greater Asia region with that of China, we expect our RPGs, with historical and fantasy martial-arts themes, to continue to be popular. In addition, as our mobile casual games are typically based on simple story lines and rules allowing them to transcend cultural borders, we expect them to also be very popular internationally, especially in North America and Europe and plan to market them accordingly. For instance, we have recently entered into an agreement with Glu Mobile Inc., a global game distributor, for the release of *Carrot Fantasy 2* (保衛蘿蔔2) on iOS and Android in the U.S., Europe and other regions outside of China, Hong Kong and Taiwan. *Carrot Fantasy 2* (保衛蘿蔔2) began to be available in certain of these regions in November of 2014 and will gradually become available in other regions.

### COMPETITION

The market for web game development is relatively concentrated with increasing competition in recent years, while the market for mobile games is relatively fragmented with no clear market leaders. We compete primarily on the basis of the quality or features of our games, our operational infrastructure and expertise, the strength of our product management approach, and the services we offer that enhance our players’ experience.

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We compete primarily with other game developers in China, including mobile game and web game developers such as IGG Inc. and Forgame Holdings Limited. We also compete with other private companies in China devoted to game development and operation, many of which are backed by venture capital funds and international competitors. Though the entry barriers of mobile game and web game development are relatively low, we believe our successful game track record and recognition among the operators of major distribution and publishing platforms enable us to develop popular mobile games and web games. In addition, we also compete for players against various offline games, such as console games, arcade games and handheld games, as well as various other forms of traditional or online entertainment.

Competition may also come from international game developers and operators. We believe that domestic game developers and operators, including us, are likely to have a competitive advantage over international competitors entering the China market, as those companies are likely to lack operational infrastructure in China and content localization experience for the China market. We cannot assure you, however, that this competitive advantage will continue to exist, particularly if international competitors establish joint ventures, form alliances with or acquire domestic game developers and operators.

### **INTELLECTUAL PROPERTY**

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

As of the Latest Practicable Date, we owned or had license to use 9 registered domain names, including our official websites. All of our domain names are either held by, or licensed by our PRC Subsidiaries and PRC Operating Entities. Applications for their renewal are usually made approximately one to three months prior to their expiration. Under normal circumstances, the domain name registrations take effect immediately after the payment of renewal fees. If any of our domain name registrations cannot be renewed for whatever reason, the domain name registrar may deregister the relevant domain name.

As of the Latest Practicable Date, we solely owned 62 software copyrights, each of which we have registered with the National Copyright Administration of the PRC. As of the Latest Practicable Date, we owned 27 trademarks, each in various categories and registered with China Trademark Office. In addition, we had 68 trademark applications, each in various categories, pending with China Trademark Office as of the Latest Practicable Date. We have also filed applications to register certain trademarks in a number of other jurisdictions, including Hong Kong. We believe we have registered for all of the intellectual property rights necessary to protect our games offered overseas.



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We did not have any dispute or any other pending legal proceedings of intellectual property rights with third parties during the Track Record Period. Please refer to the section headed “— Legal Proceedings and Compliance.”

Please see “Appendix IV — Statutory and General Information — B. Further information about the business of our Group and the PRC Operating Entities — 2. Intellectual Property Rights of our Group” for details regarding our material intellectual property rights.

### EMPLOYEES

As of June 30, 2014, we had 255 full-time employees, the majority of whom are based in Xiamen. The following table sets forth the number of our employees by function as of June 30, 2014:

	<u>Number of Employees</u>	<u>% of Total</u>
Development .....	192	75.3
Operations .....	22	8.6
Administration .....	24	9.4
Sales and marketing .....	17	6.7
<b>Total</b> .....	<b>255</b>	<b>100%</b>

We provide customized training to our new hires, all of whom have designated mentors, that are experienced employees in relevant teams or departments, who provide them with constant on-the-job training.

As required by PRC regulations, we participate in various employee benefit plans that are organized by municipal and provincial governments, including housing, pension, medical and unemployment benefit plans. We are required under PRC law to make contributions to the employee benefit plans at specified percentages of the salaries, bonuses and certain allowances of our employees, up to a maximum amount specified by the local government from time to time. Bonuses are generally discretionary and based on the overall performance of our business. We incurred staff costs of RMB4.1 million, RMB19.7 million, RMB59.4 million and RMB22.9 million for the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, respectively, representing 12.5%, 12.4%, 41.0% and 17.7%, of our total revenue for those periods. The total amount of contributions we made for employee benefit plans for the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, respectively, were RMB406,000, RMB1.2 million, RMB2.5 million and RMB2.5 million, respectively.

We have established an employee association that represents employees with respect to the promulgation of by-laws and internal protocols. Such employee representative conference does not represent employees for the purpose of collective bargaining. We believe that we maintain a good working relationship with our employees and we did not experience any significant labor disputes or any difficulty in recruiting staff for our operations during the Track Record Period.

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

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

### SUPPLIERS AND PROCUREMENT

Our suppliers include primarily third-party companies from which we purchase and lease servers and outsourcing related to development and design of our game operation systems. We have not entered into any long-term contractual arrangements with any suppliers. To ensure the quality and safety of our network infrastructure, we usually purchase servers from qualified and reliable suppliers. We select server rental service providers based on the historical business relationships with us, the compatibility of their products with our requirements, prices, customer service and reputation.

Charges from our five largest suppliers for each of 2011, 2012 and 2013 and the six months ended June 30, 2014 accounted for approximately nil, 42.2%, 8.3% and 4.3% of our cost of sales during those periods, respectively. Our largest supplier for each of 2011, 2012 and 2013 and the six months ended June 30, 2014 accounted for approximately nil, 37.6%, 4.5% and 2.2% of our cost of sales during those periods, respectively. As of the Latest Practicable Date, none of the Directors, their associates or any shareholders of the Company (who or which to the knowledge of the Directors owned more than 5% of the Company's issued share capital) had any interest in any of our five largest suppliers, other than Xiamen Xianglian Technology Co., Ltd ("**Xiamen Xianglian**"), the controlling shareholder of which is Mr. Yao Jianjun, our chairman and chief executive officer. Xiamen Xianglian provides technical services relating to web development, technical services, network design, installation and commissioning services and sales of computer software and hardware. For the year ended December 31, 2013 and the six months ended June 30, 2014, Xiamen Xianglian provided various services to us in the amounts of RMB185,000 and RMB32,000, respectively.

### INSURANCE

We have not taken out any insurance to cover our main business operations in both the PRC and the overseas markets in line with the market practice. We do not maintain business interruption insurance, directors insurance, insurance policies covering damages to our network infrastructures or information technology systems or any insurance policies for our properties. We do not maintain insurance policies against risks relating to the Contractual Arrangements either.

Please refer to the section headed "Risk Factors — Risks Relating to Our Business — We have not purchased any insurance to cover our main assets, properties and business and our limited insurance coverage could expose us to significant costs and business disruption" for details.

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### TAXATION

#### Cayman Islands

We are an exempt company with limited liability incorporated in the Cayman Islands. Under the Cayman Islands law, we are not subject to income or capital gains tax in the Cayman Islands.

#### Hong Kong

Feiyu Hong Kong was incorporated on March 25, 2014 and is subject to a profit tax of 16.5% on the estimated assessable profit derived from its Hong Kong operations. 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

#### Income tax

Under the relevant income tax law, our PRC subsidiaries are subject to income tax at a statutory rate of 25% on their respective taxable income, except for Xiamen Guanghuan, Xiamen Youli, Xiamen Yidou and Kailuo Tianxia which were certified as Software Enterprises and are exempted from income tax for two years starting from the first year in which they generate taxable profit, followed by a 50% reduction for the next three years. 2011, 2013 and 2013 were the first profitable years for Xiamen Guanghuan, Xiamen Youli and Kailuo Tianxia, respectively. During the Track Record Period, we paid all relevant taxes and had no disputes or unresolved issues with the relevant tax authorities.

Pursuant to the CIT Law, a uniform 25% CIT rate is generally applied to both foreign-invested enterprises and domestic enterprises, except where a special preferential rate applies. Under the CIT Law and the CIT Rules, an enterprise established outside of the PRC with “de facto management bodies” within the PRC is considered a resident enterprise and is subject to CIT at the rate of 25% on its global income. The CIT Rules define the term “de facto management bodies” as the bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise. We do not believe we are a resident enterprise. However, it remains unclear how PRC tax authorities will determine the tax residency status of companies like us. See “Risk Factors — Risk Relating to Conducting Business in the PRC — We may be classified as a “PRC resident enterprise” for PRC enterprise income tax purposes, which could result in our global income being subject to 25% PRC enterprise income tax.”

### PROPERTIES

We lease certain properties in China in connection with our business operations. These properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules and are principally used as our office premises for our operations. They are located in Xiamen, Fujian Province and Beijing, China.

As of the Latest Practicable Date, we leased a total of 12 properties with an aggregate gross floor area (“GFA”) of approximately 5,369.65 square meters, ranging from a GFA of approximately 101 square meters to 1,693.38 square meters, and with lease expiry dates ranging from December 31, 2014 to August 30, 2019. As of the Latest Practicable Date, we did not own any property.

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

According to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all our interests in land or buildings, for the reason that as of June 30, 2014, each of our property interests has a carrying amount below 15% of our combined total assets.

### **LEGAL PROCEEDINGS AND COMPLIANCE**

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

No member of the Group nor any of the Directors are currently a party to, nor are we aware of, any legal, arbitral or administrative proceedings, investigations or claims. We have not experienced any non-compliance which, in the opinion of our management, is likely to have a material adverse effect on our business, financial condition or results of operations. Further, we had not encountered any material claim, complaint or dispute in relation to the operations during the Track Record Period and the subsequent period up to the Latest Practicable Date. Our PRC legal adviser, Han Kun Law Offices, based on their knowledge after due inquiry with us, had advised us that, during the Track Record Period and the subsequent period up to the Latest Practicable Date, other than disclosed in this prospectus, we had complied with applicable PRC laws and regulations in all material respects.

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During the Track Record Period, we have had incidents of non-compliance relating to our game development:

Non-compliance issue and reasons	Legal consequences and potential maximum penalties and other financial losses	Latest status	Measures taken/to be taken to prevent any future breaches and ensure ongoing compliance
<p>As stated in "Regulatory Overview — Regulations on Online Games, Culture Products and Foreign Ownership Restrictions," filings of domestic online games must be conducted with the MOC within 30 days after the commencement date of the online operation of such online games or the occurrence date of any material alteration of such online games. We currently offer 7 online games in the PRC, but all of these games were not filed with the MOC within the time limit required by the Online Game Measures. Among these seven games, we are responsible for the MOC filing of four games, namely Carrot Fantasy (保衛蘿蔔), Carrot Fantasy 2 (保衛蘿蔔2), <i>Jiong Xi You</i> (囧西遊) and <i>Luan Shi Zhi Ren 2</i> (亂世之刃2) (now titled <i>San Guo Zhi Ren</i> (三國之刃)) while the exclusive licensees of the remaining three games, namely, <i>Shen Xian Dao</i> (神仙道) web, <i>Shen Xian Dao</i> (神仙道) mobile and <i>Da Hua Shen Xian</i> (大話神仙), are responsible for completing the MOC filings for these games. As a private company, our administrative department at the time lacked sufficient knowledge on, and we did not engage outside counsel to provide professional advices on all the aspects of our business operations, particularly the requirements under the relevant rules and regulations in the PRC before we started the preparation for the Listing.</p>	<p>Under the Online Games Measures, failure to submit filing materials as required may subject us to a maximum fine of RMB20,000 for each game that has not been filed under the Online Games Measures, with a total potential maximum fine of RMB80,000 for failure to submit filing materials for the four online games mentioned under the column headed "Non-compliance issue and reasons" within the required time limit. The Online Games Measures do not impose any other penalties for the failure to submit filing materials as required thereunder, such as requiring the suspension or termination of the online games due to the failure in satisfying the filing procedure within the required time limit.</p>	<p>As of the Latest Practicable Date, Carrot Fantasy (保衛蘿蔔), and Carrot Fantasy 2 (保衛蘿蔔2) have been filed with the MOC by our administrative department with assistance from our in-house legal department, while <i>Shen Xian Dao</i> (神仙道) web, <i>Shen Xian Dao</i> (神仙道) mobile and <i>Da Hua Shen Xian</i> (大話神仙) have been filed with the MOC by the exclusive licensees of these games, respectively. Meanwhile, filings of <i>Jiong Xi You</i> (囧西遊), and <i>Luan Shi Zhi Ren 2</i> (亂世之刃2) (now titled <i>San Guo Zhi Ren</i> (三國之刃)) are still pending and expected to complete prior to the Listing. We have not received any notice of administrative investigation or penalties from the relevant authorities. In the opinion of our PRC Legal Advisor, our historical non-compliance as described herein will not have a material adverse effect on our business operations.</p>	<p>We have taken various rectification measures, including establishing internal policies to strengthen our internal control over on-going compliance with applicable laws and regulations. According to our current internal control procedures, our in-house legal department will review and monitor the status of all licenses and permits for a game that is under development to ensure that all such requisite license and permits will be obtained subject to the relevant regulatory requirements. For more details of our internal control procedures, please refer to "— Risk Management" below.</p>
<p>As stated in "Regulatory Overview — Regulations on Internet Publication," provision of interactive online game playing or downloading service of games to the public through the Internet is regarded as an Internet Publication activity and any entity engaging in such Internet publication activity shall obtain an Internet Publication License (互聯網出版許可證). In the Track Record Period, Xiamen Youli once operated the website <a href="http://www.737.com">www.737.com</a>, which provided interactive online game playing service to users without having an Internet Publication License (互聯網出版許可證). As a private company, our administrative department at the time lacked sufficient knowledge on, and we did not engage outside counsel to provide professional advices on all the aspects of our business operations, particularly the requirements under the relevant rules and regulations in the PRC before we started the preparation for the Listing.</p>	<p>Under the Interim Measures on Internet Publication Administration (《互聯網出版管理暫行規定》), if an entity engages in any Internet publication activities without obtain an Internet Publication License (互聯網出版許可證), the relevant publication administration may order it to cease illegal operation, confiscate its major equipment and special facilities for such illegal publication, confiscate its income derived from such illegal publication and impose a fine ranging from five to ten times of its illegal business revenues (in the case of the illegal business revenue being RMB10,000 or above) or a fine ranging from RMB10,000 to RMB50,000 (in the case of the illegal business revenue being less than RMB10,000).</p>	<p>Xiamen Youli has ceased the operation of the website <a href="http://www.737.com">www.737.com</a>. In August 2014, the Group, our PRC Legal Advisor and the Joint Sponsors' PRC Legal Advisor jointly conducted an on-site interview with a division chief (處長) (the "Division Chief") from the Department of Digital Publication (數字出版司) of State Administration of Press, Publication, Radio, Film and Television of the PRC (formerly known as GAPP). According to our interview with the Division Chief, GAPP will not impose administrative penalties on Xiamen Youli for its historical illegal operation of the website <a href="http://www.737.com">www.737.com</a> because Xiamen Youli has ceased operation of the website. Based on the Division Chief's descriptions of his powers and the authorities during the interview, our PRC Legal Advisor is of the view that the Division Chief is competent to provide the aforementioned opinions. Given this, our PRC Legal Advisor is of the opinion that our historical non-compliance as described herein will not have a material adverse effect on our business operations.</p>	<p>We have taken various rectification measures, including establishing internal policies to strengthen our internal control over on-going compliance with applicable laws and regulations. According to our current internal control procedures, our in-house legal department will review the license and permit requirements for a new business and coordinate the business department to obtain the required licenses or permits before we start such new business. For more details of our internal control procedures, please refer to "— Risk Management" below.</p>

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The Directors believe that our Group has adopted internal control measures to prevent similar future occurrences, including measures to ensure that necessary government filings, approvals and permits have been obtained and maintained by the Company in connection with our business operations. In particular, our in-house legal department, which was established in May 2014, will review and monitor the status of all licenses and permits for a game that is under development to ensure that all such requisite licenses and permits will be obtained subject to the relevant regulatory requirements, including obtaining pre-approval from the GAPP and filing with the MOC in a timely manner. In addition, our in-house legal department will review the license and permit requirements for any new business and coordinate with the business department to obtain the required licenses or permits before we start such new business. Having considered the facts and circumstances leading to the above non-compliance incidents as disclosed in this section and our Group's enhanced internal control measures to avoid recurrence of these non-compliance incidents discussed above, our Directors and the Joint Sponsors believe that the above past non-compliance incident does not affect our Directors' suitability to act as directors of a listed issuer under Rule 3.08 and 3.09 of the Listing Rules, and the suitability for listing of our Company under Rule 8.04 of the Listing Rules. For more details in relation to our enhanced internal control procedures with respect to legal compliance, please refer to section headed "— Risk Management — Legal Compliance and Intellectual Property Rights Risk Management."

### RISK MANAGEMENT

We are dedicated to the establishment and maintenance of a robust internal control system. We have adopted and implemented risk management policies and corporate governance measures in various aspects of our business operations such as financial reporting, information risk management, legal compliance and intellectual property rights management and human resources management.

#### Financial Reporting Risk Management

We have adopted comprehensive accounting policies in connection with our financial reporting risk management. We provide ongoing trainings to our finance staff to ensure that these policies are well-observed and effectively implemented.

As of June 30, 2014, our finance team consisted of seven employees, and is headed by our chief financial officer, who has extensive experience in public company financial reporting. Other senior members of our finance department are all experienced in finance and accounting.

#### Information Risk Management

We have adopted measures to protect user data we have accumulated and prevent technical issues in our network infrastructure and information technology system. Our information technology department is responsible for protecting user data and ensuring the stability of our network infrastructure and information technology system. As of June 30, 2014 our information technology team consists of eight employees, and is led by our chief technology officer, Mr. Sun Zhiyan who has approximately ten years of experience in information technology industry.

We use various information management systems in our operations. To ensure information security, employee access to internal information is restricted and employees are not allowed to access certain internal information without authorization. We have adopted internal policies to ensure that authorization is tailored to employee seniority and department function so that certain information can only be obtained on an as-need basis.



## **BUSINESS**

We have adopted various policies on database operation to prevent information leakage and loss of data. Key information in the database such as user password is protected by robust encryption algorithms. We also keep records of all database operations and non-routine database operations are not permitted unless such operations are necessary and have been approved by our chief technology officer. We also use monitoring systems to monitor the data operating status of the server and alert relevant departments to abnormal situations. In addition, our daily maintenance, fire protection measures, access control system and other measures help maintain the physical condition of our network infrastructure. We also have a data back-up system through which our data is stored on servers of different locations on a weekly basis to reduce the risk of data loss. Our information technology department conducts backup recovery tests semi-annually to examine the status of this back-up system. Further, most of our full-time employees are required to sign confidentiality, pursuant to which they undertake to keep confidential any user data and operational, financial and product information of the Company that they obtain by virtue of their employment with the Company.

### **Legal Compliance and Intellectual Property Rights Risk Management**

Compliance with PRC laws and regulations, especially laws and regulations governing the online game industry, as well as the protection of our intellectual property rights and the prevention of liabilities resulting from potential intellectual properties infringement are major focus areas of our operational risk management. We have a dedicated legal team that is responsible for monitoring any changes in PRC laws and regulations and ensuring the ongoing compliance of our operations with PRC law. Our legal team also works with our outside legal counsel to ensure we have obtained and maintained all the necessary permits and licenses required for our operations as we launch new products or enter into new business segments. In situations where the relevant laws and regulations are not clear as to what action should or should not be taken, we will take the conservative approach to avoid any potential compliance issues.

As we develop a new product, our senior management is required to provide approval. The proposal materials are also subject to review by our legal department, which conducts searches to ensure that the idea and design embedded in our new product proposal would not infringe upon any third parties' existing intellectual property rights. Our legal department also ensures the timely application for trademark, copyright or patent registrations for, as well as the timely filing with relevant authorities of, our new products. We also engage external counsel or external intellectual property agent to assist us in legal compliance and the prevention and resolution of issues related to intellectual property rights.

### **Human Resource Risk Management**

We have established internal control policies covering various aspects of human resource management such as recruiting, training, work ethics and legal compliance.

We adopt high standards in recruitment with strict procedures to ensure the quality of new hiring. Moreover, we provide a mentor program for each of the fresh graduates that we hire, which we believe are effective in equipping them with the skill set and work ethics that we required of our employees. We provide specialized training tailored to the needs of our employees in different departments. We also hold weekly workshops where our development and operations staff can share their design ideas and work experience.

## BUSINESS

Our employee handbook contains summaries of the relevant laws and regulations governing our business and industry, as well as guidelines regarding best commercial practice, work ethics and the prevention of fraud, negligence and corruption. Each employee is required to provide a written confirmation that he or she understands and is committed to observing the requirements set forth in our employee handbook. We have also made available an anonymous reporting channel through which potential violation of our internal policies or illegal acts at all levels of the Company can be timely reported to the management and appropriate measures can be taken to minimize damage.

### Corporate Governance Measures

We established an Audit Committee on November 17, 2014, the primary duties of which are to assist our Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of our Group, overseeing the audit process and performing other duties and responsibilities as assigned by our Board. The Audit Committee consists of Ms. Liu Qianli, Mr. Lai Xiaoling and Mr. Ma Suen Yee Andrew, chaired by Ms. Liu Qianli. We also established an internal audit department in September 2014.

### Ongoing Measures to Monitor the Implementation of Risk Management Policies

Our Audit Committee and senior management monitor the implementation of our risk management policies across the Company on an ongoing basis to ensure that our internal control system is effective in identifying, managing and mitigating risks involved in our operations.

### LICENSES AND PERMITS

Our PRC legal adviser, Han Kun Law Offices, has advised us that, during the Track Record Period and the subsequent period up to the Latest Practicable Date, we had obtained all requisite licenses, approvals and permits from the relevant government authorities that are material for our business operations in China and such licenses, approvals and permits remained in full effect, and no circumstances existed that would render their revocation or cancellation. Our PRC legal adviser also advised us that, to their best knowledge after due inquiry, there is no legal impediment to renew such licenses, approvals and permits as of the Latest Practicable Date. See “Risk Factors — Past incidents of non-compliance with PRC laws and regulations may subject us to administrative penalties, which may materially and adversely affect our business operations.” The following table sets forth details of our material licenses and permits:

License/Permit	Holder	Granting Authority	Grant Date	Expiry Date
Network Culture Operation License	Xiamen Youli	Fujian Provincial Department of Culture	June 9, 2013	March 29, 2016
Network Culture Operation License	Kailuo Tianxia	Beijing Bureau of Culture	April 22, 2014	April 21, 2017
Value-added Telecommunication Business Operation License for Internet information service	Xiamen Youli	Fujian Communications Administration	March 14, 2014	March 14, 2019
Value-added Telecommunication Business Operation License for Internet information service	Kailuo Tianxia	Beijing Communications Administration	June 11, 2014	June 11, 2019

## BUSINESS

License/Permit	Holder	Granting Authority	Grant Date	Expiry Date
Value-added Telecommunication Business Operation License for mobile network information service .....	Kailuo Tianxia	MIIT	June 26, 2014	June 26, 2019

### AWARDS AND RECOGNITION

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

Award/Recognition	Award Date	Awarding Institution/Authority	Entity/Product
“Golden Bamboo Award” for the Strongest Webgame ( “金竹獎” 的最具實力頁遊產品獎) .....	2011	China Original Game Summit Meeting (中國原創網頁遊戲峰會)	<i>Shen Xian Dao</i> (神仙道)
“Golden Plume Award” as Players’ Top 10 Favorites ( “金翎獎” 之玩家最喜愛的十大網頁遊戲) .....	2012	China Digital Entertainment Expo & Conference (中國(上海)國際數碼互動娛樂展覽會)	<i>Shen Xian Dao</i> (神仙道)
“Jin Peng Award” (金鵬獎) .....	2014	Third Annual China Original Android Mobile Game Competition (第三屆中國原創android手機遊戲評選大賽)	Carrot Fantasy (保衛蘿蔔)
One of 2011’s 10 Best Webgames (2011年度十佳網頁遊戲) .....	2012	China Webgame & Mobile game Summit V (第五屆網頁遊戲高峰論壇)	<i>Shen Xian Dao</i> (神仙道)
Top Selling Game of 2013 (2013年度最賣座遊戲) .....	2013	360 Mobile Assistant (360手機助手)	Carrot Fantasy (保衛蘿蔔)
Top Ten Games of 2013 (2013年度十佳遊戲) .....	2013	Qihoo 360 (奇虎360)	Carrot Fantasy (保衛蘿蔔)
Top Ten Most Popular Original Games of 2013 (2013年度十大最受歡迎的原創移動遊戲) .....	2014	China Gaming Industry Gaming Conference (中國遊戲產業年會)	Carrot Fantasy (保衛蘿蔔)

## CONTRACTUAL ARRANGEMENTS

### BACKGROUND

We develop and operate web games and mobile games in the PRC. The PRC Operating Entities are key operating entities within our group. They hold some key requisite PRC permits, licenses and approvals for our business operations, including the VATS License and Network Culture Operation License. Some of our intellectual property rights, including software copyrights, trademarks, patents and domain names, are also held by the PRC Operating Entities. Foreign investors are prohibited from holding any equity interest in the PRC Operating Entities under the applicable PRC laws and regulations, including the Catalogue, the FITE Regulations and the MIIT Circular. Please refer to the section headed “Regulatory Overview” for further details. As a result, we are not allowed to acquire any equity interest in the PRC Operating Entities under the applicable PRC laws and regulations.

In order to achieve the Group’s business purposes and be in line with common practice in industries in the PRC subject to foreign investment restrictions, we have adopted the Contractual Arrangements to exercise and maintain control over the operations of the PRC Operating Entities, obtain their entire economic benefits and prevent leakage of the assets and values of the PRC Operating Entities to their shareholders in the PRC. In addition, as a result of the Contractual Arrangements, financial position and results of operations of the PRC Operating Entities were consolidated into our financial position and results of operations under IFRS as if they were subsidiaries of our Group during the Track Record Period. Furthermore, we have taken steps to comply with the FITE Regulations. See paragraph headed “Qualification Requirement” in this section for details.

We commenced a series of corporate activities since our Reorganization to avail ourselves to international capital markets and gain effective control over the PRC Operating Entities.

On September 4, 2014, Xiamen Feiyou, our wholly-owned subsidiary, Xiamen Guanghuan and the Relevant Shareholders (excluding Xiamen Guanghuan), i.e., the registered shareholders of Xiamen Guanghuan, entered into a series of agreements, consisting of:

- (i) the Exclusive Business Cooperation Agreement (獨家業務合作協議), pursuant to which Xiamen Feiyou agreed to provide exclusive technical and management consulting services to Xiamen Guanghuan and Xiamen Guanghuan agreed to pay service fees to Xiamen Feiyou;
- (ii) the Powers of Attorney (授權委託書), pursuant to which the Relevant Shareholders (excluding Xiamen Guanghuan) irrevocably delegated the voting rights and other shareholder rights of Xiamen Guanghuan to Xiamen Feiyou or designee(s) of Xiamen Feiyou;
- (iii) the Equity Interest Pledge Agreement (股權質押協議), pursuant to which the Relevant Shareholders (excluding Xiamen Guanghuan) pledged all their equity interests in Xiamen Guanghuan to Xiamen Feiyou to provide security on the performance of contractual obligations of the Relevant Shareholders (excluding Xiamen Guanghuan) under the Contractual Arrangements; and
- (iv) the Exclusive Option Agreement (獨家購買權協議), pursuant to which the Relevant Shareholders (excluding Xiamen Guanghuan) and Xiamen Guanghuan agreed to irrevocably, unconditionally and exclusively grant an exclusive option to Xiamen Feiyou which entitles Xiamen Feiyou to elect to purchase, when permitted by the then applicable PRC laws, all or any part of the equity interests of Xiamen Guanghuan from the Relevant Shareholders (excluding Xiamen Guanghuan) by itself or through its appointee(s).

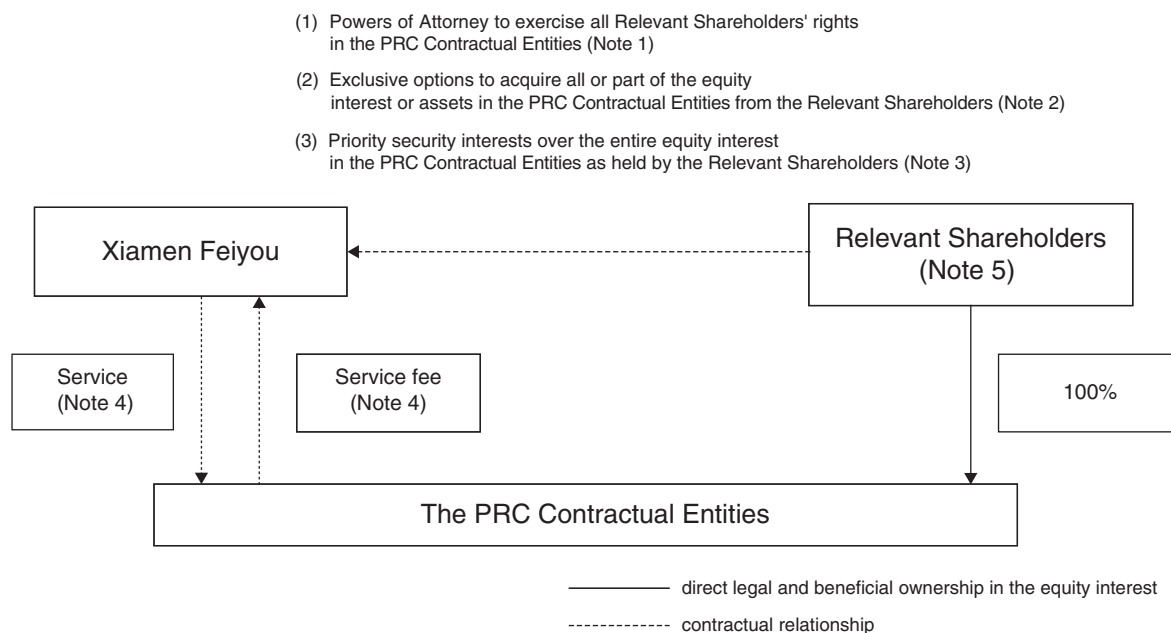
## CONTRACTUAL ARRANGEMENTS

On October 31, 2014, Xiamen Feiyou, our wholly-owned subsidiary, Xiamen Youli, Kailuo Tianxia and Xiamen Guanghuan, i.e., the registered shareholder of Xiamen Youli and Kailuo Tianxia, entered into a series of agreements, consisting of:

- (i) the Exclusive Business Cooperation Agreements (獨家業務合作協議), pursuant to which Xiamen Feiyou agreed to provide exclusive technical and management consulting services to Xiamen Youli and Kailuo Tianxia, and Xiamen Youli and Kailuo Tianxia agreed to pay service fees to Xiamen Feiyou;
- (ii) the Powers of Attorney (授權委託書), pursuant to which Xiamen Guanghuan irrevocably delegated the voting rights and other shareholder rights of Xiamen Youli and Kailuo Tianxia to Xiamen Feiyou or designee(s) of Xiamen Feiyou;
- (iii) the Equity Interest Pledge Agreements (股權質押協議), pursuant to which Xiamen Guanghuan pledged all its equity interests in Xiamen Youli and Kailuo Tianxia to Xiamen Feiyou to provide security on the performance of contractual obligations of Xiamen Guanghuan under the Contractual Arrangements; and
- (iv) the Exclusive Option Agreements (獨家購買權協議), pursuant to which Xiamen Guanghuan, Xiamen Youli and Kailuo Tianxia agreed to irrevocably, unconditionally and exclusively grant an exclusive option to Xiamen Feiyou which entitles Xiamen Feiyou to elect to purchase, when permitted by the then applicable PRC laws, all or any part of the equity interests of Xiamen Youli and Kailuo Tianxia from Xiamen Guanghuan by itself or through its appointee(s).

### DETAILS OF CONTRACTUAL ARRANGEMENTS

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



**Notes:**

1. Please refer to below subsection headed “— Powers of Attorney” of this prospectus for details.
2. Please refer to above subsection headed “— Exclusive Option Agreements” and “— Exclusive Business Cooperation Agreement” of this prospectus for details.

## CONTRACTUAL ARRANGEMENTS

3. Please refer to below subsection headed “— Equity Interest Pledge Agreements” of this prospectus for details.
4. Please refer to below subsection headed “— Exclusive Business Cooperation Agreements” of this prospectus for details.
5. Relevant Shareholders are Xiamen Guanghuan, being the registered shareholder of Xiamen Youli and Kailuo Tianxia; and Messrs. Yao Jianjun, Bi Lin, Chen Jianyu, Sun Zhiyan, Lin Jiabin, Lin Zhibin, Cai Wensheng and Ms. Chen Yongchun, being the registered shareholders of Xiamen Guanghuan.

### Exclusive Business Cooperation Agreements

Xiamen Feiyou entered into exclusive business cooperation agreements with the PRC Contractual Entities on September 4, 2014 and October 31, 2014, respectively (the “**Exclusive Business Cooperation Agreements**”), pursuant to which the PRC Contractual Entities agreed to engage Xiamen Feiyou as their exclusive provider of technical and management consulting services and other technology and consultancy services requested by the PRC Contractual Entities from time to time to the extent permitted under PRC laws in exchange for service fees. For the purpose of provision of these services, Xiamen Feiyou has employed dedicated research and development personnel to be primarily responsible for providing technical services to the PRC Contractual Entities as well as business management personnel to be primarily responsible for providing business consultation and other similar services to the PRC Contractual Entities. In light of the services that Xiamen Feiyou agreed to provide to the PRC Contractual Entities pursuant to the Exclusive Business Cooperation Agreements, the service fees, subject to Xiamen Feiyou’s adjustment, are equal to 100% of the PRC Contractual Entities’ annual revenue after deducting costs and expenses recognized by Xiamen Feiyou, and any additional technical service provided by Xiamen Feiyou to the PRC Contractual Entities will be subject to additional service fees. In addition, Xiamen Feiyou may at its absolute discretion adjust the service fees or agree to any postponed payment so as to avoid any financial difficulty of either the PRC Contractual Entities or itself. Xiamen Feiyou is also entitled to make any other adjustments of the service fees as it deems reasonable as long as it notifies the PRC Contractual Entities at least five days prior to the change.

The Company’s PRC Legal Advisor is of the opinion that such payment of service fees and the aforementioned restrictive provisions are not subject to any legal or regulatory approvals in the PRC and do not violate any PRC laws.

In addition, absent the prior written consent of Xiamen Feiyou, the PRC Contractual Entities shall not assign or transfer any of the rights and/or obligations under the Exclusive Business Cooperation Agreements to any third party. Unless otherwise required by the applicable PRC laws, the PRC Contractual Entities shall not be entitled to terminate the Exclusive Business Cooperation Agreements either, except when an application with best endeavors of the PRC Contractual Entities to renew their business period is denied.

The Exclusive Business Cooperation Agreements also provide that Xiamen Feiyou has the exclusive proprietary rights to all intellectual property rights developed or created by Xiamen Feiyou or the PRC Contractual Entities during the performance of the Exclusive Business Cooperation Agreements. Further, Xiamen Feiyou permits the PRC Contractual Entities to hold certain intellectual property rights for the purposes of their business operations. The PRC Contractual Entities shall assign such intellectual property rights to Xiamen Feiyou at the lowest price as permitted by the then applicable PRC laws upon request of Xiamen Feiyou. Xiamen Feiyou is entitled to use all the intellectual properties registered under the name of the PRC Contractual Entities under the Exclusive Business Cooperation Agreements free of charge. In addition, the PRC Contractual Entities granted irrevocable and exclusive rights to Xiamen



## CONTRACTUAL ARRANGEMENTS

Feiyou, which entitles Xiamen Feiyou to elect to purchase, when permitted by the then applicable PRC laws, all or any part of the assets of the PRC Contractual Entities at lowest price permitted by PRC laws, by itself or through its appointee(s). Xiamen Feiyou's appointee(s) shall be its direct or indirect shareholder when exercising the purchase option. Our PRC Legal Advisor is of the opinion that (i) it is legal for Xiamen Feiyou to hold these intellectual property rights pursuant to the terms of the Exclusive Business Cooperation Agreements; and (ii) that Xiamen Feiyou and the PRC Contractual Entities are not in violation of the requirements of the Telecom Permit Measures and the MIIT Circular regarding the ownership of intellectual property rights.

The relevant Exclusive Business Cooperation Agreement shall remain effective unless terminated in the event that (a) Xiamen Feiyou unilaterally terminates the relevant agreement; (b) the termination is required by the applicable PRC laws or regulations; or (c) renewal of the expired business period of either Xiamen Feiyou or the PRC Contractual Entities is denied by relevant government authority despite its best endeavors to renew its business period.

### Exclusive Option Agreements

The PRC Contractual Entities and the Relevant Shareholders entered into exclusive option agreements with Xiamen Feiyou on September 4, 2014 and October 31, 2014, respectively (the "**Exclusive Option Agreements**"), pursuant to which the Relevant Shareholders irrevocably, exclusively and unconditionally grant exclusive options to Xiamen Feiyou which entitles Xiamen Feiyou to elect to purchase, when permitted by the then applicable PRC laws, all or any part of the equity interests of the PRC Contractual Entities from the Relevant Shareholders by itself or through its appointee(s). Such appointee(s) shall be appointed by Xiamen Feiyou in its sole discretion but shall be, at the time of exercising the purchase option, (i) an individual with PRC nationality and (ii) a direct or indirect shareholder of Xiamen Feiyou or a director of Xiamen Feiyou or a director of the direct or indirect shareholder of Xiamen Feiyou. The PRC Contractual Entities and the Relevant Shareholders have no right to interfere with appointment of such persons by Xiamen Feiyou. In the event that any of the options is exercised by Xiamen Feiyou, the transfer price of the relevant equity interests shall be the registered capital of the applicable PRC Contractual Entities corresponding to such transferred equity interests, or if the legal minimum price under the then-applicable PRC law is higher, the legal minimum price. Any of such transfers is subject to approval and registration with government authorities. Subject to applicable PRC laws, each of the Relevant Shareholders shall transfer all the consideration it receives in relation to such sale of equity interest in the PRC Contractual Entities at nil consideration as a gift to Xiamen Feiyou or the designee(s) of Xiamen Feiyou immediately after receiving such consideration, after deduction of applicable taxes and governmental fees.

Pursuant to the Exclusive Option Agreements, the PRC Contractual Entities and the Relevant Shareholders shall not sell, transfer, pledge or dispose of in any other manner the legal or beneficial interest in any assets, business or income of the PRC Contractual Entities. The PRC Contractual Entities and the Relevant Shareholders undertake to maintain the asset value of the PRC Contractual Entities and not to take any action which may affect their business operations or asset value. Absent prior written consent of Xiamen Feiyou, the PRC Contractual Entities and the Relevant Shareholders shall not (i) in any manner supplement, change or amend the articles of association of the PRC Contractual Entities, increase or decrease their registered capital or change their structure of registered capital in any other manner; or (ii) engage in transactions that could materially affect the assets, liabilities, rights or operations of the PRC Contractual Entities, including (a) incur debts, except those incurred in the ordinary course of business or disclosed to and consented by Xiamen Feiyou; (b) execute any material contracts with a value above RMB500,000, except those entered into in the ordinary course of

## CONTRACTUAL ARRANGEMENTS

business; (c) provide loans or guarantee; (d) merge or consolidate with, acquire or invest in any entity; and (e) distribute dividends or profits to the Relevant Shareholders.

In addition, each of the Relevant Shareholders will take appropriate measures to maintain its shareholding in the PRC Contractual Entities, including (i) not to, sell, transfer, pledge or dispose of in any other manner the legal or beneficial interest in the PRC Contractual Entities without the prior written consent of Xiamen Feiyou, except for the Equity Interest Pledge Agreements and the interests prescribed in the Powers of Attorney, and procure the shareholders' meeting and the board of directors of the PRC Contractual Entities not to approve such matters; (ii) for each exercise of the equity purchase option, to cause the shareholders' meeting of the PRC Contractual Entities to vote on the approval of the transfer of equity interests and any other action requested by Xiamen Feiyou; and (iii) to relinquish the pre-emptive right (if any) he/she is entitled to in relation to the transfer of equity interest by any other Relevant Shareholders to Xiamen Feiyou. Each of the Relevant Shareholders will transfer to Xiamen Feiyou or its appointee(s) by way of gift any profit or dividend in accordance with PRC law. The PRC Contractual Entities and the Relevant Shareholders shall, at the request of Xiamen Feiyou, appoint any person designated by Xiamen Feiyou in its sole discretion as directors of the PRC Contractual Entities or replace the existing directors of the PRC Contractual Entities with any persons designated by Xiamen Feiyou in its sole discretion. Each of the Relevant Shareholders irrevocably undertakes that in the event of death or incapacity or any other event which causes the inability of such shareholder to perform his, her or its day-to-day obligations, such shareholder will transfer, unconditionally all of the equity interests held by him/her/it in the PRC Contractual Entities to Xiamen Feiyou or its appointee(s) at a price equal to the price as determined in the circumstances where Xiamen Feiyou exercises its option under the Exclusive Option Agreements. In the event of a mandatory liquidation required by the PRC laws, the Relevant Shareholders shall give the proceeds they received from liquidation as a gift to Xiamen Feiyou or its designee(s) to the extent permitted by the PRC laws.

The relevant Exclusive Option Agreement shall remain effective unless terminated in the event that (a) Xiamen Feiyou unilaterally terminates the relevant agreement; or (b) the entire equity interests held by the Relevant Shareholders in the relevant PRC Contractual Entity has been transferred to Xiamen Feiyou or its appointee(s).

### **Equity Interest Pledge Agreements**

The PRC Contractual Entities, the Relevant Shareholders and Xiamen Feiyou entered into equity interest pledge agreements on September 4, 2014 and October 31, 2014, respectively (the "**Equity Interest Pledge Agreements**"). Under the Equity Interest Pledge Agreements, the Relevant Shareholders agreed to pledge all their respective equity interests in the PRC Contractual Entities to Xiamen Feiyou, as a security interest, to guarantee the performance of contractual obligations and the payment of outstanding debts of the Relevant Shareholders and the PRC Contractual Entities under the Exclusive Business Cooperation Agreements, Powers of Attorney and Exclusive Option Agreements. The pledge in respect of a PRC Contractual Entity takes effect upon the completion of registration with the competent AIC and shall remain valid until after all the contractual obligations of the Relevant Shareholders and such PRC Operating Entity under the relevant Contractual Arrangements have been fully performed and all the outstanding debts of the Relevant Shareholders and such PRC Contractual Entity under the relevant Contractual Arrangements have been fully paid. During the valid period of the pledge, absent prior written consent of Xiamen Feiyou, the Relevant Shareholders shall not, and the PRC Contractual Entities shall not facilitate the Relevant Shareholders to, create or agree to create any new pledge or any other security on the equity interests of the PRC Contractual

## CONTRACTUAL ARRANGEMENTS

Entities, nor assign or transfer any of the equity interests of the PRC Contractual Entities or any rights or obligations under this agreement.

The relevant Equity Interest Pledge Agreement in respect of a PRC Contractual Entity will be terminated upon fulfillment of all contractual obligations of the Relevant Shareholders and such PRC Contractual Entity under the relevant Contractual Arrangements and satisfaction of any liabilities arisen from any breach of contracts by the Relevant Shareholders and/or such PRC Contractual Entity.

We have completed registrations of the equity pledge of Xiamen Guanghuan, Xiamen Youli and Kailuo Tianxia as contemplated under the relevant Equity Interest Pledge Agreements respectively on November 5, 2014, November 7, 2014 and November 17, 2014 at the relevant AIC.

### **Powers of Attorney**

Each of the Relevant Shareholders entered into a power of attorney on September 4, 2014 and October 31, 2014, respectively (the “**Powers of Attorney**”). Pursuant to the Powers of Attorney, each of the Relevant Shareholders irrevocably appoints Xiamen Feiyou or its designated persons to be appointed by it at its sole discretion (as well as its successor, including a liquidator replacing Xiamen Feiyou) to act as his/her/its exclusive attorney on his/her/its own behalf to exercise all rights in connection with matters concerning his/her/its rights as shareholder of the PRC Contractual Entities, including but not limited to (i) convening and attending shareholders’ meeting of the PRC Contractual Entities; (ii) exercising all shareholder’s rights and shareholder’s voting rights in accordance with law and the constitutional documents of the PRC Contractual Entities (including the right to sell, transfer, pledge or dispose of all or part of his/her/its equity interests, amendment to the articles of association of the PRC Contractual Entities and dissolution or winding-up of the PRC Contractual Entities); (iii) appointment or dismissal of the legal representative, director, general manager, financial controller, supervisor and other senior management; and (iv) receiving shareholder meeting notice, signing meeting minutes and resolutions, approving filing documents with the relevant companies registry and/or other government authorities in relation to the business operations of the PRC Contractual Entities. Xiamen Feiyou has the right to transfer such appointment right to any individual or entity without the consent of the Relevant Shareholders. Mr. Yao Jianjun, one of the Relevant Shareholders and our chairman, executive Director and chief executive officer, is the sole director of Xiamen Feiyou.

Further, pursuant to the Powers of Attorney, each of the Relevant Shareholders who are natural persons irrevocably undertakes that:

- (i) such shareholder acknowledges that his/her spouse has been fully aware of the Contractual Arrangements and consented that he/she is the sole beneficiary of all the rights and interests and solely assumes obligations under the Contractual Arrangements; his/her spouse shall not enjoy any interests or rights under the Contractual Arrangements, nor assume any obligations thereunder; further, such shareholder and his/her spouse agree that, in the event of divorce, all the equity interests held by such shareholder in the PRC Contractual Entities shall not be deemed as mutual assets, but assets solely owned by such shareholder;
- (ii) in the event of divorce, such shareholder will ensure that adequate preventive measures are taken to ensure the due performance under the Contractual Arrangements and will not take any actions or measures in violation with the Contractual Arrangements;

## CONTRACTUAL ARRANGEMENTS

- (iii) unless prior written consent is obtained from Xiamen Feiyou, such shareholder will not engage in, conduct, participate in or use the information obtained from the PRC Contractual Entities to participate in, directly or indirectly, any business or activity which competes or is likely to compete with the business of the the PRC Contractual Entities, nor will he acquire, hold any interests in or derive any interests from any business which competes or is likely to compete with the business of the PRC Contractual Entities;
- (iv) such shareholder will not take any action deviating from the intention and purposes of the Contractual Arrangements, which may lead to any conflict of interests between Xiamen Feiyou and the PRC Contractual Entities; and
- (v) if any conflict of interests occurs during the performance under the Contractual Arrangements by such shareholder, he/she will support the lawful interests of the Xiamen Feiyou and perform actions reasonably required by the Xiamen Feiyou.

Further, the Powers of Attorney shall remain effective for so long as such Relevant Shareholder holds equity interests in the PRC Contractual Entities or it can be terminated pursuant to the written instructions of Xiamen Feiyou.

In November 2014, Xiamen Feiyou issued a Notice for Exercise of Power of Attorney ("**Exercise Notice**") to Xiamen Youli and Kailuo Tianxia respectively, by which Xiamen Feiyou appoints Mr. Yao Jianjun, our chairman, and Mr. Cheung Man Yu, our chief financial officer, as its designees in exercising the Power of Attorney as granted to Xiamen Feiyou by each of Xiamen Youli and Kailuo Tianxia. Upon the execution of the Exercise Notice, which will occur before the Listing, Xiamen Feiyou grants both Mr. Yao and Mr. Cheung the equal rights in exercising its rights under the above Power of Attorney and each of Xiamen Youli and Kailuo Tianxia agrees to act under the consensus instructions of Messrs. Yao Jianjun and Cheung Man Yu.

### **Spouse Undertakings**

The spouse of each of the Relevant Shareholders, if applicable, has signed an undertaking on various dates ("**Spouse Undertakings**"). Pursuant to the Spouse Undertakings, each of the spouses irrevocably undertakes that:

- (i) the spouse has been made fully aware of the Contractual Arrangements and consented that such Relevant Shareholder is the sole beneficiary of all the rights and interests and solely assumes obligations under the Contractual Arrangements; further, he/she does not and will not have any interests or rights under the Contractual Arrangements, nor assumes any obligations thereunder;
- (ii) all the equity interests held by such Relevant Shareholder in the PRC Contractual Entities shall be deemed as assets solely owned by such Relevant Shareholder, not mutual assets jointly owned by him/her and the related Relevant Shareholder;
- (iii) the spouse will not participate in the operation or management of the PRC Contractual Entities, nor will claim any interests or rights in the equities or assets of the PRC Contractual Entities; in the event of divorce (as the case may be), such Relevant Shareholder has sole discretion to decide how to dispose of his interests or assets in the PRC Contractual Entities; and
- (iv) in the event that the spouse obtains any interests in the PRC Contractual Entities, he/she will be subject to and abide by the terms of the Contractual Arrangements as if

## CONTRACTUAL ARRANGEMENTS

he/she was a signing party to such Contractual Arrangements, and at the request of Xiamen Feiyou he/she will sign any documents in the form and substance consistent with the Contractual Arrangements.

### Dispute Resolution

Each of the agreements under the Contractual Arrangements contains a dispute resolution provision. Pursuant to such provision, in the event of any dispute relating to the Contractual Arrangements, the parties shall negotiate in good faith to resolve the disputes in the event of any dispute with respect to the construction and performance of the provisions. In the event the parties fail to reach an agreement on the resolution of such a dispute within 30 days after any party's request for resolution of the dispute through negotiations, any party may submit the relevant dispute to the China International Economic and Trade Arbitration Commission ("CIETAC") for arbitration, in accordance with the then effective arbitration rules. The arbitration shall be conducted in Xiamen, and the language used during arbitration shall be Chinese. The arbitration ruling shall be final and binding on all parties. The dispute resolution provisions also provides that the arbitral tribunal may award remedies over the shares or assets of the PRC Contractual Entities or injunctive relief (e.g. for the conduct of business or to compel the transfer of assets) or order the winding up of the PRC Contractual Entities; and the courts of Hong Kong, the Cayman Islands (being the place of incorporation of the Company), PRC and the places where the principal assets of Xiamen Feiyou or the PRC Contractual Entities are located also have jurisdiction for the grant and/or enforcement of the arbitral award and the interim remedies against the shares held by Relevant Shareholders in the PRC Contractual Entities or properties of the PRC Contractual Entities. However, our PRC Legal Advisor has advised that the above provisions may not be enforceable under the PRC laws. For instance, the arbitral tribunal has no power to grant such injunctive relief, nor will it be able to order the winding up of the PRC Contractual Entities pursuant to the current PRC laws. In addition, interim remedies or enforcement order granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in the PRC.

Our PRC Legal Advisor has advised us that the practical consequences for the Group arising from the possible non-enforceability of the aforementioned provisions in the agreements underlying the Contractual Arrangements are as follows:

- If Xiamen Feiyou intends to seek interim remedies in support of the arbitration when formation of the arbitral tribunal is pending or under appropriate circumstances, Xiamen Feiyou may seek the interim remedies before a PRC court pursuant to Article 101 and other relevant articles of the PRC Civil Procedure Law, and not before any courts in Hong Kong or the Cayman Islands.
- The remedies awarded by arbitral tribunals including CIETAC will be limited to the remedies available to them under PRC law, which currently include:
  - (a) cessation of infringements;
  - (b) removal of obstacles;
  - (c) elimination of dangers;
  - (d) return of property;
  - (e) restoration to the original condition;
  - (f) repair, reworking or replacement;

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- (g) compensation for losses;
- (h) payment of breach of contract damages;
- (i) elimination of adverse effects and rehabilitation of reputation; and
- (j) extension of apology.

Because a PRC arbitral tribunal cannot award legal remedies such as injunctive relief or winding up orders, Xiamen Feiyou can only seek similar but not identical remedies from CIETAC under PRC law, such as cessation of infringements or return of property. Alternatively, Xiamen Feiyou may seek remedies from a competent court, such as (i) the relevant basic People's Court at the place of the registration of each of Xiamen Guanghuan, Xiamen Youli and Kailuo Tianxia; (ii) the intermediate People's Court of Xiamen (for Xiamen Guanghuan and Xiamen Youli) or Beijing (for Kailuo Tianxia); and (iii) the Higher People's Court of Fujian (for Xiamen Guanghuan and Xiamen Youli) or Higher People's Court of Beijing (for Kailuo Tianxia), including interim injunctive relief over the assets or shares of the PRC Contractual Entities and a winding up order against the PRC Contractual Entities.

- Despite the fact that the clause providing that an arbitral body may award injunctive relief or winding up orders and that courts in Hong Kong and the Cayman Islands may grant interim remedies may not be enforceable under PRC law, the remaining provisions of the dispute resolution clauses set out in the agreements underlying the Contractual Arrangements are legal, valid and binding on the parties thereto.

### **Succession**

As advised by our PRC Legal Advisor, the provisions set out in the Contractual Arrangements are also binding on any successors of the Relevant Shareholders as if the successor was a signing party to the Contractual Arrangements. Although the Contractual Arrangements do not specify the identity of successors to such shareholders, under the succession law of the PRC, statutory successors may include the spouse, children, parents, brothers, sisters, paternal grandparents and the maternal grandparents, and as such any breach by the successors would be deemed to be a breach of the Contractual Arrangements. In case of a breach, Xiamen Feiyou can enforce its rights against the successors. Pursuant to the Contractual Arrangements, any successor of the Relevant Shareholders shall assume any and all rights and obligations of the Relevant Shareholders under the Contractual Arrangements as if the successor was a signing party to such Contractual Arrangements.

In addition, each of the Relevant Shareholders and their spouses has provided irrevocable undertakings which stipulate certain matters to succession of the rights and obligations under the Contractual Arrangements. See “— Powers of Attorney” and “— Spouse Undertakings.”

Our PRC Legal Advisor is of the view that (i) the Contractual Arrangements provide protection to the Group even in the event of death or divorce of any Relevant Shareholders and (ii) the death or divorce of such Relevant Shareholder would not affect the validity of the Contractual Arrangements, and Xiamen Feiyou can enforce its right under the Contractual Arrangements against the successors of such Relevant Shareholder.



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### **Arrangements to Address Potential Conflicts of Interests**

Each of the Relevant Shareholders has given their irrevocable undertakings in the Powers of Attorney which address potential conflicts of interests that may arise in connection with the Contractual Arrangements. For further details, see “— Powers of Attorney.”

### **Loss Sharing**

Under the relevant PRC laws and regulations, none of the Company and Xiamen Feiyou is legally required to share the losses of, or provide financial support to, the PRC Contractual Entities. Further, the PRC Contractual Entities are limited liability companies and shall be solely liable for their own debts and losses with assets and properties owned by them. Xiamen Feiyou intends continuously to provide to or assist the PRC Contractual Entities in obtaining financial support when deemed necessary. In addition, given that the Group conducts a substantial portion of its business operations in the PRC through the PRC Contractual Entities, which hold the requisite PRC operational licenses and approvals, and that their financial position and results of operations are consolidated into the Group’s financial statements under the applicable accounting principles, the Company’s business, financial position and results of operations would be adversely affected if the PRC Contractual Entities suffer losses.

However, as provided in the Exclusive Option Agreements, without the prior written consent of Xiamen Feiyou, the PRC Contractual Entities shall not, among others, (i) sell, transfer, pledge or dispose of in any manner any of its assets; (ii) execute any material contract with a value above RMB500,000, except those entered into in the ordinary course of business; (iii) provide any loan, credit or guarantees in any form to any third party, or allow any third party create any other security interest on its assets or equity; (iv) incur, inherit, guarantee or allow any debt that is not incurred in the ordinary course of business or not disclosed to and consented by Xiamen Feiyou; (v) enter into any consolidation or merger with any third party, or being acquired by or invest in any third party; and (vi) increase or reduce its registered capital, or alter the structure of the registered capital in any other way. Therefore, due to the relevant restrictive provisions in the agreements, the potential adverse effect on Xiamen Feiyou and the Company in the event of any loss suffered from the PRC Contractual Entities can be limited to a certain extent.

### **Liquidation**

Pursuant to the Exclusive Option Agreements, in the event of a mandatory liquidation required by the PRC laws, the Relevant Shareholders shall give the proceeds they received from liquidation as a gift to Xiamen Feiyou or its designee(s) to the extent permitted by the PRC laws.

### **Bankruptcy**

Our PRC Legal Advisor has advised that the concept of bankruptcy of a natural person does not exist under PRC laws, and, as such, there is currently no possibility of an event of bankruptcy of the Relevant Shareholders other than Xiamen Guanghuan under PRC laws. Furthermore, in case of occurrence of any event which may affect a Relevant Shareholder’s performance of his/her/its obligations under the Contractual Arrangements, Xiamen Feiyou is entitled to exercise its option to purchase the equity interest held by such Relevant Shareholder in the PRC Contractual Entities by itself or through its appointees under the Exclusive Option Agreement. All equity interest of the PRC Contractual Entities held by Relevant Shareholders have also been pledged to Xiamen Feiyou under the Equity Interest Pledge Agreements to secure performance of obligations by the Relevant Shareholders and the PRC Contractual Entities under the Contractual Arrangements and in case of any breach of such obligations, Xiamen Feiyou is entitled to enforce such pledge.

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### Termination

Other than the Equity Interest Pledge Agreements, which shall remain valid until all the contractual obligations of the PRC Contractual Entities and the Relevant Shareholders under the Contractual Arrangements have been fully performed, each of the Exclusive Business Cooperation Agreements, the Exclusive Option Agreements, the Equity Interest Pledge Agreements and the Powers of Attorney has a termination provision that unless otherwise required by the applicable PRC laws, the PRC Contractual Entities and the Relevant Shareholders are not entitled to unilaterally terminate the Contractual Arrangements without concert of Xiamen Feiyou. The Contractual Arrangements may only be terminated in the event that (i) all equity interests or assets of the PRC Contractual Entities held or owned by the Relevant Shareholders have been transferred to Xiamen Feiyou or its appointee(s), (ii) Xiamen Feiyou unilaterally terminates the Contractual Arrangements, (iii) as required by the applicable PRC laws or regulations; or (iv) renewal of expired business period of either Xiamen Feiyou or the PRC Contractual Entities is denied by the relevant government authority.

### Insurance

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

### Operations in Compliance with the Contractual Arrangements

To ensure sound and effective operation of our Group after the adoption of the Contractual Arrangements, the management of our Group plans to take certain special measures. Please see the section headed “Connected Transactions — The view of our Directors on the Non-exempt Continuing Connected Transactions.”

In addition, the Company undertakes, and plans to adopt the following measures to ensure, that no business operations will be conducted via Xiamen Guanghuan, Xiamen Yidou and Xiamen Heihuo (collectively, the “**Non-Restricted Entities**”) (such undertaking, the “**Non-Restricted Business Undertaking**”):

1. the company seals, financial seals, contract seals and crucial corporate certificates of the Non-Restricted Entities are kept by Xiamen Feiyou’s administration department. Any use of the seals will need internal approval from Xiamen Feiyou. The personnel in Xiamen Feiyou’s administration department responsible for the custody and handling of the seals and corporate certificates shall be nominated by one of our executive Directors;
2. each of the Relevant Shareholders has signed an undertaking (the “**Relevant Shareholders’ Undertaking**”) in favour of Xiamen Feiyou not to conduct any business operations via the Non-Restricted Entities. The Relevant Shareholders shall indemnify Xiamen Feiyou for all losses and damages suffered by the Group resulting from a breach of the Relevant Shareholders’ Undertakings.
3. our independent non-executive Directors shall have access to information and records of the Non-Restricted Entities as they deem appropriate for the monitoring of the compliance of the Non-Restricted Business Undertaking and the Relevant Shareholders’ Undertaking;
4. our independent non-executive Directors shall meet quarterly to discuss the compliance of the Non-Restricted Business Undertaking and the Relevant Shareholders’ Undertaking; and

## CONTRACTUAL ARRANGEMENTS

5. we will establish internal reporting system so that the Non-Restricted Entities shall report to Xiamen Feiyou in a timely manner in order to prevent unauthorized conducting of business activities.

### **Company's confirmation**

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

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

### **Legality of the Contractual Arrangements**

#### ***PRC Legal Opinions***

Han Kun Law Offices, the Company's PRC Legal Advisor, after taking reasonable actions and steps to reach its legal conclusions including interviews with competent PRC regulatory authorities in August and September 2014, is of the following legal opinion that:

- (i) each of the PRC Contractual Entities is duly established and validly existing under the PRC laws, and has obtained or completed all requisite approvals, permits, registrations or filings that are material for carrying out its business operations as required by the applicable PRC laws, regulations and rules;
- (ii) each of the agreements comprising the Contractual Arrangements, will upon execution, constitute legal, valid and binding obligation of the parties thereto and the Contractual Arrangements are in full compliance with and will be enforceable under applicable PRC laws, regulations and rules, in particular, the terms of the agreements comprising Contractual Arrangements do not, individually or collectively, violate the provisions of the PRC Contract Law, the General Principles of the PRC Civil Law and other applicable PRC laws and regulations, except that (i) the arbitral tribunal has no power to grant injunctive relief, nor will it be able to order the winding up of the PRC Contractual Entities pursuant to the current PRC laws; (ii) interim remedies or enforcement order granted by overseas courts such as the courts of Hong Kong and the Cayman Islands may not be recognizable or enforceable in China;
- (iii) each of the agreements comprising the Contractual Arrangements does not violate any provisions of the existing articles of association of Xiamen Feiyou and the PRC Contractual Entities;
- (iv) the execution, effectiveness and enforceability of the Contractual Arrangements do not require any approvals from the PRC governmental authorities, except that the pledge of equity interests of the PRC Contractual Entities shall become effective and enforceable after completion of registration with relevant AIC, and we have completed registrations of the equity pledge of Xiamen Guanghuan, Xiamen Youli and Kailuo Tianxia as contemplated under the relevant Equity Interest Pledge Agreements respectively on November 5, 2014, November 7, 2014 and November 17, 2014 at the relevant AIC.
- (v) under the prevailing PRC laws, pending the completion of registration of the Equity Interest Pledge Agreements, in the event the PRC Contractual Entities or the Relevant

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Shareholders fail to perform their respective obligations under the Contractual Arrangements, it is lawful for the pledgee, to enforce the Equity Interest pledge contemplated under such Equity Interest Pledge Agreements after taking the necessary enforcement steps;

- (vi) the consummation of the contemplated listing of the Company's shares on the Stock Exchange is not a violation of the M&A Rules; and
- (vii) MIIT has the authority to administer valued-added telecommunication business in the PRC; Beijing Municipal Bureau of Culture (北京市文化局) and Fujian Provincial Department of Culture (福建省文化廳) have the regulatory authority to administer online game business in Beijing and Fujian respectively; and State Administration of Press, Publication, Radio, Film and Television of the PRC (中華人民共和國新聞出版廣播電總局) has the regulatory authority to administer internet publication in the PRC.

We are aware of recent press articles which reported that a recent Supreme People's Court (the "**Supreme People's Court Case**") ruling and two arbitral decisions from the Shanghai International Economic and Trade Arbitration Commission invalidated certain contractual agreements which were considered to be entered into with the intention of circumventing foreign investment restrictions in the PRC in contravention of the PRC Contract Law and the General Principles of the PRC Civil Law. It has been further reported that these court ruling and arbitral decisions may increase (i) the possibility of the PRC courts and/or arbitration panels taking similar actions against contractual structures commonly adopted by foreign investors to engage in restricted businesses in the PRC and (ii) the incentive for shareholders of the PRC Contractual Entities under such contractual structures to renege on their contractual obligations. Our PRC Legal Advisor is of the view that: (i) the Contractual Arrangements adopted by the Group are not in breach of any applicable PRC laws and regulations except that (1) arbitral tribunal has no power to grant injunctive relief, nor will it be able to order the winding up of the PRC Contractual Entities pursuant to the current PRC laws; and (2) interim remedies of enforcement order granted by overseas courts such as the courts of Hong Kong and the Cayman Islands may not be recognizable or enforceable in China; (ii) to their knowledge the relevant terms of our Contractual Arrangements do not fall within any of the circumstances under Section 52 of the PRC Contract Law pursuant to which the contracts would be determined to be invalid; (iii) our corporate structure and the Contractual Arrangements are distinguishable from the facts as reported in the Supreme People's Court Case; (iv) the Supreme People's Court Case may not be considered as authority in deciding other cases as it is not, as of the Latest Practicable Date, a guiding case specifically published by the Supreme People's Court of the PRC (指導性案例) which should be followed by lower level people's courts throughout China; and (v) decisions of the arbitral tribunals are not published and have no legally binding effect on future arbitration cases in China.

Our PRC Legal Advisor is of the opinion that the Contractual Arrangements would not be deemed as void under PRC Contract Law as they do not fall within any of the five circumstances under Section 52 of the PRC Contract Law. Pursuant to Section 52 of the PRC Contract Law, a contract is void under any of the following circumstances: (i) the contract is concluded through the use of fraud or coercion by one party and therefore damages the interest of the State; (ii) malicious collusion is conducted to damage the interest of the State, a collective unit or a third party; (iii) the contract damages the public interest; (iv) an illegitimate purpose is concealed under the guise of legitimate acts; or (v) the contract violates the mandatory provisions of the laws and administrative regulations. The Contractual Arrangements do not fall within circumstance (i) under Section 52 of the PRC Contract Law, because the Contractual

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Arrangements were freely negotiated and entered into by Xiamen Feiyou, the PRC Contractual Entities and the Relevant Shareholders and no apparent interest of the State was damaged by the Contractual Arrangements. Neither do the Contractual Arrangements fall within circumstances (ii) or (iii) because there was no malicious collusion or apparent damage to the interest of the State, a collective unit, a third party or the public. The Contractual Arrangements do not fall within circumstance (v) because none of the arrangements violate any mandatory provisions of current laws in the PRC, which refers to laws promulgated by the National People's Congress of the PRC or its Standing Committee, or any mandatory provisions of administrative regulations in the PRC, which refers to administrative regulations issued by the State Council of the PRC.

In particular, our PRC Legal Advisor is of the view that the Contractual Arrangements would not be deemed as "concealing illegal intentions with a lawful form" such that they also do not fall within circumstance (iv) under the Section 52 of the PRC Contract Law. This is because the Contractual Arrangements were not entered into for illegitimate purposes. The purposes of the Contractual Arrangements are (i) to enable the PRC Contractual Entities to transfer its economic benefits to Xiamen Feiyou as service fees for engaging Xiamen Feiyou as its exclusive provider of technical support, business support, relevant consulting services and any other services the PRC Contractual Entities may require, and (ii) to ensure that the Relevant Shareholders of the PRC Contractual Entities do not take any actions that are contrary to the interests of Xiamen Feiyou. None of these purposes in and of themselves are illegal or illegitimate, and the individual contracts that comprise the Contractual Arrangements are common agreements that are legitimate and legal. In accordance with Section 4 of the PRC Contract Law, which is a section of the Part One (General Principles) of the PRC Contract Law setting forth fundamental principles under the PRC Contract Law, the parties to the Contractual Arrangements have the right to enter into contracts in accordance with their own wishes and no person may illegally interfere with such right. In addition, the effect of the Contractual Arrangements, which is to allow the Company to list on the Stock Exchange while obtaining the economic benefits of the PRC Contractual Entities, is not for an illegitimate purpose, as evidenced by the fact that a number of currently listed companies also adopt a similar VIE structure.

In conclusion, the Contractual Arrangements do not fall within any of the five circumstances set forth in Section 52 of the PRC Contract Law.

Our PRC Legal Advisor further confirms that as far as they are aware, no regulatory or legislative actions have been taken by the PRC governmental authorities on any existing VIE structures of publicly listed PRC companies, nor has there been any proposal to enact new laws or regulations to regulate VIE structures in any publicly available annual legislation plan of the PRC.

However, our PRC Legal Advisor further advises us that the possibility of the PRC legislative authorities, administrative authorities, courts or arbitration tribunals holding views contrary to that of our PRC Legal Advisor cannot be entirely ruled out.

### ***Interviews with the competent PRC authorities***

In August and September, 2014, the Joint Sponsors have conducted the following on-site interviews with the competent PRC authorities seeking regulatory assurance of the Contractual Arrangements adopted by the Group in the PRC:

- (a) an on-site interview with Beijing Municipal Bureau of Culture (北京市文化局), the competent PRC authority to administer and regulate the overall online game industry in Beijing, during which we interviewed an officer from the Department of Reviewing and Approval (審批服務處);



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- (b) an on-site interview with Fujian Provincial Department of Culture (福建省文化廳), the competent PRC authority to administer and regulate the overall online game industry in Fujian Province, during which we interviewed an officer from the Department of Market and Industry (市場與產業處);
- (c) an on-site interview with MIIT, whose authority over the online game industry is limited to issuing VATS License to online game operators, during which we interviewed an officer of the Software Industry Department (軟件服務司); and
- (d) an on-site interview with State Administration of Press, Publication, Radio, Film and Television of the PRC (中華人民共和國新聞出版廣電總局), whose authority over online game industry is limited to examining and approving online games from the publication perspective, during which we interviewed an officer from the Department of Digital Publication (數字出版司).

Based on confirmations made by the PRC authorities during the interviews, our PRC Legal Advisor is of the view that the Contractual Arrangements do not violate any PRC laws and regulations for the below reasons:

- (i) the interviewees consulted in the interviews are officials of the relevant PRC authorities, and based on these officers' descriptions of their powers and the authority of the relevant government authorities during the interviews, the government authorities and the relevant officers are competent to provide assurance in connection with the Contractual Arrangements;
- (ii) no implementation rule or interpretation of the GAPP Notice has been issued by the GAPP or any other government authority;
- (iii) the official from Department of Digital Publication (數字出版司) of GAPP has indicated during the interview that GAPP and its local counterparts regulate the online game industry based on the administration authority granted to GAPP by the PRC laws, which provide that the MOC has the overall jurisdiction to regulate the online game industry while GAPP is empowered to issue licenses for companies engaged in Internet publication and approvals for the Internet publication of online games. The official also confirmed that the public listing or shareholding restructuring of or entering into a service agreement with a third party by any online game operation company is not a matter subject to the examination or approval by GAPP or its local counterparts;
- (iv) the official from Department of Reviewing and Approval (審批服務處) of Beijing Municipal Bureau of Culture (北京市文化局) has confirmed during the interview that the online game operation business belongs to the industry prohibited from foreign investment and neither WFOEs nor domestic entities invested by WFOEs are permitted to hold Network Culture Operation Licenses required to operate such business. Nevertheless, Beijing Municipal Bureau of Culture will not interfere with the transactions contemplated under the Contractual Arrangements;
- (v) the official from Department of Market and Industry (市場與產業處) of Fujian Provincial Department of Culture (福建省文化廳) has confirmed during the interview that the online game operation business belongs to the industry prohibited from foreign investment and neither WFOEs nor domestic entities invested by WFOEs are permitted to hold Network Culture Operation Licenses required to operate such



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business. Nevertheless, Fujian Provincial Department of Culture (福建省文化廳) will not interfere with the transactions contemplated under the Contractual Arrangements; and

- (vi) the official from Department of Software Industry (軟件服務司) of MIIT has confirmed that value-added telecommunication business belongs to the industry restricted from foreign investment and foreign investments in this industry shall be subject to the Catalogue and other applicable regulatory documents purporting to regulate foreign investments in value-added telecommunication business. The official also confirmed that the transactions contemplated under the Contractual Arrangements are not matters subject to the examination or approval by the MIIT.

### **Accounting aspects of the Contractual Arrangements**

#### ***Consolidation of financial results of the PRC Contractual Entities***

According to IFRS 10 “Consolidated Financial Statements,” a subsidiary is an entity that is controlled by another entity (known as the parent). An investor controls an investee when it is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Although our Company does not directly or indirectly own the PRC Contractual Entities, the Contractual Arrangements described above, after being formed, enable our Company to exercise control over the PRC Contractual Entities. The formation of the Contractual Arrangements was accounted for as a transaction without substance and the Group consolidated the PRC Contractual Entities as if they were in the Group from the beginning of the Track Record Period.

Under the Exclusive Business Cooperation Agreements entered into between Xiamen Feiyou and the PRC Contractual Entities, it was agreed that, in consideration of the services provided by Xiamen Feiyou, the PRC Contractual Entities will pay a yearly service fee to Xiamen Feiyou. The amount of service fees and calculation method shall be determined by Xiamen Feiyou at its sole discretion for the best interests of Xiamen Feiyou. Under the Exclusive Business Cooperation Agreements, Xiamen Feiyou may adjust the service fees, at its sole discretion, based on the principle of maintaining the balance of profit and loss for the PRC Contractual Entities so as to allow the PRC Contractual Entities to retain sufficient working capital to carry out its business. The PRC Contractual Entities shall deliver to Xiamen Feiyou its management documents and operating data at the request of Xiamen Feiyou. Accordingly, Xiamen Feiyou has the ability, at its sole discretion, to extract substantially all of the economic benefit of the PRC Contractual Entities through the Exclusive Cooperation Agreements.

In addition, under the Exclusive Option Agreements, Xiamen Feiyou has absolute control over the distribution of dividends or any other form of profit to the shareholders of the PRC Contractual Entities because Xiamen Feiyou’s prior written consent is required for any such distribution.

Further, under the Powers of Attorney, Xiamen Feiyou assumes the rights of the shareholders of the PRC Contractual Entities and exercises control over the PRC Contractual Entities, including the right to propose, convene and attend shareholders’ meetings, the right to amend the articles of association of the PRC Contractual Entities, the right to sell, transfer, dispose of, or impose security on any shares and/ or assets, the right to exercise shareholders’ voting rights and to nominate and elect director and/or senior management members of the PRC Contractual Entities. As a result of these agreements, the Company has obtained control of the PRC Contractual Entities through Xiamen Feiyou and, under the Company’s sole discretion, can

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receive substantially all of the economic interest returns generated by the PRC Contractual Entities. Based on such contractual arrangements from an accounting prospective, we have concluded that it is appropriate to consolidate the financial statements of the PRC Contractual Entities, notwithstanding the lack of equity ownership, as if it is our Group's subsidiary, in accordance with IFRS 10 "Consolidated Financial Statements."

### Qualification Requirement

In addition to the foreign investment restrictions, according to the FITE Regulations, a foreign investor wishing to acquire any equity interest in a value-added telecommunications business in China must demonstrate (i) a good track records and (ii) experience in operating value-added telecommunication business overseas. For details, please see "Foreign Investment in Value-Added Telecommunication Services" under "Regulatory Overview" in this Prospectus. MIIT did not issue any specific written guideline in this aspect. In addition, the MIIT official did not specify during interviews with the Company's PRC Legal Advisor what constitutes a "good track record." As such, the Company's PRC Legal Advisor is of the view that the MIIT retains considerable discretion in determining what the details of the Qualification Requirement are and whether a foreign investor is in compliance with the Qualification Requirement.

The Company has taken additional steps to build up our track record of overseas telecommunications business operations in an attempt to comply with the Qualification Requirement, so as to be qualified to acquire the entire equity interest of Xiamen Guanghuan when the restrictions on the percentage of foreign ownership in telecommunications services are lifted. Such steps include:

- (i) to expand its overseas value added telecommunication business, the Company has incorporated Feiyu Hong Kong on March 25, 2014, which has begun serving as the main control hub of the Company's overseas business and is responsible for:
  - negotiating and executing contracts for international business cooperation, such as contracts for the distribution of the Company's mobile and web games in overseas markets. For instance, as of the Latest Practicable Date, Feiyu Hong Kong has signed the distribution agreement of *Shen Xian Dao* (神仙道) for the Taiwanese market;
  - investing in or acquiring overseas mobile and/or web game developers and other value-added telecommunications services providers;
  - holding our overseas intellectual property rights and licensing our intellectual property rights to international partners; and
  - recruiting game development managers, and acting as the direct employer of the Company's personnel based outside the PRC.
- (ii) the Company is in the process of constructing its overseas website, [www.feiyuhk.com](http://www.feiyuhk.com), which is expected to be completed before the Listing, primarily for game promotion and investor relations purposes. The Company plans to offer its casual games, such as Carrot Fantasy (保衛蘿蔔) and Carrot Fantasy 2 (保衛蘿蔔2), on this website to help overseas investors and online game publishing platforms to better understand our games and business. Through this overseas website, we can capture and analyze overseas user data in order to provide helpful insights for our overseas expansion plans; and
- (iii) commence feasibility studies on the further development of marketing to overseas markets in order to optimize its strategic plan for expanding its current businesses to overseas markets.

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These steps are expected to strengthen our overseas game development, operation, distribution and personnel experience and thereby help us satisfy the Qualification Requirement.

The Company expects that the aggregate expenditures incurred and to be incurred for taking the steps mentioned above will be approximately RMB2,000,000 in aggregate for 2014 and 2015, of which approximately RMB339,000 has been incurred as of September 30, 2014. For 2014 and 2015, the Company expects that it will incur approximately RMB1,200,000 for staff costs, approximately RMB480,000 for rental costs and approximately RMB320,000 for other miscellaneous costs, in relation to the steps mentioned above. The Company's PRC Legal Advisor is of the view that the steps mentioned above are reasonable and appropriate to enhance our overseas experience for compliance with the Qualification Requirement. The Company will continue to seek specific guidance from relevant PRC regulatory authorities with respect to compliance with the Qualification Requirement and is committed to implement its expansion plan in targeted overseas markets such as Hong Kong, Taiwan, Vietnam, Korea, Thailand and Indonesia, with an aim to develop a proven track record of game distribution and publishing business overseas. The Company will provide periodic updates in its annual and interim reports after the Listing to inform the public investors of its progress in overseas expansion plans and any updates to the Qualification Requirement.

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

### OUR CONTROLLING SHAREHOLDERS

On July 19, 2008, Messrs. Yao Jianjun, Bi Lin, Ye Bin, Lin Jiabin and Lin Zhibin entered into an agreement to jointly develop a web game (the “**2008 Game Development Agreement**”). According to the agreement, Messrs. Yao Jianjun and Bi Lin would contribute a cash capital of RMB240,000 and RMB130,000, respectively, into the project. Messrs. Yao Jianjun and Bi Lin would respectively receive 40% and 21% interest in the project.

On August 7, 2009, Messrs. Yao Jianjun, Bi Lin, Ye Bin, Lin Jiabin and Lin Zhibin entered into an amendment to the above game development agreement (the “**2009 Game Development Agreement Amendment**”). According to the amendment, Messrs. Yao Jianjun and Bi Lin would contribute an additional cash capital of RMB300,000 and RMB200,000 to Xiamen Guanghuan for its working capital use and the respective equity interest of Messrs. Yao Jianjun and Bi Lin in Xiamen Guanghuan should be changed to 51% and 28%, respectively. Please refer to the section headed “Our History, Reorganization and Corporate Structure — Our Corporate History and Development Before Reorganization” for further details on the development of our Group.

On August 13, 2014, Messrs. Yao Jianjun and Bi Lin, as the settlor and protector, established their respective Family Trusts of which TMF (Cayman) Ltd. serves as the trustee. On August 15, 2014, Messrs. Yao Jianjun and Bi Lin each transferred 100% shareholding interest in their respective 100% owned BVI Holding Companies to Jolly Spring International Limited and Rayoon Limited respectively, which are the nominee of TMF (Cayman) Ltd. TMF (Cayman) Ltd. is the trustee of both The Yao Family Trust and The Bi Family Trust which are discretionary trusts, the beneficiaries of which are respectively Messrs. Yao Jianjun and Bi Lin, and each of their family members.

Mr. Yao Jianjun, YAO Holdings Limited, Jolly Spring International Limited, Mr. Bi Lin, BILIN Holdings Limited and Rayoon Limited, together exercise control of approximately 49.760% of the issued share capital of the Company immediately prior to the Global Offering. Upon completion of the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be issued upon the exercise of share options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan), the percentage of issued share capital controlled by Mr. Yao Jianjun, YAO Holdings Limited, Jolly Spring International Limited, Mr. Bi Lin, BILIN Holdings Limited and Rayoon Limited in the Company will be diluted to 39.808%.

As such, Mr. Yao Jianjun, YAO Holdings Limited, Jolly Spring International Limited, Mr. Bi Lin, BILIN Holdings Limited, and Rayoon Limited will together be entitled to directly or indirectly exercise or control the exercise of 30% or more of the voting rights at the general meeting of our Company immediately upon completion of the Global Offering, assuming the Over-allotment Option is not exercised and without taking into account any Shares to be issued upon the exercise of Share Options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan. Accordingly these parties are considered our Controlling Shareholders immediately following the Global Offering.

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

For more details on Mr. Yao Jianjun's and Mr. Bi Lin's bios, please refer to the section headed "Directors and Senior Management — Directors and Senior Management — Executive Directors." As at the Latest Practicable Date, our Controlling Shareholders do not hold shares in any listed companies to the extent subject to reporting or disclosure requirements in that jurisdiction.

### No Excluded Business

None of our Controlling Shareholders nor any of our Directors is, as of the Latest Practicable Date, interested in any business, other than our Group, which, competes or is likely to compete, either directly or indirectly, with our Group's business and which requires disclosure pursuant to Rule 8.10 of the Listing Rules.

### Non-competition Undertakings

Pursuant to the non-competition undertakings set out in the deed of non-competition dated November 17, 2014, each of our Controlling Shareholders (together with Mr. Chen Jianyu, Mr. Sun Zhiyan, Fishchen Holdings Limited, Eastep Holdings Limited, Honour Gate Limited and Ace Kingdom Limited) (the "**Undertakers**," each an "**Undertaker**") has undertaken to our Company (for itself and on behalf of its subsidiaries) that during the period commencing from the Listing Date and ending on the occurrence of the earliest of (i) the day on which our Shares cease to be listed on the Stock Exchange or other recognized stock exchange; (ii) the day on which the Undertakers cease to be controlling shareholders of our Company; and (iii) the day on which the Undertakers beneficially own or are interested in the entire issued share capital of our Company:

- Each of them will not and will procure that none of his/its close associates, spouse and children under the age of 18 and persons to whom each of them provides financial assistance to set up and operate businesses (the "**Controlled Persons**") or any companies in the equity capital of which each of the Undertakers, his family interests and/or any trustee interests taken together are interested (directly or indirectly) so as to exercise or control the exercise of 30% or more of the voting power at general meetings, or companies in which each of the Undertakers, his family interests and/or any trustee interests controls the composition of a majority of the board of directors of such companies (the "**Controlled Companies**") will, except through his/its interests in our Company, whether as principal or agent and whether undertaken directly or indirectly through any person, body corporate, partnership, joint venture or other contractual arrangement and whether for profit or otherwise, participate, acquire or hold any right or interest or otherwise be interested, involved or engaged in or concerned with, directly or indirectly, any business which is in any respect in competition with or similar to or is likely to be in competition with the business of our Group as described in this prospectus and any other business from time to time conducted by any member of our Group or in which any member of our Group is engaged or has invested in, or entered into any of intent or memorandum of understanding to enter into, or which our Group has otherwise publicly announced its intention to enter into, engage in or invest in (whether as principal or agent and whether undertaken directly or through any body corporate, partnership, joint venture, or other contractual or other arrangement), within the PRC or any of the territories where any member of our Group carries and/or will carry on business from time to time (the "**Restricted Business**");

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- If he/it and/or any of his/its respective close associates, and/or any of the Controlled Persons and/or any of the Controlled Companies is offered or becomes aware of any potential business opportunity directly or indirectly to engage or become interested in a Restricted Business, he/it:
  - (a) shall promptly notify our Company in writing and refer such business opportunity to our Company for consideration and provide such information as may be reasonably required by our Company in order to make an informed assessment of such business opportunity; and
  - (b) shall not and shall procure that his/its close associates and/or Controlled Persons and/or Controlled Companies shall not, invest or participate in any such project or business opportunity unless such project or business opportunity shall have been rejected by our Company and the principal terms of which each of the Controlling Shareholder or his/its close associates and/or Controlled Persons and/or Controlled Companies invest(s) or participate(s) are no more favorable than those made available to our Company.

Each Undertaker undertakes that he/it will not and will procure that none of his/its respective close associates and/or the Controlled Persons and/or the Controlled Companies shall:

- At any time induce or attempt to induce any director, manager or employee or consultant of any member of our Group to terminate his or her employment or consultancy (as appropriate) with our Group, whether or not such act of that person would constitute a breach of that person's contract of employment or consultancy (as appropriate);
- At any time employ any person who has been a director, a manager, employee of or consultant to any member of our Group who is or may be likely to be in possession of any confidential information or trade secrets relating to the Restricted Business; or
- Alone or jointly with any other person, or as manager, adviser, consultant, employee or agent for or shareholder in any person, firm or company, in competition with any member of our Group, canvass, solicit or accept order from or do business with any person with whom any member of our Group has done business or solicit or persuade any person who has dealt with our Group or is in the process of negotiating with our Group in relation to the Restricted Business to cease to deal with our Group or reduce the amount of business which the person would normally do with our Group or seek to improve their terms of trade with any member of our Group.

Each Undertaker further undertakes, jointly and severally, to indemnify and keep indemnified our Group against any damage, loss or liability suffered by our Group arising out of or in connection with any breach of covenants and undertakings and/or any of the obligations of the Undertakers under the deed of non-competition, including any costs and expenses incurred as a result of such breach.



## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

The implementation of the deed of non-competition will be governed and monitored as follows:

- our independent non-executive Directors will be responsible for deciding, without attendance by any executive Director (except as invited by our independent non-executive Directors to assist them or provide any relevant information but in no circumstances shall the executive Director(s) participate in such meeting be counted towards the quorum or allowed to vote in such meeting), whether or not to take up a new business opportunity referred to us under the terms of the deed of non-competition.
- our independent non-executive Directors will be granted full access of financial information and other information they request from the managers of the Company and Undertakers in order to make an informed decision. The independent non-executive Directors will make each decision based on any factors they consider appropriate and which they consider is beneficial to the Group.
- our independent non-executive Directors may employ an independent financial advisor as they consider necessary to advise them on the terms of any new business opportunity.
- each of the Undertakers undertakes to keep us informed and shall procure his/its respective close associates, Controlled Persons and Controlled Companies to keep us informed, of new business opportunities and to provide all information reasonably required by the independent non-executive Directors to assist them in their consideration of any new business opportunity.
- our independent non-executive Directors will also review, on an annual basis, the implementation of the deed of non-competition and any decisions in relation to new business opportunities referred to us, and state their basis and reasons in our Company's annual report.
- after the Listing, our Directors will continue to disclose details of any potential competing interests in our annual reports to Shareholders.
- if there is any new detail regarding any potential competition as disclosed in this prospectus, our directors will disclose such details in our annual reports to the Shareholders.

In the event that our Company decides not to proceed with any particular projects or business opportunities and that the Undertakers or his/its Controlled Persons and/or Controlled Companies decide to proceed with such a project or business opportunity, we shall announce such decision by way of an announcement setting out therein the basis for us not taking the project or business opportunity.

### **Deed of Indemnity**

Each of our Controlling Shareholders has entered into a deed of indemnity in favor of the Group. For more details, please refer to the section headed "Appendix IV — Statutory and General Information — H. Other Information — 2. Deed of Indemnity."

### **Independence from our Controlling Shareholders**

Our Directors do not expect that there will be any significant transactions between our Group and our Controlling Shareholders upon or shortly after the Listing.

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Our Directors believe that our Group is capable of carrying on our business independent of, and does not place undue reliance on, our Controlling Shareholders or their respective close associates, taking into consideration the following factors:

### **(a) Financial Independence**

Our Group has an independent financial system and makes financial decisions according to our own business needs. As of the Latest Practicable Date, none of our Controlling Shareholders or their respective close associates had provided any loans, guarantees or pledge to our Group. We will not rely on our Controlling Shareholders for financing after the Global Offering as we have sufficient working capital to operate our business independently. In addition, we have our own internal control and accounting systems, accounting and finance department, independent treasury function for cash receipts and payment and independent access to third-party financing.

### **(b) Operational Independence**

We have established our own organizational structure, and each department is assigned to specific areas of responsibilities. We are also in possession of all necessary relevant licenses, approvals and certificates, to carry on and operate our business and we have sufficient operational capacity in term of capital and employees to operate and manage independently. We do not rely on our Controlling Shareholders or their respective close associates for our operations. We have independent access to suppliers and an independent management team to handle our daily operations. We have our own headcount of employees for our operations and management for human resources.

Our Directors are of the view that there is no operational dependence by us on our Controlling Shareholders and our Group is able to operate independently from our Controlling Shareholders after the Listing.

### **(c) Management Independence**

Our Company maintains an independent Board to oversee our Group's business. Our Board is responsible for contemplating and approving business plans and strategies of the Group, monitoring the implementation of business plans and strategies and supervising the management of our Group. Our Group has an independent management team, which is led by a team of senior management with extensive experience and expertise in our business, to implement our Group's business plans and strategies in the daily operations.

Our Board consists of nine Directors, of which six are Executive Directors and three are independent non-executive Directors. Our Controlling Shareholders only form a minority at the executive Director's level. Please refer to the section headed "Directors and Senior Management" for details.

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

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

### Corporate Governance

Our Directors are of the view that our Board and senior management will function independently from our Controlling Shareholders for the following reasons:

- (i) each of our Directors is aware of his or her fiduciary duties as a director which require, among other things, that he or she acts for the benefit and in the best interest of our Company, and does not allow any conflict between his duties as a director and his personal interests to exist;
- (ii) in the event that there is a potential conflict of interest arising from any transaction to be entered into between our Group and any of our Directors or their respective close associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions, shall not be counted towards the quorum, and shall not attend any independent board committee meetings comprising our independent non-executive Directors only;
- (iii) our Board comprises nine Directors of which three are independent non-executive Directors, which represents one-third of the members of our Board. Such composition is in line with the current corporate governance best practices in Hong Kong according to the Listing Rules. In particular, our independent non-executive Directors have extensive experience in different areas, such as, corporate finance, portfolio management and structured finance. We believe our independent non-executive Directors are able to oversee the Board to ensure that there is no potential conflict of interests or competition with our Controlling Shareholders; and
- (iv) our Company has also established internal control mechanism to identify related party transactions to ensure that our Controlling Shareholders or Directors with conflicting interests in a proposed transaction will abstain from voting on the relevant resolutions.

Based on the above, our Board is satisfied that each Director is able to perform his or her roles in our Company independently and our Board is able to operate independently from our Controlling Shareholders.

## CONNECTED TRANSACTION

Upon the Listing, the following transactions will constitute continuing connected transactions with our Company under the Listing Rules.

### NON-EXEMPT CONTINUING CONNECTED TRANSACTION

The following transaction has been carried out by our Group and the connected persons of our Group during the Track Record Period and, is expected to continue after the Listing, which will constitute continuing connected transaction and will not be exempt from all reporting, announcement and/or independent shareholders' approval requirements set out in Chapter 14A of the Listing Rules upon the Listing:

#### Contractual Arrangements

As disclosed in the section headed "Contractual Arrangements" in this prospectus, the business operations of the PRC Contractual Entities constitute a business restricted to foreign investment in the PRC, therefore, we cannot directly acquire equity interests in the PRC Contractual Entities. As a result, our Group has entered into a series of agreements narrowly tailored to provide our Group with control over the PRC Contractual Entities and grant our Group the right to acquire the equity interests of the PRC Contractual Entities when and to the extent permitted by the PRC laws and regulations. Under the Contractual Arrangements, our Group supervises and controls the business operations of the PRC Contractual Entities and derives economic benefit from the PRC Contractual Entities.

The Contractual Arrangements consist of three sets of five agreements: (a) the Exclusive Business Cooperation Agreements, (b) the Powers of Attorney, (c) the Equity Interest Pledge Agreements, (d) the Exclusive Option Agreements and (e) the Spouse Undertakings (in the case that the Relevant Shareholder is a natural person). Please refer to the section headed "Contractual Arrangements" for further details. Our PRC Legal Advisor has advised that the Contractual Arrangements as a whole and each of the agreements comprising the Contractual Arrangements are legal, valid and binding on the parties and are enforceable under applicable PRC laws and regulations.

#### Relevant Connected Persons under the Contractual Arrangements

The table below sets forth the connected persons of our Company involved in the Contractual Arrangements and the nature of their connection with our Group:

Name	Connected relationship
Mr. YAO Jianjun .....	Mr. Yao is our Controlling Shareholder and executive Director and is therefore our connected person pursuant to Rule 14A.07 of the Listing Rules.
Mr. CHEN Jianyu .....	Mr. Chen is our Substantial Shareholder and executive Director and is therefore our connected person pursuant to Rule 14A.07 of the Listing Rules.
Mr. BI Lin .....	Mr. Bi is our Controlling Shareholder and executive Director and is therefore our connected person pursuant to Rule 14A.07 of the Listing Rules.

## CONNECTED TRANSACTION

Name	Connected relationship
Mr. SUN Zhiyan .....	Mr. Sun is our Substantial Shareholder and executive Director and is therefore our connected person pursuant to Rule 14A.07 of the Listing Rules.
Mr. LIN Jiabin .....	Mr. Lin Jiabin is our executive Director and is therefore our connected person pursuant to Rule 14A.07 of the Listing Rules.
Mr. LIN Zhibin .....	Mr. Lin Zhibin is our executive Director, and therefore our connected person pursuant to Rule 14A.07 of the Listing Rules.
PRC Contractual Entities .....	Each of the PRC Contractual Entities is, directly or indirectly, controlled by our Controlling Shareholders and Directors and is therefore an associate of our Controlling Shareholders and Directors and our connected person, among other factors, pursuant to Rule 14A.12(1)(c) of the Listing Rules.

### **The view of our Directors on the Non-exempt Continuing Connected Transaction**

Our Directors, including our independent non-executive Directors, are of the view that (i) the Contractual Arrangements are fundamental to our Group's legal structure and business operations; and (ii) the Contractual Arrangements are on normal commercial terms in the ordinary and usual course of our Group's business, are fair and reasonable and are in the interests of our Company and our Shareholders as a whole.

Our Directors also believe that our Group's structure whereby the financial results of the PRC Contractual Entities are consolidated into our Group's financial results as if they were our Group's wholly-owned subsidiaries, and all the economic benefits of its business flow to our Group, places our Group in a special position in relation to the connected transaction. Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements technically constitute continuing connected transaction for the purposes of Chapter 14A of the Listing Rules, our Directors consider that it would be unduly burdensome and impracticable, and would add unnecessary administration costs to our Company if the continuing connected transaction under the Contractual Arrangements are subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules, including, among other things, the requirement for publishing an announcement and obtaining approval of the independent Shareholders.

In addition, given that the Contractual Arrangements were entered into prior to the Listing and the adoption of Contractual Arrangements and the key terms thereof have been disclosed in this prospectus, potential investors of our Company will participate in the Global Offering based on such disclosure. Our Directors consider that compliance with the announcement and the independent Shareholders' approval requirements in respect thereof immediately after Listing would be unnecessary and add unnecessary administrative costs to our Company.

## CONNECTED TRANSACTION

Furthermore, to ensure sound and effective operation of our Group after the adoption of the Contractual Arrangements, the management of our Group plans to take the following measures:

- (a) as part of the internal control measures, any major issues arising from the implementation and performance of the Contractual Arrangements will be reviewed by the Board on a regular basis which will be no less frequent than on a quarterly basis. Our Board will determine, as part of its periodic review process, whether legal advisers and/or other professionals will need to be retained to assist the Group to deal with specific issues arising from the Contractual Arrangements;
- (b) matters relating to compliance and regulatory enquiries from governmental authorities (if any) will be discussed at such regular meetings of the Board which will be no less frequent than on a quarterly basis;
- (c) the relevant business units and operation divisions of our Group will report regularly, which will be no less frequent than on a monthly basis, to the senior management of our Company on the compliance and performance conditions under the Contractual Arrangements and other related matters; and
- (d) our Company shall comply with the conditions prescribed under the waiver granted by the Stock Exchange in connection with the continuing connected transactions contemplated under the Contractual Arrangements.

### **Waiver Application**

Pursuant to Rule 14A.105 of the Listing Rules, our Company has applied to the Stock Exchange for, and the Stock Exchange has agreed to grant, a waiver from strict compliance with (i) announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions under the Contractual Arrangements; (ii) the requirement of setting a maximum aggregate annual value (i.e. an annual cap) for the fees payable to our Group under the Contractual Arrangements; and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less, for so long as the Shares are listed on the Stock Exchange, subject to the following conditions:

- (a) *No change without independent non-executive Directors' approval:* Except as described below, no changes to the terms of the Contractual Arrangements will be made without the approval of the independent non-executive Directors.
- (b) *No change without independent Shareholders' approval:* Except as described below, no changes to the terms of the Contractual Arrangements will be made without the approval of our Company's independent Shareholders. Once independent Shareholders' approval of any change has been obtained, no further announcement or approval of the independent Shareholders, except for those described above, will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the Contractual Arrangements in the annual reports of our Company (as set out in paragraph (e) below) will however continue to be applicable.
- (c) *Economic benefits flexibility:* The Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by the PRC Contractual Entities through: (i) our Group's right (if and when so allowed under applicable PRC laws) to acquire, all or part of the entire equity interests in the PRC Contractual Entities at the lowest price permissible under PRC laws; (ii) the business structure under which the revenue generated by the PRC Contractual Entities is substantially retained by our Group; and (iii) our Group's right to control the management and operation of, as well as, in substance, all of the voting rights of the PRC Contractual Entities.



## CONNECTED TRANSACTION

- (d) *Renewal and reproduction:* The framework of the Contractual Arrangements may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign-owned enterprise or operating company that our Group may wish to establish, without obtaining the approval of Shareholders, on substantially the same terms and conditions as the Contractual Arrangements as described under the section headed “Contractual Arrangements.” The directors, chief executive or substantial shareholders (as defined in the Listing Rules) of any existing or new wholly foreign-owned enterprise or operating company that our Group may establish upon renewal and/or reproduction of the Contractual Arrangements will be treated as our Group’s connected persons and transactions between these connected persons and our Group other than those under similar contractual arrangements shall comply with Chapter 14A of the Listing Rules. This condition is subject to the relevant PRC laws, regulations and approvals.
- (e) *Ongoing reporting and approvals:* our Group will disclose details relating to the Contractual Arrangements on an ongoing basis as follows:
- (i) Details of the Contractual Arrangements will be disclosed in our Group’s annual reports and accounts in accordance with the relevant provisions of the Listing Rules.
  - (ii) Our independent non-executive Directors will review the Contractual Arrangements annually and confirm in our Group’s annual report and accounts for the relevant year that: (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Contractual Arrangements so that the revenue generated by the PRC Contractual Entities have been mainly retained by our Group; (ii) no dividends or other distributions have been made by the PRC Contractual Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group; and (iii) any new contracts entered into, renewed or reproduced between our Group and the PRC Contractual Entities during the relevant financial period under paragraph (d) above are fair and reasonable, or advantageous, so far as our Group is concerned and in the interests of the Shareholders as a whole.
  - (iii) Our Company’s auditors will carry out procedures annually on the transactions under the Contractual Arrangements in accordance with Hong Kong Standard on Assurance Engagements 3000 “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” and with reference to Practice Note 740 “Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules” issued by the Hong Kong Institute of Certified Public Accountants and will provide a letter to our Directors with a copy to the Stock Exchange, at least ten Business Days before the bulk-printing of the annual report of our Group, confirming that the transactions have received the approval of our Directors, have been entered into in accordance with the relevant Contractual Arrangements and that no dividends or other distributions has been made by the PRC Contractual Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group.

## CONNECTED TRANSACTION

- (iv) For the purposes of Chapter 14A of the Listing Rules, the PRC Contractual Entities will be treated as our Company's wholly-owned subsidiaries, and their directors, chief executives or substantial shareholders and their respective associates (as defined in the Listing Rules) will be treated as connected persons of our Company and transactions between these connected persons and our Group, other than those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules.
- (v) The PRC Contractual Entities will undertake that, for so long as the Shares are listed on the Stock Exchange, the PRC Contractual Entities will provide our Group's management and our Company's auditors with full access to its relevant records for the purpose of procedures to be carried out by our Company's auditors on the connected transactions.

### **Confirmation from our Directors**

Our Directors, including the independent non-executive Directors, consider that the continuing connected transactions as disclosed in the section heading "Contractual Arrangements" in the prospectus have been entered into: (i) in the ordinary and usual course of the business of the Group; (ii) on normal commercial terms; and (iii) in accordance with the respective agreement governing them on terms that are fair and reasonable and in the interest of the Shareholders as a whole.

### **Confirmation from the Joint Sponsors**

The Joint Sponsors are of the view that the Contractual Arrangements are fundamental to the Group's legal structure and business operations. With respect to the term of the Contractual Agreements being of a duration longer than three years, the Joint Sponsors are of the view that it is a justifiable and normal business practice to ensure that (i) the financial and operational policies of the PRC Contractual Entities can be effectively controlled by Xiamen Feiyou, (ii) Xiamen Feiyou can obtain the economic benefits derived from the PRC Contractual Entities, and (iii) possible leakages of assets and values of the PRC Contractual Entities can be prevented.

Further, the Joint Sponsors are of the view that the non-exempt continuing connected transactions described above, and for which waivers have been sought, have been entered into in the ordinary and usual course of business of the Group, on normal commercial terms, are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

## DIRECTORS AND SENIOR MANAGEMENT

### DIRECTORS AND SENIOR MANAGEMENT

Our Board of Directors consists of nine Directors, of which six are executive Directors and three are independent non-executive Directors. Our Board of Directors is responsible and has general powers for the management and conduct of our business, while our senior management is responsible for the day-to-day management of our business. The table below shows certain information in respect of the members of our Board of Directors and senior management:

Name	Age	Present Position	Date of Appointment	Timing of Joining the Group	Role and Responsibility
<b>Executive Directors</b>					
YAO Jianjun (姚劍軍) . . . . .	32	chairman, executive Director and chief executive officer	March 6, 2014	January 12, 2009	overall management and strategic planning and development; chairman of the nomination committee
CHEN Jianyu (陳劍瑜) . . . . .	32	executive Director and president	March 6, 2014	December 31, 2013	strategic planning, product research and development and operations
BI Lin (畢林) . . . . .	32	executive Director and vice president	March 6, 2014	January 12, 2009	web game research and development; member of the remuneration committee
SUN Zhiyan (孫志炎) . . . . .	34	executive Director and chief technology officer	August 26, 2014	December 31, 2013	technology development and support
LIN Jiabin (林加斌) <sup>(1)</sup> . . . . .	33	executive Director and vice president	August 26, 2014	January 12, 2009	web and mobile game operations
LIN Zhibin (林志斌) <sup>(1)</sup> . . . . .	33	executive Director and vice president	August 26, 2014	January 12, 2009	project design and management
<b>Independent Non-Executive Directors</b>					
LIU Qianli (劉千里) . . . . .	39	independent non-executive Director	November 17, 2014	November 17, 2014	supervising and providing independent judgment to our Board; chairwoman of the audit committee and remuneration committee; member of nomination committee
LAI Xiaoling (賴曉凌) . . . . .	38	independent non-executive Director	November 17, 2014	November 17, 2014	supervising and providing independent judgment to our Board; member of the audit committee and remuneration committee

Note:

(1) Messrs. Lin Jiabin and Lin Zhibin are siblings.

## DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Present Position	Date of Appointment	Timing of Joining the Group	Role and Responsibility
MA Suen Yee Andrew (馬宣義) . . . . .	42	independent non-executive Director	November 17, 2014	November 17, 2014	supervising and providing independent judgment to our Board; member of the audit committee and nomination committee
<b>Senior Management Members (other than Executive Directors)</b>					
ZHOU Yandan (周彥丹) . . .	31	vice president	August 26, 2014	December 31, 2013	company and product marketing and promotion
CHEUNG Man Yu (張文宇) .	39	chief financial officer	August 26, 2014	February 8, 2014	financial reporting and management

### Executive Directors

**YAO Jianjun (姚劍軍)**, aged 32, is a Founder of our Group. He joined our Group on January 12, 2009 and was appointed as our chairman, executive Director and chief executive officer on March 6, 2014. He is responsible for the overall management and strategic planning and development of our Group.

Mr. Yao has more than 14 years of experience in the internet industry, including establishing and operating various websites and developing online games. He had founded a number of websites, including *CNZZ.com* (站長統計) (a website providing statistical services for PRC websites; the website subsequently received venture capital investments from IDG and Google and was eventually acquired by Alibaba), *Chinaz.com* (站長之家) (a website providing various technology and other services to PRC webmasters), *Wo Ai Wo Wang* (我愛我網), *Yongchun Information Harbour* (永春信息港) and *Changan City Gaming Community* (長安城遊戲社區) (a website operating martial arts MUD games). In 2012, Mr. Yao was elected as one of the 30 representative entrepreneurs under age 30 by Forbes China.

Mr. Yao is a founder of Xiamen Guanghuan. He has also been the executive director of Xiamen Xianglian Technology Co., Ltd. (廈門享聯科技有限公司), an internet technology development and services company, since August 2013 and served as its general manager in charge of its website operation and the overall management from July 2005 to August 2013. Prior to that, from March 2002 to July 2005, Mr. Yao devoted himself to the development of *Chinaz.com* (站長之家). Mr. Yao graduated from the Financial and Trading School of Wanzhou District of Chongqing City (重慶萬縣財政貿易學校) in July 2000 with a senior high school diploma.

**CHEN Jianyu (陳劍瑜)**, aged 32, joined our Group on December 31, 2013 and was appointed as our executive Director and president on March 6, 2014. He is responsible for the strategic planning, product research and development and operations of our Group.

Mr. Chen has over 13 years of experience in internet industry and has developed, or been responsible for developing, a number of internet software products, including *Shengshengkan Software* (省省看公益軟件) (a free power management software aimed at promoting environmental protection concept), *IQ Browser* (IQ瀏覽器) (an internet browser software) and *Meitu Viewer* (美圖看看) (an image viewing software).

## DIRECTORS AND SENIOR MANAGEMENT

Mr. Chen is one of the founders of Kailuo Tianxia and has served as its chief executive officer and the head of the research and development department since August 2013, primarily responsible for product development and overall management of Kailuo Tianxia. In July 2010, Mr. Chen co-founded Beijing Meitu Creative Advertisement Co., Ltd. (北京美圖創想廣告有限公司), a wholly-owned subsidiary of Xiamen Meituwang Technology Company Limited (廈門美圖網科技有限公司) and the developer of *Meitu Viewer* (美圖看看) (an image viewing software), and served as its general manager from inception to July 2013, primarily responsible for its overall management. From April 2008 to May 2010, Mr. Chen worked at Kulanuo Information Technology (Beijing) Co., Ltd. (庫拉諾信息技術(北京)有限公司), a social networking website and software product developing company, and served as the general manager of its internet browser project, *IQ Browser* (IQ瀏覽器). Prior to that, from July 2006 to March 2008, Mr. Chen served as the head of the design department of Trend Media Corporation Limited (網際快車信息技術有限公司), a company developing internet download managing software, including *Flashget*, a leading internet download managing software, primarily responsible for managing its product design department and user experience department. From May 2005 to June 2006, he was the head of the design department of Beijing Zhitong Wuxian Technology Co., Ltd (北京智通無限科技有限公司), a company developing and operating internet electronic magazine publishing platforms, including ZCOM electronic magazine software, primarily responsible for managing the software's product design department and user experience department. Mr. Chen graduated from Beijing Institute of Fashion Technology (北京服裝學院) in July 2005 with a bachelor's degree in computer art design.

**BI Lin (畢林)**, aged 32, is a Founder of our Group. He joined our Group on January 12, 2009 and was appointed as our executive Director and vice president on March 6, 2014. He is in charge of our Group's research and development of web games.

Mr. Bi has over 6 years of experience in the internet industry. Since March 2014, he has been the vice chairman of the Xiamen Animation and Game Industry Association (廈門市動漫遊戲產業協會), an industry association established by Xiamen Software Association (廈門軟件行業協會). He is a co-founder of Xiamen Guanghuan and has served as its executive director and general manager since August 2011, primarily responsible for coordinating management discussions and shareholder meetings on business development plans, operating strategies and investment plans. In April 2007, Mr. Bi co-founded Xiamen Creative Times Technology Co., Ltd. (廈門創想時代科技有限公司), an internet technology, electronic commerce, graphic design and exhibition planning services company, with Mr. Lin Jiabin, one of our Founders and executive Directors, and Mr. Lin Zhibin, one of our Founders and vice presidents, and served as its general manager from its inception to December 2008, primarily responsible for its business development. In July 2004, Mr. Bi founded Xiamen Visual Parameters Design Co., Ltd. (廈門視覺參數設計有限公司), a graphics art design company, and served as its general manager from its inception to May 2006, primarily responsible for its business development. Mr. Bi graduated from Xiamen Yingcai School (廈門英才學校) in July 2000 with a senior high school diploma.

**SUN Zhiyan (孫志炎)**, aged 34, joined our Group on December 31, 2013 and was appointed as our executive Director and chief technology officer on August 26, 2014. He is in charge of technology development and support for our games.

Mr. Sun has over 10 years of experience in the internet industry and has been responsible for the technology development and management of a number of internet software products, including *Shengshengkan Software* (省省看公益軟件) (a free power management software aimed at promoting environmental protection), *IQ Browser* (IQ瀏覽器) (an internet browser software) and *Meitu Viewer* (美圖看看) (an image viewing software).

## DIRECTORS AND SENIOR MANAGEMENT

Mr. Sun is one of the founders of Kailuo Tianxia and has served as its chief technology officer since May 2012, primarily responsible for technology development. From July 2010 to July 2013, Mr. Sun also served as the chief technology officer of Beijing Meitu Creative Advertisement Co., Ltd. (北京美圖創想廣告有限公司), a wholly-owned subsidiary of Xiamen Meituwang Technology Company Limited (廈門美圖網科技有限公司) and the developer of *Meitu Viewer* (美圖看看) (an image viewing software), primarily responsible for technology development. Prior to that, from April 2008 to May 2010, Mr. Sun worked at Kulanuo Information Technology (Beijing) Co., Ltd. (庫拉諾信息技術(北京)有限公司), a social networking website and software product developing company, and served as the head of the technology support in charge of its internet browser project, *IQ Browser* (IQ瀏覽器). From July 2006 to March 2008, Mr. Sun was a technology manager in charge of technology development in the technology department of Trend Media Corporation Limited (網際快車信息技術有限公司), a company developing internet download managing software, including *Flashget*, a leading internet download managing software. From May 2005 to June 2006, he worked as a technology manager in the technology department of Beijing Zhitong Wuxian Technology Co., Ltd (北京智通無限科技有限公司), a company developing and operating internet electronic magazine publishing platforms, including ZCOM electronic magazine software.

**LIN Jiabin** (林加斌), aged 33, is a Founder of our Group. He joined our Group on January 12, 2009 and was appointed as our executive Director and vice president on August 26, 2014. He is in charge of the operations of our Group's web and mobile games.

Mr. Lin has more than 10 years of experience in the internet industry. He is a co-founder of Xiamen Guanghuan and has been involved in its shareholder decision making processes since its inception in January 2009. He has also been the executive director of Xiamen Youli since February 2012, primarily responsible for game marketing and operations. Mr. Lin co-founded China Badminton Online (中羽在線網), a badminton sport internet portal in the PRC, in May 2003 with Mr. Lin Zhibin, Mr. Lin's brother and one of our Founders. Mr. Lin also co-founded Xiamen Creative Times Technology Co., Ltd. (廈門創想時代科技有限公司), an internet technology, electronic commerce, graphic design and exhibition planning services company, in April 2007 with Mr. Bi Lin, one of our Founders and executive Directors, and Mr. Lin Zhibin also served as an engineer in its technology department from April 2007 to January 2009. Prior to that, from December 2005 to November 2007, Mr. Lin served as a website designer in Xiamen Wanshang Shengshi Network Co., Ltd. (廈門萬商盛世網絡有限公司). Mr. Lin graduated from Xiamen University (廈門大學) in July 2005, major in electronic commerce.

**LIN Zhibin** (林志斌), aged 33, is a Founder of our Group. He joined our Group on January 12, 2009 and was appointed as our executive Director and vice president on August 26, 2014. He is in charge of the Group's product design and management.

Mr. Lin has more than 10 years of experience in the internet industry. He is a co-founder of Xiamen Guanghuan and has served as its chief designer since its inception in January 2009. Mr. Lin co-founded China Badminton Online (中羽在線網), a badminton internet portal in the PRC, in May 2003 with Mr. Lin Jiabin, Mr. Lin's brother and one of our Founders and executive Directors. Mr. Lin also co-founded Xiamen Creative Times Technology Co., Ltd. (廈門創想時代科技有限公司), an internet technology, electronic commerce, graphic design and exhibition planning services company, in April 2007 with Mr. Bi Lin, one of our Founders and executive Directors, and Mr. Lin Jiabin and served as its chief designer from its inception to January 2009, primarily responsible for product design, research and development. Prior to that, from July 2005 to December 2006, Mr. Lin served as website designer of Xiamen Advantage Interactive Network Technology



## DIRECTORS AND SENIOR MANAGEMENT

Company Limited (廈門優勢互動網絡科技有限公司) (formerly known as Xiamen YouWang Technology Company Limited (廈門優網科技有限公司)), a website designing company. Mr. Lin graduated from Xiamen University (廈門大學) in July 2005, major in electronic commerce.

### Independent Non-Executive Directors

**LIU Qianli (劉千里)**, aged 39, was appointed as our independent non-executive Director on November 17, 2014.

Ms. Liu has over 11 years of experience in investment banking and corporate finance. She has been an independent non-executive director of BAIOO Family Interactive Limited, a children's web game developer listed on the main board of the Stock Exchange (Stock Code: 2100), since March 2014. From December 2010 to July 2013, Ms. Liu served as the chief financial officer of Phoenix New Media Limited, a media company listed on the New York Stock Exchange (Stock Symbol: FENG). Prior to that, she served as the chief financial officer of ChinaEDU Corp. from October 2008 to November 2010. From June 2007 to August 2008, she served as the chief financial officer of MainOne Information Technology Company Ltd. (銘萬信息技術有限公司), an information technology company. Ms. Liu worked as a vice president at Lehman Brothers investment banking in Hong Kong and as an associate at Lehman Brothers investment banking in New York from July 2003 to June 2007. Ms. Liu received her MBA degree from MIT Sloan School of Management in June 2003 and her bachelor of arts degree from Dartmouth College in June 1997.

**LAI Xiaoling (賴曉凌)**, aged 38, was appointed as our independent non-executive Director on November 17, 2014.

Mr. Lai has over 11 years of experience in investment and business management. He has been a partner of Innovation Ark (Beijing) Investment Management Consulting Company Limited (創新方舟(北京)投資管理諮詢有限公司), a venture capital fund, since June 2013, primarily responsible for investment strategy, personnel recruitment and training and portfolio management. Between June 2012 and April 2013, he served as a principal for Chengwei Investment Advisory (Shanghai) Co., Ltd. (成為投資諮詢(上海)有限公司), a private equity fund adviser. From October 2007 to February 2012, he worked as an investment manager and vice president for Morningside TMT (Shanghai) Limited (晨創啟興(上海)投資管理諮詢有限公司), a venture capital fund, primarily responsible for deal sourcing, execution and portfolio management. Mr. Lai received his MBA degree from Chinese University of Hong Kong in December 2007 and a bachelor of engineering degree in engineering physics from Tsinghua University (清華大學) in July 1999.

**MA Suen Yee Andrew (馬宣義)**, aged 42, was appointed as our independent non-executive Director on November 17, 2014.

Mr. Ma has over 16 years of experience in investment and business management. He has been with VMS Investment Group (HK) Limited, a member of VMS Group of Companies which is a multi-strategy investment group with businesses covering proprietary investment, asset management, securities broking and corporate finance advisory, serving as a managing director since January 2014 and an executive director from January 2011 to December 2013, primarily responsible for sourcing and executing structured finance and other debt related transactions as well as managing the daily operations of the structured finance team; a senior investment manager from January 2009 to December 2010, primarily responsible for investment deals

## DIRECTORS AND SENIOR MANAGEMENT

sourcing and leading the investment team for execution of investment deals; and an analyst from May 2007 to December 2008, primarily responsible for executing and monitoring private equity investment deals. Prior to joining VMS Investment Group, he worked and held various positions in World Family Limited, a distributor and promoter of licensed Disney products, from September 1999 to April 2007, most recently as a senior regional credit & customer relation manager.

Mr. Ma received a master of science degree in investment management from The Hong Kong University of Science and Technology in November 2007 and a bachelor of science degree in mathematics from University of Technology, Sydney in May 1999.

### Senior Management (Other than Executive Directors)

**ZHOU Yandan (周彥丹) (alias: Zhou Tongyu (周桐羽))**, aged 31, joined our Group on December 31, 2013 and was appointed as our vice president on August 26, 2014 and is responsible for our Group's company and product marketing and promotion.

Ms. Zhou has over 6 years of experience in marketing and promotion and the internet industry. Ms. Zhou has served as the head of the marketing department of Kailuo Tianxia since November 2013, primarily responsible for management of marketing and promotional activities. Prior to that, from August 2010 to October 2013, Ms. Zhou served as the head of the marketing department of Beijing Youjia Century Advertisement Co., Ltd. (北京遊家世紀廣告有限公司), an online game promoting company. From November 2009 to May 2010, Ms. Zhou worked as a public relations manager in the marketing department of Sichuan Xunyou Network Technology Co., Ltd. (四川迅遊網絡科技股份有限公司). From November 2007 to October 2009, Ms. Zhou served as a public relations manager of Trend Media Corporation Limited (網際快車信息技術有限公司), a company developing internet download managing software, including *Flashget*, a leading internet download managing software. Ms. Zhou completed the professional post-graduate program (專業研究生課程) in diplomacy (public relations and media) at the School of International Studies of Renmin University of China (中國人民大學國際關係學院) in June 2008.

**CHEUNG Man Yu (張文宇)**, aged 39, joined our Group on February 8, 2014 and was appointed as our chief financial officer on August 26, 2014 and is responsible for our Group's overall financial reporting and management.

Mr. Cheung has over 16 years of experience in financial reporting, management and services. Since December 2012, he has been an independent non-executive director and a member of the audit committee of China LESSO Group Holdings Limited (中國聯塑集團控股有限公司), a manufacturer of plastic pipes and pipe fittings listed on the main board of the Stock Exchange (Stock Code: 2128). He has also served as the vice general manager of ZTE Urban Digital Culture Media (Beijing) Co., Ltd. (中興都市數字文化傳媒(北京)有限責任公司), a media company, since December 2012, primarily focusing on its financial and internal control matters. From February 2011 to November 2012, Mr. Cheung was the vice president of China Forestry Holdings Co., Ltd. (中國森林控股有限公司), a forestry resource management and timber log processor operating in the PRC and listed on the main board of the Stock Exchange (Stock Code: 930), primarily focusing on its financial and internal control matters. Prior to that, from April 2004 to March 2011, Mr. Cheung worked as a vice president or director at the respective investment banking division of BNP Paribas Capital (Asia Pacific) Limited, UBS AG and J.P. Morgan Securities (Asia Pacific) Limited. Mr. Cheung worked at the audit department of Ernst & Young, an international accounting firm, from February 2000 to April 2004, last being a manager. Mr. Cheung graduated from The Hong Kong Polytechnic University in November 1997 with a bachelor of arts degree in accountancy and is a member of Hong Kong Institute of Certified Public Accountants.

## DIRECTORS AND SENIOR MANAGEMENT

Save as disclosed above, none of our Directors or senior management members is and has been a director of any other listed companies in Hong Kong or overseas in the past three years.

### COMPANY SECRETARY

**CHEUNG Man Yu** (張文宇), was appointed as our company secretary on June 17, 2014. For details of the biography of Mr. Cheung, please refer to the sub-section headed “— Senior Management (Other than Executive Directors)” above in this section.

### MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, we must have sufficient management presence in Hong Kong. This normally means that at least two of the executive Directors must be ordinarily resident in Hong Kong. Our executive Directors do not ordinarily reside in Hong Kong. All of them spend the majority of their time supervising our Company’s principal business operations in the PRC. We have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules, subject to us putting in place certain additional measures to maintain regular and effective communication between the Stock Exchange and us. Please refer to the section headed “Waivers from Strict Compliance with the Listing Rules and Exemption from the Strict Compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance — Waiver in Relation to Management Presence in Hong Kong” in this prospectus for details.

### COMPLIANCE ADVISER

We have appointed Guotai Junan Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, our compliance adviser will advise us on the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate or other information in this prospectus; and
- where the Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares.

The terms of the appointment shall commence on the Listing Date and end on the date on which we distribute our annual report of our financial results for the first full financial year commencing after the Listing Date (being the financial year ending on December 31, 2015).

## DIRECTORS AND SENIOR MANAGEMENT

### BOARD COMMITTEES

We have established the following committees in our Board of Directors: an audit committee, a remuneration committee and a nomination committee. The committees operate in accordance with terms of reference established by our Board of Directors.

#### Audit Committee

The Company established an audit committee on November 17, 2014 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 and paragraph D.3 of the Corporate Governance Code as set out in Appendix 14A to the Listing Rules (the “**Corporate Governance Code**”). The audit committee consists of Ms. Liu Qianli, Mr. Lai Xiaoling and Mr. Ma Suen Yee Andrew. The chairwoman of the audit committee is Ms. Liu Qianli, who holds the appropriate professional qualifications as required under Rules 3.10(2) and 3.21 of the Listing Rules. The primary duties of the audit committee are to assist our Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of our Group, overseeing the audit process and performing other duties and responsibilities as assigned by our Board.

#### Remuneration Committee

The Company established a remuneration committee on November 17, 2014 with written terms of reference in compliance with paragraph B.1 and paragraph D.3 of the Corporate Governance Code. The remuneration committee consists of Mr. Bi Lin, Ms. Liu Qianli and Mr. Lai Xiaoling. The chairwoman of the remuneration committee is Ms. Liu Qianli, an independent non-executive Director. The primary duties of the remuneration committee include, but not limited to, the following: (i) making recommendations to the Board on our policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration; (ii) determining the specific remuneration packages of all Directors and senior management; and (iii) reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

#### Nomination Committee

The Company established a nomination committee on November 17, 2014 with written terms of reference in compliance with paragraph A.5 and paragraph D.3 of the Corporate Governance Code. The nomination committee consists of Mr. Yao Jianjun, Ms. Liu Qianli and Mr. Ma Suen Yee Andrew. The chairman of the nomination committee is Mr. Yao Jianjun. The primary functions of the nomination committee include, without limitation, reviewing the structure, size and composition of the Board of Directors, assessing the independence of independent non-executive Directors and making recommendations to the Board on matters relating to the appointment of Directors.

### CORPORATE GOVERNANCE

Our Company intends to comply with all the code provisions as set out in the Corporate Governance Code after the Listing, save for the deviation from code provision A.2.1 of the Corporate Governance Code, which provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The role of chairman and chief executive officer of our Company are both performed by Mr. Yao Jianjun. The Board believes that vesting the roles of both chairman and chief executive officer in an experienced and qualified person such as Mr. Yao will provide our Company with strong and consistent leadership and allow for more effective planning and implementation of business decisions and strategies.

## DIRECTORS AND SENIOR MANAGEMENT

Further, in view of Mr. Yao's extensive experience in the industry, personal profile and role in our Group and the historical development of our Group as mentioned in the section headed "Our History, Reorganization and Corporate Structure" in this prospectus, the Board believes that it is appropriate and beneficial to the business prospects of our Group that Mr. Yao Jianjun continues to act as both our chairman and chief executive officer after Listing. Therefore, our Company currently does not propose to separate the functions of chairman and chief executive officer. The Board intends to regularly review the operations of our Company under Mr. Yao Jianjun's leadership, and does not believe that this arrangement will have a negative influence on the balance of power between the Board and the management of our Company.

### COMPENSATION OF DIRECTORS AND MANAGEMENT

Our Directors and senior management receive compensation in the form of salaries, bonuses, share options, RSUs and other allowances and benefits-in-kind, including our Company's contribution to the pension scheme on their behalf. We determine the salaries of our Directors based on each Director's responsibilities, qualification, position and seniority.

The aggregate amount of remuneration (including salaries, discretionary bonuses, other benefits and contributions to pension schemes) which were paid to our Directors for the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014 were approximately RMB713,000, RMB1,906,000, RMB31,109,000 and RMB1,419,000, respectively. During the year ended December 31, 2013, one of the Directors was granted certain equity interest in Xiamen Guanghuan in respect of his service to our Group by the shareholders of Xiamen Guanghuan. The fair value of such equity interest, which has been recognized as share-based compensation in our financial statements, is included in the figures aforementioned. Please refer to the subsection headed "Our History, Reorganization and Corporate Structure — Our Corporate History and Development before Reorganization — Xiamen Guanghuan" for details.

The five highest paid individuals included three, three, four and four Directors for the years ended December 31, 2011, 2012, 2013 and the six months ended June 30, 2014 respectively. The remuneration received by the remaining two, two, one and one non-Director highest paid employees for the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014 were approximately RMB478,000, RMB1,633,000, RMB648,000 and RMB500,000, respectively.

It is estimated that remuneration equivalent to approximately RMB3 million in aggregate will be paid or payable to our Directors by us in respect of the financial year ending on December 31, 2014 under arrangements in force at the date of this prospectus.

No remuneration was paid to our Directors or the five highest paid individuals as an inducement to join, or upon joining, our Group. No compensation was paid to, or receivable by, our Directors or past Directors during the Track Record Period for the loss of office as director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group. None of our Directors waived any emoluments during the same period.

### PRE-IPO SHARE OPTION SCHEME

The Pre-IPO Share Option Scheme was conditionally adopted pursuant to the written resolutions of the Shareholders of our Company on November 17, 2014. Please refer to the section headed "Statutory and General Information — D. Pre-IPO Share Option Scheme" in Appendix IV to this prospectus for details.

## DIRECTORS AND SENIOR MANAGEMENT

### POST-IPO SHARE OPTION SCHEME

The Post-IPO Share Option Scheme was conditionally adopted pursuant to the written resolutions of the Shareholders of our Company on November 17, 2014. This will be in accordance with Chapter 17 of the Listing Rules and other relevant rules and regulations. Please refer to the section headed “Statutory and General Information — E. Post-IPO Share Option Scheme” in Appendix IV to this prospectus for details.

### PRE-IPO RSU PLAN

The Pre-IPO RSU Plan was conditionally adopted pursuant to the written resolutions of the Shareholders of our Company on November 17, 2014. Please refer to the section headed “Statutory and General Information — F. Pre-IPO RSU Plan” in Appendix IV to this prospectus for details.

### POST-IPO RSU PLAN

The Post-IPO RSU Plan was conditionally adopted pursuant to the written resolutions of the Shareholders of our Company on November 17, 2014. Please refer to the section headed “Statutory and General Information — G. Post-IPO RSU Plan” in Appendix IV to this prospectus for details.

### DIRECTOR’S INTEREST

Save as disclosed in this prospectus, each of our Directors (i) did not hold other positions in our Company or other members of our Group as of the Latest Practicable Date; (ii) had no other relationship with any Directors, senior management or substantial or Controlling Shareholders of our Company as of the Latest Practicable Date; and (iii) did not hold any other directorships in listed public companies in the three years prior to the Latest Practicable Date. As of the Latest Practicable Date, save as those disclosed in the section headed “Statutory and General Information — C. Further Information about Directors and Substantial Shareholders — 1. Disclosure of Interests — (a) Interests of Directors and substantial shareholders in our share capital and our associated corporations following the Global Offering” in Appendix IV to this prospectus, each of our Directors did not have any interest in the Shares within the meaning of Part XV of the SFO.

Save as disclosed herein, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no other matter with respect to the appointment of our Directors that needs to be brought to the attention of the Shareholders and there was no information relating to our Directors that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules as of the Latest Practicable Date.



## SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be issued upon the exercise of share options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme and any Shares which may be issued upon vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan), the following persons will have interests or short positions in our Shares or our underlying shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of our Group:

Name	Capacity/Nature of Interest	Number of Shares held after the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be issued upon the exercise of share options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and Shares that may be issued upon vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan)	Approximate percentage of shareholding in the total issued share capital of our Company after the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be issued upon the exercise of share options granted under the Pre-IPO Share Option Scheme, and Shares that may be issued upon vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan)	Approximate percentage of shareholding in the total issued share capital of our Company after the Global Offering (assuming the Over-allotment Option is fully exercised and without taking into account any Shares to be issued upon the exercise of share options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and Shares that may be issued upon vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan)
TMF (Cayman) Ltd. <sup>1</sup> . . . . .	Trustee of the family trusts	1,094,976,000	72.998%	70.872%
YAO Holdings Limited (BVI) <sup>2, 3</sup> . . . . .	Registered owner	470,400,000	31.36%	30.447%
Jolly Spring International Limited <sup>2, 3</sup> . . . . .	Interest in a controlled corporation	470,400,000	31.36%	30.447%
Mr. YAO Jianjun (姚劍軍) . . . . .	Founder of a discretionary trust; Interest in a controlled corporation	470,400,000	31.36%	30.447%
BILIN Holdings Limited (BVI) <sup>3, 4</sup> . . . . .	Registered owner	126,720,000	8.448%	8.202%
Rayoon Limited <sup>3, 4</sup> . . . . .	Interest in a controlled corporation	126,720,000	8.448%	8.202%
Mr. BI Lin (畢林) . . . . .	Founder of a discretionary trust; Interest in a controlled corporation	126,720,000	8.448%	8.202%
Fishchen Holdings Limited (BVI) <sup>5</sup> . . . . .	Registered owner	269,088,000	17.939%	17.417%

## SUBSTANTIAL SHAREHOLDERS

Name	Capacity/Nature of Interest	Number of Shares held after the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be issued upon the exercise of share options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and Shares that may be issued upon vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan)	Approximate percentage of shareholding in the total issued share capital of our Company after the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be issued upon the exercise of share options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and Shares that may be issued upon vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan)	Approximate percentage of shareholding in the total issued share capital of our Company after the Global Offering (assuming the Over-allotment Option is fully exercised and without taking into account any Shares to be issued upon the exercise of share options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and Shares that may be issued upon vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan)
Honour Gate Limited <sup>5</sup> . . . .	Interest in a controlled corporation	269,088,000	17.939%	17.417%
Mr. CHEN Jianyu (陳劍瑜) . . . . .	Founder of a discretionary trust; Interest in a controlled corporation	269,088,000	17.939%	17.417%
Eastep Holdings Limited (BVI) <sup>6</sup> . . . . .	Registered owner	139,488,000	9.299%	9.028%
Ace Kingdom Limited <sup>6</sup> . . . .	Interest in a controlled corporation	139,488,000	9.299%	9.028%
Mr. SUN Zhiyan (孫志炎) . .	Founder of a discretionary trust; Interest in a controlled corporation	139,488,000	9.299%	9.028%

Except as disclosed above and in the section headed “Our History, Reorganization and Corporate Structure — Our Shareholding and Corporate Structures,” we are not aware of any person who will, immediately following the Global Offering, have an interest or short position in Shares or underlying shares which would be required to be disclosed to our Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group.

Notes:

- 1 TMF (Cayman) Ltd. is the trustee of The Yao Family Trust, The Bi Family Trust, The Chen Family Trust, The Sun Family Trust, The Lin Family Trust and The Zhi Family Trust, six trusts in total.
- 2 The entire share capital of YAO Holdings Limited (BVI) is wholly owned by Jolly Spring International Limited, as nominee of TMF (Cayman) Ltd., the trustee of The Yao Family Trust, which was established by Mr. Yao (as the settlor) on August 13, 2014 as a discretionary trust for the benefit of himself and his family members. Mr. Yao (as founder of The Yao Family Trust) and Jolly Spring International Limited are taken to be interested in 470,400,000 Shares held by YAO Holdings Limited (BVI) upon completion of the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be issued upon exercise of any share options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme and Shares that may be issued upon vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan) pursuant to Part XV of the SFO.
- 3 Mr. Yao Jianjun, Mr. Bi Lin, YAO Holdings Limited (BVI), Jolly Spring International Limited, BILIN Holdings Limited (BVI) and Rayoon Limited are the Controlling Shareholders of the Company.

## SUBSTANTIAL SHAREHOLDERS

- 4 The entire share capital of BILIN Holdings Limited (BVI) is wholly owned by Rayoon Limited, as nominee of TMF (Cayman) Ltd., the trustee of The Bi Family Trust, which was established by Mr. Bi (as the settlor) on August 13, 2014 as a discretionary trust for the benefit of Mr. Bi and his family members. Mr. Bi (as founder of The Bi Family Trust) and Rayoon Limited are taken to be interested in 126,720,000 Shares held by BILIN Holdings Limited (BVI) upon completion of the Global Offering (assuming the Over-allotment Option is not exercised and taking into no account any Shares to be issued upon exercise of any share options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme and Shares that may be issued upon vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan) pursuant to Part XV of the SFO.
- 5 The entire share capital of Fishchen Holdings Limited (BVI) is wholly owned by Honour Gate Limited, as nominee of TMF (Cayman) Ltd., the trustee of The Chen Family Trust, which was established by Mr. Chen (as the settlor) on August 13, 2014 as a discretionary trust for the benefit of Mr. Chen and his family members. Mr. Chen (as founder of The Chen Family Trust) and Honour Gate Limited are taken to be interested in 269,088,000 Shares held by Fishchen Holdings Limited (BVI) upon completion of the Global Offering (assuming the Over-allotment Option is not exercised and taking into no account any Shares to be issued upon exercise of any share options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme and Shares that may be issued upon vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan) pursuant to Part XV of the SFO.
- 6 The entire share capital of Eastep Holdings Limited (BVI) is wholly owned by Ace Kingdom Limited, as nominee of TMF (Cayman) Ltd., the trustee of The Sun Family Trust, which was established by Mr. Sun (as the settlor) on August 13, 2014 as a discretionary trust for the benefit of Mr. Sun and his family members. Mr. Sun (as founder of The Sun Family Trust) and Ace Kingdom Limited are taken to be interested in 139,488,000 Shares held by Eastep Holdings Limited (BVI) upon completion of the Global Offering (assuming the Over-allotment Option is not exercised and taking into no account any Shares to be issued upon exercise of any share options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme and Shares that may be issued upon vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan) pursuant to Part XV of the SFO.

## SHARE CAPITAL

Our authorized share capital as of the date of this prospectus was US\$50,000 divided into 500,000,000,000 Shares of par value of US\$0.0000001 each.

As of the date of this prospectus, the issued share capital consisted of 1,200,000,000 Shares of par value of US\$0.0000001 each.

Assuming the Over-allotment Option is not exercised and without taking into account of any Shares to be issued upon the exercise of share options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and any Shares which may be issued upon vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan, the share capital of our Company upon completion of the Global Offering will be as follows:

Description of Shares	Number of Shares	Aggregate nominal value of Shares (US\$)	Percentage of issued share capital (%)
Shares in issue .....	1,200,000,000	120	80
Shares to be issued under the Global Offering. ....	300,000,000	30	20
<b>Total</b> .....	<b>1,500,000,000</b>	<b>150</b>	<b>100</b>

Assuming the Over-allotment Option is exercised in full and without taking into account of any Shares to be issued upon the exercise of share options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and any Shares which may be issued upon vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan, the share capital of our Company upon completion of the Global Offering will be as follows:

Description of Shares	Number of Shares	Aggregate nominal value of Shares (US\$)	Approximate percentage of issued share capital (%)
Shares in issue .....	1,200,000,000	120	77.67
Shares to be issued under the Global Offering. ....	300,000,000	30	19.42
Shares to be issued upon the full exercise of the Over-allotment Option .....	45,000,000	4.5	2.91
<b>Total</b> .....	<b>1,545,000,000</b>	<b>154.5</b>	<b>100</b>

### ASSUMPTIONS

The above tables assume that the Global Offering becomes unconditional and Shares are issued pursuant to the Global Offering. It takes no account of any Shares to be issued upon the exercise of any share options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, or any Shares which may be issued upon vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan, or issued or repurchased by us pursuant to the general mandates granted to our Directors to issue or repurchase Shares as described below.

### RANKING

The Offer Shares are ordinary shares in the share capital of our Company and rank equally with all Shares currently in issue or to be issued, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this prospectus.

## SHARE CAPITAL

### **CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED**

Pursuant to the Cayman Companies Law and the terms of our Memorandum and Articles of Association, our Company may from time to time by ordinary shareholders' resolution (i) increase its capital; (ii) consolidate and divide its capital into Shares of larger amount; (iii) divide its Shares into classes; (iv) subdivide its Shares into Shares of smaller amount; and (v) cancel any Shares which have not been taken. In addition, our Company may reduce or redeem its share capital by shareholders' special resolution. For details, see "Summary of the Constitution of our Company and Cayman Companies Law — 2. Articles of Association — (c) Alteration of capital" in Appendix III to this prospectus.

Pursuant to the Cayman Companies Law and the terms of our Memorandum and Articles of Association, all or any of the special rights attached to the Shares or any class of Shares may be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued Shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the Shares of that class. For details, please refer to "Summary of the Constitution of our Company and Cayman Companies Law — 2. Articles of Association — (d) Variation of rights of existing shares or classes of shares" in Appendix III to this prospectus.

### **GENERAL MANDATE**

Our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with an aggregate nominal value of not more than the sum of:

- (i) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Global Offering; and
- (ii) the aggregate nominal value of share capital of our Company repurchased by our Company (if any) under the general mandate to repurchase Shares referred to below.

This mandate will expire at the earliest of:

- (i) the conclusion of our Company's next annual general meeting; or
- (ii) when varied, revoked or renewed by an ordinary resolution of our Shareholders in a general meeting.

Please refer to the section headed "Statutory and General Information — A. Further Information about Our Company, its Subsidiaries and PRC Operating Entities — 5. Resolutions in writing of all the Shareholders passed on November 17, 2014" in Appendix IV to this prospectus for details of this general mandate.

### **GENERAL MANDATE TO REPURCHASE SHARES**

Our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with a total nominal value of not more than 10% of the aggregate nominal amount of the share capital of our Company in issue or to be issued immediately following completion of the Global Offering.

## SHARE CAPITAL

This mandate only relates to repurchases made on the Stock Exchange, or any other approved stock exchange(s) on which the Shares are listed (and which is recognized by the SFC and the Stock Exchange for this purpose), and which are made in accordance with all applicable laws and/or requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in “Statutory and General Information — A. Further Information about Our Company, its Subsidiaries and PRC Operating Entities — 6. Repurchase of our Shares by our Company” in Appendix IV to this prospectus.

This mandate will expire at the earliest of:

- (i) the conclusion of our Company’s next annual general meeting; or
- (ii) when varied, revoked or renewed by an ordinary resolution of our Shareholders in a general meeting.

Please refer to the section headed “Statutory and General Information — A. Further Information about Our Company, its Subsidiaries and PRC Operating Entities — 5. Resolutions in writing of all the Shareholders passed on November 17, 2014” in Appendix IV to this prospectus for details of this repurchase mandate.

### **PRE-IPO SHARE OPTION SCHEME**

The Pre-IPO Share Option Scheme was conditionally adopted on November 17, 2014. Please refer to the section headed “Statutory and General Information — D. Pre-IPO Share Option Scheme” in Appendix IV to this prospectus for details.

### **POST-IPO SHARE OPTION SCHEME**

The Post-IPO Share Option Scheme was conditionally adopted on November 17, 2014. Please refer to the section headed “Statutory and General Information — E. Post-IPO Share Option Scheme” in Appendix IV to this prospectus for details.

### **PRE-IPO RSU PLAN**

The Pre-IPO RSU Plan was conditionally adopted November 17, 2014. Please refer to the section headed “Statutory and General Information — F. Pre-IPO RSU Plan” in Appendix IV to this prospectus for details.

### **POST-IPO RSU PLAN**

The Post-IPO RSU Plan was conditionally adopted on November 17, 2014. Please refer to the section headed “Statutory and General Information — G. Post-IPO RSU Plan” in Appendix IV to this prospectus for details.



## FINANCIAL INFORMATION

*You should read the following discussion and analysis with our audited combined financial information, including the notes thereto, set out in Appendix IA to this prospectus and audited financial information of Kailuo Tianxia set forth in Appendix IB to this prospectus. Our audited combined financial information and the audited financial information of Kailuo Tianxia have been prepared in accordance with IFRS, which may differ in material aspects from generally accepted accounting principles in other jurisdictions. Historical results are not indicative of future performance and results for interim periods are not indicative of results for the full year.*

*The following discussion and analysis and other parts of this prospectus contain forward-looking statements that reflect our current views with respect to future events and financial performance that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical events, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. In evaluating our business, you should carefully consider the information provided in the section headed "Risk Factors" in this prospectus. Our future results could differ materially from projected forward-looking statements. See "Forward-looking Statements" in this prospectus.*

### OVERVIEW

We are a reputable developer and operator of mobile games and web games, with a strategic focus on mobile games. As of the Latest Practicable Date, our game portfolio included five mobile games and two web games, most of which are top ranked games according to either iResearch or App Annie. Our most successful games are our *Shen Xian Dao* (神仙道) series of RPGs, consisting of the web version of *Shen Xian Dao* (神仙道), its companion web game *Da Hua Shen Xian* (大話神仙), designed exclusively for Tencent platforms and the mobile version of *Shen Xian Dao* (神仙道), and our Carrot Fantasy (保衛蘿蔔) games, a series of mobile casual games consisting of Carrot Fantasy (保衛蘿蔔) and its sequel, Carrot Fantasy 2 (保衛蘿蔔2), which we acquired through our acquisition of Kailuo Tianxia in 2013. Our more recently launched mobile games, *Jiong Xi You* (囧西遊) and *Luan Shi Zhi Ren 2* (亂世之刃2) (now titled *San Guo Zhi Ren* (三國之刃)) and exclusively distributed on Tencent platforms) have also been top ranked according to App Annie. In addition, after the iOS version of *San Guo Zhi Ren* (三國之刃) was launched on Tencent platforms on October 19, 2014, for the period from October 22 through November 16, 2014, it was ranked number one based on App Annie's daily analysis of Apple Inc.'s App Store rankings in terms of gross billings in China for 23 days and ranked second for three days.

We offer a diverse selection of games consisting of mobile games and web games. Our mobile games include RPGs and casual games, such as tower defense games, while our web games are all RPGs. We develop the majority of our games in-house and also acquire or license games from third parties. All of our launched games are free to play, which enables us to quickly attract new players to experience our games and achieve a critical mass for growth. We generate the significant majority of our revenue by selling virtual currency, which players who wish to enhance their entertainment experience can exchange for in-game virtual items and premium features, including powers and equipment for their characters and access to new levels or content. As of June 30, 2014, our RPGs, including mobile games and web games, had 173.2 million cumulative registered users and our casual games had 198.5 million cumulative activated downloads. For the month of June 2014, our RPGs, including mobile games and web games, had 2.3 million MAUs and our casual games had 22.5 million MAUs. For the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, average MPUs for our web games were approximately 67,000, 206,000, 121,000 and 62,000. In addition, for the

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same periods, our average MPUs for our mobile RPGs were approximately nil, 30,000, 34,000 and 40,000, respectively. Average MPUs for our mobile casual games, the first of which we acquired pursuant to our acquisition of Kailuo Tianxia in 2013, were approximately 1.0 million for the six months ended June 30, 2014. Fluctuations in our operating data are primarily a result of changes in the number of players that play, download (in the case of mobile games), and pay for virtual items and premium features in our games. Factors affecting the number of our players include general factors affecting the online game industry in China, competition in the online game industry, our ability to offer highly engaging online games, the continued popularity of our games, the monetization of our player base and our relationships with game distribution and publishing platforms. For a detailed discussion of such factors, see “— Factors Affecting our Results of Operation” and for a detailed discussion of fluctuations in our operating data during the Track Record Period, see “— Period to Period Comparison of Results of Operations.”

We have grown rapidly during the Track Record Period. Our revenue for the years ended December 31, 2011, 2012 and 2013, excluding Kailuo Tianxia, which we acquired on December 31, 2013, was RMB33.0 million, RMB158.7 million and RMB145.0 million, respectively, and for the six months ended June 30, 2014, including Kailuo Tianxia, was RMB129.2 million. Our profit for the years ended December 31, 2011, 2012 and 2013, excluding Kailuo Tianxia, was RMB24.6 million, RMB121.1 million and RMB51.0 million, respectively, and for the six months ended June 30, 2014, including Kailuo Tianxia, was RMB52.6 million. Our adjusted net profit for the years ended December 31, 2011, 2012 and 2013, excluding Kailuo Tianxia, was RMB24.6 million, RMB121.1 million and RMB79.8 million, respectively, and for the six months ended June 30, 2014, including Kailuo Tianxia, was RMB66.6 million. See “— Non-IFRS Measure.” Kailuo Tianxia, which we acquired on December 31, 2013, had revenue of RMB57.6 million and profit of RMB42.2 million for the year ended December 31, 2013, which was its first full year of operation.

### ACQUISITION OF KAILUO TIANXIA

On December 31, 2013, Xiamen Guanghuan acquired 100% of the share capital of Kailuo Tianxia from all of its then shareholders. For more information regarding the acquisition of Kailuo Tianxia, please see the section headed “Our History, Reorganization and Corporate Structure — Our Corporate History and Development before Reorganization — Kailuo Tianxia.”

This prospectus includes two Accountants’ Reports, set forth in Appendices IA and IB. In particular, Appendix IA sets forth our audited combined financial statements, together with the accompanying notes, for the years ended December 31, 2011, 2012 and 2013 and for the six months ended June 30, 2014. Our combined statements of profit or loss, combined statements of comprehensive income and combined statements of cash flows for the years ended December 31, 2011, 2012 and 2013 and our combined statements of financial position as of December 31, 2011 and 2012 do not include the financial information of Kailuo Tianxia, which we acquired on December 31, 2013. However, pursuant to the acquisition, we recognized the fair values of the assets and liabilities of Kailuo Tianxia on the date of acquisition, and, accordingly, our combined statement of financial position as of December 31, 2013 includes the financial information of Kailuo Tianxia. Appendix IB sets forth the audited financial statements of Kailuo Tianxia for the period from May 3, 2012 (the date of Kailuo Tianxia’s incorporation) to December 31, 2012 and the year ended December 31, 2013. For a discussion and analysis of the financial information regarding Kailuo Tianxia prior to December 31, 2013, please see the section headed “— Summary Results of Operations of Kailuo Tianxia.”

Pursuant to our acquisition of Kailuo Tianxia, as of December 31, 2013, we recognized goodwill in the amount of RMB406.5 million. Our determination of the purchase consideration for

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Kailuo Tianxia, which resulted in this amount of goodwill to be recognized, was based on a number of factors. Among such factors was Kailuo Tianxia's existing games Carrot Fantasy (保衛蘿蔔) and Carrot Fantasy 2 (保衛蘿蔔2), which have been highly successful in light of their 198.5 million cumulative activated downloads as of June 30, 2014 and 1.0 million MPUs for the six months ended June 30, 2014. In addition, Kailuo Tianxia had strong game development capability with a development team consisting of over 33 members, including senior development personnel such as Mr. Chen Jianyu, our president, who has over 13 years of experience in China's Internet industry and is a co-founder of Beijing Meitu Creative Advertisement Co., Ltd., the developer of Meitu Viewer, an image viewing software, and the lead developer of Carrot Fantasy (保衛蘿蔔) and Carrot Fantasy 2 (保衛蘿蔔2). Moreover, Kailuo Tianxia had a strong game pipeline that includes games based on its successful Carrot Fantasy (保衛蘿蔔) series, such as a Carrot Fantasy (保衛蘿蔔) game expected to be launched in December 2014, Carrot Fantasy 3 (保衛蘿蔔3), the sequel to Carrot Fantasy 2 (保衛蘿蔔2), expected to be launched in the first half of 2015 and a Carrot Fantasy (保衛蘿蔔) themed interactive pet game expected to be launched in the second half of 2015, as well as two casual games not based on Carrot Fantasy (保衛蘿蔔), each expected to be launched in the first half of 2015. In August 2014, Xiamen Guanghuan commissioned an independent valuation report conducted by ValueLink Management Consultants (Beijing) Limited ("ValueLink"), an independent valuer, for purposes of preparing our combined financial statements. See "Our History, Reorganization and Corporate Structure — Our Corporate History and Development before Reorganization — Kailuo Tianxia." "— Critical Accounting Policies and Estimates — Estimation uncertainty — Acquisition of Kailuo Tainxia," Note 14 to the Accountants' Report included in Appendix IA to this prospectus and "Risk Factors — Goodwill impairment could negatively affect our reported results of operations."

### FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been, and are expected to continue to be, affected by a number of factors, some of which are beyond our control, including those set forth below:

#### General Factors Affecting the Online Game 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 mobile games and web games. The online gaming industry in China, particularly the mobile game and web 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. Our players may reduce the amount they spend on our mobile games and web games as a result of uncertain global economic condition.

#### Competition

The online game industry is highly competitive and has grown rapidly in China and other countries and regions in recent years, driven primarily by technology advancement and rising penetration of smartphones and other mobile devices and high-speed wireless Internet connection. The market for web game development is relatively concentrated with increasing competition in recent years, while the market for mobile games is relatively fragmented with no clear market leaders. We compete primarily on the basis of the quality and features of our

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games, our operational infrastructure and expertise, the strength of our product management approach, and the services we offer that enhance our players' experience. To continue our success in this industry, we must anticipate and respond to changes in the competitive landscape and effectively respond to changing player interests and preferences. Although we expect player demand for online games to continue to grow rapidly, changes in market conditions, player preferences or the Internet and mobile technologies may render it more difficult for us to compete with other industry players in various geographic markets. In addition, an increasing number of online games available in the market and existing and emerging online game developers and operators have placed significant pressure on our game development and marketing and selling efforts, which may increasingly affect our results of operations.

### Ability to Offer Highly Engaging Online Games

Substantially all of our revenue is derived from the purchase of virtual currency by our players, which they can exchange for virtual items and premium features. Therefore, our results of operation depend on our ability to develop and operate highly engaging games that appeal to a broad base of players. During the Track Record Period, a small number of games have contributed a majority of our revenue. To reduce our reliance on a limited number of games and expand our revenue base, we have developed and offered players other highly engaging games, such as *Da Hua Shen Xian* (大話神仙), *Jiong Xi You* (囧西遊), *Luan Shi Zhi Ren 2* (亂世之刃2) (now titled *San Guo Zhi Ren* (三國之刃)), as well as acquired Kailuo Tianxia, the developer of our Carrot Fantasy (保衛蘿蔔) games on December 31, 2013. As of the Latest Practicable Date, we offered a total of five mobile games and two web games. We also plan to develop and launch four new games in 2014 and nine new games in 2015. However, the success of our new games depends on many factors beyond our control, such as trends in the online game industry and game player preferences. We believe that our ability to develop and launch new and highly engaging games will have a long-term impact on our sustainable growth and profitability.

### Continued Popularity of Our Games

The popularity of our games drives the growth of our player base, which is a key component driving the sales and consumption of our virtual items and premium features, 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 developing and launching quality and popular new games to meet game player preferences. As a result, we also must continually upgrade and enhance our existing games to incentivize players to consume virtual items and premium features in our games and expand the games' life cycle so as to extend the monetization period.

### Monetization of Our Player Base

We generate substantially all of our revenues from the sales of virtual currency, for our RPGs, which players can exchange for virtual items and premium features and the sale of virtual items and premium features directly in our casual games. Our results of operations depend on our ability to monetize our player base and specifically to increase both our paying users and average revenue per paying user, our key operating metrics.

*Monthly Paying Users.* Monthly paying users, or MPUs, refer to the number of paying players for the games we have available for play on our third-party distribution and publishing platforms in the relevant calendar month. Average MPUs for a particular period is the average of the MPUs in each month during that period. Our MPUs are 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 Paying User.* We use average revenue per paying user, or ARPPU, which is calculated as the monthly average revenue from the sale of virtual currency or virtual

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items and premium features during a certain period divided by the number of the average MPUs for the games we have available for play on our third-party distribution and publishing platforms during the same period. We calculate ARPPU based primarily on the revenue we receive directly from our distribution and publishing platforms, which is on a net basis after such distribution and publishing platform deducts from gross billings its proportionate share of revenue. Our ARPPU is primarily affected by the varying amount of in-game purchases our players make. We calculate our ARPPU for our RPGs and casual games separately, as casual games tend to have significantly lower ARPPU than RPGs, despite typically having higher MPUs.

The following tables set forth the related operating data for the periods indicated. For a detailed discussion of fluctuations in our operating data during the Track Record Period, see “— Period to Period Comparison of Results of Operations.”

	For the year ended December 31,			For the six months ended June 30,	
	2011 <sup>(1)</sup>	2012 <sup>(1)</sup>	2013 <sup>(1)</sup>	2013 <sup>(1)</sup>	2014
Average MPUs					
Web games (RPGs)					
(000's) .....	67	206	121	151	62
Mobile games					
RPG (000's) .....	—	30	34	30	40
Casual (000's) .....	—	—	—	—	1,019
ARPPU					
Web games (RPGs)					
(RMB) .....	40.1	55.8	53.2	50.6	78.5
Mobile games					
RPG (RMB) .....	—	47.3	142.8	125.9	242.0
Casual (RMB) .....	—	—	—	—	5.2

(1) Excludes the average MPUs and ARPPU of Kailuo Tianxia, which we acquired on December 31, 2013.

The table below sets forth the average MPUs and ARPPU of Kailuo Tianxia, which consists of Carrot Fantasy (保衛蘿蔔) and Carrot Fantasy 2 (保衛蘿蔔2) for the periods indicated. For a detailed discussion of fluctuations in Kailuo Tianxia's operating data during the periods indicated below, see “— Summary Results of Operations of Kailuo Tianxia.”

	For the period from May 3, to December 31, 2012 <sup>(1)</sup>	For the year ended December 31, 2013 <sup>(1)</sup>
Average MPUs (000's) .....	45	895
ARPPU (RMB) .....	19.9	4.2

(1) Includes operating data of Kailuo Tianxia prior to our acquisition of it on December 31, 2013 and such data is included for reference only.

To enhance game monetization, we will continue to stimulate player interest and drive in-game purchases and the number of rounds of games they play by improving the quality of our games, introducing new virtual items and premium features and launching additional in-game promotions.



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### Relationships with Game Distribution and Publishing Platforms

To promote and distribute our games, we rely on game distribution and publishing platforms, which comprise web game portals, and global and regional online application stores and mobile game portals. During the Track Record Period, our revenue growth was primarily driven by the significant increases in revenue derived from the game distribution and publishing platforms on which our games are available. Before we launch a new game, we evaluate different distribution and publishing partners to decide which partners are most suitable in terms of user traffic, user base, marketing resources and capability and certain other factors so as to maximize the gross billings of our new game. We have revenue sharing arrangements with third-party distribution and publishing platforms for the distribution and publishing of our games. We generally enter into separate agreements for each game 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 periodically would have a significant impact on our results of operations. Our ability to expand and deepen our relationships with our game distribution and publishing platforms significantly affects the expansion of our business and results of operations. See “Business — Game Distribution and Publishing Platforms and Payment Collection.”

### BASIS OF PRESENTATION

Our Company was incorporated in the Cayman Islands on March 6, 2014 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The Group underwent the reorganization as set out in the section headed “Our History, Reorganization and Corporate Structure — Our Group’s Reorganization” in this prospectus. Upon completion of Reorganization, the Company became the holding company of the subsidiaries now comprising the Group.

Under the prevailing laws and regulations in the PRC, companies with foreign ownership are prohibited from game operations business in the PRC. We historically operated our online games operation and conducting single player game operation in the PRC through the PRC Operating Entities.

The Contractual Arrangements were effectuated on September 4, 2014 and October 31, 2014 among Xiamen Feiyou, the PRC Contractual Entities and the Relevant Shareholders.

The Contractual Arrangements provide the Group, through Xiamen Feiyou, with effective control over the PRC Contractual Entities. In particular, Xiamen Feiyou undertakes to provide the PRC Operating Entities with certain technical services as required to support their operations. In return, the Group is entitled to substantially all of the operating profits and residual benefits generated by the PRC Operating Entities through intercompany charges levied on these services rendered. The Relevant Shareholders are also required to transfer their interests in the PRC Contractual Entities to Xiamen Feiyou or its designee upon a request made by Xiamen Feiyou when permitted by the PRC laws for consideration, as permitted under the PRC laws. The ownership interests in the PRC Contractual Entities have also been pledged by the Relevant Shareholders to the Group in respect of the continuing obligations of the PRC Contractual Entities. Xiamen Feiyou intends continuously to provide to or assist the PRC Operating Entities in obtaining financial support when deemed necessary. Accordingly, the Group has rights to variable returns from its involvement with the PRC Operating Entities and has the ability to affect those returns through its power over the PRC Operating Entities.

As a result, the PRC Operating Entities were accounted for as subsidiaries of the Company. The formation of the Contractual Arrangements for the PRC Operating Entities was accounted



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for as a business combination between entities under common control by applying the pooling of interests method, where the assets and liabilities of the PRC Operating Entities are reflected at their existing carrying values at the date of combination.

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have identified certain accounting policies that we believe are most significant to the preparation of our combined financial statements. Some of our significant accounting policies involve subjective assumptions and estimates, as well as complex judgments by our management relating to accounting items. Our significant accounting policies are set forth in detail in Note 3 to the Accountants' Report included in Appendix IA to this prospectus.

The estimates and associated assumptions are based on our historical experience and various other relevant factors that we believe are reasonable under the circumstances, the results of which form the basis of making judgments about matters that are not readily apparent from other sources. When reviewing our financial results, you should consider: (i) our selection of significant accounting policies, (ii) the judgment and other uncertainties affecting the application of such policies, and (iii) the sensitivity of reported results to changes in conditions and assumptions. The determination of these items requires management judgments based on information and financial data that may change in the future periods, and as a result, actual results could differ from those estimates.

### Revenue Recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably.

#### (a) *Game operation*

##### 1. *Online web and mobile games*

Our online games allow players to play our online games for free. Players can purchase in-game virtual currency, which can be used to obtain in-game items and premium features, commonly known as virtual items, to enhance their game-playing experience.

We operate our online games through cooperation with various third-party game distribution and publishing platforms including online application stores, web-based and mobile game portals and derive our revenue from sales of in-game currency and virtual items and premium features. We are responsible for providing on-going updates of new contents and technical support for the operation of the games. The platforms are responsible for distribution, marketing, platform maintenance and payment collections from players. Players purchase our in-game currency through the platforms' own charging systems by remitting the payment directly to the platforms. After deducting the commission charged by the platforms, the platforms remit the rest of net proceeds to us. The portion of the proceeds received by us is calculated based on the standard price of in-game virtual currency sold and the agreed share ratio in contracts with distribution and publishing platforms.

Certain third party platforms such as mobile game portals, offer various marketing discounts from time to time to players to encourage spending on these platforms. The actual prices paid by individual players may be lower than the standard prices of virtual currency. Such marketing discounts are neither available to be tracked reliably nor borne by us. As such, we are not able to make a reasonable estimate of the gross revenue (i.e., the actual prices paid by the

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players). For revenue related to these platforms, it is measured at the fair value of the consideration received or receivable, which is the net amount from these third party platforms. Other third party platforms, such as Apple Inc.'s App Store, do not offer discounts to players and deduct a fixed percentage of purchase amount by players. For these platforms, revenue is recognized at the gross amount and commissions charged by these platforms are recorded in selling and distribution expense as channel cost.

The in-game virtual items and premium features, which are purchased by virtual currency, are considered value-added services and rendered over a pre-specified period or throughout the whole game life. Once the players purchase virtual currency, the proceeds are recorded in deferred revenue and recognized in revenue after the virtual currency is used to purchase in-game items or premium features which are either upon consumption or ratably over the practical usage period predetermined in the game or throughout the estimated user life of paying players as appropriate. We monitor the operational statistics and usage patterns of the virtual items and premium features. During the Track Record Period, most of our in-game virtual items and premium features were consumable and consumed upon purchase immediately. As such, our deferred revenue as of the period ends of the Track Record Period stands for the balance of virtual currency not yet spent.

### 2. *Single player mobile game*

Our single player games are played on individual mobile device and allow players to play for free. Players can purchase in-game virtual items and premium features, commonly known as virtual items, to enhance their game-playing experience. We distribute our single player games through cooperation with various third-party game distribution platforms including mobile operators, online application stores and mobile game portals and derive our revenue from sales of in-game virtual items and premium features. We are responsible for technical support for the operation of the games. The third party platforms are responsible for distribution, marketing, platform maintenance and payment collections from players. Players purchase in-game virtual items and premium features through the platforms' own charging systems by remitting the payment directly to the platforms. After deducting the commission charged by the platforms, the platforms remit the rest of the net proceeds to us. The portion of the proceeds received by us is calculated based on the standard price of in-game virtual items and premium features sold and agreed share ratio set out in contracts with such platforms.

Certain third party platforms like mobile operators, offer various marketing discounts from time to time to players to encourage spending in these platforms. The actual prices paid by individual players may be lower than the standard prices of virtual items and premium features. Such marketing discounts are neither available to be tracked reliably nor borne by us. As such, we are not able to make a reasonable estimate of the gross revenue (i.e., the actual prices paid by the players). For revenue related to these platforms, it is measured at the fair value of the consideration received or receivable, which is the net amount from these third party platforms. The other third party platforms, like Apple Inc.'s App Store, do not offer discounts to players and deduct a fixed percentage of purchase amount by players. For these platforms, revenue is recognized at gross amount and commission charged by these platforms is recorded in selling and distribution expenses as channel cost.

Since the single player games are downloaded and installed on each individual mobile device, we do not have obligations for game maintenance once the game is downloaded and we do not have access to the game data on each mobile device. Revenue is recognized upon the purchase of virtual items by players. The cost of providing ongoing technical support for the operation of the games is considered to be insignificant.

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### **(b) Online game distribution**

Between February 2012 and August 2014, Xiamen Youli owned 737.com, a web game publishing and operating platform, on which Xiamen Youli published and operated certain games licensed from third party game developers. In August 2014, Xiamen Youli disposed of 737.com to an Independent Third Party. We generated revenue from 737.com by charging commissions from game developers based on a certain portion of the purchase amount for in-game currency remitted by players through our charging system. After deducting the commissions charged by us, we remitted the remaining amount to the game developers. Revenue was measured at the amount of the commission and recognized upon the purchase action by players.

### **(c) Licensing income**

We receive royalty income from third-party licensees in exchange for exclusive operation of the Group's self-developed games in certain regions and providing related technical support. The royalty fees include an upfront fee and, in certain cases, an additional fee during the contracted license period, which is determined based on an agreed amount when accumulated virtual currency purchased by the players with accounts registered with the third parties exceeds certain amounts. The upfront fee is recognized ratably over the contracted license period. The additional royalty fee is recognized upon the actual purchase by the players exceeds the agreed amount in the relevant contract.

### **(d) Technical service income**

We derive revenue from technical service provided and related intellectual property rights sold. Technical service revenue is recognized when technical support services are rendered.

### **(e) Advertising revenue**

Online advertising revenue is derived principally from online advertising arrangements. We enter into advertising arrangements with advertisers to allow them to place advertisements on particular areas of our games. Advertising revenue from the advertising arrangement is recognized either ratably over the displaying period of the advertisement or upon particular action by players, that is clicks, downloads or activation.

### **(f) Interest income**

Interest income is recognized on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset.

### **Income tax**

Income tax comprises current and deferred tax. Income tax relating to items recognized outside profit or loss is recognized outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

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Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilized, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### **Estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

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### ***Acquisition of Kailuo Tianxia***

We acquired Kailuo Tianxia on December 31, 2013. The identifiable assets and liabilities of Kailuo Tianxia as of December 31, 2013 were consolidated into the Group at their respective fair value, which included intangible assets recognized for Carrot Fantasy (保衛蘿蔔) and Carrot Fantasy 2 (保衛蘿蔔2). Goodwill was then measured at the excess of the aggregate of the consideration transferred over the fair value of the identifiable net assets acquired. The fair value of the current assets and liabilities of Kailuo Tianxia were close to their carrying amount due to their short term maturity. The majority of the non-current assets of Kailuo Tianxia are intangible assets recognized for Carrot Fantasy (保衛蘿蔔) and Carrot Fantasy 2 (保衛蘿蔔2), which historically were not recognized by Kailuo Tianxia in its accounting book. In determining the fair value of the intangible assets of Kailuo Tianxia on December 31, 2013, we relied in part on a valuation report prepared by an independent appraiser, ValueLink. Based on the financial forecasts and other significant assumptions we provided, ValueLink offered their opinion on the fair value of intangible assets acquired. However, our management was ultimately responsible for all amounts that were recorded. Deferred tax liabilities were recognized for the difference between the fair value and the carrying amount of the net assets acquired.

Our determination of the fair values of the intangible assets acquired involved certain judgments and estimates, which include the estimate of cash flows that a particular asset is expected to generate in the future and the determination of an appropriate discount rate for such cash flows. The discount rates, of between 20% to 21%, were calculated based on the estimated cost of equity of Kailuo Tianxia plus premium to reflect market participants' required rate of return for the relative risk of investing in the intangible assets. In particular, we determined the fair value of Carrot Fantasy (保衛蘿蔔) and Carrot Fantasy 2 (保衛蘿蔔2) by utilizing the excess earning method, which takes into consideration the projected cashflow to be generated from these games. The most significant estimates and assumptions inherent in this approach were the estimated revenue attributable to and profit margin derived from these games and the discount rates.

The valuation of the assets and liabilities of Kailuo Tianxia as of December 31, 2013 and the related goodwill recognition were critical accounting judgments that had a significant impact on the Group's financial position. Intangible assets recognized are amortized over their estimated useful economic lives. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. If higher values had been ascribed to intangible assets, the further amortization charges would be higher. If there are impairments, the impairment of goodwill would also decrease our profit. See "— Critical Accounting Policies and Estimate — Impairment of goodwill" below, Note 14 to the Accountants' Report included in Appendix IA to this prospectus and "Risk Factors — Goodwill impairment could negatively affect our reported results of operations."

### ***Impairment of goodwill***

We determine whether goodwill is impaired at a minimum on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires us to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as of December 31, 2011, 2012, 2013 and June 30, 2014 was nil, RMB789,000, RMB407.3 million and RMB407.3 million, respectively. The goodwill we recorded as of December 31, 2013 is related primarily to our acquisition of Kailuo Tianxia on December 31, 2013. Please see Note 14 to the Accountants' Report included in Appendix IA to this prospectus and "Risk Factors — Goodwill impairment could negatively affect our reported results of operations."

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### ***Impairment of non-financial assets (other than goodwill)***

We assess whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

### ***Online game revenue recognition***

#### *Estimation of the sales value of unutilized virtual currency*

During the Track Record Period, most of our in-game items and premium features were consumable virtual items and consumed immediately upon purchase using in-game virtual currency. Therefore, for the purpose of revenue recognition, our game revenue is recognized based on the actual consumption of the virtual currency. Income received in respect of unutilized virtual currency is recognized as deferred revenue. As to the amount of deferred revenue in respect of unutilized virtual currency, management's estimation is required in determining the average sales value of the unutilized virtual currency because, in addition to virtual currency sold to players, there are a number of virtual currencies that were granted to players free of charge after players complete certain tasks within the games. In assessing the amount of average sales value for the virtual currency, management considers the weighted average sales value of both virtual currencies sold and virtual currencies granted for free.



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### COMBINED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

The table below sets forth our combined statement of profit or loss and combined statement of comprehensive income with line items in absolute amounts and as percentages of our total revenue for the periods indicated:

	For the year ended December 31,						For the six months ended June 30,			
	2011 <sup>(1)</sup>		2012 <sup>(1)</sup>		2013 <sup>(1)</sup>		2013 <sup>(1)</sup>		2014	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
<b>Revenue</b> . . . . .	33,011	100.0	158,729	100.0	145,037	100.0	75,373	100.0	129,230	100.0
Cost of sales . . . . .	(286)	(0.9)	(4,938)	(3.1)	(6,699)	(4.6)	(2,607)	(3.5)	(16,877)	(13.1)
<b>Gross profit</b> . . . . .	32,725	99.1	153,791	96.9	138,338	95.4	72,766	96.5	112,353	86.9
Other income and gains . . . . .	236	0.7	931	0.6	2,649	1.8	238	0.3	1,586	1.2
Selling and distribution expenses . . . . .	(2,425)	(7.3)	(5,822)	(3.7)	(15,541)	(10.7)	(3,137)	(4.2)	(19,858)	(15.4)
Administrative expenses . . . . .	(787)	(2.4)	(4,289)	(2.7)	(37,746)	(26.0)	(33,511)	(44.5)	(19,483)	(15.0)
Research and development costs . . . . .	(5,117)	(15.5)	(23,491)	(14.8)	(26,471)	(18.3)	(12,146)	(16.0)	(19,243)	(14.9)
Other expenses . . . . .	(4)	—	(30)	—	(23)	—	(13)	—	(10)	—
<b>Profit before tax</b> . . . . .	24,628	74.6	121,090	76.3	61,206	42.2	24,197	32.1	55,345	42.8
Income tax expense . . . . .	—	—	—	—	(10,249)	(7.1)	(6,724)	(8.9)	(2,729)	(2.1)
<b>Profit for the year/period</b> . . . . .	24,628	74.6	121,090	76.3	50,957	35.1	17,473	23.2	52,616	40.7
Attributable to:										
Owners of the parent . . . . .	24,628	74.6	121,517	76.6	52,623	36.3	18,161	24.1	51,418	39.8
Non-controlling interests . . . . .	—	—	(427)	(0.3)	(1,666)	(1.2)	(688)	(0.9)	1,198	0.9
	24,628	74.6	121,090	76.3	50,957	35.1	17,473	23.2	52,616	40.7
Earnings per share attributable to equity holders of the parent										
Basic and diluted . . . . .	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>Profit for the year/period</b> . . . . .	24,628	74.6	121,090	76.3	50,957	35.1	17,473	23.2	52,616	40.7
<b>Other comprehensive income</b>										
Other comprehensive income to be reclassified to profit or loss in subsequent periods:										
Available-for-sale investments:										
Changes in fair value . . . . .	58	0.2	572	0.4	1,661	1.1	39	0.1	835	0.6
Reclassification adjustments for gains/(losses) included in the combined statement of profit or loss . . . . .	—	—	(526)	(0.4)	(1,711)	(1.1)	(136)	(0.2)	(678)	(0.5)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods . . . . .	58	0.2	46	—	(50)	—	(97)	(0.1)	157	0.1
<b>Other comprehensive income for the year/period, net of tax</b>	58	0.2	46	—	(50)	—	(97)	(0.1)	157	0.1
<b>Total comprehensive income for the year/period</b> . . . . .	24,686	74.8	121,136	76.3	50,907	35.1	17,376	23.1	52,773	40.8
Attributable to:										
Owners of the parent . . . . .	24,686	74.8	121,563	76.6	52,573	36.3	18,064	24.0	51,575	39.9
Non-controlling interests . . . . .	—	—	(427)	(0.3)	(1,666)	(1.2)	(688)	(0.9)	1,198	0.9
	24,686	74.8	121,136	76.3	50,907	35.1	17,376	23.1	52,773	40.8

(1) Excludes the financial information of Kailuo Tianxia, which we acquired on December 31, 2013. For the financial information of Kailuo Tianxia for the period from May 3, 2012 to December 31, 2012 and the year ended December 31, 2013, please see “— Summary Results of Operations of Kailuo Tianxia” and the Accountants’ Report of Kailuo Tianxia set forth in Appendix IB to this prospectus.

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### DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

#### Revenue

The table below sets forth the Group's revenue breakdown by source in absolute amounts and as a percentage of our total revenue for the periods indicated:

	For the year ended December 31,						For the six months ended June 30,			
	2011 <sup>(1)</sup>		2012 <sup>(1)</sup>		2013 <sup>(1)</sup>		2013 <sup>(1)</sup>		2014	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
Game operation <sup>(2)</sup>										
Gross basis . . . . .	—	—	—	—	18,432	12.7	—	—	48,045	37.1
Net basis . . . . .	32,205	97.6	154,680	97.4	116,337	80.2	68,525	90.9	71,284	55.2
Sub total . . . . .	32,205	97.6	154,680	97.4	134,769	92.9	68,525	90.9	119,329	92.3
Licensing income . . . . .	806	2.4	2,700	1.7	1,942	1.3	1,101	1.5	625	0.5
Online game distribution . . . . .	—	—	1,349	0.9	3,708	2.6	1,216	1.6	1,844	1.4
Advertising revenue . . . . .	—	—	—	—	389	0.3	302	0.4	7,432	5.8
Technical service income . . . . .	—	—	—	—	4,229	2.9	4,229	5.6	—	—
<b>Total . . . . .</b>	<b>33,011</b>	<b>100</b>	<b>158,729</b>	<b>100</b>	<b>145,037</b>	<b>100</b>	<b>75,373</b>	<b>100</b>	<b>129,230</b>	<b>100</b>

(1) Excludes the financial information of Kailuo Tianxia, which we acquired on December 31, 2013. For financial information of Kailuo Tianxia for the period from May 3, 2012 to December 31, 2012 and the year ended December 31, 2013, please see “— Summary Results of Operations of Kailuo Tianxia” and the Accountants' Report of Kailuo Tianxia set forth in Appendix IB to this prospectus.

(2) Please see “— Critical Accounting Policies and Estimates — Revenue Recognition — (a) Game operation — 1. Online web and mobile games” set forth on pages 210 and 211 in this prospectus for a description of the distinction between revenue recognized on a gross basis and revenue recognized on a net basis.

#### Game operation

We derive substantially all of our revenue from the sales of virtual currency, which can be used to obtain in-game virtual items and premium features that our players use to enhance their in-game experience by, for example, enhancing the powers, abilities, attractiveness of their game characters, or enabling them to advance in the game more quickly. See “— Critical Accounting Policies and Estimates — Revenue Recognition — (a) Game operation.” The table below presents a breakdown of our revenue from game operation in absolute amounts and as a percentage of our total revenue for the periods indicated:

	For the year ended December 31,						For the six months ended June 30,			
	2011 <sup>(1)</sup>		2012 <sup>(1)</sup>		2013 <sup>(1)</sup>		2013 <sup>(1)</sup>		2014	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
Game operation										
Web games . . . . .	32,205	97.6	137,692	86.7	77,323	53.3	45,942	60.9	29,331	22.7
Mobile games:										
RPGs . . . . .	—	—	16,988	10.7	57,446	39.6	22,583	30.0	58,073	44.9
Casual . . . . .	—	—	—	—	—	—	—	—	31,925	24.7
<b>Total . . . . .</b>	<b>32,205</b>	<b>97.6</b>	<b>154,680</b>	<b>97.4</b>	<b>134,769</b>	<b>92.9</b>	<b>68,525</b>	<b>90.9</b>	<b>119,329</b>	<b>92.3</b>

(1) Excludes the financial information of Kailuo Tianxia, which we acquired on December 31, 2013. For financial information of Kailuo Tianxia for the period from May 3, 2012 to December 31, 2012 and the year ended December 31, 2013, please see “— Summary Results of Operations of Kailuo Tianxia” and the Accountants' Report of Kailuo Tianxia set forth in Appendix IB to this prospectus.

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Our revenue from our sale of virtual in-game items and premium features is affected by changes in our average MPUs and ARPPU. See “— Factors Affecting our Results of Operations — Monetization of Our Player Base.” The following tables set forth the related operating data for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,	
	2011 <sup>(1)</sup>	2012 <sup>(1)</sup>	2013 <sup>(1)</sup>	2013 <sup>(1)</sup>	2014
Average MPUs					
Web games (RPGs)					
(000's) .....	67	206	121	151	62
Mobile games					
RPG (000's) .....	—	30	34	30	40
Casual (000's) .....	—	—	—	—	1,019
ARPPU					
Web games (RPGs)					
(RMB) .....	40.1	55.8	53.2	50.6	78.5
Mobile games					
RPG (RMB) .....	—	47.3	142.8	125.9	242.0
Casual (RMB) .....	—	—	—	—	5.2

(1) Excludes the average MPUs and ARPPU of Kailuo Tianxia, which we acquired on December 31, 2013. For average MPUs and ARPPU of Kailuo Tianxia for the period from May 3, 2012 to December 31, 2012 and the year ended December 31, 2013, please see “— Summary Results of Operations of Kailuo Tianxia.”

The following table sets forth revenue generated from the sale of virtual items and premium features, for our key games in absolute amounts and as percentages of our total revenue for the periods indicated:

	For the year ended December 31,						For the six months ended June 30,			
	2011 <sup>(1)</sup>		2012 <sup>(1)</sup>		2013 <sup>(1)</sup>		2013 <sup>(1)</sup>		2014	
	RMB'000	%	RMB'000	%	RMB'000	%	(unaudited)		RMB'000	%
Web games (RPGs)										
<i>Shen Xian Dao</i> (神仙道) ..	32,205	97.6	122,400	77.1	57,766	39.8	33,471	44.4	25,242	19.5
<i>Da Hua Shen Xian</i> (大話神仙) .....	—	—	15,292	9.6	19,557	13.5	12,471	16.5	4,089	3.2
Mobile games										
RPG										
<i>Shen Xian Dao</i> (神仙道) ..	—	—	16,874	10.7	38,818	26.8	22,514	29.9	11,901	9.2
<i>Jiong Xi You</i> (囧西遊) ..	—	—	—	—	18,175	12.5	—	—	19,683	15.2
<i>Luan Shi Zhi Ren 2</i> (亂世之刃2) (now titled <i>San Guo Zhi Ren</i> (三國之刃) <sup>(2)</sup> .....	—	—	—	—	257	0.2	—	—	26,489	20.5
Casual										
<i>Carrot Fantasy</i> (保衛蘿蔔) <sup>(3)</sup> .....	—	—	—	—	—	—	—	—	9,806	7.6
<i>Carrot Fantasy 2</i> (保衛蘿蔔2) <sup>(3)</sup> .....	—	—	—	—	—	—	—	—	22,119	17.1
<b>Key games total</b> .....	<b>32,205</b>	<b>97.6</b>	<b>154,566</b>	<b>97.4</b>	<b>134,573</b>	<b>92.8</b>	<b>68,456</b>	<b>90.8</b>	<b>119,329</b>	<b>92.3</b>

## FINANCIAL INFORMATION

- (1) Excludes the financial information of Kailuo Tianxia, which we acquired on December 31, 2013. For the financial information of Kailuo Tianxia for the period from May 3, 2012 to December 31, 2012 and the year ended December 31, 2013, please see “— Summary Results of Operations of Kailuo Tianxia” and the Accountants’ Report of Kailuo Tianxia set forth in Appendix IB to this prospectus.
- (2) We recently entered into an agreement with Shenzhen Tencent to exclusively license *Luan Shi Zhi Ren 2* (亂世之刃2) (now titled *San Guo Zhi Ren* (三國之刃)) for distribution and publishing on Tencent platforms. The Android version of *San Guo Zhi Ren* (三國之刃) was launched on August 7, 2014 and the iOS version was launched on October 19, 2014.
- (3) Virtual items and premium features in our Carrot Fantasy games are purchased directly by players without the need to purchase virtual currency.

While China is currently our main market of focus, we have also developed a global presence by releasing certain of our games on distribution and publishing platforms internationally. We have licensed four of our launched games to be published in markets such as Hong Kong, Macau, Taiwan, South Korea, and Vietnam. For the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, we generated 0.0%, 16.4%, 18.0% and 14.1% of our revenue from outside of the PRC, respectively, as determined by the type of currency used by individual players. We continuously evaluate opportunities to release our games internationally. For instance, we have recently entered into an agreement with Glu Mobile Inc., a global game distributor, for the release of Carrot Fantasy 2 (保衛蘿蔔2) on iOS and Android in the U.S., Europe and other regions outside of China, Hong Kong and Taiwan. Carrot Fantasy 2 (保衛蘿蔔2) began to be available in certain of these regions in November of 2014 and will gradually become available in other regions. The table below sets forth our revenue from our game operations based on region, as determined by payment currency, in absolute amounts and as a percentage of our total revenue for the periods indicated:

	For the year ended December 31,						For the six months ended June 30,			
	2011 <sup>(1)</sup>		2012 <sup>(1)</sup>		2013 <sup>(1)</sup>		2013 <sup>(1)</sup>		2014	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
PRC .....	32,205	97.6	128,639	81.0	108,692	74.9	56,622	75.1	101,022	78.2
Outside of the PRC <sup>(2)</sup> .....	—	—	26,041	16.4	26,077	18.0	11,903	15.8	18,307	14.1
<b>Total .....</b>	<b>32,205</b>	<b>97.6</b>	<b>154,680</b>	<b>97.4</b>	<b>134,769</b>	<b>92.9</b>	<b>68,525</b>	<b>90.9</b>	<b>119,329</b>	<b>92.3</b>

- (1) Excludes the results of Kailuo Tianxia, which we acquired on December 31, 2013. For financial information of Kailuo Tianxia for the period from May 3, 2012 to December 31, 2012 and the year ended December 31, 2013, please see “— Summary Results of Operations of Kailuo Tianxia” and the Accountants’ Report of Kailuo Tianxia set forth in Appendix IB to this prospectus.
- (2) Determined based on the type of currency used by the individual player to purchase virtual currency or in-game virtual items or premium features.

## FINANCIAL INFORMATION

### ***Licensing income***

From time to time we enter into exclusive licensing arrangements for the distribution and publishing of our games. Such licensing agreements grant the licensee the exclusive right to publish, promote, and distribute, including making available for download in the case of mobile games, the specified game within a specified territory. The licensees have the right to publish the game on their own platform as well as license the game to other third-parties, thereby broadening the distribution of our games. Pursuant to these agreements, the licensee is responsible for collecting the payments made by players using its own platform and through other third-party platforms to which they have licensed the game. Such payments are made by players through an individual platform's own payment systems, which include various channels, such as by online wire transfer through third-party online payment vendors, such as Alipay, through mobile network carriers and by credit card. In all cases, payments made by players of our games under an exclusive license, regardless through which platform such players access the game, are paid to us through the primary licensee. Licensing income includes an upfront fee and in certain cases, an additional fee during the contracted license period, which is determined based on an agreed amount and paid when the accumulated amount of our virtual currency purchased by the players with accounts registered with the third parties exceeds certain specified amounts. The upfront fee is recognized ratably over the contracted license period. The additional amount is recognized when the actual purchase by the players exceeds the agreed amount in the relevant contract. See "Business — Game Distribution and Publishing Platforms and Payment Collection — Exclusive Licensing."

### ***Online game distribution***

During the Track Record Period, we also derived a small portion of revenue by charging commissions to game developers for games we publish on 737.com based on a certain portion of the purchase amount for in-game currency remitted by players through our charging system. We disposed of 737.com in August 2014 and will no longer receive revenue from its operations.

### ***Advertising revenue***

Online advertising revenue is derived principally from online advertising arrangements. We enter into advertising arrangements with advertisers to allow them to place advertisements in particular areas of our mobile games, primarily our Carrot Fantasy (保衛蘿蔔) games. Advertising revenue from the advertising arrangement is recognized either ratably over the displaying period of the advertisement or upon particular action by players, including clicks, downloads or activation.

### ***Technical service income***

Revenue from technical service income is derived from technical support services, including sales of intellectual property rights. For the year ended December 31, 2013, we recognized RMB4.2 million from the sale of intellectual property rights to an online game of which we decided to not complete development.

## FINANCIAL INFORMATION

### Cost of sales

Our cost of sales consists primarily of (i) server costs, (ii) salaries and welfare for our operations personnel, (iii) outsource costs, (iv) depreciation and (v) amortization, as further explained in the table below. The following table sets forth a breakdown of the components of our cost of sales in absolute amounts and as percentages of total revenue for the periods indicated:

	For the year ended December 31,						For the six months ended June 30,					
	2011 <sup>(1)</sup>		2012 <sup>(1)</sup>		2013 <sup>(1)</sup>		2013 <sup>(1)</sup>		2014			
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)											
Server costs <sup>(2)</sup>	—	—	227	0.1	528	0.4	129	0.2	335	0.3		
Salaries and welfare	286	0.9	2,807	1.8	5,920	4.1	2,389	3.3	5,579	4.3		
Outsource costs <sup>(3)</sup>	—	—	1,857	1.2	43	0.0	35	0.0	—	—		
Amortization <sup>(4)</sup>	—	—	—	—	—	—	—	—	10,242	8.0		
Depreciation <sup>(5)</sup>	—	—	29	0.0	95	0.0	29	0.0	187	0.1		
Rental fees <sup>(6)</sup>	—	—	—	—	—	—	—	—	439	0.3		
Others <sup>(7)</sup>	—	—	18	0.0	113	0.1	25	0.0	95	0.1		
<b>Total</b>	<b>286</b>	<b>0.9</b>	<b>4,938</b>	<b>3.1</b>	<b>6,699</b>	<b>4.6</b>	<b>2,607</b>	<b>3.5</b>	<b>16,877</b>	<b>13.1</b>		

- (1) Excludes the financial information of Kailuo Tianxia, which we acquired on December 31, 2013. For financial information of Kailuo Tianxia for the period from May 3, 2012 to December 31, 2012 and the year ended December 31, 2013, please see “— Summary Results of Operations of Kailuo Tianxia” and the Accountants’ Report of Kailuo Tianxia set forth in Appendix IB to this prospectus.
- (2) Server costs relate to costs associated with the purchase and lease of servers for games that we operate ourselves.
- (3) Outsource relates primarily to the development and design of our game operation systems.
- (4) Amortization consists of the amortization of intangible assets relating to the acquisition of Kailuo Tianxia.
- (5) Depreciation relates primarily to amortized depreciation for property, plant and equipment, including primarily, Company cars for operations employee use.
- (6) Rental fee consists of fees for our office space for our game operations team.
- (7) Others consists primarily of copyright registration fees, business travel expenses, consumable items and Internet costs.

### Gross Profit

Gross profit represents the excess of revenue over cost of sales. For the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, our gross profits were RMB32.7 million, RMB153.8 million, RMB138.3 million and RMB112.4 million, respectively, representing gross profit margins of 99.1%, 96.9%, 95.4% and 86.9%, respectively.

### Other income and gains

Other income and gains primarily consist of (i) investment income, (ii) government grants, and (iii) bank interest income. We received other income and gains of RMB236,000, RMB931,000, RMB2.6 million and RMB1.6 million for the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, respectively, representing 0.7%, 0.6%, 1.8% and 1.2%, respectively, of our total revenue for the same periods.



## FINANCIAL INFORMATION

The following table sets forth a breakdown of the components of our other income and gains in absolute amounts and as percentages of our total revenue for the periods indicated:

	For the year ended December 31,						For the six months ended June 30,					
	2011 <sup>(1)</sup>		2012 <sup>(1)</sup>		2013 <sup>(1)</sup>		2013 <sup>(1)</sup>		2014			
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)											
Investment income . . . . .	—	—	526	0.3	1,711	1.2	136	0.2	678	0.5		
Government grants <sup>(2)</sup> . . . . .	216	0.7	300	0.2	899	0.6	80	0.1	806	0.6		
Bank interest income . . . . .	20	0.0	105	0.1	39	0.0	22	0.0	102	0.1		
<b>Total . . . . .</b>	<b>236</b>	<b>0.7</b>	<b>931</b>	<b>0.6</b>	<b>2,649</b>	<b>1.8</b>	<b>238</b>	<b>0.3</b>	<b>1,586</b>	<b>1.2</b>		

(1) Excludes the financial information of Kailuo Tianxia, which we acquired on December 31, 2013. For financial information of Kailuo Tianxia for the period from May 3, 2012 to December 31, 2012 and the year ended December 31, 2013, please see “— Summary Results of Operations of Kailuo Tianxia” and the Accountants’ Report of Kailuo Tianxia set forth in Appendix IB to this prospectus.

(2) Government grants consist of subsidies offered to companies in the technology industry in the jurisdictions in which we operate.

### Selling and distribution expenses

Selling and distribution expenses primarily consist of (i) technical service fees, (ii) advertisement fees, (iii) app store channel fees and (iv) other channel fees, as further explained in the table below. We incurred selling and distribution expenses of RMB2.4 million, RMB5.8 million, RMB15.5 million and RMB19.9 million for the years ended December 31, 2011, 2012 and 2013 and for the six months ended June 30, 2014, respectively, representing 7.3%, 3.7%, 10.7% and 15.4%, respectively, of our total revenue for the same periods. The table below sets forth our selling and distribution expenses in absolute amounts and as percentages of our total revenue for the periods indicated:

	For the year ended December 31,						For the six months ended June 30,					
	2011 <sup>(1)</sup>		2012 <sup>(1)</sup>		2013 <sup>(1)</sup>		2013 <sup>(1)</sup>		2014			
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)											
Salaries and welfare . . . . .	—	—	—	—	—	—	—	—	386	0.3		
Technical service fee <sup>(2)</sup> . . . . .	2,120	6.4	1,210	0.8	121	0.1	—	—	—	—		
Advertisement fee <sup>(3)</sup> . . . . .	305	0.9	4,612	2.9	9,083	6.3	3,137	4.2	6,583	5.1		
App store channel fees <sup>(4)</sup> . . . . .	—	—	—	—	5,880	4.0	—	—	9,719	7.6		
Other channel fees <sup>(5)</sup> . . . . .	—	—	—	—	—	—	—	—	2,505	1.9		
Others <sup>(6)</sup> . . . . .	—	—	—	—	457	0.3	—	—	665	0.5		
<b>Total . . . . .</b>	<b>2,425</b>	<b>7.3</b>	<b>5,822</b>	<b>3.7</b>	<b>15,541</b>	<b>10.7</b>	<b>3,137</b>	<b>4.2</b>	<b>19,858</b>	<b>15.4</b>		

(1) Excludes the financial information of Kailuo Tianxia, which we acquired on December 31, 2013. For financial information of Kailuo Tianxia for the period from May 3, 2012 to December 31, 2012 and the year ended December 31, 2013, please see “— Summary Results of Operations of Kailuo Tianxia” and the Accountants’ Report of Kailuo Tianxia set forth in Appendix IB to this prospectus.

(2) Technical service fees primarily consist of outsourcing costs relating to marketing, including web site designs.

(3) Advertisement fees relate to the launch of new games or promotional events.

(4) App store channel fees consist of the contractual fee charged by Apple Inc.’s App Store for all purchases made in games on Apple Inc.’s App Store, which is equal to 30% of gross billings. For such games, we recognize revenue on a gross basis and subsequently deduct fees and/or revenues due to such distribution and publishing platform.

## FINANCIAL INFORMATION

- (5) Other channel fees consist of the contractual fees paid to certain distribution and publishing platforms for our Carrot Fantasy (保衛蘿蔔) games on Android.
- (6) Others includes fees relating the manufacture of promotional items and other expenses related to marketing.

### Administrative expenses

Administrative expenses primarily consist of (i) salaries and welfare for our administrative staff, (ii) depreciation, (iii) professional fees and (iv) share-based compensation. We incurred administrative expenses of RMB787,000, RMB4.3 million, RMB37.7 million and RMB19.5 million for the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, respectively, representing 2.4%, 2.7%, 26.0% and 15.0%, respectively, of our total revenue for the same periods.

The following table sets forth a breakdown of the components of our administrative expenses in absolute amounts and as percentages of our total revenue for the periods indicated:

	For the year ended December 31,						For the six months ended June 30,					
	2011 <sup>(1)</sup>		2012 <sup>(1)</sup>		2013 <sup>(1)</sup>		2013 <sup>(1)</sup>		2014			
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%		
	(unaudited)											
Salaries and welfare . . . .	382	1.2	2,245	1.4	3,226	2.2	1,302	1.7	2,699	2.1		
Depreciation <sup>(2)</sup> . . . . .	—	—	557	0.4	1,801	1.2	951	1.3	900	0.7		
Amortization <sup>(3)</sup> . . . . .	—	—	95	0.1	1,140	0.8	570	0.8	589	0.5		
Professional fees <sup>(4)</sup> . . . . .	—	—	6	—	224	0.2	60	0.1	320	0.2		
IPO expenses <sup>(5)</sup> . . . . .	—	—	—	—	—	—	—	—	14,010	10.8		
Share-based compensation <sup>(6)</sup> . . . . .	—	—	—	—	28,819	19.9	28,819	38.2	—	—		
Bad debt <sup>(7)</sup> . . . . .	—	—	—	—	1,200	0.8	1,200	1.6	—	—		
Others <sup>(8)</sup> . . . . .	405	1.2	1,386	0.8	1,336	0.9	609	0.8	965	0.7		
<b>Total</b> . . . . .	<b>787</b>	<b>2.4</b>	<b>4,289</b>	<b>2.7</b>	<b>37,746</b>	<b>26.0</b>	<b>33,511</b>	<b>44.5</b>	<b>19,483</b>	<b>15.0</b>		

- (1) Excludes the financial information of Kailuo Tianxia, which we acquired on December 31, 2013. For the financial information of Kailuo Tianxia for the period from May 3, 2012 to December 31, 2012 and the year ended December 31, 2013, please see “— Summary Results of Operations of Kailuo Tianxia” and the Accountants’ Report of Kailuo Tianxia set forth in Appendix IB to this prospectus.
- (2) Depreciation consists primarily of amortized depreciation for property, plant and equipment, including primarily, Company cars for administrative employee use.
- (3) Amortization primarily consist of amortized payments made for intangible assets, including the design and installation of an office administrative IT system installed in 2012, which has been amortized over two years.
- (4) Professional fees consist of legal, accounting and other professional fees.
- (5) IPO expenses consist of professional fees relating to this Global Offering.
- (6) Share-based compensation in 2013 consists of a deemed share-based compensation made to our chairman Mr. Yao Jianjun. The share-based compensation, which was made in connection with the disposal of Mr. Ye Bin’s, one of our Founders, entire shareholding interest in Xiamen Guanghuan, reflected the pro-rata entitlement to Mr. Ye Bin’s disposed interest of the Remaining Shareholders. The Remaining Shareholders gave their respective portion of the Ye Bin Interest to Mr. Yao Jianjun as compensation considering that Mr. Yao Jianjun provided valuable services to Xiamen Guanghuan. This is a share-based payment transaction settled by the shareholders of Xiamen Guanghuan on behalf of the Company. Since there are no future service obligations attached to these equity interest given to Mr. Yao Jianjun, the fair value of such equity interest was recognized as an expense immediately. See “Our History, Reorganization and Corporate Structure — Our Corporate History and Development Before Reorganization — Xiamen Guanghuan” for more details on the disposal of the Ye Bin Interest.

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- (7) Bad debt includes debt that we have determined unrecoverable. In 2013, this related to a disputed RMB1.2 million down payment for an office apartment, which we do not expect to recover.
- (8) Others primarily consists of travelling expenses, entertainment expenses, office supplies, telephone fees, stamp duties, computer accessories and other miscellaneous items.

### Research and development costs

Research and development costs primarily consist of (i) salaries and welfare for our game research and development personnel, (ii) outsource costs, (iii) depreciation and (iv) rental fee, as further explained in the table below. We incurred research and development costs of RMB5.1 million, RMB23.5 million, RMB26.5 million and RMB19.2 million for the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, respectively, representing 15.5%, 14.8%, 18.3% and 14.9%, respectively, of our total revenue for the same periods.

The following table sets forth a breakdown of the components of our research and development costs in absolute amounts and as percentages of our total revenue for the periods indicated:

	For the year ended December 31,						For the six months ended June 30,					
	2011 <sup>(1)</sup>		2012 <sup>(1)</sup>		2013 <sup>(1)</sup>		2013 <sup>(1)</sup>		2014			
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%		
	(unaudited)											
Salaries and welfare . . . . .	3,443	10.4	14,641	9.2	21,407	14.8	9,426	12.4	14,217	11.0		
Outsource costs <sup>(2)</sup> . . . . .	1,480	4.5	5,120	3.2	552	0.4	446	0.6	186	0.1		
Depreciation <sup>(3)</sup> . . . . .	69	0.2	1,153	0.7	1,375	0.9	682	0.9	766	0.6		
Rental fee <sup>(4)</sup> . . . . .	—	—	2,058	1.3	2,428	1.7	1,225	1.6	2,534	2.0		
Others <sup>(5)</sup> . . . . .	125	0.4	519	0.4	709	0.5	367	0.5	1,540	1.2		
<b>Total . . . . .</b>	<b>5,117</b>	<b>15.5</b>	<b>23,491</b>	<b>14.8</b>	<b>26,471</b>	<b>18.3</b>	<b>12,146</b>	<b>16.0</b>	<b>19,243</b>	<b>14.9</b>		

- (1) Excludes the financial information of Kailuo Tianxia, which we acquired on December 31, 2013. For financial information of Kailuo Tianxia for the period from May 3, 2012 to December 31, 2012 and the year ended December 31, 2013, please see “— Summary Results of Operations of Kailuo Tianxia” and the Accountants’ Report of Kailuo Tianxia set forth in Appendix IB to this prospectus.
- (2) Outsource costs primarily relate to the outsourcing of certain aspects of game design and development, including music, graphic design and a data analytics system.
- (3) Depreciation relates primarily to the amortization of the depreciation for property, plant and equipment, including primarily Company cars for research and development employee use.
- (4) Rental fee consists of fees for our office space for our research and developments personnel.
- (5) Others primarily consists of business travel expenses, insurance costs, consumable items, Internet fees, copyright registration and patent filing costs, facilities maintenance and upgrading costs and other office expenses.

### Other expenses

Our other expenses primarily consist of (i) losses on sales of property, plant and equipment, (ii) donations and (iii) other losses. We incurred other expenses of RMB4,000, RMB30,000, RMB23,000 and RMB10,000 for the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, respectively, representing 0.0%, 0.0%, 0.0% and 0.0%, respectively, of our total revenue for the same periods.

## FINANCIAL INFORMATION

### TAXATION

#### Cayman Islands

We are an exempt company with limited liability incorporated in the Cayman Islands. Under the Cayman Islands law, we are not subject to income or capital gains tax in the Cayman Islands.

#### Hong Kong

Feiyu Hong Kong was incorporated on March 25, 2014 and is subject to a profit tax of 16.5% on the estimated assessable profit derived from its Hong Kong operations. 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

#### *Income tax*

Under the relevant income tax law, our PRC subsidiaries are subject to income tax at a statutory rate of 25% on their respective taxable income, except for Xiamen Guanghuan, Xiamen Youli, Xiamen Yidou and Kailuo Tianxia which were certified as software enterprises and are exempted from income tax for two years starting from the first year in which they generate taxable profit, followed by a 50% reduction for the next three years. 2011, 2013 and 2013 were the first profitable years for Xiamen Guanghuan, Xiamen Youli and Kailuo Tianxia, respectively. During the Track Record Period, we paid all relevant taxes and had no disputes or unresolved tax issues with the relevant tax authorities.

Pursuant to the CIT Law, a uniform 25% CIT rate is generally applied to both foreign-invested enterprises and domestic enterprises, except where a special preferential rate applies. Under the CIT Law and the CIT Rules, an enterprise established outside of the PRC with “*de facto* management bodies” within the PRC is considered a resident enterprise and is subject to CIT at the rate of 25% on its global income. The CIT Rules define the term “*de facto* management bodies” as the bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise. We do not believe we are a resident enterprise. However, it remains unclear how PRC tax authorities will determine the tax residency status of companies like us. See “Risk Factors — Risk Relating to Conducting Business in the PRC — We may be classified as a “PRC resident enterprise” for PRC enterprise income tax purposes, which could result in our global income being subject to 25% PRC enterprise income tax.”

#### *Withholding tax*

Under the CIT Law and the CIT Rules, the profits of a foreign-invested enterprise that are distributed to its immediate holding company outside the PRC will be subject to a withholding tax rate of 10%. Pursuant to a special arrangement between Hong Kong and the PRC, such rate is lowered to 5% if a Hong Kong resident enterprise owns over 25% of a PRC company during the 12 consecutive months preceding the receipt of the dividends.

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### NON-IFRS MEASURE

To supplement our combined financial statements which are presented in accordance with IFRS, we also use adjusted net profit as an additional financial measure. We present this financial measure because it is used by our management to evaluate our financial performance by eliminating the impact of items that we do not consider indicative of the performance of our business. We also believe that this non-IFRS measure provides additional information to investors and others in understanding and evaluating our combined 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

We define adjusted net profit as net income or loss excluding share-based compensation and IPO listing fees in connection with this Global Offering. The term of adjusted net profit is not defined under IFRS. The use of adjusted net profit has material limitations as an analytical tool it does not include all items that impact our net loss or income for the year/period.

	For the year ended December 31,			For the six months ended June 30,	
	2011 <sup>(1)</sup>	2012 <sup>(1)</sup>	2013 <sup>(1)</sup>	2013 <sup>(1)</sup>	2014
	RMB'000			RMB'000	
				(unaudited)	
<b>Profit for the year/period</b>	24,628	121,090	50,957	17,473	52,616
Add:					
Share-based compensation <sup>(2)</sup> . . .	—	—	28,819	28,819	—
IPO listing fees in connection with this Global Offering . . . . .	—	—	—	—	14,010
<b>Adjusted net profit (unaudited) .</b>	<b>24,628</b>	<b>121,090</b>	<b>79,776</b>	<b>46,292</b>	<b>66,626</b>

(1) Excludes the financial information of Kailuo Tianxia, which we acquired on December 31, 2013. For the financial information of Kailuo Tianxia for the period from May 3, 2012 to December 31, 2012 and the year ended December 31, 2013, please see “— Summary Results of Operations of Kailuo Tianxia” and the Accountants’ Report of Kailuo Tianxia set forth in Appendix IB to this prospectus.

(2) Share-based compensation in 2013 consists of a deemed share-based compensation made to our chairman Mr. Yao Jianjun. The share-based compensation, which was made in connection with the disposal of Mr. Ye Bin’s, one of our Founders, entire shareholding interest in Xiamen Guanghuan, reflected the pro-rata entitlement to Mr. Ye Bin’s disposed interest of the Remaining Shareholders. The Remaining Shareholders gave their respective portion of the Ye Bin Interest to Mr. Yao Jianjun as compensation considering that Mr. Yao Jianjun provided valuable services to, Xiamen Guanghuan. This is a share-based payment transaction settled by the shareholders of Xiamen Guanghuan on behalf of the Company. Since there are no future service obligations attached to these equity interest given to Mr. Yao Jianjun, the fair value of such equity interest was recognized as an expense immediately. See “Our History, Reorganization and Corporate Structure — Our Corporate History and Development Before Reorganization — Xiamen Guanghuan” for more details on the disposal of the Ye Bin Interest.

In light of the foregoing limitations for other financial measures, when assessing our operating and financial performance, you should not consider adjusted net profit in isolation or as a substitute for our profit for the year/period, 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 similarly titled measures used by other companies.

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### PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

#### Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2013

##### **Revenue**

Our revenue increased by 71.4% from RMB75.4 million for the six months ended June 30, 2013 to RMB129.2 million for the six months ended June 30, 2014, primarily due to an increase in our revenue derived from our mobile games, resulting from our acquisition of Kailuo Tianxia on December 31, 2013 and partially offset by a decrease in revenue derived from our web games.

##### *Web games*

Revenue from our web games decreased 36.2% from RMB45.9 million for the six months ended June 30, 2013 to RMB29.3 million for the six months ended June 30, 2014. The decrease in revenue was primarily due to a decrease in the number of average MPUs for our web games, which decreased from 151,000 for the six months ended June 30, 2013 to 62,000 for the six months ended June 30, 2014. The decrease in average MPUs was primarily a result of the decrease in number of average MPUs for the web version of *Shen Xian Dao* (神仙道), which, having launched in May 2011, was in the late stage of its expected life cycle in 2014. Revenue generated from the sale of in-game virtual items and premium features for *Shen Xian Dao* (神仙道) decreased from RMB33.5 million for the six months ended June 30, 2013 to RMB25.2 million for the six months ended June 30, 2014. The decrease in revenue from our web games was partially offset by an increase in ARPPU from RMB50.6 for the six months ended June 30, 2013 to RMB78.5 for the six months ended June 30, 2014. The increase in ARPPU was primarily the result of an increase in the average purchase amount of MPUs of *Shen Xian Dao* (神仙道). It is typical for a game that is reaching the late stage of its life cycle to recognize an increase in average purchase amounts as remaining players tend to be more loyal and spend more.

##### *Mobile games*

Revenue from our mobile games increased from RMB22.6 million for the six months ended June 30, 2013 to RMB90.0 million for the six months ended June 30, 2014. The increase in revenue was primarily due to increased revenue from our mobile RPGs and the acquisition of Kailuo Tianxia, which added the mobile casual games Carrot Fantasy (保衛蘿蔔) and Carrot Fantasy 2 (保衛蘿蔔2) to our existing game portfolio.

##### Mobile RPGs

Our revenue from mobile RPGs increased from RMB22.6 million for the six months ended June 30, 2013 to RMB58.1 million for the six months ended June 30, 2014, primarily as a result of an increase in average MPUs from 30,000 for the six months ended June 30, 2013 to 40,000 for the six months ended June 30, 2014 and an increase in ARPPU from RMB125.9 for the six months ended June 30, 2013 to RMB242.0 for the six months ended June 30, 2014. The increase in average MPUs and ARPPU was due to the the launch of *Jiong Xi You* (囧西遊) in July of 2013, which generated RMB19.7 million for the six months ended June 30, 2014 from the sale of virtual items and premium features, and the launch of *Luan Shi Zhi Ren 2* (亂世之刃2) (now titled *San Guo Zhi Ren* (三國之刃)) in December of 2013, which generated RMB26.5 million in revenue.



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### Mobile casual games

Our revenue from mobile casual games increased from nil for the year ended December 31, 2013 to RMB31.9 million for the six months ended June 30, 2014 as a result of acquiring Kailuo Tianxia on December 31, 2013, which added Carrot Fantasy (保衛蘿蔔) and Carrot Fantasy 2 (保衛蘿蔔2) to our existing game portfolio. These games are mobile casual games which typically have higher average MPUs and lower ARPPU than RPGs. For the six months ended June 30, 2014, our mobile casual games had average MPUs of 1.0 million and ARPPU of RMB5.2. Carrot Fantasy 2 (保衛蘿蔔2), which was launched by Kailuo Tianxia in December 2013 generated RMB22.1 million in revenue from the sale of virtual items and premium features for the six months ended June 30, 2014. Carrot Fantasy (保衛蘿蔔), which was launched by Kailuo Tianxia in May 2012, generated RMB9.8 million for the six months ended June 30, 2014.

### *Licensing income*

Revenue from our licensing income decreased from RMB1.1 million for the six months ended June 30, 2013 to RMB625,000 for the six months ended June 30, 2014 due to the exclusive licensing agreements for the web version of *Shen Xian Dao* in Vietnam and South Korea being renewed in late 2013 without an additional licensing fee being paid.

### *Advertising revenue*

Advertising revenue increased from RMB302,000 for the six months ended June 30, 2013 to RMB7.4 million for the six months ended June 30, 2014, primary due to the acquisition of Kailuo Tianxia on December 31, 2013. Prior to the acquisition, we did not generate a significant amount of revenue from the sale of in-game advertisements in our RPGs. For casual games, such as Carrot Fantasy (保衛蘿蔔) and Carrot Fantasy 2 (保衛蘿蔔2), in-game advertising is more frequently used as an additional source of revenue.

### **Cost of sales**

Our cost of sales increased by 550.0% from RMB2.6 million for the six months ended June 30, 2013 to RMB16.9 million for the six months ended June 30, 2014, primarily due to the amortization of RMB10.2 million for the six months ended June 30, 2014, relating to intangible assets pursuant to the acquisition of Kailuo Tianxia. The increase was also due to an increase in salaries and welfare from RMB2.4 million for the six months ended June 30, 2013 to RMB5.6 million for the six months ended June 30, 2014, due to an increase in operations employees hired in the second half of 2013 after the launch of *Jiong Xi You* (囧西遊) and *Luan Shi Zhi Ren 2* (亂世之刃2) (now titled *San Guo Zhi Ren* (三國之刃)) and the acquisition of Kailuo Tianxia on December 31, 2013.

### **Gross profit and gross profit margin**

As a result of the foregoing, our gross profit increased by 54.4% from RMB72.8 million for the six months ended June 30, 2013 to RMB112.4 million for the six months ended June 30, 2014. Primarily as a result of an increase in our cost of sales, our gross profit margin decreased from 96.5% for the six months ended June 30, 2013 to 86.9% for the six months ended June 30, 2014.

### **Other income and gains**

Our other income and gains increased by 572.3% from RMB238,000 for the six months ended June 30, 2013 to RMB1.6 million for the six months ended June 30, 2014, primarily due to an increase in investment income and an increase in government grants granted to us by local governments in Xiamen to encourage the technology sector.

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### ***Selling and distribution expenses***

Our selling and distribution expenses increased by 541.9% from RMB3.1 million for the six months ended June 30, 2013 to RMB19.9 million for the six months ended June 30, 2014, primarily due to an increase in app store channel fees from nil for the six months ended June 30, 2013 to RMB9.7 million for the six months ended June 30, 2014, relating to increased revenue from *Jiong Xi You* (囧西遊), *Luan Shi Zhi Ren 2* (亂世之刃2) (now retitled *San Guo Zhi Ren* (三國之刃)), *Carrot Fantasy* (保衛蘿蔔) and *Carrot Fantasy 2* (保衛蘿蔔2). The increase was also due to an increase in advertisement fees from RMB3.1 million for the six months ended June 30, 2013 to RMB6.6 million for the six months ended June 30, 2014, relating to the launch of *Jiong Xi You* (囧西遊) in July of 2013 and *Luan Shi Zhi Ren 2* (亂世之刃2) (now titled *San Guo Zhi Ren* (三國之刃)) in December of 2013, as well as an increase in other channel fees of RMB2.5 million that we began to incur for *Carrot Fantasy* (保衛蘿蔔) and *Carrot Fantasy 2* (保衛蘿蔔2) as a result of our acquisition of Kailuo Tianxia.

### ***Administrative expenses***

Our administrative expenses decreased by 41.8% from RMB33.5 million for the six months ended June 30, 2013 to RMB19.5 million for the six months ended June 30, 2014. This decrease was primarily due to a deemed share based compensation made to our chairman Mr. Jianjun Yao in 2013. The share based compensation was made as part of the disposal of all of the shareholding interests in the Company of Mr. Ye Bin's, one of our Founders. See "Our History, Reorganization and Corporate Structure — Our Corporate History and Development Before Reorganization — Xiamen Guanghuan." The decrease was partially offset by IPO expenses of RMB14.0 million for the six months ended June 30, 2014 relating to the Global Offering and an increase in salaries and welfare from RMB1.3 million for the six months ended June 30, 2013 to RMB2.7 million for the six months ended June 30, 2014 due to an increase of administrative employees relating to the acquisition of Kailuo Tianxia.

### ***Research and development costs***

Our research and development costs increased by 58.7% from RMB12.1 million for the six months ended June 30, 2013 to RMB19.2 million for the six months ended June 30, 2014. This increase was primarily due to an increase in salaries and welfare from RMB9.4 million for the six months ended June 30, 2013 to RMB14.2 million for the six months ended June 30, 2014 due to an increase in the number of game development personnel to support our existing games, newly launched games, games under development and personnel from Kailuo Tianxia.

### ***Other expenses***

Our other expenses decreased by 23.1% from RMB13,000 for the six months ended June 30, 2013 to RMB10,000 for the six months ended June 30, 2014. This decrease was primarily due to a decrease in donations.

### ***Profit before tax***

As a result of the foregoing, our profit before tax increased by 128.5% from RMB24.2 million for the six months ended June 30, 2013 to RMB55.3 million for the six months ended June 30, 2014.

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### **Income tax expense**

Our income tax expense decreased by 59.7% from RMB6.7 million for the six months ended June 30, 2013 to RMB2.7 million for the six months ended June 30, 2014. This decrease was primarily due to the decrease in revenue from our web RPGs and the fact that Kailuo Tianxia is tax exempt as a certified software enterprise. See “— Taxation.” Our effective income tax rate decreased from 27.8% for the six months ended June 30, 2013 to 4.9% for the six months ended June 30, 2014, primarily as a result of non-deductible expenses amounting to RMB28.8 million relating deemed share-based compensation made to Mr. Yao Jianjun in 2013 as well as Hailuo Tianxia being eligible for tax exemption during this period. See “— Taxation.”

### **Profit for the period**

As a result of the foregoing, our profit for the period increased by 200.6% from RMB17.5 million for the six months ended June 30, 2013 to RMB52.6 million for the six months ended June 30, 2014.

### **Year Ended December 31, 2013 Compared to Year Ended December 31, 2012**

#### **Revenue**

Our revenue decreased by 8.6% from RMB158.7 million in 2012 to RMB145.0 million in 2013. The decrease was primarily due to a decrease in revenue derived from our web games and partially offset by an increase in revenue derived from our mobile games.

#### **Web games**

Revenue from our web games decreased by 43.9% from RMB137.7 million in 2012 to RMB77.3 million in 2013. The decrease in revenue was primarily due to a decrease in the number of average MPUs for our web games, which decreased from 206,000 in 2012 to 121,000 in 2013 and a decrease in ARPPU, which decreased from RMB55.8 in 2012 to RMB53.2 in 2013. The decrease in average MPUs was primarily a result of the decrease in number of average MPUs for the web version of *Shen Xian Dao* (神仙道), which, having launched in May of 2011, began to reach the late stage of its expected life cycle in 2013. Revenue generated from the sale of in-game virtual items and premium features for *Shen Xian Dao* (神仙道) decreased from RMB122.4 million in 2012 to RMB57.8 million in 2013. The decrease in revenue from web games was partially offset by an increase in revenue generated from *Da Hua Shen Xian* (大話神仙), launched in February 2012, which increased from RMB15.3 million in 2012 to RMB19.6 million in 2013. The decrease in ARPPU was primarily due to a decrease in the average purchase amount of the MPUs of *Da Hua Shen Xian* (大話神仙) partially offset by an increase in ARPPU of the web version of *Shen Xian Dao* (神仙道). It is typical for a game that is reaching the end of its life cycle to recognize an increase in average purchase amounts as remaining players tend to be more loyal and spend more.

#### **Mobile games**

Revenue from our mobile games increased from RMB17.0 million in 2012 to RMB57.4 million in 2013, primarily as a result of an increase in ARPPU for our mobile RPGs, which increased from RMB47.3 to RMB142.8. The increase in ARPPU was primarily due to an increase in the average purchase amount by MPUs of the mobile version of *Shen Xian Dao* (神仙道), which began to reach the late stage of its expected life cycle in 2013. Revenue generated from the sale of in-game virtual items and premium features in the mobile version of *Shen Xian Dao* (神仙道) increased from RMB16.9 million in 2012 to RMB38.8 million in 2013. The increase in revenue generated by our mobile games was also due to an increase in average MPUs in our mobile RPGs from 30,000 in 2012 to 34,000 in 2013, primarily due to the launch of *Jiong Xi You* (囧西游) in July of 2013, for which we launched a marketing campaign to attract players. Revenue generated from the sale of in-game virtual items and premium features for *Jiong Xi You* (囧西游) was RMB18.2 million in 2013.

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### *Licensing income*

Revenue from our licensing income decreased from RMB2.7 million in 2012 to RMB1.9 million in 2013, primarily as a result of a contract fee of RMB629,000 from our exclusive licensing agreement in Vietnam for the web version of *Shen Xian Dao* (神仙道) that we recognized in full in 2012.

### *Technical Service Income*

Revenue from technical service income increased from nil in 2012 to RMB4.2 million in 2013 primarily due to the sale of intellectual property rights of an online game.

### **Cost of sales**

Our cost of sales increased by 36.7% from RMB4.9 million in 2012 to RMB6.7 million in 2013, primarily due to an increase in the number of our operations employees needed to support the operation of our new games launched in 2013, including *Jiong Xi You* (囧西遊) and *Luan Shi Zhi Ren 2* (亂世之刃2) (now titled *San Guo Zhi Ren* (三國之刃)), as well as games under development. The increase in cost of sales was also due to an increase in server costs for the operation of our new games and partially offset by an outsource fee for infrastructure development for 737.com in 2012, of which we disposed in August 2014.

### **Gross profit and gross profit margin**

As a result of the foregoing, our gross profit decreased by 10.1% from RMB153.8 million in 2012 to RMB138.3 million in 2013. Primarily as a result of a decrease in our revenues and an increase in our cost of sales, our gross profit margin decreased from 96.9% in 2012 to 95.4% in 2013.

### **Other income and gains**

Our other income and gains increased by 188.9% from RMB0.9 million in 2012 to RMB2.6 million in 2013, primarily due to interest received on available-for-sale investments and an increase in government subsidies relating to technical and financial support.

### **Selling and distribution expenses**

Our selling and distribution expenses increased by 167.2% from RMB5.8 million in 2012 to RMB15.5 million in 2013, primarily due to an increase in advertisement fees associated with our marketing campaign for the launch of *Jiong Xi You* (囧西遊) in July 2013 and app store channel fees of RMB5.9 million relating to revenue for *Jiong Xi You* (囧西遊) generated through Apple Inc.'s App Store.

### **Administrative expenses**

Our administrative expenses increased by 776.7% from RMB4.3 million in 2012 to RMB37.7 million in 2013. This increase was primarily due to share based compensation made to our chairman Mr. Jianjun Yao. The share based compensation was made as part of the disposal of Mr. Ye Bin's, one of our Founders, entire shareholding interest in the Company. See "Our History, Reorganization and Corporate Structure — Our Corporate History and Development Before

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Reorganization — Xiamen Guanghuan.” The increase was also due to the increase in the number of administrative employees needed to support our expanding business and a bad debt relating to a disputed receivable amount of RMB1.2 million recognized in 2013 for a down payment on the purchase of an office apartment, which we do not expect to recover.

### **Research and development costs**

Our research and development costs increased by 12.8% from RMB23.5 million in 2012 to RMB26.5 million in 2013. This increase was primarily due to an increase in the number of game development personnel to support our existing games, newly launched games and games under development. The increase was partially offset by an outsource fee in 2012 relating to the outsourcing of certain aspects of game design and development, including music, graphic design, and a data analytics system.

### **Other expenses**

Our other expenses decreased by 23.3% from RMB30,000 in 2012 to RMB23,000 in 2013.

### **Profit before tax**

As a result of the foregoing, our profit before tax decreased by 49.5% from RMB121.1 million in 2012 to RMB61.2 million in 2013.

### **Income tax expense**

Our income tax expense increased from nil in 2012 to RMB10.2 million in 2013. This increase was primarily due to our increase in applicable PRC income tax rate from nil in 2012 to 12.5% in 2013, in accordance with the relevant income tax laws. See “— Taxation.” In addition, a non-deductible expense amounting to RMB28.8 million relating deemed share-based compensation made to Mr. Yao Jianjun occurred in 2013. As a result of the foregoing, our effective income tax rate increased from nil for 2012 to 16.7% for 2013.

### **Profit for the year**

As a result of the foregoing, our profit for the year decreased by 57.9% from RMB121.1 million in 2012 to RMB51.0 million in 2013.

## **Year Ended December 31, 2012 Compared to Year Ended December 31, 2011**

### **Revenue**

Our revenue increased by 380.9% from RMB33.0 million in 2011 to RMB158.7 million in 2012. The increase was primarily due to an increase in revenue derived from our web and mobile games. An increase in our license fees also contributed to the increase in revenue.

### *Web games*

Revenue from our web games increased 327.6% from RMB32.2 million in 2011 to RMB137.7 million in 2012, primarily as a result of an increase in the number of average MPUs for our web games from 67,000 in 2011 to 204,000 in 2012 and an increase in ARPPU from RMB40.1 in 2011 to RMB55.8. The increase in the number of our average MPUs for our web games was primarily a result of the increase in popularity of *Shen Xian Dao* (神仙道). We first launched the web version of *Shen Xian Dao* (神仙道) in May of 2011, which experienced a rapid growth in popularity in 2012. Revenue from the sale of in-game virtual items and premium features increased from RMB32.2 million in 2011 to RMB122.4 million in 2012. The increase in ARPPU was primarily a result of the higher average purchase amount of MPUs of *Shen Xian Dao* (神仙道). In addition, in February 2012 we launched *Da Hua Shen Xian* (大話神仙), the companion game to *Shen Xian Dao* (神仙道) designed specifically for Tencent platforms, which

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also contributed to an increase in our web game revenue. Revenue generated from *Da Hua Shen Xian* (大話神仙) was RMB15.3 million in 2012.

### *Mobile games*

Revenue from our mobile games increased from nil in 2011 to RMB17.0 million in 2012 as a result of the launch of our first mobile game, *Shen Xian Dao* (神仙道), in January of 2012, which generated RMB16.9 million in revenue from the sale of in-game virtual items and premium features. The number of average MPUs and ARPPU for our mobile RPGs was 30,000 and RMB47.3 in 2012, respectively.

### *Licensing income*

Our revenue from licensing income increased from RMB806,000 to RMB2.7 million, primarily as a result of license fees we received for the exclusive licensing in 2012 of the web version of *Shen Xian Dao* (神仙道) in Vietnam and South Korea, which are amortized ratably over the contracted license period. We recognized approximately RMB808,000 from these licensing fees in 2012. We also recognized a one-time contract fee of RMB629,000 from our exclusive licensing agreement in Vietnam in 2012. The increase was also due to the exclusive licensing of the web version of *Shen Xian Dao* (神仙道) in China, the agreement for which was signed in mid-2011, resulting in an increase in amortization amounts from RMB806,000 in 2011 to RMB1.3 million in 2012.

### **Cost of sales**

Our cost of sales increased by 1,613.3% from RMB286,000 in 2011 to RMB4.9 million in 2012, primarily due to the establishment of our game operations capabilities in 2012. Prior to 2012 we relied on our third-party distribution and publishing platforms to undertake server maintenance and customer service and we did not need to employ a significant number of operations personnel or purchase and maintain servers. The primary components of our cost of sales in 2012 consisted of salaries and welfare paid to our operations employees and an outsource fee of RMB1.9 million relating to establishing the infrastructure for 737.com, of which we have disposed in August 2014.

### **Gross profit and gross profit margin**

As a result of the foregoing, our gross profit increased by 370.3% from RMB32.7 million in 2011 to RMB153.8 million in 2012. Primarily as a result of recognizing only minimal cost of sales in 2011, our gross profit margin decreased from 99.1% in 2011 to 96.9% in 2012.

### **Other income and gains**

Our other income and gains increased by 294.5% from RMB236,000 in 2011 to RMB931,000 in 2012, primarily due to an increase in interest received on available-for-sale investments and an increase in bank interest income as a result of increased cash on hand.



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### ***Selling and distribution expenses***

Our selling and distribution expenses increased by 141.7% from RMB2.4 million in 2011 to RMB5.8 million in 2012, primarily due to an increase in advertisement fees related to marketing campaigns for the launch of the mobile version of *Shen Xian Dao* (神仙道) and the web game *Da Hua Shen Xian* (大話神仙).

### ***Administrative expenses***

Our administrative expenses increased by 446.4% from RMB787,000 in 2011 to RMB4.3 million in 2012. This increase was primarily due to an increase in the number of administrative employees to support our business expansion.

### ***Research and development costs***

Our research and development costs increased by 360.8% from RMB5.1 million in 2011 to RMB23.5 million in 2012. This increase was primarily due to an increase in the number of game development personnel to support our existing games, newly launched games and games under development. The increase was also due to outsource costs relating to the outsourcing of certain aspects of game design and development, including music, graphic design and a data analytics system, and an increase in rental fees relating to office space for our research and development personnel, which we began to occupy in 2012.

### ***Other expenses***

Our other expenses increased by 650% from RMB4,000 in 2011 to RMB30,000 in 2012. This increase was primarily due to a donation in the amount of RMB30,000.

### ***Profit before tax***

As a result of the foregoing, our profit before tax increased by 392.3% from RMB24.6 million in 2011 to RMB121.1 million in 2012.

### ***Income tax expense***

Our income tax expense remained nil for 2011 and 2012 as Xiamen Guanghuan was certified as a software enterprise eligible for tax exemption during our first two years of operation. See “— Taxation.” As a result of the foregoing, our effective tax rate remained nil for 2011 and 2012.

### ***Profit for the year***

As a result of the foregoing, our profit for the year increased by 392.3% from RMB24.6 million in 2011 to RMB121.1 million in 2012.

## **SUMMARY RESULTS OF OPERATIONS OF KAILUO TIANXIA**

The following is a discussion of Kailuo Tianxia's results of operations for the period from May 3, 2012, the date of its incorporation, to December 31, 2012 and the year ended December 31, 2013. Because these two periods are of different lengths, Kailuo Tianxia's results of operations for these two periods are not directly comparable. Accordingly, prospective investors are cautioned not to infer any comparison between the results for these two periods, or to place undue reliance on the following discussion. In addition, the following discussion contains operating data of Kailuo Tianxia prior to our acquisition of it on December 31, 2013 and such data is included for reference only.

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### Statements of Profit or Loss

The table below sets forth Kailuo Tianxia's combined statements of profit or loss with line items in absolute amounts and as percentages of its total revenue for the periods indicated:

	For the period from May 3, to December 31, 2012		For the year ended December 31, 2013	
	RMB'000	%	RMB'000	%
<b>Revenue</b> .....	1,566	100.0	57,643	100.0
Cost of sales .....	(14)	(0.9)	(286)	(0.5)
<b>Gross profit</b> .....	1,552	99.1	57,357	99.5
Other income .....	—	—	8	0.0
Selling and distribution expenses .....	(352)	(22.5)	(6,258)	(10.9)
Administrative expenses .....	(480)	(30.7)	(3,076)	(5.3)
Research and development costs .....	(99)	(6.3)	(5,725)	(9.9)
Other expenses .....	—	—	(99)	(0.2)
<b>Profit before tax</b> .....	621	39.6	42,207	73.2
Income tax expense .....	(237)	(15.1)	—	—
<b>Profit for the year</b> .....	384	24.5	42,207	73.2
Attributable to:				
Owners of the parent .....	384	24.5	42,207	73.2
	384	24.5	42,207	73.2
Earnings per share attributable to equity holders of the parent	N/A	N/A	N/A	N/A
<b>Profit for the year</b> .....	384	24.5	42,207	73.2
<b>Other comprehensive income</b>				
Other comprehensive income to be reclassified to profit or loss in subsequent periods:				
Exchange differences on translation of foreign operations .....	—	—	—	—
<b>Other comprehensive income for the year, net of tax</b> .....	—	—	—	—
<b>Total comprehensive income for the year</b> .....	384	24.5	42,207	73.2
Attributable to:				
Owners of the parent .....	384	24.5	42,207	73.2

Based on the revenue breakdown contained in Note 5 of our audited financial statements set forth in Appendix IA to this prospectus, for the six months ended June 30, 2014, Kailuo Tianxia's total revenue, consisting of our single-player game revenue and the majority of our advertising revenue, was RMB39.3 million, which is equal to approximately 68.2% of its total revenue of RMB57.6 million for the year ended December 31, 2013. Kailuo Tianxia's gross profit margin and net profit margin for the six months ended June 30, 2014 was also comparable to its gross profit margin and net profit margin for the year ended December 31, 2013. For the six months ended June 30, 2014, Kailuo Tianxia's games, Carrot Fantasy (保衛蘿蔔) and Carrot Fantasy 2 (保衛蘿蔔2), had average MPUs of 1.0 million and ARPPU of RMB5.2 as compared to average MPUs of 895,000 and ARPPU of RMB4.2 for the year ended December 31, 2013.

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### The Period from May 3, 2012 to December 31, 2012 Compared to the Year Ended December 31, 2013

#### Revenue

Kailuo Tianxia was incorporated on May 3, 2012 and is the developer of Carrot Fantasy (保衛蘿蔔) and Carrot Fantasy 2 (保衛蘿蔔2), each an easy to play mobile casual game with high average MPUs but relatively low ARPPU. Kailuo Tianxia launched Carrot Fantasy on iOS in July 2012 and through other distribution and publishing platforms in February of 2013 and launched Carrot Fantasy 2 (保衛蘿蔔2) in December 2013. The table below sets forth Kailuo Tianxia's revenue breakdown by source in absolute amounts and as a percentage of its total revenue for the periods indicated:

	For the period from May 3, to December 31, 2012		For the year ended December 31, 2013	
	RMB'000	%	RMB'000	%
Single-player mobile game <sup>(1)(2)</sup>				
Gross basis .....	898	57.3	5,301	9.2
Net basis .....	—	—	39,666	68.8
Sub total .....	898	57.3	44,967	78.0
Advertising revenue <sup>(3)</sup> .....	668	42.7	12,676	22.0
<b>Total</b> .....	<b>1,566</b>	<b>100</b>	<b>57,643</b>	<b>100</b>

- (1) Single-player mobile game consists of revenue from the sale of in-game virtual items and premium features for Carrot Fantasy (保衛蘿蔔) and Carrot Fantasy 2 (保衛蘿蔔2).
- (2) Please see “— Critical Accounting Policies and Estimates — Revenue Recognition — (a) Game operation — 2. Single player mobile game” set forth on pages 211 and 211-i in this prospectus for a description of the distinction between revenue recognized on a gross basis and revenue recognized on a net basis.
- (3) Advertising revenue consists of revenue received for the placement of advertisements within particular areas of Carrot Fantasy (保衛蘿蔔) and Carrot Fantasy 2 (保衛蘿蔔2).

Carrot Fantasy (保衛蘿蔔) generated limited revenue from in-game purchases during the period from May 3, 2012 to December 31, 2012 as the game had not yet been recognized by game players and did not become a free download until December 2012. The significant increase in revenue from RMB1.6 million for the period from May 3 to December 31, 2012 to RMB57.6 million for the year ended December 31, 2013 was primarily due to an increase in the number of distribution and publishing platforms offering and actively promoting Carrot Fantasy (保衛蘿蔔) beginning in February 2013, which in turn increased the number of average MPUs and ARPPU for Carrot Fantasy (保衛蘿蔔). Carrot Fantasy 2 (保衛蘿蔔2), which was launched in December 2013, was not a significant source of revenue for the year ended December 31, 2013 as it had not yet attracted a significant number of MPUs. The table below sets forth the average MPUs and ARPPU of Kailuo Tianxia's games, which consists of, Carrot Fantasy (保衛蘿蔔) and Carrot Fantasy 2 (保衛蘿蔔2) for the periods indicated.

	For the period from May 3, to December 31, 2012	For the year ended December 31, 2013
Average MPUs (000's).....	45	895
ARPPU (RMB) .....	19.9	4.2

As a result of the increase in average MPUs, revenue from the purchase of in-game virtual items and premium features increased from RMB898,000 for the period from May 3 to December 31, 2012 to RMB45.0 million for the year ended December 31, 2013. ARPPU decreased from RMB19.9 for the period from May 3 to December 31, 2012 to RMB4.2 for the year ended December 31, 2013 due to the significant increase in average MPUs in 2013. ARPPU for casual games, such as Carrot Fantasy (保衛蘿蔔) and Carrot Fantasy 2 (保衛蘿蔔2), is typically significantly lower than that of RPGs as players tend to spend less.

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In addition, as a result of the increase in average MPUs, Carrot Fantasy (保衛蘿蔔) attracted more advertisers to place advertisements in Carrot Fantasy (保衛蘿蔔). Revenue from advertisements increased from RMB668,000 for the period from May 3 to December 31, 2012 to RMB12.7 million for the year ended December 31, 2013.

### **Cost of sales**

Kailuo Tianxia's cost of sales consisted of salaries and welfare for its operations personnel, which increased from RMB14,000 for the period from May 3 to December 31, 2012 to RMB286,000 for the year ended December 31, 2013. The increase was due to the increased popularity of Carrot Fantasy, which required an increase in operations personnel.

### **Selling and distribution expenses**

Selling and distribution expenses primarily consists of channel cost paid to distribution and publishing platforms. The table below sets forth Kailuo Tianxia's selling and distribution expenses broken down by source in absolute amounts and as percentages of its total revenue for the periods indicated:

	For the period from May 3 to December 31, 2012		For the year ended December 31, 2013	
	RMB'000	%	RMB'000	%
Channel costs <sup>(1)</sup> .....	270	17.2	5,258	9.1
Others <sup>(2)</sup> .....	82	5.3	1,000	1.8
<b>Total</b> .....	<b>352</b>	<b>22.5</b>	<b>6,258</b>	<b>10.9</b>

(1) Channel costs primarily consist of the contractual fee charged by Apple Inc.'s App Store for all purchases made in games on Apple Inc.'s App Store and other channel fees consisting of the contractual fees paid to certain distribution and publishing platforms for Android.

(2) Others consists primarily of miscellaneous costs relating to marketing activities.

Selling and distribution expenses increased from RMB352,000 for the period from May 3, 2012 to December 31, 2012 to RMB6.3 million for the year ended December 31, 2013, primarily as a result of an increase in channel costs due to the increase of revenue generated by players on the distribution and publishing platforms on which Carrot Fantasy (保衛蘿蔔) is available.

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### Administrative expenses

Administrative expenses primarily consists of salaries and welfare, rental expenses, office expenses and others. The table below sets forth Kailuo Tianxia's administrative expenses broken down by source in absolute amounts and as percentages of its total revenue for the periods indicated:

	For the period from May 3 to December 31, 2012		For the year ended December 31, 2013	
	RMB'000	%	RMB'000	%
Salaries and welfare <sup>(1)</sup> .....	48	3.1	1,183	2.1
Office expenses <sup>(2)</sup> .....	125	8.0	422	0.7
Depreciation <sup>(3)</sup> .....	43	2.8	38	0.1
Rental expense <sup>(4)</sup> .....	248	15.8	659	1.1
Others <sup>(5)</sup> .....	16	1.0	774	1.3
<b>Total</b> .....	<b>480</b>	<b>30.7</b>	<b>3,076</b>	<b>5.3</b>

- (1) Salaries and welfare consists primarily of salaries and welfare for Kailuo Tianxia's administrative personnel.
- (2) Office expenses consist primarily of costs relating to office computers.
- (3) Depreciation consists primarily of depreciation for office computers.
- (4) Rental expense consists primarily rental fees for office space in Beijing for administrative employees.
- (5) Others primarily consists of telecommunication costs, travelling, entertainment professional fees and conference fees.

Administrative expenses increased from RMB480,000 for the period from May 3 to December 31, 2012 to RMB3.1 million for the year ended December 31, 2013, primarily as a result of an increase in salaries and welfare due to the increase in administrative personnel to accommodate Kailuo Tianxia's growth. The increase was also due to an increase in other costs relating to an increase in other expenses relating to Kailuo Tianxia's growth in 2013 and professional fees for the intellectual property registration for Carrot Fantasy 2 (保衛蘿蔔2).

### Research and development costs

Research and development costs primarily consists of salaries and welfare for game development employees. The table below sets forth Kailuo Tianxia's research and development costs broken down by source and as percentages of its total revenue for the periods indicated:

	For the period from May 3 to December 31, 2012		For the year ended December 31, 2013	
	RMB'000	%	RMB'000	%
Salaries and welfare <sup>(1)</sup> .....	99	6.3	4,069	7.0
Outsourcing fees <sup>(2)</sup> .....	—	—	1,400	2.4
Depreciation <sup>(3)</sup> .....	—	—	49	0.1
Others <sup>(4)</sup> .....	—	—	207	0.4
<b>Total</b> .....	<b>99</b>	<b>6.3</b>	<b>5,725</b>	<b>9.9</b>

- (1) Salaries and welfare consists primarily of salaries and welfare for Kailuo Tianxia's research and development personnel.
- (2) Outsourcing fees consist primarily of certain aspects of game development that are outsourced.
- (3) Depreciation consists primarily of computers for research and development use.
- (4) Others primarily consists of computer accessories for research and development use.

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Research and development costs increased from RMB99,000 for the period from May 3 to December 31, 2012 to RMB5.7 million for the year ended December 31, 2013 primarily as a result of an increase in salaries and welfare due to the increase in research and development personnel to accommodate Kailuo Tianxia's growth. The increase was also due to an increase in outsourcing fees relating to the development of certain social and interactive features in Carrot Fantasy 2.

### LIQUIDITY AND CAPITAL RESOURCES

#### Cash Flows Analysis

We have financed our operations primarily through cash 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 sets forth our cash flows for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,	
	2011 <sup>(1)</sup>	2012 <sup>(1)</sup>	2013 <sup>(1)</sup>	2013 <sup>(1)</sup>	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Net cash flows from operating activities .....	18,778	75,179	94,567	25,257	74,769
Net cash flows (used in)/from investing activities .....	(12,022)	(34,324)	25,774	18,414	(49,229)
Net cash flows (used in)/from financing activities .....	500	(9,600)	(35,430)	(35,430)	(51,000)
Net increase in cash and cash equivalents .....	7,256	31,255	84,911	8,241	(25,460)
Cash and cash equivalents at beginning of the year/period ...	4	7,260	38,515	38,515	123,426
Cash and cash equivalents at the end of the year/period .....	7,260	38,515	123,426	46,756	97,966

(1) Excludes the financial information of Kailuo Tianxia, which we acquired on December 31, 2013. For the financial information of Kailuo Tianxia for the period from May 3, 2012 to December 31, 2012 and the year ended December 31, 2013, please see the Accountants' Report of Kailuo Tianxia set forth in Appendix IB to this prospectus.

#### **Net Cash Flows from Operating Activities**

Net cash flows from operating activities consist primarily of our profit before tax for the year/period adjusted by non-cash items, such as interest income, depreciation, share-based compensation and investment income from short-term investments, and adjusted by changes in working capital, such as receivables due from third-party game distribution platforms and payment channels, prepayments and deposits and other payables, deferred revenues and amounts due from related parties. The fluctuations of cash flows from operating activities largely correspond to the changes in our profit for the year/period.

For the six months ended June 30, 2014, our net cash flows from operating activities was RMB74.8 million, which was primarily attributable to our profit before tax of RMB55.3 million,



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which was positively adjusted for (i) an increase in other payables and accruals of RMB19.7 million, (ii) a decrease in amounts due from shareholders of RMB1.3 million, and (iii) non-cash items of RMB11.9 million, including, primarily, amortization of RMB10.8 million relating to the amortization of intangible assets of Kailuo Tianxia and depreciation of RMB1.9 million, partially offset by (i) an increase in prepayments, deposits and other receivables of RMB6.3 million, (ii) an increase in deferred revenue of RMB1.6 million and (iii) income tax paid of RMB5.4 million.

For 2013, our net cash flows from operating activities was RMB94.6 million, which was primarily attributable to our profit before tax of RMB61.2 million, which was positively adjusted for (i) a decrease in receivables due from third-party game distribution platforms and payment channels of RMB16.9 million, (ii) a decrease in prepayments, deposits and other receivables of RMB1.5 million, (iii) an increase in deferred revenue of RMB3.4 million, (iv) non-cash items of RMB31.5 million, including, primarily, depreciation of RMB3.3 million and share-based compensation of RMB28.8 million, partially offset by (i) a decrease in other payables and accruals of RMB1.1 million, (ii) an increase in amounts due from a related party of RMB11.1 million, relating to the collection of revenue from overseas agents by Lightbeam Information Technology Co., Ltd. (“**Lightbeam**”), (iii) an increase in amounts due from shareholders of RMB2.4 million and (iv) income tax paid of RMB5.4 million. During the Track Record Period, Lightbeam, a Hong Kong based company owned by one of our Founders, received payments on our behalf due to us under our licensing agreements with international third party distribution and publishing platforms. The payments by Lightbeam were offset with dividends declared during the Track Record Period. As a private company, our administrative department at the time lacked sufficient knowledge on remitting payments from overseas companies directly into the PRC and, as a result, the arrangement with Lightbeam was adopted in order to collect revenue from overseas until we had the capability to do so. We discontinued this arrangement in late 2013 and now receive payments directly from our international third party distribution and publishing platforms. In addition, Lightbeam was sold to an Independent Third Party and is no longer owned by the Founder. See Note 29 to the Accountants’ Report included in Appendix IA to this prospectus.

For 2012, our net cash flows from operating activities was RMB75.2 million, which was primarily attributable to our profit before tax of RMB121.1 million, which was positively adjusted for (i) an increase of other payables and accruals of RMB9.8 million, (ii) an increase in deferred revenue of RMB752,000, and (iii) non-cash items of RMB1.2 million, including, primarily, depreciation of RMB1.7 million, partially offset by (i) an increase in receivables due from third-party game distribution platforms and payment channels of RMB20.9 million, (ii) an increase in prepayments, deposits and other receivables of RMB1.7 million, (iii) an increase in amounts due from a related party of RMB34.2 million, relating to the collection of revenue from overseas agents by Lightbeam, a company owned by one of our Founders, and (iv) an increase in amounts due from shareholders of RMB941,000.

For 2011, our net cash flows from operating activities was RMB18.8 million, which primarily attributable to our profit before tax of RMB24.6 million, which was positively adjusted for (i) an increase in other payables and accruals of RMB1.5 million, (ii) an increase in deferred revenue of RMB4.7 million, and (iii) non-cash items of RMB49,000, including, primarily, depreciation of RMB69,000, partially offset by (i) an increase in receivables due from third-party game distribution platforms and payment channels of RMB12.0 million, and (ii) an increase in prepayment, deposits and other receivables of RMB52,000.

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### ***Net Cash Flows (Used In)/From Investing Activities***

For the six months ended June 30, 2014, our net cash flows used in investing activities was RMB49.2 million, primarily attributable to (i) purchases of items of property, plant and equipment and intangible assets of RMB4.4 million, (ii) purchase of available-for-sale investments of RMB13.7 million, (iii) investment in an associate of RMB4.8 million relating to our investment in Shenzhen Zhangxin, (iv) acquisition of non-controlling interests of RMB2.1 million relating to our investment in Xiamen Yidou, and (v) acquisition of subsidiaries of RMB31.0 million relating to our acquisition of Kailuo Tanxia partially offset by the proceeds of RMB6.7 million from the disposal of available-for-sale investments.

For 2013, our net cash flows from investing activities was RMB25.8 million, which was primarily attributable to (i) proceeds of RMB72.2 million from the disposal of available-for-sale investments, (ii) acquisition of subsidiaries of RMB8.3 million, and (iii) repayment of loans from shareholders of RMB13.4 million, partially offset by (i) purchases of property, plant and equipment and intangible assets of RMB2.4 million, including the purchase of servers and office computers, and (ii) purchases of available-for-sale investments of RMB66.5 million.

For 2012, our net cash flows used in investing activities was RMB34.3 million, which was primarily attributable to (i) purchases of items of property, plant and equipment and intangible assets of RMB12.3 million, (ii) the purchase of available-for-sale investments of RMB70.0 million, and (iii) loans to shareholders in the amount of RMB22.7 million, partially offset by the proceeds of RMB70.5 million from the disposal of available-for-sale investments.

For 2011, our net cash flows used in investing activities was RMB12.0 million, which was primarily attributable to (i) purchases of items of property, plant and equipment of RMB1.8 million, including the purchase of Company cars available for employee use in the amount of RMB1.8 million, and (ii) the purchase of available-for-sale investments of RMB10.0 million.

### ***Net Cash Flows (Used In)/From Financing Activities***

For the six months ended June 30, 2014, net cash flows used in financing activities was RMB51.0 million, which was primarily dividends paid in the amount of RMB60.0 million, partially offset by a capital injection of RMB9.0 million.

For 2013, net cash flows used in financing activities was RMB35.4 million, which was primarily attributable to dividends paid in the amount of RMB35.7 million.

For 2012, net cash flows used in financing activities was RMB9.6 million, which was primarily attributable to dividends paid in the amount of RMB10.0 million.

For 2011, net cash flows from financing activities was RMB500,000, which was attributable to proceeds from capital injection of RMB500,000.

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### Net Current Assets

As of December 31, 2011, 2012 and 2013, June 30, 2014 and September 30, 2014, we had net current assets of RMB15.2 million, RMB45.2 million, RMB66.4 million, RMB130.8 million and RMB95.3 million, respectively. The following table sets forth the breakdown of current assets and current liabilities as of the dates indicated:

	As of December 31,			As of June 30, 2014	As of September 30, 2014 (unaudited)
	2011 <sup>(1)</sup>	2012 <sup>(1)</sup>	2013 <sup>(2)</sup>		
	RMB'000	RMB'000	RMB'000		
<b>Current assets</b>					
Accounts receivable.....	—	—	3,457	4,227	1,526
Receivables due from third-party game distribution platforms and payment channels .....	12,005	32,937	51,610	51,015	41,685
Prepayments, deposits and other receivables .....	54	1,740	1,847	8,562	14,662
Due from shareholders .....	210	23,641	3,334	2,059	3,059
Available-for-sale investments .....	10,058	10,104	6,054	13,911	25,250
Cash and cash equivalents .	7,260	38,515	123,426	97,966	75,692
<b>Total current assets .....</b>	<b>29,587</b>	<b>106,937</b>	<b>189,728</b>	<b>177,740</b>	<b>161,874</b>
<b>Current liabilities</b>					
Other payables and accruals	1,521	11,794	52,036	38,591	57,835
Tax payable .....	—	—	6,764	4,102	2,971
Deferred revenue .....	2,831	4,917	4,536	4,210	5,754
Dividend payable .....	10,000	45,000	60,000	—	—
<b>Total current liabilities ....</b>	<b>14,352</b>	<b>61,711</b>	<b>123,336</b>	<b>46,903</b>	<b>66,560</b>
<b>Net current assets .....</b>	<b>15,235</b>	<b>45,226</b>	<b>66,392</b>	<b>130,837</b>	<b>95,314</b>

(1) Excludes the financial information of Kailuo Tianxia, which we acquired on December 31, 2013. For financial information of Kailuo Tianxia for the period from May 3, 2012 to December 31, 2012 and the year ended December 31, 2013, please see the Accountants' Report of Kailuo Tianxia set forth in Appendix IB to this prospectus.

(2) Includes the fair values of the assets and liabilities of Kailuo Tianxia, pursuant to the acquisition of Kailuo Tianxia on December 31, 2013.

Based on our unaudited condensed consolidated financial statements, as of September 30, 2014, we had net current assets of RMB95.3 million, as compared to our net current assets of RMB130.8 million as of June 30, 2014. This change was primarily attributable to a decrease in cash and cash equivalents of RMB22.3 million, resulting from the payment of dividends in the amount of RMB60.0 million in September, partially offset by cash generated from profit before tax during the period, and an increase in our other payables and accruals of RMB19.2 million, resulting from the increase in the accrual of IPO expenses and an increase in withholdings for individual income tax amounts relating to the dividends paid in September, partially offset by an increase in available-for-sale investments in the amount of RMB11.3 million.

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As of June 30, 2014, we had net current assets of RMB130.8 million, as compared to our net current assets of RMB66.4 million as of December 31, 2013. This change was primarily attributable to (i) an increase in prepayments, deposits and other receivables of RMB6.7 million, (ii) an increase in available-for-sale investments of RMB7.9 million, (iii) a decrease in other payables and accruals of RMB13.4 million, and (iv) a decrease in dividends payable from RMB60.0 million as of December 31, 2013 to nil as June 30, 2014, partially offset by a decrease in cash and cash equivalents of RMB25.5 million.

As of December 31, 2013, we had net current assets of RMB66.4 million, as compared to our net current assets of RMB45.2 million as of December 31, 2012. This change was primarily attributable to (i) an increase of RMB3.5 million in our accounts receivable, (ii) an increase of RMB18.7 million in our receivables due from third-party game distribution platforms and payment channels, and (iii) an increase in cash and cash equivalents of RMB84.9 million, partially offset by (i) a decrease in amounts due from shareholders of RMB20.3 million, (ii) an increase of our other payables and accruals of RMB40.2 million, (iii) an increase of tax payable of RMB6.8 million, and (iv) an increase in dividends payable of RMB15.0 million.

As of December 31, 2012, we had net current assets of RMB45.2 million, as compared to our net current assets of RMB15.2 million as of December 31, 2011. This change was primarily attributable to (i) an increase in our receivables due from third-party game distribution platforms and payment channels of RMB20.9 million, (ii) an increase in amounts due from shareholders in the amount of RMB23.4 million, and (iii) an increase in cash and cash equivalents of RMB31.3 million, partially offset by an (i) an increase of our other payables and accruals of RMB10.3 million, and (ii) increase in dividends payable of RMB35.0 million.

As of December 31, 2011, we had net current assets of RMB15.2 million. This primarily included (i) receivables due from third-party game distribution platforms and payment channels of RMB12.0 million, (ii) available-for-sale investments of RMB10.0 million and (iii) cash and cash equivalents of RMB7.3 million, partially offset by (i) deferred revenue of RMB2.8 million, and (ii) dividends payable of RMB10.0 million.

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### **Accounts receivable and receivables due from third-party game distribution platforms and payment channels**

Our accounts receivable consist of accounts receivable from advertising customers, to which we sell in-game advertising space, primarily in our Carrot Fantasy (保衛蘿蔔) games. Our receivables due from third-party game distribution platforms and payment channels consist primarily of receivables from distribution and publishing partners. The following table sets forth our accounts receivable and receivables from third-party game distribution platforms and payment channels:

	As of December 31,			As of
	2011 <sup>(1)</sup>	2012 <sup>(1)</sup>	2013 <sup>(2)</sup>	June 30, 2014
	RMB'000	RMB'000	RMB'000	RMB'000
Accounts receivable from advertising customers .....	—	—	3,457	4,227
Receivables due from third-party game distribution platforms and payment channels .....	12,005	32,937	51,610	51,015
	<u>12,005</u>	<u>32,937</u>	<u>55,067</u>	<u>55,242</u>

(1) Excludes the financial information of Kailuo Tianxia, which we acquired on December 31, 2013. For the financial information of Kailuo Tianxia for the period from May 3, 2012 to December 31, 2012 and the year ended December 31, 2013, please see the Accountants' Report of Kailuo Tianxia set forth in Appendix IB to this prospectus.

(2) Includes the fair values of the assets and liabilities of Kailuo Tianxia, pursuant to the acquisition of Kailuo Tianxia on December 31, 2013.

Our accounts receivables from advertising companies increased from RMB3.5 million as at December 31, 2013 to RMB4.2 million as at June 30, 2014, primarily due to the increased popularity of Carrot Fantasy 2 (保衛蘿蔔2), which attracted more advertisers to purchase in-game advertisements, resulting in higher outstanding amounts at the end of the period.

Our receivables from third-party game distribution platforms and payment channels decreased marginally from RMB51.6 million as of December 31, 2013 to RMB51.0 million as of June 30, 2014. Our receivables from third-party game distribution platforms and payment channels increased from RMB32.9 million as of December 31, 2012 to RMB51.6 million as of December 31, 2013, primarily as a result of the acquisition of Kailuo Tianxia on December 31, 2013, which has certain receivables with credit terms that are longer than those of our other third-party distribution and publishing platforms. Our receivables from third-party game distribution platforms and payment channels increased from RMB12.0 million as of December 31, 2011 to RMB32.9 million as of December 31, 2012, primarily as a result of our increase in revenue, which resulted in higher amounts outstanding at the end of the year.

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Our credit terms with advertising customers are generally two months. Our credit terms with our third-party game distribution platforms and payment channels are generally one to four months. We seek to maintain strict control over our outstanding receivables to minimize credit risk. Overdue balances are reviewed regularly by senior management. We do not hold any collateral or other credit enhancement over receivables from platform and third-party platforms and payment channels balances. We do not hold any collateral or other credit enhancement over our receivables balances. These receivables are non-interest bearing. The following tables sets forth an aging analysis of our receivables as of the dates indicated:

	As of December 31,			As of June
	2011 <sup>(1)</sup>	2012 <sup>(1)</sup>	2013 <sup>(2)</sup>	30, 2014
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Accounts receivable from advertising customers</b>				
Within 3 months .....	—	—	2,482	2,604
3 to 6 months .....	—	—	706	1,623
6 months to 1 year.....	—	—	269	—
	—	—	3,457	4,227

(1) Excludes the financial information of Kailuo Tianxia, which we acquired on December 31, 2013. For the financial information of Kailuo Tianxia for the period from May 3, 2012 to December 31, 2012 and the year ended December 31, 2013, please see the Accountants' Report of Kailuo Tianxia set forth in Appendix IB to this prospectus.

(2) Includes the fair values of the assets and liabilities of Kailuo Tianxia, pursuant to the acquisition of Kailuo Tianxia on December 31, 2013.

	As of December 31,			As of June
	2011 <sup>(1)</sup>	2012 <sup>(1)</sup>	2013 <sup>(2)</sup>	30, 2014
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Receivables due from third-party game distribution platforms and payment channels</b>				
Within 3 months .....	12,005	27,011	24,195	35,285
3 to 6 months .....	—	4,529	21,193	14,952
6 months to 1 year .....	—	1,397	6,222	778
<b>Total</b> .....	<b>12,005</b>	<b>32,937</b>	<b>51,610</b>	<b>51,015</b>

(1) Excludes the financial information of Kailuo Tianxia, which we acquired on December 31, 2013. For the financial information of Kailuo Tianxia for the period from May 3, 2012 to December 31, 2012 and the year ended December 31, 2013, please see the Accountants' Report of Kailuo Tianxia set forth in Appendix IB to this prospectus.

(2) Includes the fair values of the assets and liabilities of Kailuo Tianxia, pursuant to the acquisition of Kailuo Tianxia on December 31, 2013.



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The following table sets forth an aging analysis of the receivables that are not considered to be impaired:

	As of December 31,			As of June 30,
	2011 <sup>(1)</sup>	2012 <sup>(1)</sup>	2013 <sup>(2)</sup>	2014
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Accounts receivable from advertising customers</b>				
Neither past due nor impaired . . . . .	—	—	2,353	1,406
Less than 6 months past due . . . . .	—	—	1,104	2,821
	—	—	3,457	4,227

(1) Excludes the financial information of Kailuo Tianxia, which we acquired on December 31, 2013. For the financial information of Kailuo Tianxia for the period from May 3, 2012 to December 31, 2012 and the year ended December 31, 2013, please see the Accountants' Report of Kailuo Tianxia set forth in Appendix IB to this prospectus.

(2) Includes the fair values of the assets and liabilities of Kailuo Tianxia, pursuant to the acquisition of Kailuo Tianxia on December 31, 2013.

	As of December 31,			As of June 30, 2014
	2011 <sup>(1)</sup>	2012 <sup>(1)</sup>	2013 <sup>(2)</sup>	RMB'000
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Receivables due from third-party game distribution platforms and payment channels</b>				
Neither past due nor impaired . . . . .	8,354	10,186	24,214	27,626
Less than 6 months past due . . . . .	3,651	21,850	27,396	23,350
Over 6 months past due . . . . .	—	901	—	39
	12,005	32,937	51,610	51,015

(1) Excludes the financial information of Kailuo Tianxia, which we acquired on December 31, 2013. For financial information of Kailuo Tianxia for the period from May 3, 2012 to December 31, 2012 and the year ended December 31, 2013, please see the Accountants' Report of Kailuo Tianxia set forth in Appendix IB to this prospectus.

(2) Includes the fair values of the assets and liabilities of Kailuo Tianxia, pursuant to the acquisition of Kailuo Tianxia on December 31, 2013.

All of the receivables were neither past due nor impaired and mainly relate to a large number of diversified customers for whom there was no recent history of default. Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, we are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

As of September 30, 2014, approximately RMB52.4 million, accounting for 94.9% of our receivables that were outstanding as of June 30, 2014, were settled.

## FINANCIAL INFORMATION

The tables below set forth the average turnover days for the relevant periods indicated:

	For the year ended December 31,			For the six months ended June 30, 2014
	2011 <sup>(1)</sup>	2012 <sup>(1)</sup>	2013 <sup>(2)</sup>	
Average turnover days of:				
Accounts receivable due from advertising customers <sup>(3)</sup> .....	—	—	—	95
Receivables due from third party distribution platforms and payment channels <sup>(4)</sup> .....	68	53	66	79

(1) Excludes the financial information of Kailuo Tianxia, which we acquired on December 31, 2013. For financial information of Kailuo Tianxia for the period from May 3, 2012 to December 31, 2012 and the year ended December 31, 2013, please see the Accountants' Report of Kailuo Tianxia set forth in Appendix IB to this prospectus.

(2) In order to provide a meaningful analysis of our average turnover days for the year ended December 31, 2013, we have excluded the accounts receivable due from advertising customers and receivables due from third party distribution platforms and payment channels of Kailuo Tianxia, which are otherwise included on our combined statement of financial position as of December 31, 2013. Accordingly, our average turnover days for the year ended December 31, 2013 are based on accounts receivable from advertising customers of nil and receivables due from third party distribution platforms and payment channels of RMB16.0 million of Xiamen Guanghuan.

(3) Average turnover days of accounts receivable due from advertising customers equal the average opening and closing balances of receivables for the relevant period, divided by advertising revenue and multiplied by 365 days (for the full-year period) and 183 days (for the six month period).

(4) Average turnover days of receivables due from third party distribution platforms and payment channels equal the average of the opening and closing balances of receivables for the relevant period, divided by revenue from game operation and multiplied by 365 days (for the full-year periods) and 183 days (for the six month period).

Accounts receivable from advertising customers for the six months ended June 30, 2014 consisted of receivables from Kailuo Tianxia, which derives a more significant portion of revenue from in-game advertising as compared to Xiamen Guanghuan. Xiamen Guanghuan did not have any accounts receivable due from advertising customers as of December 31, 2013.

Our average turnover days for our receivables from third-party game distribution platforms and payment channels increased from 66 days for the year ended December 31, 2013 to 79 days for the six months ended June 30, 2014, primarily as a result of our acquisition of Kailuo Tianxia on December 31, 2013, which has certain receivables due from third party distribution platforms and payment channels that are typically of a longer credit term than that of Xiamen Guanghuan. Our average turnover days for our receivables from third-party game distribution platforms and payment channels increased from 53 days for the year ended December 31 2012 to 66 days for the year ended December 31, 2013, primarily due to a change in the mix our third party distribution and publishing platforms resulting from the launch of *Jiong Xi You* (闯西遊). Our average turnover days for our receivables from third-party game distribution platforms and payment channels decreased from 68 days for the year ended December 31, 2011 to 53 days for the year ended December 31, 2012, primarily due to our first launched game, the web version of *Shen Xian Dao* (神仙道), having slower receivables turnover due to less stringent collection standards at the start of our operations.

## FINANCIAL INFORMATION

### **Prepayments, deposits and other receivables**

The following table sets forth a breakdown of our prepayments, deposits and other receivables of the dates indicated:

	As of December 31,			As of June
	2011 <sup>(1)</sup>	2012 <sup>(1)</sup>	2013 <sup>(2)</sup>	30, 2014
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments .....	2	27	912	6,386
Deposit .....	—	476	708	1,005
Other receivables .....	52	1,237	1,427	2,371
Impairment .....	—	—	(1,200)	(1,200)
<b>Total</b> .....	<b>54</b>	<b>1,740</b>	<b>1,847</b>	<b>8,562</b>

(1) Excludes the financial information of Kailuo Tianxia, which we acquired on December 31, 2013. For the financial information of Kailuo Tianxia for the period from May 3, 2012 to December 31, 2012 and the year ended December 31, 2013, please see the Accountants' Report of Kailuo Tianxia set forth in Appendix IB to this prospectus.

(2) Includes the fair values of the assets and liabilities of Kailuo Tianxia, pursuant to the acquisition of Kailuo Tianxia on December 31, 2013.

From December 31, 2013 to June 30, 2014, our prepayments, deposits and other receivables increased by RMB6.7 million, or 363.6%, primarily as a result of an increase in prepayments for IPO related expenses and office renovations and server maintenance and an increase in other receivables relating to and loans to employees. From December 31, 2012 to December 31, 2013, our prepayments, deposits and other receivables increased by RMB107,000, or 6.1%, primarily as a result of an increase in deposits and other receivables relating to rental fees and deposits for employee housing, partially offset by an impairment relating to a purchase deposit on a property we intended to purchase for Company use, which we do not expect to recover. From December 31, 2011 to December 31, 2012, our prepayments, deposits and other receivables increased by RMB1.7 million, primarily as a result of (i) an increase in other receivables relating to a purchase deposit on a property we intended to purchase and deposits for employee housing, and (ii) an increase in deposits relating to our rental of our office headquarters in Xiamen, Fujian Province.

### **Due from shareholders**

As of December 31, 2011, 2012 and 2013 and June 30, 2014, we had receivables due from shareholders in the amounts of RMB210,000, RMB23.6 million, RMB3.3 million and RMB2.1 million. Amounts due from shareholders consist of interest-free shareholder loans made to shareholders for repayment terms of one year. As of the Latest Practicable Date, all outstanding amounts due from shareholders had been fully settled.

## FINANCIAL INFORMATION

### **Available-For-Sale Investments**

The following table sets forth our available-for-sale investments for the periods indicated:

	As of December 31,			As of June 30, 2014
	2011 <sup>(1)</sup>	2012 <sup>(1)</sup>	2013 <sup>(2)</sup>	
	RMB'000	RMB'000	RMB'000	RMB'000
Available-for-sale investments . . . . .	10,058	10,104	6,054	13,911

(1) Excludes the financial information of Kailuo Tianxia, which we acquired on December 31, 2013. For the financial information of Kailuo Tianxia for the period from May 3, 2012 to December 31, 2012 and the year ended December 31, 2013, please see the Accountants' Report of Kailuo Tianxia set forth in Appendix IB to this prospectus.

(2) Includes the fair values of the assets and liabilities of Kailuo Tianxia on the date of acquisition, pursuant to the acquisition of Kailuo Tianxia as of December 31, 2013.

Our available-for-sale investments consist of structured financial products that we purchase as part of our cash management strategy in order to obtain higher yields than we can receive on regular bank deposits. Our available-for-sale investments as of June 30, 2014 were managed by registered PRC asset management companies that manage a wide range of assets, including bonds, private placements, stock pledge financings, trust benefiting rights and real estate financing. Major PRC banking institutions acted as trustee for each of the investments. The underlying assets of these products included primarily trust schemes and other assets or asset portfolios, equity investment projects with repurchase rights, equity investment projects with fixed returns and profit sharing for high performance, bonds issued by the inter-bank bond market, money market funds, bond funds, deposits and other money market instruments. The investments were non-principal protected variable interest financial products with expected interest rates ranging from 4.8% to 7.0% per annum with a maturity period of 60 to 180 days. The maximum gain of such products was interest during the maturity period equal to the highest potential interest rate multiplied by the principal investment amount. The maximum loss of such products was the loss of the principal amount of the investment. As of the Latest Practicable Date, all of our available-for-sale investments outstanding as of June 30, 2014 have fully matured without any loss to our principal investment. The fair value of the financial products are approximate to their costs plus expected interest.

Since July 1, 2014, we have begun implementing investment management policies that set forth guidelines for the investment in available-for-sale investments. Such policies specify detailed responsible parties and internal procedures for the review and approval for each investment activity. Our investment management policies, including the review, approval and monitoring of the Group's investment in each available-for-sale investment, are implemented by our chief financial officer, our financial controller and our two financial managers. In addition, each investment in an available-for-sale investment requires the approval of an executive Director. In order to diversify risks associated with our available-for-sale investments, each individual investment for products with low levels of risk may not exceed RMB10 million. Our chief financial officer, Mr. Cheung Man Yu, has over 16 years of experience in finance and accounting, previously worked in investment banking and is a member of Hong Kong Institute of Certified Public Accountants. Our financial controller, Mr. Song Xiulun, has over 14 years of experience in finance and accounting, having served as a manager in the finance department of an import-export company prior to joining us in 2011. Each of our financial managers, Ms. Yulin Wu and Ms. Wei Yulan, have over six years of experience in accounting and previously worked at the accounting firm KPMG. Ms. Wu is a member of the Chinese Institute of Certified Public

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Accountants and Ms. Wei is an Association of Chartered Certified Accountants Affiliate. In determining whether and which product to invest in, we will consider, on a case by-case basis and among other things, the level of risk, return on investment, liquidity and the term to maturity of the relevant investment product.

According to our current internal investment management policies, we can invest no less than 70% of our total investment amounts in risk-free or principal protected investments with the remaining up to 30% of the total investment amount in products with low level of risk. Our total investment amount in any given period is determined after considering our working capital requirements and capital expenditures for the subsequent six months period. The total investment amount for any given period comprises the sum of our excess cash, bank balances and available-for-sale investments. Pursuant to our investment management policies, low level risk investments include medium-term and short-term bond funds and money market funds and exclude equity securities, such as stocks, convertible bonds, warrants or stock index futures. Our investments during the Track Record Period were in line with our then effective capital and investment management policies and strategies. Subject to working capital sufficiency requirements, we may from time to time consider purchasing additional risk-free or principal protected investment products after the Listing.

### **Cash and cash equivalents**

Our cash and cash equivalents is comprised of cash at banks. Our cash and cash equivalents as of December 31, 2011, 2012 and 2013 and June 30, 2014 were RMB7.3 million, RMB38.5 million, RMB123.4 million and RMB98.0 million, respectively. The decrease in our cash and cash equivalents as of June 30, 2014 as compared to December 31, 2013 was primarily due to a decrease in our net cash flows from operating activities and net cash flows used in investing. The increase in our cash and cash equivalents as of December 31, 2012 as compared to December 31, 2013 was primarily due to an increase in our net cash flow from investing activities, partially offset by a decrease in our net cash flows from operating activities. The increase of our cash and cash equivalents as of December 31, 2011 as compared to December 31, 2012 was primarily due to the increase in our net cash flows from operating activities, partially offset by net cash flows used in investing activities and financing activities. Please refer to the section headed “— Liquidity and Capital Resources — Cash flows analysis.”

### **Other payables and accruals**

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

	As of December 31,			As of June
	2011 <sup>(1)</sup>	2012 <sup>(1)</sup>	2013 <sup>(2)</sup>	30, 2014
	RMB'000	RMB'000	RMB'000	RMB'000
Other tax payables <sup>(3)</sup> .....	904	2,544	3,102	3,111
Other payables .....	—	220	3,049	23,831
Payables for acquisition of subsidiaries .	—	—	36,385	3,000
Advance from advertising customers ...	—	—	242	2,561
Accruals .....	—	—	222	—
Salaries and welfare payables <sup>(4)</sup> .....	617	9,030	9,036	6,088
<b>Total</b> .....	<b>1,521</b>	<b>11,794</b>	<b>52,036</b>	<b>38,591</b>

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- (1) Excludes the financial information of Kailuo Tianxia, which we acquired on December 31, 2013. For financial information of Kailuo Tianxia for the period from May 3, 2012 to December 31, 2012 and the year ended December 31, 2013, please see the Accountants' Report of Kailuo Tianxia set forth in Appendix IB to this prospectus.
- (2) Includes the fair values of the assets and liabilities of Kailuo Tianxia, pursuant to the acquisition of Kailuo Tianxia on December 31, 2013.
- (3) Other tax payables include VAT tax, business tax and surcharges.
- (4) Salaries and welfare payables include year-end bonuses that are typically paid out in the following year.

The decrease in our other payables and accruals as of June 30, 2014 as compared to December 31, 2013 was primarily due to a decrease in payables for acquisition of subsidiaries resulting from cash payments made in 2014 for the acquisition of Kailuo Tianxia and majority interest in Xiamen Yidou, partially offset by an increase in other payables relating to IPO expenses of approximately RMB16.9 million. The increase in our other payables and accruals as of December 31, 2012 as compared to December 31, 2013 was primarily due to an increase in payables for acquisition of subsidiaries, which relates primarily to cash payment of RMB31.0 million for the acquisition of Kailuo Tianxia and payment of approximately RMB5.1 million for our majority interest in Xiamen Yidou. See "Our History, Reorganization and Corporate Structure — Our Corporate History and Development before Reorganization." The increase in our other payables and accruals as of December 31, 2011 as compared to December 31, 2012 was primarily due to an increase in our salaries and welfare payables, which resulted from the overall increase of our employee head count.

### **Deferred Revenue**

Deferred revenue consists of the proceeds from the sales of in-game items and premium features, for which the related items of features have not been consumed by the players as of the end of the relevant period.

### **Dividend Payable**

Our dividend payable as of December 31, 2011, 2012 and 2013 and June 30, 2014 were RMB10.0 million, RMB45.0 million, RMB60.0 million and nil, respectively.

## **CAPITAL EXPENDITURE AND COMMITMENTS**

### **Capital Expenditure**

The following table sets forth our capital expenditures for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,
	2011 <sup>(1)</sup>	2012 <sup>(1)</sup>	2013 <sup>(1)</sup>	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Property, plant and equipment.....	1,832	9,993	2,390	3,565
Intangible assets .....	—	2,280	—	430
<b>Total .....</b>	<b>1,832</b>	<b>12,273</b>	<b>2,390</b>	<b>3,995</b>

- (1) Excludes the financial information of Kailuo Tianxia, which we acquired on December 31, 2013. For financial information of Kailuo Tianxia for the period from May 3, 2012 to December 31, 2012 and the year ended December 31, 2013, please see the Accountants' Report of Kailuo Tianxia set forth in Appendix IB to this prospectus.



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Our capital expenditures comprised purchase of property, plant and equipment such as Company cars for employee use and intangible assets such as software. During the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, our total capital expenditures were RMB1.8 million, RMB12.3 million, RMB2.4 million and RMB4.0 million, respectively. For the year ended December 31, 2012, our capital expenditures related primarily to the purchase of Company cars for employee use.

### Capital Commitments

We had no material capital commitments as of December 31, 2011, 2012 and 2013 and June 30, 2014.

### Operating Lease Commitments

The following table sets forth 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, 2014
	2011 <sup>(1)</sup>	2012 <sup>(1)</sup>	2013 <sup>(2)</sup>	
	RMB'000	RMB'000	RMB'000	RMB'000
No later than one year. ....	88	1,930	2,346	3,173
Later than one year and no later than five years. ....	—	538	4,312	7,966
<b>Total</b> .....	<b>88</b>	<b>2,468</b>	<b>6,658</b>	<b>11,139</b>

(1) Excludes the results of Kailuo Tianxia, which we acquired on December 31, 2013. For the financial information of Kailuo Tianxia for the period from May 3, 2012 to December 31, 2012 and the year ended December 31, 2013, please see “— Summary Results of Operations of Kailuo Tianxia” and the Accountants’ Report of Kailuo Tianxia set forth in Appendix IB to this prospectus.

(2) Includes the fair values of the assets and liabilities of Kailuo Tianxia, pursuant to the acquisition of Kailuo Tianxia on December 31, 2013.

## INDEBTEDNESS

### Bank Loans and Other Borrowings

We did not have any outstanding loan capital, bank overdrafts and liabilities under acceptances or other similar indebtedness, debentures, mortgages, charges or loans, or acceptance credits or hire purchase commitments, guarantees or other material contingent liabilities as of June 30, 2014, September 30, 2014 or the Latest Practicable Date. Our Directors have confirmed that there has not been any material change in the indebtedness commitments and contingent liabilities of our Group since September 30, 2014 and up to the Latest Practicable Date.

We intend to finance expansion and business operations by internal resources and through organic and sustainable growth. Our Directors have confirmed that we do not have any plan to raise material external debt financing as of the date of this prospectus.

### Contingent liabilities and guarantees

As of the Latest Practicable Date, we did not have any unrecorded significant contingent liabilities, guarantees or any litigation against us.

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### KEY FINANCIAL RATIOS

The following tables set forth certain of our key financial ratios as at the dates and for the periods indicated:

	As of December 31,			As of June 30, 2014
	2011 <sup>(1)</sup>	2012 <sup>(1)</sup>	2013 <sup>(2)</sup>	
Current ratio (times) <sup>(3)</sup> .....	2.1	1.7	1.5	3.8

- (1) Excludes the financial information of Kailuo Tianxia, which we acquired on December 31, 2013.
- (2) Includes the fair values of the assets and liabilities of Kailuo Tianxia, pursuant to the acquisition of Kailuo Tianxia on December 31, 2013.
- (3) Current assets divided by current liabilities as at the end of the year/period.

	For the year ended December 31,			For the six months ended June 30,
	2011 <sup>(1)</sup>	2012 <sup>(1)</sup>	2013 <sup>(2)</sup>	2014
Return on equity (%) <sup>(3)</sup> .....	162.2	209.0	9.3	8.6
Return on total assets (%) <sup>(4)</sup> .....	78.6	100.8	7.5	7.9

- (1) Excludes the financial information of Kailuo Tianxia, which we acquired on December 31, 2013.
- (2) Includes the fair values of the assets and liabilities of Kailuo Tianxia, pursuant to the acquisition of Kailuo Tianxia on December 31, 2013. Excludes the profit of Kailuo Tianxia for the years ended December 31, 2013.
- (3) Profit for the year/period divided by total equity and multiplied by 100.
- (4) Profit for the year/period divided by total assets and multiplied by 100.

### Current Ratio

Our current ratio increased from 1.5 times as of December 31, 2013 to 3.8 times as of June 30, 2014, primarily due to the decrease in current liabilities primarily attributable to the decrease of other payables and dividends payable due to the corresponding payments made in 2014. Our current ratio decreased marginally from 1.7 times as of December 31, 2012 to 1.5 times as of December 31, 2013. Our current ratio decreased from 2.1 times as of December 31, 2011 to 1.7 times as of December 31, 2012, primarily due to the significant increase in current assets, particularly in receivables due from third-party game distribution platforms and payment channels and cash and cash equivalents, primarily attributable to our increase in revenue.

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### Return on Equity

Our return on equity was 8.6% for the six months ended June 30, 2014. Our return on equity decreased significantly from 209.0% for the year ended December 31, 2012 to 9.3% for the year ended December 31, 2013, primarily as a result of an increase in other reserves of RMB486.9 million, representing the fair value of the purchase consideration for Kailuo Tianxia in the form of new equity interest in Xiamen Guanghuan (less the capital injection from the shareholders of Kailuo Tianxia to Xiamen Guanghuan in the amount of RMB667,000) on December 31, 2013 as well as a decrease in our profit for the year. Our return on equity increased from 162.2% for the year ended December 31, 2011 to 209.0% for the year ended December 31, 2012, primarily due to the significant increase in net income. The increase in equity in 2012 was primarily due to an increase in retained profits due to our increased profit for the year and low equity levels in 2011.

### Return on Total Assets

Our return on total assets was 7.9% for the six months ended June 30, 2014. Our return on total assets decreased significantly from 100.8% for the year ended December 31, 2012 to 7.5% for the year ended December 31, 2013, primarily due to an increase in total assets relating to our acquisition of goodwill in the amount of RMB406.5 million pursuant to our acquisition of Kailuo Tianxia and a decline in our profit for the year. See “Financial Information — Critical Accounting Policies and Estimates — Impairment of goodwill” and “Risk Factors — Goodwill impairment could negatively affect our reported results of operations.” Our return on total assets increased from 78.6% for the year ended December 31, 2011 to 100.8% for the year ended December 31, 2012, primarily due to the increase in profit for the year resulting from higher revenue primarily from our web games.

### 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 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.

### QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISKS

#### Credit Risk

Our credit risk relates mainly to our cash and cash equivalents. As of December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, all of our cash at bank and on hand were deposited in high quality financial institutions without significant risk. If our cooperation with distribution and publishing partners is terminated or our distribution and publishing partners experience financial difficulties, the recoverability of our receivables from our game development business will be adversely affected. We frequently communicate with our publishing partners to manage such risk. We assess the credibility of our distribution and payment platforms taking into account their financial condition, previous incidents and certain other factors. We also periodically assess other receivables based on historical settlement record.

#### 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.

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### Capital management

The primary objectives of our capital management are to safeguard our ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

We manage our capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, we may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

### OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

### DIVIDEND POLICY AND DISTRIBUTABLE RESERVES

Subject to the Cayman Companies 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 our share premium account or any other fund or account which can be authorized for this purpose in accordance with the Cayman Companies 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. Xiamen Guanghuan declared

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dividends of RMB10.0 million, RMB79.2 million and RMB71.1 million in 2011, 2012 and 2013, respectively and a dividend of RMB60.0 million in September 2014. As of the Latest Practicable Date, all outstanding dividends payable had been fully settled. We funded the payment of the declared dividends with cash on hand. 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 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.

### **LISTING-RELATED EXPENSE INCURRED AND TO BE INCURRED**

The total estimated listing-related expenses (excluding underwriting commissions to the Underwriters) in relation to the Global Offering is approximately RMB35.6 million, of which RMB17.9 million have been incurred during the Track Record Period. RMB14.0 million was charged to profit or loss for the six months ended June 30, 2014. The remaining RMB3.9 million was included as prepayments as of June 30, 2014 and will be deducted from equity upon completion of the Global Offering. As it is directly attributable to the issue of new Shares, we expect that of remaining listing-related expenses of approximately RMB17.7 million, RMB14.8 million will be charged to profit and loss for the year ending December 31, 2014 and RMB2.9 million will be deducted from equity as it is directly attributable to the issue of new Shares.

In addition, assuming an Offer Price of HK\$2.20 per Share, being the midpoint of the proposed Offer Price of HK\$1.85 to HK\$2.55 per Share, assuming that the Over-allotment Option is not exercised, we expect to incur underwriting commissions (including incentive fee of up to 1.50%) of RMB35.5 million, which will be deducted from equity as it is directly attributable to the issue of new Shares. The listing-related expenses above are the latest practicable estimates and are provided for reference only, and actual amounts may differ.

### **NO MATERIAL ADVERSE CHANGE**

After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, our Directors confirm that, up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects since June 30, 2014, being the date on which our latest audited combined financial information were prepared, and there is no event since June 30, 2014 which would materially affect the information as set out in the Accountant's Report in Appendix I to this prospectus.

### **DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES**

Our Directors confirm that, except as otherwise disclosed in this prospectus, as of the Latest Practicable Date, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

### **UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS OF OUR GROUP**

The following unaudited pro forma statement of adjusted net tangible assets of our Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and

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is prepared to show the effect on the audited net tangible assets of our Group as of 30 June 2014 as if the Global Offering had occurred on 30 June 2014 and is based on the combined net tangible assets of our Group as of 30 June 2014 attributable to the owners of our Company derived from the Accountants' Report as set out in Appendix IA to this prospectus and adjusted as described below.

The unaudited pro forma statement of adjusted net tangible assets of our Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial position of our Group as of 30 June 2014 or any future dates following the Global Offering.

	Combined net tangible assets of our Group attributable to the owners of our Company as of 30 June 2014	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted net tangible assets attributable to the owners of our Company	Unaudited pro forma adjusted net tangible assets per Share
	RMB'000 (Note 1)	RMB'000 (Note 2)	RMB'000	HK\$ (Note 3, 4 and 5)
Based on an Offer				
Price of HK\$1.85 per Share .....	137,104	369,534	506,638	0.43
Based on an Offer				
Price of HK\$2.55 per Share .....	137,104	533,284	670,388	0.56

Notes:

- (1) The combined net tangible assets of our Group attributable to owners of our Company as of 30 June 2014, was determined as follow:

	RMB'000
Audited combined net assets of our Group as set out in Appendix IA .....	609,874
Less: Non-controlling interests as set out in Appendix IA .....	199
Less: Goodwill as set out in Appendix IA .....	407,262
Less: Other intangible assets as set out in Appendix IA .....	65,309
Combined net tangible assets attributable to owners of our Company .....	137,104

- (2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK\$1.85 and HK\$2.55, respectively, after deduction of the underwriting fees and other related expenses payable by our Company. They do not take into account any Shares which may be issued pursuant to the Pre-IPO and Post-IPO share option scheme.
- (3) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to above and on the basis that 1,500,000,000 Shares expected to be in issue immediately following completion of the Global Offering and is converted into Hong Kong dollar at an exchange rate of HK\$1.00 to RMB0.7917. It does not take into account of any Shares which may be issued pursuant to the Pre-IPO and Post-IPO share option scheme.
- (4) The unaudited pro forma adjusted combined net tangible assets attributable to owners of our Company does not take into account a dividend of HK\$75,786,000 (equivalent to approximately RMB60,000,000) declared by our Company in September 2014. Had the dividend been taken into account, the unaudited pro forma adjusted combined net tangible assets per Share would be HK\$0.38 (assuming an Offer Price of HK\$1.85 per Share) and HK\$0.51 (assuming an Offer Price of HK\$2.55 per Share), respectively.
- (5) No adjustment has been made to reflect any trading results or other transactions of our Group entered into subsequent to 30 June 2014.



## FUTURE PLANS AND USE OF PROCEEDS

### FUTURE PLANS

Please see the section headed “Business — Our Strategies” for a detailed description of our future plans.

### USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$570.2 million, after deducting underwriting fees and commissions and estimated total expenses paid and payable by us in connection thereto, assuming an Offer Price of HK\$2.20 per Share, being the midpoint of the proposed Offer Price range of HK\$1.85 to HK\$2.55 per Share. We intend to use such net proceeds as follows:

- Approximately HK\$228.1 million or approximately 40% of our total estimated net proceeds for expanding and enhancing our game portfolio, including by launching four new games in 2014 and nine new games in 2015, hiring more research and development personnel and for other research and development efforts.
- Approximately HK\$114.0 million or approximately 20% of our total estimated net proceeds for expanding our marketing and promotion activities.
- Approximately HK\$85.5 million or approximately 15% of our total estimated net proceeds for establishing and expanding international operations in selected overseas markets.
- Approximately HK\$85.5 million or approximately 15% of our total estimated net proceeds for potential acquisitions of technologies and complimentary online games or business, partnerships and licensing opportunities; as of the Latest Practicable Date, we had no finalized or definitive understandings, commitments or agreements and have not been engaged in any related negotiations.
- The remaining amount of approximately HK\$57.0 million or approximately 10% of our total estimated net proceeds to supplement our working capital and for other general corporate purposes.

If the Offer Price is set at the highest or lowest point of the indicative Offer Price range, the net proceeds of the Global Offering, assuming that the Over-allotment Option is not exercised, will increase by approximately HK\$103.4 million or decrease by approximately HK\$103.4 million, respectively. In such event, we will increase or decrease the intended use of the net proceeds for the above purposes on a pro rata basis.

If the Over-allotment Option is exercised in full, the net proceeds from the Global Offering will increase to approximately HK\$667.7 million, assuming an Offer Price of HK\$2.20 per Share, being the mid-point of the proposed Offer Price range. If the Offer Price is set at the high-end or low-end of the proposed Offer Price range, the net proceeds of the Global Offering, including the proceeds from the exercise of the Over-allotment Option, will increase by approximately HK\$118.9 million or decrease by approximately HK\$118.9 million, respectively. In such event, we will increase or decrease the intended use of the net proceeds for the above purposes on a prorate basis.

To the extent that the net proceeds of the Global Offering are not immediately used for the above purposes and to the extent permitted by the relevant laws and regulations, we intend to deposit such net proceeds into interest bearing bank accounts with licensed banks and/or financial institutions.

## CORNERSTONE INVESTOR

### THE CORNERSTONE INVESTMENT

We have entered into a cornerstone investment agreement (the “**Cornerstone Investment Agreement**”) with a cornerstone investor (the “**Cornerstone Investor**”), who agreed to (subject to certain conditions) subscribe at the Offer Price for such number of Shares that may be purchased with an aggregate amount of US\$15,000,000. Assuming an Offer Price of HK\$1.85, HK\$2.20 and HK\$2.55 per Offer Share, being the low-end, mid-point and high-end of the indicative Offer Price range stated in this prospectus, and assuming the conversion rate of USD: HKD = 1: 7.8, the total number of Shares to be subscribed for by the Cornerstone Investor would be 63,243,000, 53,181,000 and 45,882,000 Shares (rounded down to the nearest board lot of 1,500 Shares), representing approximately 4.216%, 3.545% and 3.059% of our total issued share capital immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be issued pursuant to exercise of options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan) respectively.

The Cornerstone Investor and its ultimate beneficial owner(s) are Independent Third Parties. The Cornerstone Investor will not subscribe for any Offer Share under the Global Offering other than and pursuant to the Cornerstone Investment Agreement. Immediately following completion of the Global Offering, the Cornerstone Investor will not have any board representation in our Company nor will the Cornerstone Investor become a substantial shareholder of our Company. The shareholding of the Cornerstone Investor will be counted towards the public float of our Shares. No special rights have been granted to the Cornerstone Investor.

The cornerstone investment forms part of the International Offering. The Shares to be subscribed for by the Cornerstone Investor will be subject to adjustment by any reallocation of Shares between the International Offering and Hong Kong Public Offering in the event of over-subscription under the Hong Kong Public Offering as described in the sub-section headed “Structure of the Global Offering — The Hong Kong Public Offering” in this prospectus. If the aggregate Shares initially available in the International Offering are not sufficient to cover the shortfall of Shares to be made available in the Hong Kong Public Offering as required by the Listing Rules, the number of Shares to be allocated to the Cornerstone Investor will be deducted on a pro rata basis so as to cover any such shortfall after all of the Shares initially available in the International Offering not allocated to the Cornerstone Investor have been reallocated to the Hong Kong Public Offering. Details of allocation to the Cornerstone Investor will be disclosed in the announcement of allotment results to be published on or about Thursday, December 4, 2014.

### OUR CORNERSTONE INVESTOR

#### **Weblink Games Inc.**

Weblink has agreed to subscribe for such number of Shares (rounded down to the nearest whole board lot of 1,500 Shares) which may be purchased with an aggregate amount of US\$15,000,000 (exclusive of brokerage of 1.00%, SFC transaction levy of 0.0027% and the Stock Exchange trading of 0.005%) at the Offer Price. Assuming an Offer Price of HK\$1.85, HK\$2.20 and HK\$2.55 per Offer Share, being the low-end, mid-point and high-end of the indicative Offer Price range stated in this prospectus, Weblink will subscribe for 63,243,000, 53,181,000 and 45,882,000 Shares (rounded down to the nearest board lot of 1,500 Shares), representing approximately 4.216%, 3.545% and 3.059% of our total issued share capital immediately upon completion of the Global Offering (assuming the Over-allotment Option is not

## **CORNERSTONE INVESTOR**

exercised and without taking into account any Shares to be issued pursuant to exercise of Share options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan) respectively.

Weblink Games Inc. is a company incorporated in the Cayman Islands, which is wholly owned by Weibo Corporation. Weibo Corporation is a company incorporated under the laws of the Cayman Islands with limited liability whose shares are listed on the NASDAQ Stock Market (symbol: WB). Weibo Corporation operates the leading social media platform – Weibo, which provides a means of real-time public self-expression and a platform for social interaction. Weibo Corporation is in turn held as to 56.90% by Sina Corporation, a company incorporated in the Cayman Islands with limited liability and listed on the NASDAQ Stock Market (symbol: SINA).

### **CONDITIONS PRECEDENT**

The subscription obligation of the Cornerstone Investor is subject to, among other things, the following conditions precedent being satisfied or waived in accordance with the terms of the Cornerstone Investment Agreement:

- (a) the Hong Kong Underwriting Agreement and the International Underwriting Agreement, respectively, having been entered into and having become effective and unconditional and not having been terminated (in accordance with their respective original terms or as subsequently waived or varied by agreement of the relevant parties) by no later than the respective times and dates specified therein;
- (b) the Offer Price having been agreed upon between our Company and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters and the International Underwriters);
- (c) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering, as well as other applicable waivers and approvals and that such permission, waiver or approval not having been revoked;
- (d) no Laws having been enacted or promulgated by any governmental authority of any relevant jurisdiction which prohibits the consummation of the subscription in the Shares and no order or injunction of a court of competent and relevant jurisdiction in effect precluding or prohibiting consummation of the subscription; and
- (e) the representations, warranties and undertakings given by the Cornerstone Investor as set out in the Cornerstone Investment Agreement, and the representations, warranties and undertakings given by our Company as set out in the Cornerstone Investment Agreement are true and correct.

### **RESTRICTIONS ON THE CORNERSTONE INVESTOR'S INVESTMENT**

The Cornerstone Investor has agreed that, without the prior written consent of our Company and the Joint Global Coordinators, it shall not and shall procure that its wholly-owned subsidiary (if applicable) will not, whether directly or indirectly, at any time during the period of six months following the Listing Date, dispose of any of the Shares subscribed by it pursuant to the Cornerstone Investment Agreement, including any securities convertible into or exchangeable or exercisable for or that represent the right to receive any of the forgoing securities, nor shall it enter into any transaction directly or indirectly with the same economic effect, agree or contract to or publicly announce any intention to enter into any aforesaid transactions.

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### HONG KONG UNDERWRITERS

#### Joint Bookrunners

Citigroup Global Markets Asia Limited  
Merrill Lynch International

#### Joint Lead Managers

Citigroup Global Markets Asia Limited  
Merrill Lynch Far East Limited  
Guotai Junan Securities (Hong Kong) Limited

### UNDERWRITING ARRANGEMENTS AND EXPENSES

#### Hong Kong Public Offering

##### *Hong Kong Underwriting Agreement*

The Hong Kong Underwriting Agreement was entered into on November 24, 2014. Pursuant to the Hong Kong Underwriting Agreement, we are offering 30,000,000 Hong Kong Offer Shares (subject to reallocation) for subscription by the public in Hong Kong on the terms and subject to the conditions in this prospectus and the Application Forms at the Offer Price.

Subject to the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering as mentioned in this prospectus (including any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option and the options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and the vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan) and certain other conditions set out in the Hong Kong Underwriting Agreement (including, amongst others, the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and the Company, agreeing upon the Offer Price), the Hong Kong Underwriters have agreed, severally but not jointly, to subscribe or procure subscribers to subscribe for the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering on the terms and subject to the conditions set out in this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on and subject to, amongst other things, the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

##### **Grounds for Termination**

The Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) shall be entitled to terminate the Hong Kong Underwriting Agreement, by notice (orally or in writing) to our Company, with immediate effect, if prior to 8:00 a.m. on the Listing Date:

- (a) there develops, occurs, exists or comes into force:
  - (i) any event in the nature of *force majeure* (including, without limitation, any acts of government, declaration of a national or international emergency or war, calamity, crisis, epidemic, pandemic, outbreak of infectious disease, economic sanctions, strikes, lock-outs, fire, explosion, flooding, earthquake, volcanic eruption, civil

## UNDERWRITING

commotion, riots, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism in or affecting Hong Kong, the PRC, the United States, the United Kingdom, the European Union (or any member thereof), Japan, the Cayman Islands (the “**Relevant Jurisdictions**” and each a “**Relevant Jurisdiction**”); or

- (ii) any change or any development involving a prospective change, or any event or circumstance likely to result in any change or development involving a prospective change, in local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions or exchange control or any monetary or trading settlement system (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets or a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or the Renminbi is linked to any foreign currency or currencies), in or affecting any Relevant Jurisdiction; or
- (iii) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities generally on the Hong Kong Stock Exchange, the New York Stock Exchange, the American Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Tokyo Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange; or
- (iv) any general moratorium on commercial banking activities in any Relevant Jurisdiction, or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in those places or jurisdictions; or
- (v) any new law or any change or any development involving a prospective change or any event or circumstance likely to result in a change or development involving a prospective change in (or in the interpretation or application by any court or other competent Authority of) existing laws, in each case, in or affecting any Relevant Jurisdiction; or
- (vi) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for, the United States or the European Union (or any member thereof) on any other Relevant Jurisdiction; or
- (vii) a change or development involving a prospective change in or affecting Taxation or exchange control, currency exchange rates or foreign investment regulations (including, without limitation, a material devaluation of the Hong Kong dollar or the Renminbi against any foreign currencies), or the implementation of any exchange control, in any Relevant Jurisdiction; or
- (viii) any adverse change or prospective adverse change in the earnings, results of operations business, business prospects, financial or trading position, conditions or prospects (financial or otherwise) of the Company or any member of the Group (including any litigation, claim or legal action of any third party being threatened or instigated against the Company or any member of the Group); or
- (ix) a Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or

## UNDERWRITING

- (x) the chairman or chief executive officer of the Company vacating his or her office; or
- (xi) an Authority or a political body or organisation in any Relevant Jurisdiction commencing any investigation or other action, or announcing an intention to investigate or take other action, against any Director; or
- (xii) a contravention by any member of the Group of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Listing Rules or applicable laws; or
- (xiii) a prohibition on the Company for whatever reason from offering, allotting, issuing or selling any of the Shares (including the Option Shares) pursuant to the terms of the Global Offering; or
- (xiv) non-compliance of this prospectus (or any other documents used in connection with the contemplated offer and sale of the Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable law or regulation; or
- (xv) the issue or requirement to issue by the Company of any supplement or amendment to this prospectus (or to any other documents used in connection with the contemplated offer and sale of the Shares) pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or
- (xvi) any change or prospective change in, or a materialisation of, any of the risks set out in the section headed “Risk Factors” in this prospectus; or
- (xvii) an order or petition for the winding up of any member of the Group or any composition or arrangement made by any member of the Group with its creditors or a scheme of arrangement entered into by any member of the Group or any resolution for the winding-up of any member of the Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any member of the Group or anything analogous thereto occurring in respect of any member of the Group,

and which, individually or in the aggregate, in the sole opinion of the Joint Global Coordinators

- (1) has or will or may have a material adverse effect on the assets, liabilities, business, general affairs, management, prospects, shareholders’ equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of the Group as a whole; or
- (2) has or will have or may have a material adverse effect on the success of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering; or
- (3) makes or will make or may make it inadvisable or inexpedient or impracticable for the Hong Kong Public Offering or the Global Offering to be performed or implemented or proceed as envisaged or to market the Global Offering or to deliver the Offer Shares on the terms and in the manner contemplated by the Hong Kong Public Offering Documents; or



## UNDERWRITING

- (4) has or will or may have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or
- (a) there has come to the notice of the Joint Global Coordinators:
- (i) that any statement contained in any of the Hong Kong Public Offering Documents and/or in any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was issued, or has become, untrue, incorrect, inaccurate or misleading in any material respect, or that any forecast, expression of opinion, intention or expectation contained in any of the Hong Kong Public Offering Documents and/or any notices, announcements, PHIP, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) is not fair and honest and based on reasonable assumptions; or
  - (ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute an omission from any of the Hong Kong Public Offering Documents, and/or in any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto); or
  - (iii) any breach of any of the obligations imposed upon any party to the Hong Kong Underwriting Agreement or the International Underwriting Agreement (other than upon any of the Hong Kong Underwriters or the International Underwriters); or
  - (iv) any event, act or omission which gives or is likely to give rise to any liability of any of the indemnifying parties pursuant to the Hong Kong Underwriting Agreement or the indemnifying parties under the International Underwriting Agreement; or
  - (v) any adverse change or any development involving a prospective adverse change in the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of the Company or any member of the Group, including any litigation or claim of any third party of material importance being threatened or instigated against the Company or any member of the Group; or

## UNDERWRITING

- (vi) any breach of, or any matter, event or circumstance rendering untrue, incorrect, inaccurate or misleading in any respect, any of the Warranties; or
- (vii) a material portion of the orders in the bookbuilding process at the time the International Underwriting Agreement is entered into, have been withdrawn, terminated or cancelled, and the Joint Global Coordinators, conclude not to proceed with the Global Offering; or
- (viii) approval by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the Shares to be issued or sold (including any additional Shares that may be issued or sold pursuant to the exercise of the Over-Allotment Option under the Global Offering) is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (ix) the Company withdraws the Hong Kong Prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering.

### ***Undertakings by our Company***

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that we will not issue any further Shares or securities convertible into equity securities (whether or not of a class already listed) or enter into any agreement to such issue within six months from date on which our Share commence dealing on the Stock Exchange (whether or not such issue of Shares or securities will be completed within six months from the commencement of dealing), except:

- (a) in certain circumstances prescribed by Rule 10.08 of the Listing Rules; or
- (b) pursuant to the Global Offering (including the Over-allotment Option).

Pursuant to the Hong Kong Underwriting Agreement, we have undertaken to each of the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, except for the offer and issue of the Offer Shares pursuant to the Global Offering (including pursuant to exercise of the Over-Allotment Option), any Shares to be issued pursuant to the exercise of any Share options under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme and any underlying Shares to be issued pursuant to the Pre-IPO RSU Plan and Post-IPO RSU Plan, during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on the date that is six months after the Listing Date (the “**First Six-Month Period**”), we will not, and will procure that each other

## UNDERWRITING

member of our Group will not, without the prior written consent of the Joint Sponsors and the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (i) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an Encumbrance over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of the Company or any shares or other securities of such other member of the Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such other member of the Group, as applicable), or deposit any Shares or other securities of the Company or any shares or other securities of such other member of the Group, as applicable, with a depository in connection with the issue of depository receipts; or
- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares, debt capital or other securities of the Company or any shares or other securities of such other member of the Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such other member of the Group, as applicable); or
- (iii) enter into any transaction with the same economic effect as any transaction specified in (i) or (ii) above; or
- (iv) offer to or agree or announce, or publicly disclose, any intention to effect any transaction described in (i), (ii) or (iii) above;

in each case, whether any of the transactions specified in (i), (ii) or (iii) above is to be settled by delivery of the Shares or such other securities of our Company or shares or any other securities of other members of our Group, as applicable, or in cash or otherwise (whether or not such allotment or issue of the Shares or securities will be completed within the First Six-Month Period).

In the event that, at any time during the period of six months commencing on the expiry of the First Six-Month Period (the “**Second Six-Month Period**”), our Company enters into any of the transactions specified in (i), (ii) or (iii) above or offers to or agrees to or announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that any such transaction, offer, agreement or announcement will not create a disorderly or false market in our Shares or any other securities of our Company.

### ***Undertaking by the Controlling Shareholders and the Fishchen Shareholders***

Pursuant to Rule 10.07(1) of the Listing Rules, each Controlling Shareholder has undertaken to each of the Stock Exchange and our Company that, except pursuant to the Global Offering (including the Over-allotment Option) or the Stock Borrowing Agreement, he or it shall

## UNDERWRITING

not and shall procure that the relevant registered holder(s) (if any) shall not, without the prior written consent of the Stock Exchange or unless otherwise in compliance with the Listing Rules:

- (i) in the period commencing on the date by reference to which disclosure of his or its shareholding is made in this Prospectus and ending on the date which is six months from the Listing Date, dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of our Shares in respect of which he or it is shown by this Prospectus to be the beneficial owner (as defined in Rule 10.07(2) of the Listing Rules) (the “**Relevant Securities**”); and
- (ii) in the period of six months commencing from the expiry of the period referred to in paragraph (i) above, dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of the Relevant Securities if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he or it would cease to be a controlling shareholder (as defined in the Listing Rules) of the Company.

In addition, in accordance with Note 3 to Rule 10.07 of the Listing Rules, each Controlling Shareholder has undertaken to the Stock Exchange and our Company that, during the period commencing on the date by reference to which disclosure of its shareholding is made in this Prospectus and ending on the date which is 12 months from the Listing Date, he or it will:

- (a) when he or it pledges or charges any Shares beneficially owned by he or it in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan, immediately inform our Company in writing of such pledge or charge together with the number of Shares so pledged or charged; and
- (b) when he or it receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged Shares will be disposed of, immediately inform our Company of such indications.

Each Controlling Shareholder and Fishchen Shareholder has undertaken to each of our Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, save as pursuant to the Global Offering, and the Stock Borrowing Agreement without the prior written consent of the Joint Sponsors and the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules, he or it will not, and procure that none of its affiliates will not, at any time during the period commencing on the date of this Agreement and ending on the date that is twelve months after the Listing Date (the “**Lock-up Period**”):

- (i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an Encumbrance over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly (including by way of altering the composition or classes of beneficiaries of any trust), conditionally or unconditionally, any Shares or other securities of the Company or, to the extent applicable, shares or other securities of YAO Holdings Limited, BILIN Holdings Limited or Fishchen Holdings Limited or any interest respectively therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or, to the extent

## UNDERWRITING

applicable, shares of YAO Holdings Limited, BILIN Holdings Limited or Fishchen Holdings Limited), or deposit any Shares or other securities of the Company or shares or other securities of YAO Holdings Limited, BILIN Holdings Limited or Fishchen Holdings Limited with a depository in connection with the issue of depository receipts; or

- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of the Company or, to the extent applicable, shares or other securities of YAO Holdings Limited, BILIN Holdings Limited or Fishchen Holdings Limited or any interest respectively therein in (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or, to the extent applicable, shares or other securities of YAO Holdings Limited, BILIN Holdings Limited or Fishchen Holdings Limited); or
- (iii) enter into any transaction with the same economic effect as any transaction specified in (i) or (ii) above; or
- (iv) offer to or agree to or announce, or publicly disclose, any intention to effect any transaction specified in (i), (ii) or (iii) above, in each case, whether any of the transactions specified in (i), (ii) or (iii) above is to be settled by delivery of Shares or other securities of the Company or shares or other securities of YAO Holdings Limited, BILIN Holdings Limited or Fishchen Holdings Limited, or in cash or otherwise (whether or not the issue of such Shares or other securities of the Company or shares or other securities of YAO Holdings Limited, BILIN Holdings Limited or Fishchen Holdings Limited will be completed within the Lock-Up Period).

Without limiting the above, each Controlling Shareholder and Fishchen Shareholder has further undertaken to each of our Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, he or it will, at any time during the Lock-up Period:

- (i) upon any pledge or charge in favour of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) of any Shares or securities or interests in the Shares or securities of the Company beneficially owned by him/it for a bona fide commercial loan, immediately inform the Company, the Joint Global Coordinators and the Joint Sponsors in writing of such pledge or charge together with the number of Shares or securities so pledged or charged; and
- (ii) upon any indication received by him/it, either verbal or written, from any pledgee or chargee that any of the pledged or charged Shares or securities or interests in the Shares or securities of the Company will be disposed of, immediately inform the Company and the Joint Global Coordinators and the Joint Sponsors in writing of such indications.

### ***Undertakings by other Shareholders***

Each of Mr. Sun Zhiyan, Ace Kingdom Limited and Eastep Holdings Limited (collectively, “**Investors**” or each an “**Investor**”) has undertaken to each of us, the Joint Global Coordinators, the Joint Sponsors and the Underwriters that, without the prior written consent of the Joint Sponsors and the Joint Global Coordinators (on behalf of the Underwriters) and unless in

## UNDERWRITING

compliance with the requirements of applicable Hong Kong laws, it will not and will procure that no company controlled by it or any nominee or trustee holding in trust for it will, at any time during the Lock-up Period,

- (i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to sell or otherwise transfer or dispose of or create any mortgage, charge, pledge, lien or other security interest or any option, restriction, right of first refusal, right of pre-emption or other third party claim, right, interest or preference or any other encumbrance of any kind (“**Encumbrance**”) over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of the Company held by the Investor (the “**Investor Shares**”) or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Investor Shares, as applicable), or deposit any Shares or other securities of the Company with a depository in connection with the issue of depository receipts; or
- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any of the Investor Shares or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Investor Shares); or
- (iii) enter into any transaction with the same economic effect as any transaction specified in (i) or (ii) above; or
- (iv) offer to or agree to or announce any intention to effect any transaction specified in (i), (ii) or (iii) above, in each case, whether any of the transactions specified in (i), (ii) or (iii) above is to be settled by delivery of the Investor Shares, or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the Lock-up Period).

Each of the Controlling Shareholders, the Fishchen Shareholders and the Investors has further undertaken to us, the Joint Global Coordinators, the Joint Sponsors and the Underwriters in terms similar to those contemplated by Note (3) to Rule 10.07(2) of the Listing Rules, and that he or it will procure the Company to procure that none of the Directors nor their respective associates (as defined in the Listing Rules) will apply for any of the Offer Shares pursuant to the Global Offering, either directly or indirectly, whether in his, her or its own name or through nominees unless permitted to do so under the Listing Rules and having obtained confirmation to that effect.

### ***Indemnity***

We have agreed to indemnify the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters for certain losses which they may suffer, including, among other matters, losses incurred arising from the performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement.



## UNDERWRITING

### ***Commission and Expenses and Joint Sponsors' Fee***

The Joint Global Coordinators (on behalf of the Underwriters) will receive an aggregate amount of US\$4.5 million as underwriting commission in the Global Offering. In addition, at the discretion of our Company, the Joint Sponsors may also receive an incentive fee of up to 1.50% of the aggregate Offer Price in respect of all Offer Shares (including any Shares to be issued pursuant to the exercise of the Over-allotment Option).

Assuming the Over-allotment Option is not exercised and based on an Offer Price of HK\$2.20 (being the mid-point of our Offer Price range stated in this prospectus), the aggregate commissions and fees, together with the Stock Exchange listing fees, the Stock Exchange trading fee of 0.005% per Share, SFC transaction levy, brokerage fee, legal and other professional fees and printing and other expenses relating to the Global Offering, are estimated to be approximately HK\$89.8 million, which is subject to adjustment to be agreed by the Company, the Joint Global Coordinators and other parties.

An aggregate amount of US\$1.5 million is payable by the Company as sponsor fees to the Joint Sponsors.

### ***Hong Kong Underwriters' Interests in Our Company***

Save for the obligations under the Hong Kong Underwriting Agreement, none of the Hong Kong Underwriters has any shareholding or beneficial interests in any member of our Group or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any member of our Group.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement.

### **The International Offering**

In connection with the International Offering, it is expected that we will enter into the International Underwriting Agreement with, among others, the International Underwriters. Under the International Underwriting Agreement and subject to the Over-allotment Option, it is expected that the International Underwriters would, subject to certain conditions set out therein, severally but not jointly, agree to procure purchasers for, or to purchase, the International Offer Shares being offered pursuant to the International Offering or procure purchasers for their respective applicable proportions of International Offer Shares. Please refer to the section headed "Structure of the Global Offering — The International Offering" for details.

### **Over-allotment Option**

We expect to grant to the International Underwriters, exercisable by the Joint Global Coordinators (on behalf of the International Underwriters), the Over-allotment Option, which will be exercisable from the Listing Date until 30 days after the last day for the lodging of applications under the Hong Kong Public Offering, to require the Company to allot and issue up to an aggregate of 45,000,000 Shares, representing approximately 15% of the initial Offer Shares, at the same price per Offer Share under the International Offering, to, among other things, cover over-allocations in the International Offering, if any.

## UNDERWRITING

### **Restrictions on the Offer Shares**

No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, without limitation to the following, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Hong Kong Offer Shares have not been publicly offered or sold, directly or indirectly, in the PRC or the United States.

### **ACTIVITIES BY SYNDICATE MEMBERS**

We describe below a variety of activities that underwriters of the Hong Kong Public Offering and the International Offering, together referred to as “Syndicate Members,” may each individually undertake, and which do not form part of the underwriting or the stabilizing process. When engaging in any of these activities, it should be noted that the Syndicate Members are subject to restrictions, including the following:

- a. under the agreement among the Syndicate Members, all of them (except for the Stabilizing Manager or its designated affiliate as the Stabilizing Manager) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and
- b. all of them must comply with all applicable laws, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the accounts of others. In relation to our Shares, those activities could include acting as agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a principal capacity, proprietary trading in the Shares, and entering into over the counter or listed derivative transactions or listed or unlisted securities transactions (including issuing securities such derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the Shares. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the Shares. All such activity could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Shares as their underlying securities, whether on the Stock Exchange or on any other stock exchange, the rules of the exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases.

## **UNDERWRITING**

All such activities may occur both during and after the end of the stabilizing period described in the section headed “Structure of the Global Offering.” Such activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares and the volatility of the price of the Shares, and the extent to which this occurs from day to day cannot be estimated.

### **INDEPENDENCE OF THE JOINT SPONSORS**

Each of the Joint Sponsors satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

## STRUCTURE OF THE GLOBAL OFFERING

### THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises of:

- (a) the Hong Kong Public Offering of initially 30,000,000 Shares (subject to reallocation) in Hong Kong as described below in the section headed “— The Hong Kong Public Offering”; and
- (b) the International Offering of initially 270,000,000 Shares (subject to reallocation and the Over-allotment Option) outside the United States in reliance on Regulation S and in the United States to QIBs in reliance on Rule 144A or other available exemption from the registration requirements of the US Securities Act.

Investors may apply for Hong Kong Offer Shares under the Hong Kong Public Offering or apply for or indicate an interest in International Offer Shares under the International Offering, but may not do both.

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

### THE HONG KONG PUBLIC OFFERING

#### Number of Shares Initially Offered

We are initially offering 30,000,000 Hong Kong Offer Shares, representing approximately 10% of the total number of Offer Shares initially available under the Global Offering, at the Offer Price for subscription by the public in Hong Kong. Subject to the reallocation of Shares between (i) the International Offering, and (ii) the Hong Kong Public Offering, the Hong Kong Offer Shares will represent approximately 2.00% of our Company’s enlarged issued share capital immediately after completion of the Global Offering assuming that the Over-allotment Option is not exercised.

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers and companies (including fund managers) whose ordinary business involves dealing in shares and other securities, and corporate entities which regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions as set out in the section headed “— Conditions of the Hong Kong Public Offering.”

#### Allocation

Allocation of Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

## STRUCTURE OF THE GLOBAL OFFERING

The total number of Hong Kong Offer Shares available under the Hong Kong Public Offering (after taking account of any reallocation referred to below) will be divided into two pools for allocation purposes:

Pool A: The Hong Kong Offer Shares in Pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with a total subscription price of HK\$5 million (excluding the brokerage, SFC transaction levy and the Stock Exchange trading fee payable) or less.

Pool B: The Hong Kong Offer Shares in Pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with a total subscription price of more than HK\$5 million (excluding the brokerage, SFC transaction levy and the Stock Exchange trading fee payable) and up to the total value of pool B.

For the purpose of this sub-section only, the “subscription price” for Hong Kong Offer Shares means the price payable on application (without regard to the Offer Price as finally determined).

Applicants should be aware that applications in Pool A and applications in Pool B may receive different allocation ratios. If Hong Kong Offer Shares in one (but not both) of the two pools are undersubscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly.

Applicants can only receive an allocation of Hong Kong Offer Shares from either Pool A or Pool B, but not from both pools. Multiple or suspected multiple applications and any application for more than 15,000,000 Hong Kong Offer Shares will be rejected.

### **Reallocation**

Paragraph 4.2 of Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place, which would have the effect of increasing the number of Hong Kong Offer Shares to certain percentages of the total number of Offer Shares offered in the Global Offering if certain prescribed total demand levels in the Hong Kong Public Offering are reached. In the event of over-applications in the Hong Kong Public Offering, the Joint Global Coordinators shall apply a clawback mechanism following the closing of the application lists on the following basis:

- If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents less than 15 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then no Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 30,000,000 Offer Shares, representing approximately 10% of the Offer Shares initially available under the Global Offering.
- If the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 90,000,000 Shares, representing approximately 30% of Offer Shares initially available under the Global Offering.

## STRUCTURE OF THE GLOBAL OFFERING

- If the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 120,000,000 Shares, representing 40% of the Offer Shares initially available under the Global Offering.
- If the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 150,000,000 Shares, representing 50% of Offer Shares initially available under the Global Offering.

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between Pool A and Pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Global Coordinators deem appropriate. In addition, the Joint Global Coordinators may reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

If the Hong Kong Public Offering is not fully subscribed, the Joint Global Coordinators have the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering in such proportions as the Joint Global Coordinators deem appropriate.

If the International Offering is not fully subscribed, the Joint Global Coordinators may decide in their absolute discretion to reallocate Offer Shares from the International Offering to the Hong Kong Public Offering.

### **Applications**

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him that he and any person(s) for whose benefit he is making the application has not applied for or taken up, or indicated an interest in, and will not apply for or take up, or indicate an interest in, any International Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated International Offer Shares under the International Offering.

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK\$2.55 per Offer Share in addition to the brokerage, SFC transaction levy and the Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in the section headed “— Pricing and Allocation” below, is less than the maximum price of HK\$2.55 per Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in the section headed “How to Apply for Hong Kong Offer Shares.”



## STRUCTURE OF THE GLOBAL OFFERING

### THE INTERNATIONAL OFFERING

#### Number of Offer Shares Offered

Subject to the reallocation as described above, the number of Offer Shares to be initially offered under the International Offering will be 270,000,000, representing approximately 90% of the total number of Offer Shares initially available under the Global Offering. Subject to the reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering, the number of Offer Shares initially offered under the International Offering will represent approximately 18.00% of our Company's enlarged issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

#### Allocation

Pursuant to the International Offering, the International Offer Shares will be conditionally placed on behalf of our Company by the International Purchasers or through selling agents appointed by them. International Offer Shares will be selectively placed with certain professional and institutional investors and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States in offshore transactions in reliance on Regulation S and in the United States to QIBs as defined in Rule 144A. The International Offering is subject to the Hong Kong Public Offering being unconditional.

Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the "book-building" process described in the section headed "— Pricing and Allocation" below and based on a number of factors, including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely hold or sell, Shares, after the listing of our Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and our shareholders as a whole.

The Joint Global Coordinators (for themselves and on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering and who has made an application under the Hong Kong Public Offering, to provide sufficient information to the Joint Global Coordinators so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that they are excluded from any application of Offer Shares under the Hong Kong Public Offering.

#### Reallocation

The total number of Offer Shares to be issued or sold pursuant to the International Offering may change as a result of the clawback arrangement described in the section headed "— The Hong Kong Public Offering — Reallocation" above, the exercise of the Over-allotment Option in whole or in part described in the section headed "— Over-allotment Option," and any reallocation of unsubscribed Offer Shares originally included in the Hong Kong Public Offering and/or any Offer Shares from the International Offering to the Hong Kong Public Offering at the discretion of the Joint Global Coordinators.

### OVER-ALLOTMENT OPTION

In connection with the Global Offering, it is expected that we will grant the Over-allotment Option to the International Underwriters, which will be exercisable by the Joint Global Coordinators on behalf of the International Underwriters.

## STRUCTURE OF THE GLOBAL OFFERING

Pursuant to the Over-allotment Option, the International Underwriters have the right, exercisable by the Joint Global Coordinators on behalf of the International Underwriters at any time from the Listing Date to the 30th day after the last day for lodging applications under the Hong Kong Public Offering, to require us to issue up to 45,000,000 Shares, representing approximately 15% of the total number of Offer Shares initially available under the Global Offering, at the Offer Price under the International Offering, to, among other things, cover over-allocations in the International Offering, if any.

If the Over-allotment Option is exercised in full, the additional International Offer Shares to be issued pursuant thereto will represent approximately 2.91% of our Company's enlarged issued share capital immediately following the completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, a public announcement will be made.

### STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time, to curb and, if possible, prevent any decline in the market price of the securities below the offer price. It may be effected in jurisdictions where it is permissible to do so and subject to all applicable laws and regulatory requirements. In Hong Kong, the price at which stabilization is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, the Stabilizing Manager or any person acting for it, on behalf of the Underwriters, may over-allocate or effect short sales or any other stabilizing transactions with a view to stabilizing or maintaining the market price of the Offer Shares at a level higher than that which might otherwise prevail in the open market. Short sales involve the sale by the Stabilizing Manager of a greater number of Shares than the Underwriters are required to purchase in the Global Offering. "Covered" short sales are sales made in an amount not greater than the Over-allotment Option. The Stabilizing Manager may close out the covered short position by either exercising the Over-allotment Option to purchase additional Offer Shares or purchasing Shares in the open market. In determining the source of the Offer Shares to close out the covered short position, the Stabilizing Manager will consider, among other things, the price of Offer Shares in the open market as compared to the price at which they may purchase additional Offer Shares pursuant to the Over-allotment Option. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or curbing a decline in the market price of the Offer Shares while the Global Offering is in progress. Any market purchases of our Offer Shares may be effected on any stock exchange, including the Stock Exchange, any over-the-counter market or otherwise, provided that they are made in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager or any person acting for it to conduct any such stabilizing action. Such stabilizing activity, if commenced, will be done at the absolute discretion of the Stabilizing Manager and may be discontinued at any time.

Any such stabilizing activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering. The number of the Offer Shares that may be over-allocated will not exceed the number of the Shares that may be sold under the Over-allotment Option, namely, 45,000,000 Offer Shares, which is 15% of the number of Offer Shares initially available under the Global Offering, and cover such over-allocations by exercising the Over-allotment Option or by making purchases in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangements or a combination of these means.

## STRUCTURE OF THE GLOBAL OFFERING

In Hong Kong, stabilizing activities must be carried out in accordance with the Securities and Futures (Price Stabilizing) Rules. Stabilizing actions permitted pursuant to the Securities and Futures (Price Stabilizing) Rules include:

- (a) over-allocating for the purpose of preventing or minimising any reduction in the market price of our Shares;
- (b) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of the Shares;
- (c) purchasing or subscribing for, or agreeing to purchase or subscribe for, our Shares pursuant to the Over-allotment Option in order to close out any position established under (a) or (b) above;
- (d) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimising any reduction in the market price;
- (e) selling or agreeing to sell any of our Shares in order to liquidate any position established as a result of those purchases; and
- (f) offering or attempting to do anything as described in (b), (c), (d) or (e) above.

Stabilizing actions by the Stabilizing Manager, or any person acting for it, will be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilization.

As a result of effecting transactions to stabilize or maintain the market price of the Shares, the Stabilizing Manager, or any person acting for it, may maintain a long position in the Shares. The size of the long position, and the period for which the Stabilizing Manager, or any person acting for it, will maintain the long position is at the discretion of the Stabilizing Manager and is uncertain. In the event that the Stabilizing Manager liquidates this long position by making sales in the open market, this may lead to a decline in the market price of the Shares.

Stabilizing action by the Stabilizing Manager, or any person acting for it, is not permitted to support the price of the Shares for longer than the stabilizing period, which begins on the day on which trading of the Shares commences on the Hong Kong Stock Exchange and ends on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering. The stabilizing period is expected to end on Sunday, December 28, 2014. As a result, demand for the Shares, and their market price, may fall after the end of the stabilizing period. These activities by the Stabilizing Manager may stabilize, maintain or otherwise affect the market price of the Shares. As a result, the price of the Shares may be higher than the price that otherwise may exist in the open market. Any stabilizing action taken by the Stabilizing Manager, or any person acting for it, may not necessarily result in the market share of the Shares staying at or above the Offer Price either during or after the stabilizing period. Bids for or market purchases of the Shares by the Stabilizing Manager, or any person acting for it, may be made at a price at or below the Offer Price and therefore at or below the price paid for the Shares by purchasers. A public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilizing period.

## STRUCTURE OF THE GLOBAL OFFERING

### STOCK BORROWING ARRANGEMENT

In order to facilitate the settlement of over-allocations in connection with the Global Offering, the Stabilizing Manager (or its affiliate(s)) may choose to borrow up to 45,000,000 Shares from YAO Holdings Limited pursuant to the Stock Borrowing Agreement. The stock borrowing arrangements under the Stock Borrowing Agreement will comply with the requirements set out in Listing Rules 10.07(3).

### PRICING AND ALLOCATION

#### Determining the Offer Price

The International Underwriters will be soliciting from prospective investors' indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building," is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or about Friday, November 28, 2014 and in any event no later than Wednesday, December 3, 2014, by agreement between the Joint Global Coordinators, on behalf of the Underwriters, and our Company and the number of Offer Shares to be allocated under the various offerings will be determined shortly thereafter.

#### Offer Price Range

The Offer Price per Offer Share under the Hong Kong Public Offering will be identical to the offer price per Offer Share under the International Offering based on the Hong Kong dollar price per Offer Share under the International Offering, as determined by the Joint Global Coordinators, on behalf of the Underwriters, and our Company.

The Offer Price will not be more than HK\$2.55 per Offer Share and is expected to be not less than HK\$1.85 per Offer Share, unless otherwise announced by the Company no later than the morning of the last day for lodging applications under the Hong Kong Public Offer, as further explained below. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative offer price range stated in this prospectus.

#### Price Payable on Application

Applicants under the Hong Kong Public Offering are required to pay, on application, the Maximum Offer Price of HK\$2.55 per each Hong Kong Offer Share (plus 1% brokerage, 0.0027% SFC transaction levy and 0.005% Stock Exchange trading fee). If the Offer Price is less than HK\$2.55, appropriate refund payments (including the brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee attributable to the surplus application monies, without any interest) will be made to successful applications.

If, for any reason, our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) are unable to reach agreement on the Offer Price on or before Wednesday, December 3, 2014, the Global Offering will not proceed and will lapse.

## STRUCTURE OF THE GLOBAL OFFERING

### **Reduction in Indicative Offer Price Range and/or Number of Offer Shares**

The Joint Global Coordinators, on behalf of the Underwriters, may, where considered appropriate, based on the level of interest expressed by prospective professional and institutional investors during the book-building process, and with the consent of our Company, reduce the number of Offer Shares and/or the indicative offer price range as stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering, cause to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and the Company at [www.feiyuhk.com](http://www.feiyuhk.com), notices of the reduction. Upon issue of such a notice, the revised number of Offer Shares and/or indicative Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Joint Global Coordinators, for themselves and on behalf of the Underwriters, and our Company, will be fixed within such a revised Offer Price range. Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set out in the prospectus and any other financial information which may change materially as a result of such reduction.

Before submitting applications for the Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. In the absence of any such notice so published, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon by the Joint Global Coordinators, for themselves and on behalf of the Underwriters, and our Company, will under no circumstances be set outside the offer price range as stated in this prospectus. However, if the number of Offer Shares and/or the Offer Price range is reduced, applicants under the Hong Kong Public Offering will be entitled to withdraw their applications unless positive confirmations from the applicants to proceed are received.

In the event of a reduction in the number of Offer Shares, the Joint Global Coordinators may, at their discretion, reallocate the number of Offer Shares to be offered in the Hong Kong Public Offering and the International Offering, provided that the number of Offer Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares available under the Global Offering. The Offer Shares to be offered in the Hong Kong Public Offering and the Offer Shares to be offered in the International Offering may, in certain circumstances, be reallocated between these offerings at the discretion of the Joint Global Coordinators.

### **Announcement of Offer Price and Basis of Allocations**

The final Offer Price, the level of indications of interest in the Global Offering, the results of allocations and the basis of allotment of the Hong Kong Offer Shares are expected to be announced on Thursday, December 4, 2014 in South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and on the website of our Company at [www.feiyuhk.com](http://www.feiyuhk.com).

## STRUCTURE OF THE GLOBAL OFFERING

### UNDERWRITING

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to our Company and the Joint Global Coordinators, for themselves and on behalf of the Underwriters, agreeing on the Offer Price.

We expect to enter into the International Underwriting Agreement relating to the International Offering on the Price Determination Date.

These underwriting arrangements, and the Hong Kong Underwriting Agreement and the International Underwriting Agreement, are summarized in the section headed "Underwriting."

### CONDITIONS OF THE HONG KONG PUBLIC OFFERING

Acceptance of all applications for Offer Shares will be conditional on:

- (a) the Listing Committee of the Stock Exchange granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option), the Shares to be issued upon the exercise of options granted under the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme and the Shares which may be issued upon vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan, and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the Shares on the Stock Exchange;
- (b) the Offer Price having been duly agreed between us and the Joint Global Coordinators (for themselves and on behalf of the Underwriters);
- (c) the execution and delivery of the International Underwriting Agreement on or about the Price Determination Date; and
- (d) the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements in each case on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event no later than Wednesday, December 3, 2014.

**If, for any reason, the Offer Price is not agreed between our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on or before Wednesday, December 3, 2014, the Global Offering will not proceed and will lapse immediately.**

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with their respective terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by our Company in South China



## STRUCTURE OF THE GLOBAL OFFERING

Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the websites of Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company at [www.feiyuhk.com](http://www.feiyuhk.com) on the next Business Day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed “How to Apply for Hong Kong Offer Shares — Dispatch/Collection of Share Certificates and Refund Monies.” In the meantime, all application monies will be held in separate bank account(s) with the receiving bankers or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

Share certificates for the Offer Shares will only become valid certificates of title at 8:00 a.m. on the Listing Date provided that (i) the Global Offering has become unconditional in all respects, and (ii) the right of termination as described in the section headed “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for Termination” has not been exercised.

### APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued by us pursuant to the Global Offering (including the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option, the Shares to be issued upon the exercise of options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and the Shares to be issued upon vesting of the RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan).

No part of the Company’s share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to deal is being or proposed to be sought in the near future.

### SHARES WILL BE ELIGIBLE FOR CCASS

All necessary arrangements have been made enabling the Shares to be admitted into the Central Clearing and Settlement System, or CCASS, established and operated by the Hong Kong Securities Clearing Company Limited, or HKSCC.

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the Shares and our Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Hong Kong Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

### DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Friday, December 5, 2014, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Friday, December 5, 2014. The Shares will be traded in board lots of 1,500 Shares.

## HOW TO APPLY FOR HONG KONG OFFER SHARES

### 1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** service at [www.eipo.com.hk](http://www.eipo.com.hk); or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

The Company, the Joint Global Coordinators, the White Form eIPO Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

### 2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a U.S. Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **White Form eIPO** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Joint Global Coordinators may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** service for the Hong Kong Offer Shares.

## HOW TO APPLY FOR HONG KONG OFFER SHARES

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in the Company and/or any its subsidiaries;
- a Director or chief executive officer of the Company and/or any of its subsidiaries;
- an associate (as defined in the Listing Rules) of any of the above;
- a connected person (as defined in the Listing Rules) of the Company or will become a connected person of the Company immediately upon completion of the Global Offering; and
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

### 3. APPLYING FOR HONG KONG OFFER SHARES

#### Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through [www.eipo.com.hk](http://www.eipo.com.hk).

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

#### Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours between 9:00 a.m. on Tuesday, November 25, 2014 until 12:00 noon on Friday, November 28, 2014:

- (i) any of the following offices of the Hong Kong Underwriters:

<b>Citigroup Global Markets Asia Limited</b>	50/F, Citibank Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong
<b>Merrill Lynch Far East Limited</b>	55/F, Cheung Kong Center, 2 Queen's Road Central, Hong Kong
<b>Guotai Junan Securities (Hong Kong) Limited</b>	27/F, Grand Millenium Plaza, 181 Queen's Road Central, Hong Kong

## HOW TO APPLY FOR HONG KONG OFFER SHARES

- (ii) or any of the following branches of Standard Chartered Bank (Hong Kong) Limited and Wing Lung Bank Limited:

### Standard Chartered Bank (Hong Kong) Limited

	Branch	Address
<b>Hong Kong Island</b> . . .	Des Voeux Road Branch	Standard Chartered Bank Building, 4-4A, Des Voeux Road Central, Central
	Aberdeen Branch	Shop 4A, G/F and Shop 1, 1/F, Aberdeen Centre Site 5, No.6-12 Nam Ning Street, Aberdeen
	North Point Centre Branch	Shop G, G/F, North Point Centre, 284 King's Road, North Point
<b>Kowloon</b> . . . . .	68 Nathan Road Branch	Basement, Shop B1, G/F Golden Crown Court, 66-70 Nathan Road, Tsimshatsui
	Telford Gardens Branch	Shop P9-12, Telford Centre, Telford Gardens, Tai Yip Street, Kwun Tong
	Mei Foo Manhattan Branch	Shop Nos.07 & 09, Ground Floor, Mei Foo Plaza, Mei Foo Sun Chuen
<b>New Territories</b> . . . . .	Tsuen Wan Branch	Shop C, G/F & 1/F, Jade Plaza, 298 Sha Tsui Road, Tsuen Wan
	Shatin Plaza Branch	Shop No. 8, Shatin Plaza, 21-27 Shatin Centre Street, Shatin, New Territories, Hong Kong
	Maritime Square Branch	Shop 308E, Level 3, Maritime Square, Tsing Yi
	Tai Po Branch	G/F shop No. 2, 23-25 Kwong Fuk Road, Tai Po Market, Tai Po

or

### Wing Lung Bank Limited

	Branch	Address
<b>Hong Kong Island</b> . . .	Johnston Road Branch	118 Johnston Road
	Kennedy Town Branch	28 Catchick Street
<b>Kowloon</b> . . . . .	Tsim Sha Tsui Branch	4 Carnarvon Road
	Lam Tin Sceneway Plaza Branch	Shop 59, 3/F Sceneway Plaza, 8 Sceneway Road
	Sham Shui Po Branch	111 Tai Po Road
	To Kwa Wan Branch	64 To Kwa Wan Road
<b>New Territories</b> . . . . .	Yuen Long Branch	37 On Ning Road
	Sheung Shui Branch	128 San Fung Avenue

## HOW TO APPLY FOR HONG KONG OFFER SHARES

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, November 25, 2014 until 12:00 noon on Friday, November 28, 2014 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

### Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to Horsford Nominees Limited — Feiyu Technology Public Offer for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above, at the following times:

- Tuesday, November 25, 2014 — 9:00 a.m. to 5:00 p.m.
- Wednesday, November 26, 2014 — 9:00 a.m. to 5:00 p.m.
- Thursday, November 27, 2014 — 9:00 a.m. to 5:00 p.m.
- Friday, November 28, 2014 — 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Friday, November 28, 2014, the last application day or such later time as described in “Effect of Bad Weather on the Opening of the Applications Lists” in this section.

### 4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **White Form eIPO** service, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorise the Company and/or the Joint Global Coordinators (or their agents or nominees), as agents of the Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) agree that none of the Company, the Joint Global Coordinators, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);

## HOW TO APPLY FOR HONG KONG OFFER SHARES

- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;
- (viii) agree to disclose to the Company, our Hong Kong Share Registrar, receiving banks, the Joint Global Coordinators, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of the Company, the Joint Global Coordinators and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States and are not a U.S. person (as defined in Regulation S);
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorise the Company to place your name(s) or the name of the HKSCC Nominees, on the Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and the Company and/or its agents to send any share certificate(s) and/or any e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that the Company and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the White Form eIPO Service Provider by you or by any one as your agent or by any other person; and



## HOW TO APPLY FOR HONG KONG OFFER SHARES

- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

### **Additional Instructions for Yellow Application Form**

You may refer to the Yellow Application Form for details.

## **5. APPLYING THROUGH WHITE FORM eIPO SERVICE**

### **General**

Individuals who meet the criteria in “Who can apply” section, may apply through the **White Form eIPO** service for the Offer Shares to be allotted and registered in their own names through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk).

Detailed instructions for application through the **White Form eIPO** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Company. If you apply through the designated website, you authorise the White Form eIPO Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** service.

### **Time for Submitting Applications under the White Form eIPO**

You may submit your application to the White Form eIPO Service Provider at [www.eipo.com.hk](http://www.eipo.com.hk) (24 hours daily, except on the last application day) from 9:00 a.m. on Tuesday, November 25, 2014 until 11:30 a.m. on Friday, November 28, 2014 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, November 28, 2014 or such later time under the “Effects of Bad Weather on the Opening of the Applications Lists” in this section.

### **No Multiple Applications**

If you apply by means of **White Form eIPO**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **White Form eIPO** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

## HOW TO APPLY FOR HONG KONG OFFER SHARES

### Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

### Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated White Form eIPO Service Provider, will contribute HK\$2 for each “Feiyu Technology International Company Ltd” **White Form eIPO** application submitted via [www.eipo.com.hk](http://www.eipo.com.hk) to support the funding of “Source of Dong Jiang — Hong Kong Forest” project initiated by Friends of the Earth (HK).

## 6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

### General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a **CCASS Investor Participant**, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

**Hong Kong Securities Clearing Company Limited**  
Customer Service Center  
1/F, One & Two Exchange Square  
8 Connaught Place, Central,  
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to the Company, the Joint Global Coordinators and our Hong Kong Share Registrar.

## HOW TO APPLY FOR HONG KONG OFFER SHARES

### Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
  - agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
  - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
  - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;
  - (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
  - (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
  - confirm that you understand that the Company, the Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
  - authorise the Company to place HKSCC Nominees' name on the Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
  - confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
  - confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
  - agree that none of the Company, the Joint Global Coordinators, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
  - agree to disclose your personal data to the Company, our Hong Kong Share Registrar, receiving banks, the Joint Global Coordinators, the Underwriters and/or its respective advisers and agents;
  - agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;

## HOW TO APPLY FOR HONG KONG OFFER SHARES

- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;
- agree with the Company, for itself and for the benefit of each Shareholder (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

### Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer

## HOW TO APPLY FOR HONG KONG OFFER SHARES

Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and

- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

### Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 1,500 Hong Kong Offer Shares. Instructions for more than 1,500 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

### Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

- Tuesday, November 25, 2014 — 9:00 a.m. to 8:30 p.m.<sup>(1)</sup>
- Wednesday, November 26, 2014 — 8:00 a.m. to 8:30 p.m.<sup>(1)</sup>
- Thursday, November 27, 2014 — 8:00 a.m. to 8:30 p.m.<sup>(1)</sup>
- Friday, November 28, 2014 — 8:00 a.m.<sup>(1)</sup> to 12:00 noon

Note:

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/ Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Tuesday, November 25, 2014 until 12:00 noon on Friday, November 28, 2014 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Friday, November 28, 2014, the last application day or such later time as described in “Effect of Bad Weather on the Opening of the Application Lists” in this section.

### No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

## HOW TO APPLY FOR HONG KONG OFFER SHARES

### Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

### Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by the Company, the Hong Kong Share Registrar, the receiving bankers, the Joint Global Coordinators, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

### 7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **White Form eIPO** service is also only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. The Company, the Directors, the Joint Bookrunners, the Joint Sponsors, the Joint Global Coordinators and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a WHITE or YELLOW Application Form, or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Friday, November 28, 2014.

### 8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.



## HOW TO APPLY FOR HONG KONG OFFER SHARES

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **White Form eIPO** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“**Unlisted company**” means a company with no equity securities listed on the Stock Exchange.

“**Statutory control**” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

### 9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** service in respect of a minimum of 1,500 Hong Kong Public Offer Shares. Each application or **electronic application instruction** in respect of more than 1,500 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at [www.eipo.com.hk](http://www.eipo.com.hk).

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed “Structure of the Global Offering — Pricing and Allocation.”

## HOW TO APPLY FOR HONG KONG OFFER SHARES

### 10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, November 28, 2014. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Friday, November 28, 2014 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable,” an announcement will be made in such event.

### 11. PUBLICATION OF RESULTS

The Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Thursday, December 4, 2014 in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on the Company’s website at [www.feiyuhk.com](http://www.feiyuhk.com) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Company’s website at [www.feiyuhk.com](http://www.feiyuhk.com) and the Stock Exchange’s website at [www.hkexnews.hk](http://www.hkexnews.hk) by no later than 9 a.m. on Thursday, December 4, 2014;
- from the designated results of allocations website at [www.iporesults.com.hk](http://www.iporesults.com.hk) with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Thursday, December 4, 2014 to 12:00 midnight on Wednesday, December 10, 2014;
- by telephone enquiry line by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Thursday, December 4, 2014 to Sunday, December 7, 2014;
- in the special allocation results booklets which will be available for inspection during opening hours from Thursday, December 4, 2014 to Saturday, December 6, 2014 at all the receiving bank branches and sub-branches.

If the Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed “Structure of the Global Offering.”

## HOW TO APPLY FOR HONG KONG OFFER SHARES

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

### 12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer shares will not be allotted to you:

#### (i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **White Form eIPO** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

#### (ii) If the Company or its agents exercise their discretion to reject your application:

The Company, the Joint Global Coordinators, the **White Form eIPO** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

#### (iii) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

## HOW TO APPLY FOR HONG KONG OFFER SHARES

**(iv) If:**

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- the Company or the Joint Global Coordinators believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

### **13. REFUND OF APPLICATION MONIES**

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK\$2.55 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with "Structure of the Global Offering — Conditions of the Hong Kong Public Offering" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on Thursday, December 4, 2014.

### **14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES**

You will receive one share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on YELLOW Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

## HOW TO APPLY FOR HONG KONG OFFER SHARES

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/ passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or around Thursday, December 4, 2014. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier’s order(s).

Share certificates will only become valid at 8:00 a.m. on Friday, December 5, 2014 provided that the Global Offering has become unconditional and the right of termination described in the “Underwriting” section in this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

### **Personal Collection**

#### ***(i) If you apply using a WHITE Application Form***

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from the Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, December 4, 2014 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation’s chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

## HOW TO APPLY FOR HONG KONG OFFER SHARES

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on Thursday, December 4, 2014, by ordinary post and at your own risk.

### **(ii) If you apply using a YELLOW Application Form**

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Thursday, December 4, 2014, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Thursday, December 4, 2014, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS participant (other than a CCASS investor participant)*

For Hong Kong Public Offering shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Public Offering shares allotted to you with that CCASS participant.

- *If you are applying as a CCASS investor participant*

The Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "Publication of Results" above. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. Thursday, December 4, 2014 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

### **(iii) If you apply through the White Form eIPO service**

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, December 4, 2014, or such other date as notified by the Company in the newspapers as the date of despatch/collection of Share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Thursday, December 4, 2014 by ordinary post at your own risk.



## HOW TO APPLY FOR HONG KONG OFFER SHARES

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

### **(iv) If you apply via Electronic Application Instructions to HKSCC**

#### *Allocation of Hong Kong Offer Shares*

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

#### *Deposit of Share Certificates into CCASS and Refund of Application Monies*

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Thursday, December 4, 2014, or, on any other date determined by HKSCC or HKSCC Nominees.
- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "Publication of Results" above on Thursday, December 4, 2014. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, December 4, 2014 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, December 4, 2014. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, December 4, 2014.

## HOW TO APPLY FOR HONG KONG OFFER SHARES

### 15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

*The following is the text of a report, prepared for inclusion in this prospectus, received from the independent reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong.*



Ernst & Young  
22/F, CITIC Tower  
1 Tim Mei Avenue  
Central, Hong Kong

25 November 2014

The Directors  
Feiyu Technology International Company Ltd.  
Citigroup Global Markets Asia Limited  
Merrill Lynch Far East Limited

Dear Sirs,

We set out below our report on the financial information of Feiyu Technology International Company Ltd. (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) comprising the combined statements of profit or loss, the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows of the Group for each of the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014 (the “Relevant Periods”), the combined statements of financial position of the Group as at 31 December 2011, 2012 and 2013 and 30 June 2014, and the statement of financial position of the Company as at 30 June 2014, together with the notes thereto (the “Financial Information”), and the comparative combined statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows of the Group for the six months ended 30 June 2013 (the “Interim Comparative Information”), prepared on the basis of presentation set out in Note 2.1 of Section II below, for inclusion in the prospectus of the Company dated 25 November 2014 (the “Prospectus”) in connection with the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 6 March 2014. Pursuant to a group reorganisation (the “Reorganisation”) as set out in Note 2.1 of Section II below, which was completed on 4 September 2014, the Company became the holding company of the subsidiaries now comprising the Group. Apart from the Reorganisation, the Company has not commenced any business or operation since its incorporation.

As at the date of this report, no statutory financial statements have been prepared for the Company, as the Company has not been involved in any significant business transaction other than the Reorganisation described above.

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in Note 16 of Section II below. All companies now comprising the Group have adopted 31 December as their financial year end date. The statutory financial statements of the companies now comprising the Group were prepared in accordance with the relevant accounting principles applicable to these companies in the countries in which they were incorporated and/or established. Details of their statutory auditors during the Relevant Periods are set out in Note 16 of Section II below.

For the purpose of this report, the directors of the Company (the "Directors") have prepared the combined financial statements of the Group (the "Underlying Financial Statements") in accordance with International Financial Reporting Standards ("IFRSs"), which include all International Financial Reporting Standards issued by the International Accounting Standards Board (the "IASB"). The Underlying Financial Statements for each of the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014 were audited by us in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustments made thereon.

### **DIRECTORS' RESPONSIBILITY**

The Directors are responsible for the preparation of the Underlying Financial Statements, the Financial Information and the Interim Comparative Information that give a true and fair view in accordance with IFRSs, and for such internal control as the Directors determine is necessary to enable the preparation of the Underlying Financial Statements, the Financial Information and the Interim Comparative Information that are free from material misstatement, whether due to fraud or error.

### **REPORTING ACCOUNTANTS' RESPONSIBILITY**

It is our responsibility to form an independent opinion and a review conclusion on the Financial Information and the Interim Comparative Information, respectively, and to report our opinion and review conclusion thereon to you.

For the purpose of this report, we have examined the Underlying Financial Statements and have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the HKICPA.

We have also performed a review of the Interim Comparative Information in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an opinion on the Interim Comparative Information.

### **OPINION IN RESPECT OF THE FINANCIAL INFORMATION**

In our opinion, for the purpose of this report and on the basis of presentation set out in Note 2.1 of Section II below, the Financial Information gives a true and fair view of the state of affairs of the Company as at 30 June 2014 and the Group as at 31 December 2011, 2012 and 2013 and 30 June 2014 and of the combined results and cash flows of the Group for each of the Relevant Periods.

**REVIEW CONCLUSION IN RESPECT OF THE INTERIM COMPARATIVE INFORMATION**

Based on our review which does not constitute an audit, for the purpose of this report, nothing has come to our attention that causes us to believe that the Interim Comparative Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

**I. FINANCIAL INFORMATION****Combined Statements of Profit or Loss**

	Section II	Year ended 31 December			Six months ended 30 June	
		2011	2012	2013	2013	2014
	Notes	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
REVENUE .....	5	33,011	158,729	145,037	75,373	129,230
Cost of sales .....		(286)	(4,938)	(6,699)	(2,607)	(16,877)
Gross profit .....		32,725	153,791	138,338	72,766	112,353
Other income and gains .	5	236	931	2,649	238	1,586
Selling and distribution expenses .....		(2,425)	(5,822)	(15,541)	(3,137)	(19,858)
Administrative expenses .		(787)	(4,289)	(37,746)	(33,511)	(19,483)
Research and development costs ....		(5,117)	(23,491)	(26,471)	(12,146)	(19,243)
Other expenses .....		(4)	(30)	(23)	(13)	(10)
PROFIT BEFORE TAX ...	6	24,628	121,090	61,206	24,197	55,345
Income tax expense .....	9	—	—	(10,249)	(6,724)	(2,729)
PROFIT FOR THE YEAR/PERIOD .....		<u>24,628</u>	<u>121,090</u>	<u>50,957</u>	<u>17,473</u>	<u>52,616</u>
Attributable to:						
Owners of the parent ..	11	24,628	121,517	52,623	18,161	51,418
Non-controlling interests .....		—	(427)	(1,666)	(688)	1,198
		<u>24,628</u>	<u>121,090</u>	<u>50,957</u>	<u>17,473</u>	<u>52,616</u>
Earnings per share attributable to equity holders of the parent Basic and diluted .....	12	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

Details of the dividends payable and proposed for the Relevant Periods are disclosed in Note 10 to the Financial Information.

## Combined Statements of Comprehensive Income

Section II	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
Notes	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
PROFIT FOR THE YEAR/PERIOD .....	<u>24,628</u>	<u>121,090</u>	<u>50,957</u>	<u>17,473</u>	<u>52,616</u>
OTHER COMPREHENSIVE INCOME					
Other comprehensive income to be reclassified to profit or loss in subsequent periods:					
Available-for-sale investments:					
Changes in fair value ..	58	572	1,661	39	835
Reclassification adjustments for gains included in the combined statement of profit or loss .....	<u>—</u>	<u>(526)</u>	<u>(1,711)</u>	<u>(136)</u>	<u>(678)</u>
	58	46	(50)	(97)	157
Net other comprehensive income to be reclassified to profit or loss in subsequent periods .....	<u>58</u>	<u>46</u>	<u>(50)</u>	<u>(97)</u>	<u>157</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR/PERIOD, NET OF TAX .....	<u>58</u>	<u>46</u>	<u>(50)</u>	<u>(97)</u>	<u>157</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD .....	<u>24,686</u>	<u>121,136</u>	<u>50,907</u>	<u>17,376</u>	<u>52,773</u>
Attributable to:					
Owners of the parent ..	11	24,686	121,563	52,573	18,064
Non-controlling interests .....		<u>—</u>	<u>(427)</u>	<u>(688)</u>	<u>1,198</u>
		<u>24,686</u>	<u>121,136</u>	<u>50,907</u>	<u>17,376</u>
		<u>52,773</u>	<u>52,773</u>	<u>52,773</u>	<u>52,773</u>



## Combined Statements of Financial Position

	Section II	As at 31 December			As at 30
		2011	2012	2013	June
		RMB'000	RMB'000	RMB'000	RMB'000
	Notes				
<b>NON-CURRENT ASSETS</b>					
Property, plant and equipment .	13	1,766	10,215	8,165	9,877
Goodwill .....	14	—	789	407,262	407,262
Intangible assets .....	15	—	2,185	75,710	65,309
Investment in an associate ....	17	—	—	—	4,750
Deferred tax assets .....	18	—	—	1,629	1,617
Total non-current assets .....		<u>1,766</u>	<u>13,189</u>	<u>492,766</u>	<u>488,815</u>
<b>CURRENT ASSETS</b>					
Accounts receivable .....	19	—	—	3,457	4,227
Receivables due from third-party game distribution platforms and payment channels .....	19	12,005	32,937	51,610	51,015
Prepayments, deposits and other receivables .....	20	54	1,740	1,847	8,562
Due from shareholders .....	29	210	23,641	3,334	2,059
Available-for-sale investments .	21	10,058	10,104	6,054	13,911
Cash and cash equivalents ....	22	7,260	38,515	123,426	97,966
Total current assets .....		<u>29,587</u>	<u>106,937</u>	<u>189,728</u>	<u>177,740</u>
<b>CURRENT LIABILITIES</b>					
Other payables and accruals ..	23	1,521	11,794	52,036	38,591
Tax payable .....		—	—	6,764	4,102
Deferred revenue .....	24	2,831	4,917	4,536	4,210
Dividends payable .....		10,000	45,000	60,000	—
Total current liabilities .....		<u>14,352</u>	<u>61,711</u>	<u>123,336</u>	<u>46,903</u>
NET CURRENT ASSETS .....		<u>15,235</u>	<u>45,226</u>	<u>66,392</u>	<u>130,837</u>
TOTAL ASSETS LESS CURRENT LIABILITIES .....		<u>17,001</u>	<u>58,415</u>	<u>559,158</u>	<u>619,652</u>
<b>NON-CURRENT LIABILITIES</b>					
Deferred tax liabilities .....	18	—	—	6,769	6,769
Deferred revenue .....	24	1,816	482	4,288	3,009
Total non-current liabilities .....		<u>1,816</u>	<u>482</u>	<u>11,057</u>	<u>9,778</u>
NET ASSETS .....		<u>15,185</u>	<u>57,933</u>	<u>548,101</u>	<u>609,874</u>
<b>EQUITY</b>					
Equity attributable to owners of the parent					
Issued capital .....	25	—	—	—	1
Reserves .....	26	15,185	57,553	549,100	609,674
Equity attributable to owners of the parent .....		<u>15,185</u>	<u>57,553</u>	<u>549,100</u>	<u>609,675</u>
Non-controlling interests .....		—	380	(999)	199
Total equity .....		<u>15,185</u>	<u>57,933</u>	<u>548,101</u>	<u>609,874</u>

### Combined Statements of Changes in Equity

Year ended 31 December 2011

Section II	Attributable to owners of the parent								
	Notes	Paid-in capital	Statutory reserve	Other reserves	Available-for-sale investment revaluation reserve	Available-for-sale (Accumulated losses)/ retained profits	Total	Non-controlling interests	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2011 . . . . .		—	—	500	—	(501)	(1)	—	(1)
Profit for the year . . . . .		—	—	—	—	24,628	24,628	—	24,628
Other comprehensive income for the year:									
Changes in fair value of available-for-sale investments, net of tax . . . . .		—	—	—	58	—	58	—	58
Total comprehensive income for the year . . . . .		—	—	—	58	24,628	24,686	—	24,686
Contribution by shareholders . . . . .		—	—	500	—	—	500	—	500
Distribution to the then shareholders of a subsidiary . . . . .	10	—	—	—	—	(10,000)	(10,000)	—	(10,000)
Appropriation for reserve funds . . . . .		—	500	—	—	(500)	—	—	—
At 31 December 2011 . . . . .		—	500*	1,000*	58*	13,627*	15,185	—	15,185

Year ended 31 December 2012

Section II	Attributable to owners of the parent								
	Notes	Paid-in capital	Statutory reserve	Other reserves	Available-for-sale investment revaluation reserve	Retained profits	Total	Non-controlling interests	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2012 . . . . .		—	500	1,000	58	13,627	15,185	—	15,185
Profit for the year . . . . .		—	—	—	—	121,517	121,517	(427)	121,090
Other comprehensive income for the year:									
Changes in fair value of available-for-sale investments, net of tax . . . . .		—	—	—	46	—	46	—	46
Total comprehensive income for the year . . . . .		—	—	—	46	121,517	121,563	(427)	121,136
Contribution by shareholders . . . . .		—	—	—	—	—	—	400	400
Acquisition of subsidiaries . . . . .		—	—	—	—	—	—	407	407
Distribution to the then shareholders of a subsidiary . . . . .	10	—	—	—	—	(79,195)	(79,195)	—	(79,195)
At 31 December 2012 . . . . .		—	500*	1,000*	104*	55,949*	57,553	380	57,933

Year ended 31 December 2013

		Attributable to owners of the parent							
Section II		Paid-in capital	Statutory reserve	Other reserves	Available-for-sale investment revaluation reserve	Retained profits	Total	Non-controlling interests	Total equity
Notes		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	At 1 January 2013 . . . . .	—	500	1,000	104	55,949	57,553	380	57,933
	Profit for the year . . . . .	—	—	—	—	52,623	52,623	(1,666)	50,957
	Other comprehensive income for the year:								
	Changes in fair value of available-for-sale investments, net of tax . . . . .	—	—	—	(50)	—	(50)	—	(50)
	Total comprehensive income for the year . . . . .	—	—	—	(50)	52,623	52,573	(1,666)	50,907
	Contribution by non-controlling shareholders . . . . .	—	—	—	—	—	—	250	250
	Acquisition of non-controlling interests . . . . .	—	—	(5,712)	—	—	(5,712)	37	(5,675)
	Share-based payment to a Director . . . . .	—	—	28,819	—	—	28,819	—	28,819
	Acquisition of a subsidiary . . . . . 27	—	—	486,921	—	—	486,921	—	486,921
	Distribution to the then shareholders of a subsidiary . . . . . 10	—	—	—	—	(71,054)	(71,054)	—	(71,054)
	Appropriation for reserve funds . . . . .	—	108	—	—	(108)	—	—	—
	At 31 December 2013 . . . . .	—	608*	511,028*	54*	37,410*	549,100	(999)	548,101

## Six months ended 30 June 2014

Section II	Attributable to owners of the parent								
	Paid-in capital	Share premium	Statutory reserve	Other reserves	Available-for-sale investment revaluation reserve	Retained profits	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Notes									
At 1 January 2014 . . . . .	—	—	608	511,028	54	37,410	549,100	(999)	548,101
Profit for the period . . . . .	—	—	—	—	—	51,418	51,418	1,198	52,616
Other comprehensive income for the period:									
Changes in fair value of available-for-sale investments, net of tax . . . . .	—	—	—	—	157	—	157	—	157
Total comprehensive income for the period . . . . .	—	—	—	—	157	51,418	51,575	1,198	52,773
Contribution by shareholders . . . . .	—	—	—	9,000	—	—	9,000	—	9,000
Issue of shares . . . . .	1	(1)	—	—	—	—	—	—	—
At 30 June 2014 . . . . .	1	(1)*	608*	520,028*	211*	88,828*	609,675	199	609,874

## Six months ended 30 June 2013 (unaudited)

Section II	Attributable to owners of the parent								
	Paid-in capital	Statutory reserve	Other reserves	Available-for-sale investment revaluation reserve	Retained profits	Total	Non-controlling interests	Total equity	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Notes									
At 1 January 2013 . . . . .	—	500	1,000	104	55,949	57,553	380	57,933	
Profit for the period . . . . .	—	—	—	—	18,161	18,161	(688)	17,473	
Other comprehensive income for the period:									
Changes in fair value of available-for-sale investments, net of tax . . . . .	—	—	—	(97)	—	(97)	—	(97)	
Total comprehensive income for the period . . . . .	—	—	—	(97)	18,161	18,064	(688)	17,376	
Contribution by non-controlling shareholders . . . . .	—	—	—	—	—	—	250	250	
Share-based payment to a Director . . . . .	—	—	28,819	—	—	28,819	—	28,819	
At 30 June 2013 (unaudited) . . . . .	—	500*	29,819*	7*	74,110*	104,436	(58)	104,378	

\* These reserve accounts comprise the combined reserves of RMB15,185,000 RMB57,553,000, RMB549,100,000 and RMB609,674,000 in the combined statements of financial position as at 31 December 2011, 2012 and 2013 and 30 June 2014, respectively.

## Combined Statements of Cash Flows

	Section II Notes	Year ended 31 December			Six months ended 30 June	
		2011	2012	2013	2013	2014
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Profit before tax: .....		24,628	121,090	61,206	24,197	55,345
Adjustments for:						
Bank interest income .....	5	(20)	(105)	(39)	(22)	(102)
Depreciation .....	13	69	1,739	3,271	1,662	1,853
Amortisation .....	15	—	95	1,140	570	10,831
Share-based payment to a Director .....		—	—	28,819	28,819	—
Fair value gains, net:						
Available-for-sale investments (transfer from equity) .....	5	—	(526)	(1,711)	(136)	(678)
		<u>24,677</u>	<u>122,293</u>	<u>92,686</u>	<u>55,090</u>	<u>67,249</u>
Increase in accounts receivable .....		—	—	—	—	(770)
(Increase)/decrease in receivables due from third-party game distribution platforms and payment channels .....		(12,005)	(20,889)	16,914	(2,640)	595
(Increase)/decrease in prepayments, deposits and other receivables ....		(52)	(1,666)	1,483	722	(6,286)
Increase/(decrease) in other payables and accruals ....		1,511	9,825	(1,144)	(4,414)	19,691
Increase/(decrease) in deferred revenue .....		4,647	752	3,425	(1,641)	(1,605)
Increase in amounts due from a related party .....		—	(34,195)	(11,054)	(18,997)	—
(Increase)/decrease in amounts due from shareholders .....		—	(941)	(2,393)	(1,118)	1,275
Cash generated from operations .....		<u>18,778</u>	<u>75,179</u>	<u>99,917</u>	<u>27,002</u>	<u>80,149</u>
Income tax paid .....		<u>—</u>	<u>—</u>	<u>(5,350)</u>	<u>(1,745)</u>	<u>(5,380)</u>
Net cash flows from operating activities .....		<u>18,778</u>	<u>75,179</u>	<u>94,567</u>	<u>25,257</u>	<u>74,769</u>

Section II	Year ended 31 December			Six months ended 30 June		
	2011	2012	2013	2013	2014	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
	Notes			(unaudited)		
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest received	5	20	105	39	22	102
Purchases of items of property, plant and equipment		(1,832)	(9,993)	(2,390)	(1,449)	(3,994)
Additions to intangible assets	15	—	(2,280)	—	—	(430)
Proceeds from disposal of items of property, plant and equipment		—	—	1,325	1,325	—
Purchases of available-for-sale investments	21	(10,000)	(70,000)	(66,500)	(5,000)	(13,700)
Proceeds from disposal of available-for-sale investments	21	—	70,526	72,211	10,136	6,678
Investment in an associate	17	—	—	—	—	(4,750)
Acquisition of non-controlling interests		—	—	(550)	—	(2,125)
Acquisition of subsidiaries	27	—	(192)	8,259	—	(31,010)
Loans to shareholders		(210)	(22,700)	—	—	—
Repayment of loans from shareholders		—	210	13,380	13,380	—
Net cash flows from/(used in) investing activities		(12,022)	(34,324)	25,774	18,414	(49,229)
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from capital injection		500	—	—	—	9,000
Capital contribution by non-controlling shareholders		—	400	250	250	—
Dividends paid		—	(10,000)	(35,680)	(35,680)	(60,000)
Net cash flows from/(used in) financing activities		500	(9,600)	(35,430)	(35,430)	(51,000)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS						
Cash and cash equivalents at beginning of year/period		4	7,260	38,515	38,515	123,426
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		7,260	38,515	123,426	46,756	97,966



Section II	Year ended 31 December			Six months ended 30 June		
	2011	2012	2013	2013	2014	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Notes				(unaudited)		
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS						
Cash and cash equivalents as stated in the combined statements of financial position .....	22	<u>7,260</u>	<u>38,515</u>	<u>123,426</u>	<u>46,756</u>	<u>97,966</u>
MAJOR NON-CASH TRANSACTIONS:						
Dividends payable offset with amounts due from shareholders .....		—	—	9,320	9,320	—
Dividends declared in current year/period to offset with an amount due from a related party: Lightbeam Information Technology Co., Ltd. ...		—	34,195	11,054	—	—
		<u>—</u>	<u>34,195</u>	<u>20,374</u>	<u>9,320</u>	<u>—</u>

## Statement of Financial Position

	Section II	As at 30 June 2014
	Notes	RMB'000
NON-CURRENT ASSETS		
Investment in subsidiaries .....	16	—
Total non-current assets .....		—
CURRENT LIABILITIES		
Other payables and accruals .....	23	12,309
Total current liabilities .....		12,309
NET CURRENT LIABILITIES .....		(12,309)
NET LIABILITIES .....		(12,309)
EQUITY		
Issued capital .....	25	1
Reserves .....	26	(12,310)
Total equity .....		(12,309)

## II. NOTES TO THE FINANCIAL INFORMATION

### 1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 6 March 2014 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The registered office of the Company is located at the offices of Codan Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. Particulars of the companies now comprising the Group are set out in Note 16 of Section II below. The Group is principally engaged in the operation and development of web and mobile games in Mainland China. The Group underwent the Reorganisation as set out in the section headed "Our History, Reorganization and Corporate Structure" in the Prospectus. Upon completion of the Reorganisation, the Company became the holding company of the subsidiaries now comprising the Group.

### 2.1 BASIS OF PRESENTATION

Under the prevailing laws and regulations in the People's Republic of China (the "PRC"), companies with foreign ownership are prohibited from game operation business in Mainland China. The Group historically operated its online games operation and single player game operation in Mainland China through Xiamen Guanghuan Information Technology Co., Ltd. ("Xiamen Guanghuan") and its subsidiaries.

A series of contractual agreements (the "Guanghuan Structured Contracts") was effectuated on 4 September 2014 among Xiamen Guanghuan, Xiamen Feiyou Information Technology Co., Ltd. ("Xiamen Feiyou") and Mr. Yao Jianjun, Mr. Chen Jianyu, Mr. Bi Lin, Mr. Lin Zhibin, Mr. Lin Jiabin, Ms. Chen Yongchun and Mr. Cai Wensheng (collectively, the "Registered Shareholders") who are the legal shareholders of Xiamen Guanghuan.

The Guanghuan Structured Contracts provide the Group through Xiamen Feiyou with effective control over Xiamen Guanghuan. In particular, Xiamen Feiyou undertakes to provide Xiamen Guanghuan with certain technical services as required to support their operations. In return, Xiamen Feiyou is entitled to substantially all of the operating profits and residual benefits generated by Xiamen Guanghuan through intercompany charges levied on these services rendered. The Registered Shareholders are also required to transfer their interests in Xiamen Guanghuan to Xiamen Feiyou or Xiamen Feiyou's designee upon a request made by Xiamen Feiyou when permitted by the PRC laws for a consideration, as permitted under the PRC laws. The ownership interests in Xiamen Guanghuan have also been pledged by the Registered Shareholders to Xiamen Feiyou in respect of the continuing obligations of Xiamen Guanghuan. Xiamen Feiyou intends continuously to provide to or assist Xiamen Guanghuan in obtaining financial support when deemed necessary. Accordingly, Xiamen Feiyou has rights to variable returns from its involvement with Xiamen Guanghuan and has the ability to affect those returns through its power over Xiamen Guanghuan.

As a result, Xiamen Guanghuan was accounted for as a subsidiary of the Company. The formation of the Guanghuan Structured Contracts for Xiamen Guanghuan was accounted for as a transaction without substance and the Group consolidated Xiamen Guanghuan as if it was in the Group from the beginning of the Relevant Periods.

On 31 October 2014, a new set of contractual agreements was effectuated among two subsidiaries of Xiamen Guanghuan, namely Xiamen Youli Information Technology Co., Ltd. ("Xiamen Youli") and Beijing Kailuo Tianxia Technology Co., Ltd. ("Kailuo Tianxia"), and Xiamen Feiyou and Xiamen Guanghuan (the "Youli and Kailuo Structured Contracts").

The Youli and Kailuo Structured Contracts provide the Group through Xiamen Feiyou with effective control over Xiamen Youli and Kailuo Tianxia. In particular, Xiamen Feiyou undertakes to provide Xiamen Youli and Kailuo Tianxia with certain technical services as required to support their operations. In return, Xiamen Feiyou is entitled to substantially all of the operating profits and residual benefits generated by Xiamen Youli and Kailuo Tianxia through intercompany charges levied on these services rendered. Xiamen Guanghuan, being the registered shareholder of Xiamen Youli and Kailuo Tianxia, is also required to transfer its interests in Xiamen Youli and Kailuo Tianxia to Xiamen Feiyou or Xiamen Feiyou's designee upon a request made by Xiamen Feiyou when permitted by the PRC laws for a consideration, as permitted under the PRC laws. The ownership interests in Xiamen Youli and Kailuo Tianxia have also been pledged by Xiamen Guanghuan to Xiamen Feiyou in respect of the continuing obligations of Xiamen Youli and Kailuo Tianxia. Xiamen Feiyou intends continuously to provide to or assist Xiamen Youli and Kailuo Tianxia in obtaining financial support when deemed necessary. Accordingly, Xiamen Feiyou has rights to variable returns from its involvement with Xiamen Youli and Kailuo Tianxia and has the ability to affect those returns through its power over Xiamen Youli and Kailuo Tianxia.

As a result, Xiamen Youli and Kailuo Tianxia were accounted for as subsidiaries of the Company. The formation of the Youli and Kailuo Structured Contracts for Xiamen Youli and Kailuo Tianxia was accounted for as a business combination under common control. The assets and liabilities of Xiamen Youli and Kailuo Tianxia were stated at its historical carrying amount.

## 2.2 BASIS OF PREPARATION

The Financial Information has been prepared in accordance with IFRSs which comprise all standards and interpretations approved by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance. All IFRSs effective for the accounting period commencing from 1 January 2014, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Financial Information throughout the Relevant Periods.

The Financial Information has been prepared under the historical cost convention except available-for-sale investments, which has been measured at fair value. The Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

### 3.1 Issued but not yet effective IFRSs

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

IFRS 9	<i>Financial Instruments</i> <sup>4</sup>
IFRS 9, IFRS 7 and IAS 39 Amendments	<i>Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39</i> <sup>4</sup>
IFRS 10 and IAS 28 Amendments	Proposed amendments to IFRS10 <i>Consolidated Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>2</sup>
IFRS 11 Amendments	Amendments to IFRS 11 <i>Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations</i> <sup>2</sup>
IFRS 14	<i>Regulatory Deferral Accounts</i> <sup>2</sup>
IFRS 15	<i>Revenue from Contracts with Customers</i> <sup>3</sup>
IAS 19 Amendments	Amendments to IAS 19 <i>Employee Benefits – Defined Benefit Plans: Employee Contributions</i> <sup>1</sup>
IAS 16 and IAS 38 Amendments	Amendments to IAS 16 <i>Property, Plant and Equipment</i> and IAS 38 <i>Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortisation</i> <sup>2</sup>
IAS 16 and IAS 41 Amendments	Amendments to IAS 16 <i>Property, Plant and Equipment</i> and IAS 41 <i>Agriculture – Agriculture: Bearer Plants</i> <sup>2</sup>
IAS 27 Amendments	Proposed amendments to IAS 27 <i>Separate Financial Statements – Equity Method in Separate Financial Statements</i> <sup>2</sup>
<i>Annual Improvements 2010-2012 Cycle</i>	Amendments to a number of IFRSs issued in December 2013 <sup>1</sup>
<i>Annual Improvements 2011-2013 Cycle</i>	Amendments to a number of IFRSs issued in December 2013 <sup>1</sup>
<i>Annual Improvements 2012-2014 Cycle</i>	Amendments to a number of IFRSs issued in September 2014 <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2014

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2016

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2017

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2018

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Group considers that these new and revised IFRSs may result in changes in accounting policies and are unlikely to have a significant impact on the Group's results of operations and financial position.

In addition, the new Hong Kong Companies Ordinance (Cap. 622) will affect the presentation and disclosure of certain information in the combined financial statements for the year ending 31 December 2015. The Group is in the process of making an assessment of the impact of these changes.

### 3.2 Summary of significant accounting policies

#### **Subsidiaries**

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with IFRS 5 are stated at cost less any impairment losses.

#### **Business combinations and goodwill**

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or

groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

#### ***Fair value measurement***

The Group measures its equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

#### ***Impairment of non-financial assets***

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, financial assets, investment properties, goodwill and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.



An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

***Related parties***

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
  - (i) the entity and the Group are members of the same group;
  - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
  - (iii) the entity and the Group are joint ventures of the same third party;
  - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a); and
  - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

***Property, plant and equipment and depreciation***

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalized in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

<b>Category</b>	
Office equipment and furniture	32%
Electronic equipment	19%
Motor vehicles	24%
Leasehold improvement	20%–33%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

#### ***Intangible assets (other than goodwill)***

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Software – Software assets are amortised on a straight-line basis over the shorter of the estimated useful lives and the period stipulated by law. The estimated useful lives are 2-3 years.

Game intellectual properties and licences – Games named Carrot Fantasy I and Carrot Fantasy II acquired from business combinations are amortised over their estimated remaining beneficial years on a straight-line basis. The estimated remaining beneficial years are 3 years and 4 years, respectively.

#### ***Research and development costs***

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

#### ***Leases***

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

#### ***Investments and other financial assets***

##### ***Initial recognition and measurement***

Financial assets are classified, at initial recognition, as loans and receivables and available-for-sale financial investments as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

*Subsequent measurement*

The subsequent measurement of financial assets depends on their classification as follows:

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

*Available-for-sale financial investments*

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

***Derecognition of financial assets***

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's combined statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

***Impairment of financial assets***

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

***Financial assets carried at amortised cost***

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

***Available-for-sale financial investments***

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

### **Financial liabilities**

#### *Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as loans and borrowings.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include other payables and accruals.

#### *Subsequent measurement*

The subsequent measurement of financial liabilities depends on their classification as follows:

#### *Loans and borrowings*

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

#### **Derecognition of financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

#### **Cash and cash equivalents**

For the purpose of the combined statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

#### **Provisions**

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

#### ***Income tax***

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

#### ***Government grants***

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

#### ***Revenue recognition***

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably.



(a) *Game operation*

1. Online web and mobile games

The Group's online games allow players to play for free. Players can purchase in-game virtual currency, which can be used to obtain in-game items and premium features, commonly known as virtual items, to enhance their game-playing experience.

The Group operates its online games through cooperation with various third-party game distribution platforms including online application stores, web-based and mobile game portals and derives its revenue from sales of in-game currency and items. The Group is responsible for providing ongoing updates of new contents, technical support for the operation of the games. The platforms are responsible for distribution, marketing, platform maintenance and payment collections from players. Players purchase the Group's in-game currency through the platforms' own charging systems by remitting the payment directly to the platforms. After deducting the commission charged by the platforms, the platforms remit the rest of net proceeds to the Group. The portion of the proceeds received by the Group is calculated based on the standard price of in-game virtual currency sold and agreed share ratio in contracts with platforms.

Certain third-party platforms like mobile game portals offer various marketing discounts from time to time to players to encourage spending on these platforms. The actual prices paid by individual players may be lower than the standard prices of virtual currency. Such marketing discounts are neither available to be tracked reliably nor borne by the Group. As such, the Group is not able to make a reasonable estimate of the gross revenue (ie. the actual prices paid by the players). For revenue related to these platforms, it is measured at the fair value of the consideration received or receivable, which is the net amount from these third-party platforms. The other third-party platforms like Apple application stores do not offer discounts to players and deduct a fixed percentage of purchase amount by players. For these platforms, revenue is recognised at gross amount and commission charged by these platforms is recorded in selling and distribution expense as channel cost.

The in-game items and premium features, which are purchased by virtual currency, are considered value-added services and rendered over a pre-specified period or throughout the whole game life. Once the players purchase virtual currency, the proceeds are recorded in deferred revenue and recognised in revenue after the virtual currency is used to purchase in-game items or premium features which is either upon consumption or ratably over the practical usage period predetermined in the game or throughout the estimated user life of paying players as appropriate. The Group monitors the operational statistics and usage patterns of the virtual items. During the Relevant Periods, most of the Group's in-game items and premium features were consumable and consumed upon purchase immediately. As such, the Group's deferred revenue as of the period end of each of the Relevant Periods stands for the balance of virtual currency not yet spent.

2. Single player mobile game

The Group's single player games are played on individual mobile devices and allow players to play for free. Players can purchase in-game items and premium features, commonly known as virtual items, to enhance their game-playing experience. The Group distributes its single player games through cooperation with various third-party game distribution platforms including mobile operators, online application stores, mobile game portals and derives its revenue from sales of in-game virtual items. The Group is responsible for technical support for the operation of the games. The third-party platforms are responsible for distribution, marketing, platform maintenance and payment collections from players. Players purchase the Group's in-game items through the platforms' own charging systems by remitting the payment directly to the platforms. After deducting the commission charged by the platforms, the platforms remit the rest of net proceeds to the Group. The portion of the proceeds received by the Group is calculated based on the standard price of in-game virtual items sold and agreed share ratio in contracts with platforms.

Certain third-party platforms like mobile operators offer various marketing discounts from time to time to players to encourage spending in these platforms. The actual prices paid by individual players may be lower than the standard prices of virtual item. Such marketing discounts are neither available to be tracked reliably nor borne by the Group. As such, the Group is not able to make a reasonable estimate of the gross revenue (ie. the actual prices paid by the players). For revenue related to these platforms, it is measured at the fair value of the consideration received or receivable, which is the net amount from these third party platforms. The other third party platforms like Apple application stores do not offer discounts to players and deduct a fixed percentage of purchase amount by players. For these platforms, revenue is recognised at gross amount and commission charged by these platforms is recorded in selling and distribution expenses as channel cost.

Since the single player games are downloaded and installed on each individual mobile device, the Group does not have the obligation for game maintenance once the game is downloaded and neither has the access to the game data on each mobile device. Revenue is recognised upon the purchase of virtual items by players. The cost of providing ongoing technical support for the operation of the games is considered to be insignificant.

(b) *Online game distribution*

The Group publishes third party developers' games on its own game distribution platform, 737 Platform. The Group generates its revenue by charging commission to game developers based on a certain portion of the purchase amount for in-game currency remitted by players through the Group's charging system. After deducting the commission charged by the Group, the Group remits the rest of the amount to the game developers. Revenue is measured at the amount of the commission and recognised upon the purchase action by players.

(c) *Licensing income*

The Group receives royalty income from third-party licencees in exchange for the exclusive operation of the Group's self-developed games in certain regions and providing related technical support. The royalty fees include an upfront fee and, in certain cases, an additional fee during the contracted licence period, which is determined based on an agreed amount when accumulated virtual currency purchased by the players with accounts registered with the third parties exceeds certain amounts. The upfront fee is recognised ratably over the contracted licence period. The additional royalty fee is recognised upon the actual purchase by the players exceeds the agreed amount in contract.

(d) *Technical service income*

The Group derives revenue from technical services provided and related intellectual property rights sold. Technical service revenue is recognised when technical support services are rendered.

(e) *Advertising revenue*

Online advertising revenue is derived principally from online advertising arrangements. The Group enters into advertising arrangements with advertisers to allow them to place advertisements on particular areas of the Group's games. Advertising revenue from an advertising arrangement is recognised either ratably over the displaying period of the advertisement or upon particular action by players, ie., click, download or activate.

(f) *Interest income*

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset.

**Share-based payment transactions**

The shareholders have granted to a Director certain shares in a subsidiary of the Company as a reward for the Director's services to the Group. The reward cost was measured at the fair value of the granted shares and expensed to the statements of profit or loss as Directors' remuneration.

**Other employee benefits***Pension scheme*

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

**Dividends**

Final dividends proposed by the Directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

**Foreign currencies**

These financial statements are presented in RMB, which is the Group's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item.

The functional currencies of certain overseas subsidiaries, joint ventures and associates are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the combined statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

**3.3 Significant accounting judgements and estimates**

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

**Estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

*Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2011, 2012 and 2013 and 30 June 2014 was zero, RMB789,000, RMB407,262,000 and RMB407,262,000, respectively. Further details are given in note 14.

*Impairment of non-financial assets (other than goodwill)*

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

*Deferred tax assets*

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. No deferred tax assets relating to tax losses was recognised at 31 December 2011, 2012 and 2013 and 30 June 2014. The amount of unrecognised tax losses at 31 December 2011, 2012 and 2013 and 30 June 2014 was zero, RMB4,219,000, RMB4,606,000 and RMB4,188,000, respectively. Further details are contained in note 18 to the Financial Information.

*Online game operation recognition**Estimation of the sales value of unutilised virtual currency*

During the Relevant Periods, most of our in-game items and premium features are consumable virtual items and consumed immediately upon purchase using in-game virtual currency. Therefore, for the purpose of revenue recognition, our online game revenue is recognised based on the actual consumption of the virtual currency. Income received in respect of unutilised virtual currency is recognised as deferred revenue. As to the amount of deferred revenue in respect of unutilised virtual currency, management's estimation is required in determining the average sales value of those unutilised virtual currency because besides virtual currencies sold to players, there are a number of virtual currencies that were granted to players free of charge after players complete certain tasks within the games.

In assessing the amount of average sales value for the virtual currency, management considers the weighted average sales value of both virtual currencies sold and virtual currencies granted for free.

**4. OPERATING SEGMENT INFORMATION****Information about geographical areas**

Since the majority of the Group's revenue and operating profit were generated from the provision of online game services in Mainland China, all of the Group's identifiable assets and liabilities were located in Mainland China, and overseas income from any individual district did not exceed 10% of total revenue, no geographical segment information is presented in accordance with IFRS 8 *Operating Segments*.

**Information about major customers**

No revenue from the Company's sales to a single customer amounted to 10% or more of the Group's revenue during the Relevant Periods.

## 5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the services rendered after allowances for chargebacks, and the royalties derived from licensing agreements.

An analysis of revenue, other income and gains is as follows:

**Group**

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
<b>Revenue</b>					
Online web and mobile games . . . . .	32,205	154,680	134,769	68,525	87,404
Single player mobile game . . . . .	—	—	—	—	31,925
Game operation . . . . .	32,205	154,680	134,769	68,525	119,329
– Gross basis . . . . .	—	—	18,432	—	48,045
– Net basis . . . . .	32,205	154,680	116,337	68,525	71,284
Online game distribution . . . . .	—	1,349	3,708	1,216	1,844
Licensing income . . . . .	806	2,700	1,942	1,101	625
Advertising revenue . . . . .	—	—	389	302	7,432
Technical service income . . . . .	—	—	4,229	4,229	—
	<u>33,011</u>	<u>158,729</u>	<u>145,037</u>	<u>75,373</u>	<u>129,230</u>

**Group**

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
<b>Other income</b>					
Government grants . . . . .	216	300	899	80	806
Bank interest income . . . . .	20	105	39	22	102
	<u>236</u>	<u>405</u>	<u>938</u>	<u>102</u>	<u>908</u>

**Gains**

Fair value gains, net:

Available-for-sale investments (transfer from equity on disposal) . . . . .	—	526	1,711	136	678
	<u>236</u>	<u>931</u>	<u>2,649</u>	<u>238</u>	<u>1,586</u>

**6. PROFIT BEFORE TAX**

The Group's profit before tax is arrived at after charging/(crediting):

**Group**

	Notes	Year ended 31 December			Six months ended 30 June	
		2011	2012	2013	2013	2014
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(unaudited)	
Research and development costs . . . . .		5,117	23,491	26,471	12,146	19,243
Channel costs . . . . .		—	—	5,880	—	9,719
Rental fee (including servers) . . . . .		—	2,285	2,956	1,354	3,308
Depreciation . . . . .	13	69	1,739	3,271	1,662	1,853
Amortisation . . . . .	15	—	95	1,140	570	10,831
Advertising expense . . . . .		305	4,612	9,083	3,137	6,583
Auditor's remuneration . . . . .		—	—	170	11	1,174
Employee benefit expense						
Salaries and wages . . . . .		3,705	18,453	28,044	12,341	20,411
Pension scheme contributions . . . . .		406	1,240	2,509	776	2,470
Other share-based payment expense . . . . .		—	—	28,819	28,819	—
		4,111	19,693	59,372	41,936	22,881
Impairment of other receivables . . . . .	20	—	—	1,200	1,200	—
Bank interest income . . . . .	5	(20)	(105)	(39)	(22)	(102)
Government grants . . . . .	5	(216)	(300)	(899)	(80)	(806)
IPO expense . . . . .		—	—	—	—	12,899

**7. DIRECTORS' REMUNERATION**

Directors' remuneration during the Relevant Periods, disclosed pursuant to the Listing Rules and Section 78 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), is as follows:

**Group**

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Fees . . . . .	—	—	—	—	—
Other emoluments:					
Salaries, allowances and benefits in kind . . . . .	533	915	1,751	795	1,210
Performance related bonuses . . . . .	162	973	434	215	118
Other share-based payment expense . . . . .	—	—	28,819	28,819	—
Pension scheme contributions . . . . .	18	18	105	46	91
	713	1,906	31,109	29,875	1,419

The Company did not have any non-executive Directors and independent non-executive Directors at any time during the Relevant Periods.

Mr. Yao Jianjun, Mr. Bi Lin and Mr. Chen Jianyu were appointed as executive Directors of the Company on 6 March 2014. Mr. Lin Zhibin, Mr. Lin Jiabin and Mr. Sun Zhiyan were appointed as executive Directors of the Company on 26 August 2014.



Certain of the Directors received remuneration from the subsidiaries now comprising the Group for their appointment as Directors of these subsidiaries. During the year ended 31 December 2013, one of the Directors was granted shares by the shareholders in respect of his services to the Group. The fair value of such shares, which has been recognised in the statements of profit or loss, is included in the above Directors' remuneration disclosures.

The remuneration of each of these Directors as recorded in the financial statements of the subsidiaries is set out below:

*Year ended 31 December 2011*

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Mr. Bi Lin . . . . .	—	181	54	6	241
Mr. Lin Zhibin . . . . .	—	177	54	6	237
Mr. Lin Jiabin . . . . .	—	175	54	6	235
	—	533	162	18	713

*Year ended 31 December 2012*

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Mr. Bi Lin . . . . .	—	275	311	6	592
Mr. Lin Zhibin . . . . .	—	320	331	6	657
Mr. Lin Jiabin . . . . .	—	320	331	6	657
	—	915	973	18	1,906

*Year ended 31 December 2013*

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Other share-based payment	Pension scheme contributions	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Mr. Yao Jianjun . . . . .	—	320	161	28,819	35	29,335
Mr. Bi Lin . . . . .	—	389	111	—	28	528
Mr. Lin Zhibin . . . . .	—	505	65	—	34	604
Mr. Lin Jiabin . . . . .	—	537	97	—	8	642
	—	1,751	434	28,819	105	31,109

Six months ended 30 June 2014

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Mr. Yao Jianjun . . . . .	—	192	32	20	244
Mr. Bi Lin . . . . .	—	198	22	15	235
Mr. Lin Zhibin . . . . .	—	260	32	20	312
Mr. Lin Jiabin . . . . .	—	262	32	4	298
Mr. Sun Zhiyan . . . . .	—	149	—	16	165
Mr. Chen Jianyu . . . . .	—	149	—	16	165
	—	1,210	118	91	1,419

Six months ended 30 June 2013 (unaudited)

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Other share-based payment	Pension scheme contributions	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Mr. Yao Jianjun . . . . .	—	128	80	28,819	15	29,042
Mr. Bi Lin . . . . .	—	185	55	—	13	253
Mr. Lin Zhibin . . . . .	—	241	32	—	14	287
Mr. Lin Jiabin . . . . .	—	241	48	—	4	293
	—	795	215	28,819	46	29,875

There was no arrangement under which a Director waived or agreed to waive any remuneration during the Relevant Periods.

#### 8. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals included 3, 3, 4 and 4 Director for the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014, and details of whose remuneration are set out in Note 7 above. Details of the remuneration of the remaining 2, 2, 1 and 1 non-Director, highest paid employees for the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014, respectively, are as follows:

#### Group

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Salaries, allowances and benefits in kind . . . . .	359	612	550	270	500
Performance related bonuses . . . . .	108	971	61	30	—
Pension scheme contributions . . . . .	11	50	37	18	—
	478	1,633	648	318	500

The number of non-Director, highest paid employees whose remuneration fell within the following band is as follows:

**Group**

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Nil to RMB1,000,000	2	2	1	1	1

**9. INCOME TAX**

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly is not subject to income tax.

Under the relevant income tax law, the PRC subsidiaries are subject to income tax at a statutory rate of 25% for the Relevant Periods on their respective taxable income, except for Xiamen Guanghuan, Xiamen Youli, Xiamen Yidou Internet Technology Co., Ltd. ("Xiamen Yidou") and Kailuo Tianxia, which were certified as Software Enterprises and are exempted from income tax for two years starting from the first year in which it generates taxable profit, followed by a 50% reduction for the next three years. 2011, 2013 and 2013 is the first profitable year for Xiamen Guanghuan, Xiamen Youli and Kailuo Tianxia, respectively.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

**Group**

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Current tax	—	—	11,878	7,481	2,717
Deferred tax (note 18)	—	—	(1,629)	(757)	12
Total tax charge for the year/period	—	—	10,249	6,724	2,729

A reconciliation of the tax expense applicable to profit before tax using the statutory rate for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

**Group**

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit before tax . . . . .	24,628	121,090	61,206	24,197	55,345
Tax at the applicable tax rate (25%) . . .	6,157	30,273	15,302	6,049	13,836
Tax effect of non-deductible expenses . .	—	563	8,332	7,650	3,168
Income not subject to tax . . . . .	—	—	(692)	(500)	—
Lower tax rates enacted by local authorities . . . . .	(6,157)	(31,518)	(11,025)	(6,747)	(13,655)
Additional deduction for research and development expense . . . . .	—	(373)	(1,764)	(904)	(666)
Tax losses utilised from previous years	—	—	(907)	(78)	(525)
Deferred tax asset not recognised . . . .	—	1,055	1,003	1,254	571
Tax charge . . . . .	—	—	10,249	6,724	2,729

**10. DISTRIBUTIONS TO THE THEN SHAREHOLDERS**

The distribution amounts set out in the Combined Statements of Changes in Equity of RMB10,000,000, RMB79,195,000 and RMB71,054,000 for the year ended 31 December 2011, 2012 and 2013, respectively, represented the dividends declared by a subsidiary of the Company to the then shareholders during the Relevant Periods. The rates of dividends and the number of shares ranking for dividends are not presented as such information is not considered meaningful for the purpose of this report.

**11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT**

The combined profit attributable to owners of the parent for the six months ended 30 June 2014 includes a loss of RMB12,309,000, which has been dealt with in the financial statement of the Company (note 26).

**12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT**

No earnings per share information is presented as its inclusion, for the purpose of this report, is considered not meaningful due to the Reorganisation and the basis of presentation of the results for the Relevant Periods as disclosed in Note 2.1 above.

## 13. PROPERTY, PLANT AND EQUIPMENT

## Group

	Office equipment and furniture	Electronic equipment	Motor vehicles	Leasehold improvement	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>31 December 2011</b>					
At 31 December 2010 and at 1 January 2011:					
Cost . . . . .	4	1	—	—	5
Accumulated depreciation . . . . .	(2)	—	—	—	(2)
Net carrying amount . . . . .	<u>2</u>	<u>1</u>	<u>—</u>	<u>—</u>	<u>3</u>
At 1 January 2011, net of accumulated depreciation . . . . .					
	2	1	—	—	3
Additions . . . . .	20	509	1,303	—	1,832
Depreciation provided during the year . . . . .	(1)	(41)	(27)	—	(69)
At 31 December 2011, net of accumulated depreciation . . . . .	<u>21</u>	<u>469</u>	<u>1,276</u>	<u>—</u>	<u>1,766</u>
At 31 December 2011:					
Cost . . . . .	24	510	1,303	—	1,837
Accumulated depreciation . . . . .	(3)	(41)	(27)	—	(71)
Net carrying amount . . . . .	<u>21</u>	<u>469</u>	<u>1,276</u>	<u>—</u>	<u>1,766</u>
<b>31 December 2012</b>					
At 31 December 2011 and at 1 January 2012:					
Cost . . . . .	24	510	1,303	—	1,837
Accumulated depreciation . . . . .	(3)	(41)	(27)	—	(71)
Net carrying amount . . . . .	<u>21</u>	<u>469</u>	<u>1,276</u>	<u>—</u>	<u>1,766</u>
At 1 January 2012, net of accumulated depreciation . . . . .					
	21	469	1,276	—	1,766
Additions . . . . .	225	1,784	6,646	1,338	9,993
Acquisition of subsidiaries (note 27) . . . . .	—	195	—	—	195
Depreciation provided during the year . . . . .	(25)	(587)	(833)	(294)	(1,739)
At 31 December 2012, net of accumulated depreciation . . . . .	<u>221</u>	<u>1,861</u>	<u>7,089</u>	<u>1,044</u>	<u>10,215</u>
At 31 December 2012:					
Cost . . . . .	249	2,489	7,949	1,338	12,025
Accumulated depreciation . . . . .	(28)	(628)	(860)	(294)	(1,810)
Net carrying amount . . . . .	<u>221</u>	<u>1,861</u>	<u>7,089</u>	<u>1,044</u>	<u>10,215</u>

	Office equipment and furniture	Electronic equipment	Motor vehicles	Leasehold improvement	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2012 and at 1 January 2013:					
Cost . . . . .	249	2,489	7,949	1,338	12,025
Accumulated depreciation . . . . .	(28)	(628)	(860)	(294)	(1,810)
Net carrying amount . . . . .	<u>221</u>	<u>1,861</u>	<u>7,089</u>	<u>1,044</u>	<u>10,215</u>
At 1 January 2013, net of accumulated depreciation . . . . .	221	1,861	7,089	1,044	10,215
Additions . . . . .	911	841	638	—	2,390
Acquisition of subsidiaries (note 27) . . . . .	49	107	—	—	156
Disposals . . . . .	—	—	(1,325)	—	(1,325)
Depreciation provided during the year . . . . .	(145)	(945)	(1,732)	(449)	(3,271)
At 31 December 2013, net of accumulated depreciation . . . . .	<u>1,036</u>	<u>1,864</u>	<u>4,670</u>	<u>595</u>	<u>8,165</u>
At 31 December 2013:					
Cost . . . . .	1,257	3,519	6,723	1,338	12,837
Accumulated depreciation . . . . .	(221)	(1,655)	(2,053)	(743)	(4,672)
Net carrying amount . . . . .	<u>1,036</u>	<u>1,864</u>	<u>4,670</u>	<u>595</u>	<u>8,165</u>
At 31 December 2013 and at 1 January 2014:					
Cost . . . . .	1,257	3,519	6,723	1,338	12,837
Accumulated depreciation . . . . .	(221)	(1,655)	(2,053)	(743)	(4,672)
Net carrying amount . . . . .	<u>1,036</u>	<u>1,864</u>	<u>4,670</u>	<u>595</u>	<u>8,165</u>
At 1 January 2014, net of accumulated depreciation . . . . .	1,036	1,864	4,670	595	8,165
Additions . . . . .	1,270	483	372	1,440	3,565
Depreciation provided during the period . . . . .	(245)	(576)	(808)	(224)	(1,853)
At 30 June 2014, net of accumulated depreciation . . . . .	<u>2,061</u>	<u>1,771</u>	<u>4,234</u>	<u>1,811</u>	<u>9,877</u>
At 30 June 2014:					
Cost . . . . .	2,527	4,002	7,095	2,778	16,402
Accumulated depreciation . . . . .	(466)	(2,231)	(2,861)	(967)	(6,525)
Net carrying amount . . . . .	<u>2,061</u>	<u>1,771</u>	<u>4,234</u>	<u>1,811</u>	<u>9,877</u>



## 14. GOODWILL

	As at 31 December			As at
	2011	2012	2013	30 June 2014
	RMB'000	RMB'000	RMB'000	RMB'000
Cost at 1 January . . . . .	—	—	789	407,262
Acquisition of subsidiaries (note 27) . . . . .	—	789	406,473	—
Cost and net carrying amount . . . . .	—	789	407,262	407,262

**Impairment testing of goodwill**

Goodwill acquired through business combinations has been allocated to the following cash-generating units for impairment testing:

- Online web and mobile games
- Single player mobile game

The recoverable amount of the cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a seven-year period approved by senior management. The discount rate applied to the cash flow projections is 20% and cash flows beyond the seven-year period are extrapolated using a growth rate of 3%, which is the same as the long term growth rate range of the industry.

The carrying amount of goodwill allocated to each cash-generating unit is as follows:

	As at 31 December			As at
	2011	2012	2013	30 June 2014
	RMB'000	RMB'000	RMB'000	RMB'000
Online web and mobile games . . . . .	—	789	789	789
Single player mobile game . . . . .	—	—	406,473	406,473
Carrying amount of goodwill . . . . .	—	789	407,262	407,262

Assumptions were used in the value in use calculation of the cash-generating unit for the Relevant Periods. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

*Budgeted income* – The budgeted income includes estimated income from existing games and games in the pipeline, taking into account game popularity, income patterns in game life cycle and the Group's strategy in operation. The income growth rates during the seven-year period range from 4% to 38%. The Company believes this budgeted income is justified given the strong game development capability and experience of Kailuo Tianxia and its successful record of developing its Carrot Fantasy Series.

*Discount rates* – The discount rates used is before tax and reflects specific risks relating to the cash-generating unit.

## 15. INTANGIBLE ASSETS

## Group

	Software	Game intellectual properties and licences	Total
	RMB'000	RMB'000	RMB'000
<b>Cost</b>			
At 1 January 2012	—	—	—
Additions	2,280	—	2,280
At 31 December 2012	2,280	—	2,280
<b>Amortisation</b>			
At 1 January 2012	—	—	—
Amortisation	(95)	—	(95)
At 31 December 2012	(95)	—	(95)
<b>Net book value</b>			
At 31 December 2012	2,185	—	2,185
At 31 December 2011	—	—	—
<b>Cost</b>			
At 1 January 2013	2,280	—	2,280
Acquisition of a subsidiary (note 27)	29	74,636	74,665
At 31 December 2013	2,309	74,636	76,945
<b>Amortisation</b>			
At 1 January 2013	(95)	—	(95)
Amortisation	(1,140)	—	(1,140)
At 31 December 2013	(1,235)	—	(1,235)
<b>Net book value</b>			
At 31 December 2013	1,074	74,636	75,710
At 31 December 2012	2,185	—	2,185
<b>Cost</b>			
At 1 January 2014	2,309	74,636	76,945
Additions	430	—	430
At 30 June 2014	2,739	74,636	77,375
<b>Amortisation</b>			
At 1 January 2014	(1,235)	—	(1,235)
Amortisation	(589)	(10,242)	(10,831)
At 30 June 2014	(1,824)	(10,242)	(12,066)
<b>Net book value</b>			
At 30 June 2014	915	64,394	65,309
At 31 December 2013	1,074	74,636	75,710

## 16. INVESTMENTS IN SUBSIDIARIES

## Company

	As at 30 June 2014
	RMB'000
Unlisted shares, at cost	—

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary/ registered and share capital	Date of incorporation	Percentage of equity attributable to the Company				Principal activities
				As at 31 December			30 June 2014	
				2011	2012	2013		
Xiamen Guanghuan (i) . . . . .	PRC/Mainland China	RMB10,000,000	12 January 2009	100%	100%	100%	100%	Game development and distribution
Xiamen Youli (ii) . . . . .	PRC/Mainland China	RMB10,000,000	19 September 2011	N/A	97%	100%	100%	Game distribution
Xiamen Maisi (iii) . . . . .	PRC/Mainland China	RMB500,000	25 September 2008	N/A	75%	75%	75%	Game development and distribution
Xiamen Yidou (iv) . . . . .	PRC/Mainland China	RMB1,000,000	11 June 2012	N/A	51%	75%	75%	Game development and distribution
Xiamen Heihuo Internet Technology Co., Ltd. ("Xiamen Heihuo") (v) . . . . .	PRC/Mainland China	RMB1,000,000	7 June 2013	N/A	N/A	100%	100%	Game development and distribution
Shenzhen Tianxia Jiayou Technology Co., Ltd. ("Tianxia Jiayou") (vi) . . . . .	PRC/Mainland China	RMB1,000,000	13 December 2012	N/A	60%	60%	60%	Game development
Kailuo Tianxia (vii) . . . . .	PRC/Mainland China	RMB10,000,000	3 May 2012	N/A	N/A	100%	100%	Game development and distribution
Feiyu Technology Hong Kong Limited ("Feiyu Hong Kong") (viii) . . . . .	Hong Kong	HK\$1	25 March 2014	N/A	N/A	100%	100%	Investment holding
Xiamen Feiyu (viii) . . . . .	PRC/Mainland China	USD1,000,000	24 June 2014	N/A	N/A	100%	100%	Investment holding

- (i) The statutory financial statements of Xiamen Guanghuan for the years ended 31 December 2011 prepared in accordance with PRC Generally Accepted Accounting Principles ("PRC GAAP") were audited by 廈門中永旭會計師事務所 (Xiamen Zhong Yong Xu Certified Public Accountants). The statutory financial statement of Xiamen Guanghuan for the years ended 31 December 2012 prepared in accordance with PRC GAAP were audited by 廈門中匯瑞豐會計師事務所 (Xiamen Zhong Hui Rui Feng Certified Public Accountants). The statutory financial statement of Xiamen Guanghuan for the years ended 31 December 2013 prepared in accordance with PRC GAAP were audited by 廈門欣洲會計師事務所 (Xiamen Xin Zhou Certified Public Accountants).
- (ii) The statutory financial statements of Xiamen Youli for the years ended 31 December 2011, 2012 and 2013 prepared in accordance with PRC GAAP were audited by 廈門中匯瑞豐會計師事務所 (Xiamen Zhong Hui Rui Feng Certified Public Accountants).
- (iii) The statutory financial statements of Xiamen Maisi for the years ended 31 December 2012 and 2013 prepared in accordance with PRC GAAP were audited by 廈門中匯瑞豐會計師事務所 (Xiamen Zhong Hui Rui Feng Certified Public Accountants).
- (iv) The statutory financial statements of Xiamen Yidou for the years ended 31 December 2012 and 2013 prepared in accordance with PRC GAAP were audited by 廈門中匯瑞豐會計師事務所 (Xiamen Zhong Hui Rui Feng Certified Public Accountants).
- (v) The statutory financial statements of Xiamen Heihuo for the year ended 31 December 2013 prepared in accordance with PRC GAAP were audited by 廈門中匯瑞豐會計師事務所 (Xiamen Zhong Hui Rui Feng Certified Public Accountants).
- (vi) The statutory financial statements of Tianxia Jiayou for the years ended 31 December 2012 and 2013 prepared in accordance with PRC GAAP were audited by 深圳永信瑞和會計師事務所 (Shenzhen Yongxin Rui He Certified Public Accountants).
- (vii) The statutory financial statements of Kailuo Tianxia for the year ended 31 December 2013 prepared in accordance with PRC GAAP were audited by 北京東審鼎立國際會計師事務所 (Beijing Dong Shen Ding Li International Certified Public Accountants).
- (viii) Entities established after 31 December 2013.

In 2012, the Group acquired a 97% equity interest of Xiamen Youli, a 51% equity interest of Xiamen Yidou and a 75% equity interest of Xiamen Maisi. In 2013, the Group acquired a 100% equity interest of Kailuo Tianxia. They became subsidiaries of the Group thereafter. Please refer to note 27 for details. None of its subsidiaries have non-controlling interests that are material to the Group.

## 17. INVESTMENT IN AN ASSOCIATE

	As at 31 December			As at
	2011	2012	2013	30 June 2014
	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted shares, at cost .....	—	—	—	4,000
Goodwill on acquisition .....	—	—	—	—
	—	—	—	4,000
Loan to an associate .....	—	—	—	750
	—	—	—	4,750

Particulars of the associate are as follows:

Name	Registered capital	Place of incorporation/ registration and business	Percentage of ownership interest attributable to the Group	Principal activities
Shenzhen Zhangxin Interactive Technology Co., Ltd.* .....	RMB4,000,000	PRC/Mainland China	30%	Game development and distribution

\* Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network

## 18. DEFERRED TAX ASSETS/LIABILITIES

The movements in deferred tax assets during the Relevant Periods are as follows:

**Deferred tax assets***Group*

	Deferred revenue	Accruals	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2013 .....	—	—	—
Deferred tax recognised in the combined statement of profit or loss during the year (note 9) .....	1,155	474	1,629
At 31 December 2013 .....	1,155	474	1,629
At 1 January 2014 .....	1,155	474	1,629
Deferred tax recognised in the combined statement of profit or loss during the period (note 9) .....	(126)	114	(12)
At 30 June 2014 .....	1,029	588	1,617

Deferred tax assets have not been recognised in respect of tax losses of RMB4,219,000, RMB4,606,000 and RMB4,188,000 as at 31 December 2012 and 2013 and 30 June 2014, respectively, as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

**Deferred tax liabilities***Group*

	Value appreciation of intangible assets during acquisition of Kailuo Tianxia	
	RMB'000	Total RMB'000
At 1 January 2013 . . . . .	—	—
Acquisition of a subsidiary (note 27) . . . . .	6,769	6,769
At 31 December 2013 . . . . .	6,769	6,769
At 1 January 2014 . . . . .	6,769	6,769
Deferred tax recognised in the combined statement of profit or loss during the period (note 9) . . . . .	—	—
At 30 June 2014 . . . . .	6,769	6,769

No deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the Directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB13,627,000, RMB55,949,000, RMB37,410,000 and RMB88,828,000 at 31 December 2011, 2012 and 2013 and 30 June 2014, respectively.

**19. ACCOUNTS RECEIVABLE AND RECEIVABLES DUE FROM THIRD-PARTY GAME DISTRIBUTION PLATFORMS AND PAYMENT CHANNELS***Group*

	As at 31 December			As at 30 June 2014
	2011	2012	2013	
	RMB'000	RMB'000	RMB'000	RMB'000
Accounts receivable from advertising customers . . . . .	—	—	3,457	4,227
Receivables due from third-party game distribution platforms and payment channels . . . . .	12,005	32,937	51,610	51,015
	12,005	32,937	55,067	55,242

The Group's credit terms with its advertising customers are generally two months. The Group's credit terms with the third-party game distribution platforms and payment channels generally range from one month to four months. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancement over its receivable balances. These receivables are non-interest-bearing.

An aged analysis of the receivables as at the end of each of the Relevant Periods, is as follows:

**Accounts receivable from advertising customers**

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
Within 3 months	—	—	2,482	2,604
3 to 6 months	—	—	706	1,623
6 months to 1 year	—	—	269	—
	—	—	3,457	4,227

**Receivables due from third-party game distribution platforms and payment channels**

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
Within 3 months	12,005	27,011	24,195	35,285
3 to 6 months	—	4,529	21,193	14,952
6 months to 1 year	—	1,397	6,222	778
	12,005	32,937	51,610	51,015

The aged analysis of the receivables that are not considered to be impaired is as follows:

**Accounts receivable from advertising customers**

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
Neither past due nor impaired	—	—	2,353	1,406
Less than 6 months past due	—	—	1,104	2,821
	—	—	3,457	4,227

**Receivables due from third-party game distribution platforms and payment channels**

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
Neither past due nor impaired	8,354	10,186	24,214	27,626
Less than 6 months past due	3,651	21,850	27,396	23,350
Over 6 months past due	—	901	—	39
	12,005	32,937	51,610	51,015

All of the receivables were neither past due or impaired and mainly relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the Directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

## 20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

## Group

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
Prepayments	2	27	912	6,386
Deposit	—	476	708	1,005
Other receivables	52	1,237	1,427	2,371
Impairment	—	—	(1,200)	(1,200)
	54	1,740	1,847	8,562

The movements in provision for impairment of prepayments, deposits and other receivables are as follows:

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
At 1 January	—	—	—	(1,200)
Impairment loss recognised	—	—	(1,200)	—
	—	—	(1,200)	(1,200)

This impairment balance related to a receivable amount to RMB1,200,000 of a down payment to a landlord for purchasing an office apartment. The landlord is in financial difficulties and the whole balance is expected not to be recovered.

## 21. AVAILABLE-FOR-SALE INVESTMENTS

## Group

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
Financial products at fair value	10,058	10,104	6,054	13,911

The available-for-sale investments were structured financial products issued by banks and assets management companies with expected interest rates ranging from 4.8%–7.0% per annum with a maturity period of 60 to 180 days in the PRC. The principal is not protected. The fair value of the financial products approximates to their cost plus expected interest.

## 22. CASH AND CASH EQUIVALENTS

## Group

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
Cash and bank balances	7,260	38,515	123,426	97,966

The cash and bank balances of the Group denominated in RMB amounted to RMB7,260,000, RMB38,515,000, RMB123,426,000 and RMB96,604,000 as at 31 December 2011, 2012 and 2013 and 30 June 2014, respectively. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.



Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and bank balance approximate to their fair values.

### 23. OTHER PAYABLES AND ACCRUALS

#### Group

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
Other tax payables . . . . .	904	2,544	3,102	3,111
Other payables . . . . .	—	220	3,049	23,831
Payables for acquisition of subsidiaries . . . . .	—	—	36,385	3,000
Advance from advertising customers . . . . .	—	—	242	2,561
Accruals . . . . .	—	—	222	—
Salaries and welfare payables . . . . .	617	9,030	9,036	6,088
	<u>1,521</u>	<u>11,794</u>	<u>52,036</u>	<u>38,591</u>

#### Company

	As at
	30 June
	2014
	RMB'000
Other payables . . . . .	<u>12,309</u>

Other payables and payables for acquisition of subsidiaries are non-interest-bearing.

### 24. DEFERRED REVENUE

Deferred revenue mainly represents service fees prepaid by game players or licensees for online game services to which related services have not been rendered as at the end of each of the Relevant Periods.

### 25. SHARE CAPITAL

#### Shares

	As at
	30 June
	2014
	RMB'000
Authorised:	
Ordinary shares (of US\$0.001 each) . . . . .	50,000,000
Issued and fully paid:	
Ordinary shares (of US\$0.001 each) . . . . .	100,000
Equivalent to RMB'000 . . . . .	<u>1</u>

The Company was incorporated in the Cayman Islands on 6 March 2014 with an initial authorised share capital of US\$50,000 divided into 50,000,000 shares of a par value of US\$0.001 each. On the date of incorporation, 100,000 shares with a total par value of US\$0.001 were allotted, issued and credited as fully paid to its then shareholders by way of capitalisation of the sum of US\$100 (equivalent to approximately RMB1,000) standing to the credit of the share premium account.

### 26. RESERVES

#### Group

The amounts of the Group's reserves and the movements therein for the Relevant Periods are presented in the combined statements of changes in equity.

#### (i) Share premium

Share premium account represented the amount paid by shareholders for capital injection in excess of its nominal value.

(ii) *Statutory reserve*

Pursuant to the relevant PRC rules and regulations and Articles of Association, those PRC subsidiaries which are domestic enterprises in the PRC as mentioned in note 16 to the Financial Information are required to transfer no less than 10% of their profit after taxation, as determined under PRC accounting regulations, to the statutory reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before the distribution of dividends to shareholders.

**Company**

	<b>Share premium</b>	<b>Accumulated loss</b>	<b>Total</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Total comprehensive income for the period . . . . .	—	(12,309)	(12,309)
Issue of shares . . . . .	(1)	—	(1)
As at 30 June 2014. . . . .	<u>(1)</u>	<u>(12,309)</u>	<u>(12,310)</u>

**27. BUSINESS COMBINATION**

The Group had the following acquisitions during the Relevant Periods:

- (a) On 6 February 2012, the Group acquired a 97% interest in Xiamen Youli by making a capital injection of RMB9,700,000 in Xiamen Youli.

The fair values of the identifiable assets and liabilities of Xiamen Youli upon acquisition were as follows:

	<b>Fair value recognised on acquisition</b>
	<b>RMB'000</b>
Prepayments, deposits and other receivables . . . . .	15
Cash and cash equivalents . . . . .	9,999
Other payables and accruals . . . . .	(14)
Total identifiable net assets at fair value . . . . .	<u>10,000</u>
Non-controlling interests . . . . .	<u>(300)</u>
Identifiable net assets at fair value acquired . . . . .	9,700
Goodwill on acquisition . . . . .	—
Satisfied by cash . . . . .	<u>9,700</u>

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	<b>RMB'000</b>
Cash and cash equivalents acquired . . . . .	9,999
Cash consideration paid . . . . .	<u>(9,700)</u>
Net inflow of cash and cash equivalents included in cash flows from investing activities . . . . .	<u>299</u>

Since the acquisition, Xiamen Youli contributed RMB1,464,000, RMB22,166,000 and RMB48,031,000 to the Group's turnover and loss of RMB4,200,000, profit of RMB772,000 and profit of RMB19,084,000 to the combined profit for the years ended 31 December 2012 and 2013 and six months ended 30 June 2014, respectively.

Had the acquisition taken place at the beginning of the year ended 31 December 2012, the revenue and profit of the Group for that year would have been RMB158,729,000 and RMB121,089,000, respectively.

- (b) On 26 September 2012, the Group acquired a 51% interest in Xiamen Yidou at a total consideration of RMB510,000.

The fair values of the identifiable assets and liabilities of Xiamen Yidou upon acquisition were as follows:

	Notes	<b>Fair value recognised on acquisition</b>
		<b>RMB'000</b>
Property, plant and equipment . . . . .	13	158
Prepayments, deposits and other receivables . . . . .		5
Receivables due from platform and third-party game distribution platforms and payment channels . . . . .		43
Cash and cash equivalents . . . . .		292
Other payables and accruals . . . . .		(261)
Total identifiable net assets at fair value . . . . .		<u>237</u>
Non-controlling interests . . . . .		<u>(116)</u>
Identifiable net assets at fair value acquired . . . . .		121
Goodwill on acquisition . . . . .	14	<u>389</u>
Satisfied by cash . . . . .		<u><u>510</u></u>

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	<b>RMB'000</b>
Cash consideration paid . . . . .	(510)
Cash and cash equivalents acquired . . . . .	<u>292</u>
Net outflow of cash and cash equivalents included in cash flows from investing activities . . . . .	<u><u>(218)</u></u>

Since the acquisition, Xiamen Yidou contributed RMB115,000, RMB664,000 and RMB8,860,000 to the Group's turnover and loss of RMB411,000, loss of RMB1,692,000 and profit of RMB7,194,000 to the combined profit for the years ended 31 December 2012 and 2013 and six months ended 30 June 2014, respectively.

Had the acquisition taken place at the beginning of the year ended 31 December 2012, the revenue and profit of the Group for that year would have been RMB158,785,000 and RMB120,327,000, respectively.

- (c) On 7 November 2012, the Group acquired a 75% interest in Xiamen Maisi at a total consideration of RMB375,000.

The fair values of the identifiable assets and liabilities of Xiamen Maisi upon acquisition were as follows:

	Notes	<b>Fair value recognised on acquisition</b>
		<b>RMB'000</b>
Property, plant and equipment . . . . .	13	37
Cash and cash equivalents . . . . .		102
Other payables and accruals . . . . .		(173)
Total identifiable net assets at fair value . . . . .		<u>(34)</u>
Non-controlling interests . . . . .		<u>9</u>
Identifiable net assets at fair value acquired . . . . .		(25)
Goodwill on acquisition . . . . .	14	<u>400</u>
Satisfied by cash . . . . .		<u><u>375</u></u>

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration paid . . . . .	(375)
Cash and cash equivalents acquired . . . . .	102
Net outflow of cash and cash equivalents included in cash flows from investing activities . . . . .	<u>(273)</u>

Since the acquisition, Xiamen Maisi contributed zero, RMB2,000,000 and zero to the Group's turnover and loss of RMB315,000, profit of RMB460,000 and loss of RMB40,000 to the combined profit for the years ended 31 December 2012 and 2013 and six months ended 30 June 2014, respectively.

Had the acquisition taken place at the beginning of the year ended 31 December 2012, the revenue and profit of the Group for that year would have been RMB158,729,000 and RMB120,555,000, respectively.

- (d) On 31 December 2013, the Group acquired a 100% interest and obtained control in Kailuo Tianxia with a total cash consideration of RMB31,010,000 from its then shareholders. The cash consideration was settled in January 2014. In April 2014, the original shareholders of Kailuo Tianxia made capital injection amounting to RMB667,000 to Xiamen Guanghuan and obtained 40% equity interest of Xiamen Guanghuan, the fair value of which was RMB487,588,000 as of 31 December 2013. The intention of these two transactions was to enable the Group to acquire Kailuo Tianxia using the combination of a cash consideration of RMB31,010,000 and 40% of Xiamen Guanghuan's equity interest. This mutual understanding of the consideration was further confirmed in the supplemental equity transfer agreements dated 26 August 2014 between the Group and the then shareholders of Kailuo Tianxia. The time gap between these two transactions was due to administrative procedures which were perfunctory. Therefore these two transactions were accounted for as one single transaction of business acquisition as of 31 December 2013 when the Group obtained the control of Kailuo Tianxia. The difference between the fair value of the 40% equity interest of Xiamen Guanghuan and the capital injection of RMB667,000 amounting to RMB486,921,000 was the fair value of the purchase consideration in the form of shares on 31 December 2013. The fair value of the total consideration including cash and shares was RMB517,931,000. At the time of the acquisition, the Company did not engage any professional party to perform valuation work for the purpose of negotiating and determining the purchase consideration.

The fair values of the identifiable assets and liabilities of Kailuo Tianxia as at 31 December 2013 of acquisition were as follows and assessed with the assistance of an independent valuer:

	Notes	Fair value recognised on acquisition RMB'000
Property, plant and equipment . . . . .	13	156
Intangible assets . . . . .	15	74,665
Accounts receivable . . . . .		3,457
Receivables due from third-party game distribution platforms and payment channels . . . . .		35,587
Prepayments, deposits and other receivables . . . . .		1,590
Cash and cash equivalents . . . . .		8,259
Other payables and accruals . . . . .		(5,250)
Tax payable . . . . .		(237)
Deferred tax liabilities . . . . .	18	(6,769)
Total identifiable net assets acquired at fair value . . . . .		<u>111,458</u>
Goodwill on acquisition . . . . .	14	406,473
Satisfied by cash, settled in January 2014 . . . . .		31,010
Satisfied by share at fair value, settled in April 2014 . . . . .		486,921
		<u>517,931</u>

The goodwill represents Kailuo Tianxia's unidentifiable overall value including its brand, game-players and intellectual capital.

An analysis of the cash flows in respect of the acquisition of a subsidiary for the year ended 31 December 2013 is as follows:

	<b>RMB'000</b>
Cash and cash equivalents acquired .....	8,259
Cash consideration paid .....	—
Net inflow of cash and cash equivalents included in cash flows from investing activities .....	<u>8,259</u>

An analysis of the cash flows in respect of the acquisition of a subsidiary for the year ended 30 June 2014 is as follows:

	<b>RMB'000</b>
Cash and cash equivalents acquired .....	—
Cash consideration paid .....	(31,010)
Net outflow of cash and cash equivalents included in cash flows from investing activities .....	<u>(31,010)</u>

Since the acquisition, Kailuo Tianxia contributed RMB38,466,000 to the Group's turnover and RMB29,439,000 to the combined profit for the six months ended 30 June 2014.

Had the acquisition taken place at the beginning of the year ended 31 December 2013, the revenue and the profit of the Group for that year would have been RMB202,680,000 and RMB93,164,000, respectively.

## 28. OPERATING LEASE ARRANGEMENTS

### (a) Capital commitment

#### Group

	<b>As at 30 June 2014</b>
	<b>RMB'000</b>
Contracted, but not provided for:	
– Capital contributions in respect of an associate .....	<u>6,000</u>

### (b) Operating lease commitments

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years.

At the end of each of the Relevant Periods, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

#### As lessee

	<b>As at 31 December</b>			<b>As at 30 June 2014</b>
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Within one year .....	88	1,930	2,346	3,173
In the second to third years, inclusive .....	—	511	1,603	1,787
In the third to fifth years .....	—	27	2,709	6,179
	<u>88</u>	<u>2,468</u>	<u>6,658</u>	<u>11,139</u>

## 29. RELATED PARTY TRANSACTIONS

## (a) Name and relationship of related parties

Name	Relationship
Mr. Yao Jianjun	Shareholder of the Company
Ms. Li Zhenzhu	Spouse of Mr. Yao Jianjun
Mr. Bi Lin	Shareholder of the Company
Mr. Lin Zhibin	Shareholder of the Company
Mr. Lin Jiabin	Shareholder of the Company
Mr. Ye Bin	Shareholder of the Company
Ms. Tao Lili	Spouse of Mr. Chen Jianyu
Lightbeam Information Technology Co., Ltd. ("Lightbeam")	Owned by shareholders of the Company
Xiamen Xianglian Technology Co., Ltd. ("Xianglian")	Controlled by Mr. Yao Jianjun
Shenzhen Zhangxin Interactive Technology Co., Ltd. ("Shenzhen Zhangxin")	Associate

## (b) Transactions with related parties

The following transactions were carried out with related parties:

## Group

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue collection on behalf of the Group					
Lightbeam (note (i)) . . . . .	—	34,195	23,912	19,500	—
Mr. Bi Lin . . . . .	—	739	2,059	1,320	—
	<u>—</u>	<u>34,934</u>	<u>25,971</u>	<u>20,820</u>	<u>—</u>
Payment on behalf of the shareholders					
Mr. Bi Lin . . . . .	—	202	—	—	—
	<u>—</u>	<u>202</u>	<u>—</u>	<u>—</u>	<u>—</u>
Technology service fee (note (ii))					
Xianglian . . . . .	1,300	1,200	185	108	32
	<u>1,300</u>	<u>1,200</u>	<u>185</u>	<u>108</u>	<u>32</u>

## Group

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Advertising fee (note (ii))					
Xianglian .....	—	454	599	249	—
Interest-free loans to shareholders (note (iii))					
Mr. Yao Jianjun .....	210	2,000	—	—	—
Ms. Li Zhenzhu .....	—	11,380	—	—	—
Mr. Bi Lin .....	—	4,740	—	—	—
Mr. Ye Bin .....	—	1,580	—	—	—
Mr. Lin Zhibin .....	—	1,500	—	—	—
Mr. Lin Jiabin .....	—	1,500	—	—	—
	210	22,700	—	—	—

## Notes:

- (i) The online game operation revenue from overseas agents, such as South Korea and Vietnam, was collected by Lightbeam, which is located in Hong Kong, on behalf of the Group in the years ended 31 December 2012 and 2013. The amounts of revenue collected as at 31 December 2012 and 2013 of RMB34,195,000 and RMB11,054,000, respectively, have been offset with dividends declared in these respective years.
- (ii) Xianglian provides technology service and online advertising service to the Group. The prices are mutually agreed after taking into account the prevailing market prices.
- (iii) The Group provided interest-free loans to shareholders in the Relevant Periods, which have repayment terms of one year.

## (c) Balances with related parties:

## Group

	As at 31 December			As at 30 June 2014
	2011	2012	2013	
	RMB'000	RMB'000	RMB'000	RMB'000
(i) Due from shareholders				
Mr. Yao Jianjun .....	210	2,000	—	—
Ms. Li Zhenzhu .....	—	11,380	—	—
Mr. Bi Lin .....	—	5,681	2,059	2,059
Mr. Ye Bin .....	—	1,580	—	—
Mr. Lin Zhibin .....	—	1,500	—	—
Mr. Lin Jiabin .....	—	1,500	—	—
Ms. Tao Lili .....	—	—	1,275	—
	210	23,641	3,334	2,059



## 30. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods were as follows:

**Group**

Financial assets	31 December 2011			31 December 2012		
	Available- for sale financial assets	Loans and receivables	Total	Available- for-sale financial assets	Loans and receivables	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Receivables due from third-party game distribution platforms and payment channels . . . . .	—	12,005	12,005	—	32,937	32,937
Financial assets included in prepayments, deposits and other receivables (note 20) .	—	52	52	—	713	713
Available-for-sale investments . . . . .	10,058	—	10,058	10,104	—	10,104
Due from shareholders . . . . .	—	210	210	—	23,641	23,641
Cash and cash equivalents . . . . .	—	7,260	7,260	—	38,515	38,515
	<u>10,058</u>	<u>19,527</u>	<u>29,585</u>	<u>10,104</u>	<u>95,806</u>	<u>105,910</u>

Financial assets	31 December 2013			30 June 2014		
	Available- for sale financial assets	Loans and receivables	Total	Available- for-sale financial assets	Loans and receivables	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Investment in an associate (note 17) . . . . .	—	—	—	—	750	750
Accounts receivable . . . . .	—	3,457	3,457	—	4,227	4,227
Receivables due from third-party game distribution platforms and payment channels . . . . .	—	51,610	51,610	—	51,015	51,015
Financial assets included in prepayments, deposits and other receivables (note 20) .	—	935	935	—	3,376	3,376
Available-for-sale investments . . . . .	6,054	—	6,054	13,911	—	13,911
Due from shareholders . . . . .	—	3,334	3,334	—	2,059	2,059
Cash and cash equivalents . . . . .	—	123,426	123,426	—	97,966	97,966
	<u>6,054</u>	<u>182,762</u>	<u>188,816</u>	<u>13,911</u>	<u>159,393</u>	<u>173,304</u>

**Group**

Financial liabilities	Financial liabilities at amortised cost			
	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
Financial liabilities included in other payables and accruals (note 23) . . . . .	—	220	39,434	26,831
	<u>—</u>	<u>220</u>	<u>39,434</u>	<u>26,831</u>

**31. FAIR VALUE AND FAIR VALUE HIERARCHY**

Management has assessed that the fair values of cash and cash equivalents, investment in an associate, accounts receivable, receivables due from third-party game distribution platforms and payment channels, financial assets included in prepayments, deposits and other receivables, amounts due from related parties, amounts due from shareholders and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of unlisted available-for-sale investments have been estimated using a discounted cash flow valuation model based on assumptions that are supported by observable market prices or rates. The valuation requires the Directors to make estimates about the expected future cash flows from future proceeds when the investments mature. The Directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the combined statements of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of each of the Relevant Periods.

The Group's corporate finance team headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the chief financial officer and the board of Directors. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the board of Directors once a year for annual financial reporting.

**Fair value hierarchy**

The following table illustrates the fair value measurement hierarchy of the Group's available-for-sale investments:

<b>Fair value measurement as at 31 December 2011 using</b>				
	<b>Quoted prices in active markets (Level 1)</b>	<b>Significant observable inputs (Level 2)</b>	<b>Significant unobservable inputs (Level 3)</b>	<b>Total</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Recurring fair value measurement for:				
Available-for-sale investments . . . .	—	10,058	—	10,058
<b>Fair value measurement as at 31 December 2012 using</b>				
	<b>Quoted prices in active markets (Level 1)</b>	<b>Significant observable inputs (Level 2)</b>	<b>Significant unobservable inputs (Level 3)</b>	<b>Total</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Recurring fair value measurement for:				
Available-for-sale investments . . . .	—	10,104	—	10,104
<b>Fair value measurement as at 31 December 2013 using</b>				
	<b>Quoted prices in active markets (Level 1)</b>	<b>Significant observable inputs (Level 2)</b>	<b>Significant unobservable inputs (Level 3)</b>	<b>Total</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Recurring fair value measurement for:				
Available-for-sale investments . . . .	—	6,054	—	6,054

## Fair value measurement as at 30 June 2014 using

	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Recurring fair value measurement for:				
Available-for-sale investments . . . .	—	13,911	—	13,911

During the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

**32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group's principal financial instruments, other than derivatives, comprise cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as accounts receivable and receivables due from third-party game distribution platforms and payment channels, which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk and liquidity risk. The board of Directors reviews and agrees policies for managing each of these risks and they are summarised below.

**Credit risk**

The Group has no significant interest bearing assets other than cash and cash equivalents (note 22). As at 31 December 2011, 2012 and 2013 and 30 June 2014, all cash and cash equivalents were deposited in high quality financial institutions without significant risk.

**Liquidity risk**

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The maturity profile of the Group's financial liabilities at the end of each of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

**Group**

	As at 31 December 2012					Total
	On demand	Less than 3 months	3 to 12 months	Less than 1 year	Over 5 years	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Other payables (note 23) . . . .	220	—	—	—	—	220
	<u>220</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>220</u>
	As at 31 December 2013					
	On demand	Less than 3 months	3 to 12 months	Less than 1 year	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Other payables (note 23) . . . .	3,049	—	—	—	—	3,049
Payables for acquisition of subsidiaries (note 23) . . . . .	36,385	—	—	—	—	36,385
	<u>39,434</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>39,434</u>

As at 30 June 2014

	On demand	Less than 3 months	3 to 12 months	Less than 1 year	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Other payables (note 23) . . . . .	23,831	—	—	—	—	23,831
Payables for acquisition of subsidiaries (note 23) . . . . .	3,000	—	—	—	—	3,000
	<u>26,831</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>26,831</u>

**Capital management**

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

**33. EVENTS AFTER THE REPORTING PERIOD**

- a. On 25 August 2014, Xiamen Feiyou acquired a 60% equity interest of Chengdu Guangcheng Interactive Technology Co., Ltd. with a total cash consideration of RMB1 million.
- b. On 31 August 2014, the Group disposed of Tianxia Jiayou, a then 60% owned subsidiary of Xiamen Guanghuan, to an independent third party for a consideration of RMB1,500,000. The resulting disposal gain is not material to the Group.
- c. On 31 August 2014, Xiamen Youli disposed of the website www.737.com and related game distribution business to an independent third party for a consideration of RMB2 million.
- d. On 2 September 2014, Xiamen Guanghuan declared a dividend of RMB60,000,000 to its then shareholders.
- e. On 7 November 2014, the Group disposed of Shenzhen Zhangxin, a then 30% owned associate of Xiamen Guanghuan, to an independent third party for a consideration of RMB4 million.
- f. On 17 November 2014, pursuant to the resolution of board of Directors, 1) each ordinary share of our Company, par value US\$0.001, was sub-divided into 10 ordinary shares of par value US\$0.0001 each; 2) an additional 200,000 shares of par value US\$0.0001 each were allotted and issued, for cash at par, on a pro rata basis, to our then Shareholders; 3) each share of par value US\$0.0001 was further sub-divided into 1,000 Shares of par value US\$0.0000001 each.
- g. On 17 November 2014, a series of share incentive schemes including a Pre-IPO share option scheme, a Post-IPO share option scheme, a Pre-IPO restricted share units scheme and a Post-IPO restricted share units scheme was conditionally approved and adopted by the Company's Shareholders. In November 2014, 105,570,000 shares have been conditionally granted under the Pre-IPO share option scheme. Details of the principle terms of these schemes and the share options granted are summarized in the section headed "Statutory and General Information" in Appendix IV of this Prospectus.

**34. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Company or any of its subsidiaries in respect of any period subsequent to 30 June 2014.

Yours faithfully  
**ERNST & YOUNG**  
Certified Public Accountants  
Hong Kong

*The following is the text of a report, prepared for inclusion in this prospectus, received from the independent reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong.*



Ernst & Young  
22/F, CITIC Tower  
1 Tim Mei Avenue  
Central, Hong Kong

25 November 2014

The Director  
Beijing Kailuo Tianxia Technology Co., Ltd.  
Citigroup Global Markets Asia Limited  
Merrill Lynch Far East Limited

Dear Sirs,

We set out below our report on the financial information of Beijing Kailuo Tianxia Technology Co., Ltd. (“Kailuo Tianxia”) comprising the statements of profit or loss and comprehensive income, the statements of changes in equity and the statements of cash flows of Kailuo Tianxia for the period from 3 May 2012 (date of incorporation) to 31 December 2012 and the year ended 31 December 2013 (the “Relevant Periods”), and the statements of financial position of Kailuo Tianxia as at 31 December 2012 and 2013, together with the notes thereto (the “Financial Information”), prepared on the basis of preparation set out in Note 2 of Section II below, for inclusion in the prospectus of Feiyu Technology International Company Ltd. (“Feiyu”) dated 25 November 2014 (the “Prospectus”) in connection with the listing of the shares of Feiyu on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

Kailuo Tianxia was established in the People’s Republic of China (the “PRC”) on 3 May 2012. The principal activities of Kailuo Tianxia are the development and operation of mobile games.

The statutory financial statements of Kailuo Tianxia for the period since the date of incorporation from 3 May 2012 to 31 December 2012 and for the year ended 31 December 2013 have been prepared by Kailuo Tianxia in accordance with PRC Generally Accepted Accounting Principles (“PRC GAAP”) and were audited by 北京東審鼎立國際會計師事務所有限公司 (Beijing Dong Shen Ding Li International Certified Public Accountants) which is a certified public accounting firm registered in the PRC.

For the purpose of this report, the director of Kailuo Tianxia has prepared the financial statements for each of the Relevant Periods (the "Underlying Financial Statements") in accordance with International Financial Reporting Standards ("IFRSs"), which include all International Financial Reporting Standards issued by the International Accounting Standards Board (the "IASB"). The Underlying Financial Statements for the period from 3 May 2012 (date of incorporation) to 31 December 2012 and the year ended 31 December 2013 were audited by us in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustments made thereon.

**DIRECTORS' RESPONSIBILITY**

The director of Kailuo Tianxia is responsible for the preparation of the Underlying Financial Statements and the Financial Information that give a true and fair view in accordance with IFRSs, and for such internal control as the director determines is necessary to enable the preparation of the Underlying Financial Statements and the Financial Information that are free from material misstatement, whether due to fraud or error.

**REPORTING ACCOUNTANTS' RESPONSIBILITY**

It is our responsibility to form an independent opinion on the Financial Information, and to report our opinion thereon to you.

For the purpose of this report, we have examined the Underlying Financial Statements and have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the HKICPA.

**OPINION IN RESPECT OF THE FINANCIAL INFORMATION**

In our opinion, for the purpose of this report, the Financial Information gives a true and fair view of the state of affairs of Kailuo Tianxia as at 31 December 2012 and 2013, and of the results and cash flows of Kailuo Tianxia during the Relevant Periods.

## I. FINANCIAL INFORMATION

## Statements of Profit or Loss and Comprehensive Income

	Section II	Period from 3 May 2012 (date of incorporation) to 31 December 2012	Year ended 31 December 2013
	Notes	RMB'000	RMB'000
REVENUE .....	5	1,566	57,643
Cost of sales .....		(14)	(286)
Gross profit .....		1,552	57,357
Other income .....	5	—	8
Selling and distribution expenses .....		(352)	(6,258)
Administrative expenses .....		(480)	(3,076)
Research and development costs .....		(99)	(5,725)
Other expenses .....		—	(99)
PROFIT BEFORE TAX .....	6	621	42,207
Income tax expense .....	9	(237)	—
PROFIT FOR THE YEAR .....		384	42,207
TOTAL COMPREHENSIVE INCOME FOR THE YEAR .....		384	42,207
Attributable to:			
Owners of the parent .....		384	42,207



## Statements of Financial Position

	Section II	As at 31 December	
		2012	2013
		RMB'000	RMB'000
	Notes		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment .....	10	214	156
Other intangible assets .....	11	47	29
Total non-current assets .....		261	185
<b>CURRENT ASSETS</b>			
Accounts receivable .....	12	689	3,457
Receivables due from third-party game distribution platforms and payment channels ..	12	648	35,587
Prepayments, deposits and other receivables ...	13	82	1,590
Cash and cash equivalents .....	14	1,009	8,259
Total current assets .....		2,428	48,893
<b>CURRENT LIABILITIES</b>			
Other payables and accruals .....	15	1,068	5,250
Tax payable .....		237	237
Total current liabilities .....		1,305	5,487
NET CURRENT ASSETS .....		1,123	43,406
TOTAL ASSETS LESS CURRENT LIABILITIES ..		1,384	43,591
NET ASSETS .....		1,384	43,591
<b>EQUITY</b>			
Equity attributable to owners of the parent.....			
Issued capital .....		1,000	1,000
Reserves .....	16	384	42,591
Total equity .....		1,384	43,591

**Statements of Changes In Equity***Period from 3 May 2012 (date of incorporation) to 31 December 2012*

	<u>Paid-in capital</u>	<u>Statutory reserve</u>	<u>Retained profits</u>	<u>Total equity</u>
	RMB'000	RMB'000	RMB'000	RMB'000
At 3 May 2012 (date of incorporation)...	1,000	—	—	1,000
Profit for the period .....	—	—	384	384
Total comprehensive income for the year .....	—	—	384	384
Appropriation for reserve funds .....	—	38	(38)	—
At 31 December 2012 .....	<u>1,000</u>	<u>38*</u>	<u>346*</u>	<u>1,384</u>

*Year ended 31 December 2013*

	<u>Paid-in capital</u>	<u>Statutory reserve</u>	<u>Retained profits</u>	<u>Total equity</u>
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2013 .....	1,000	38	346	1,384
Profit for the year .....	—	—	42,207	42,207
Total comprehensive income for the year .....	—	—	42,207	42,207
Appropriation for reserve funds .....	—	462	(462)	—
At 31 December 2013 .....	<u>1,000</u>	<u>500*</u>	<u>42,091*</u>	<u>43,591</u>

\* These reserve accounts comprise the reserves of RMB384,000 and RMB42,591,000 in the statements of financial position as at 31 December 2012 and 2013, respectively.

## Statements of Cash Flows

	Section II Notes	Period from 3 May 2012 (date of incorporation) to 31 December 2012	Year ended 31 December 2013
		RMB'000	RMB'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES .</b>			
Profit before tax .....		621	42,207
Adjustments for: .....			
Interest income .....	5	—	(8)
Depreciation .....	10	43	87
Amortisation of other intangible assets .....	11	8	18
		<u>672</u>	<u>42,304</u>
Increase in receivables due from third-party game distribution platforms and payment channels .....		(648)	(34,939)
Increase in accounts receivable .....		(689)	(2,768)
Increase in prepayments, deposits and other receivables .....		(82)	(1,508)
Increase in other payables and accruals .....		1,068	4,182
Net cash flows from operating activities .....		<u>321</u>	<u>7,271</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES .</b>			
Interest received .....		—	8
Purchases of items of property, plant and equipment .....		(257)	(29)
Additions to other intangible assets .....		(55)	—
Net cash flows used in investing activities .....		<u>(312)</u>	<u>(21)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from capital injection .....		1,000	—
Net cash flows from financing activities .....		<u>1,000</u>	<u>—</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS .....</b>			
Cash and cash equivalents at beginning of year .....		—	1,009
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR .....</b>	14	<u><u>1,009</u></u>	<u><u>8,259</u></u>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents as stated in the statements of financial position .....	14	<u><u>1,009</u></u>	<u><u>8,259</u></u>

## II. NOTES TO THE FINANCIAL INFORMATION

### 1. CORPORATE INFORMATION

Kailuo Tianxia was established in Beijing of the People's Republic of China on 3 May 2012 with the registered capital of RMB1,000,000. The registered office of Kailuo Tianxia is located at Room 1201, Building No. 6, Yard 39, Jianwai SOHO, East Third Ring Road, Beijing. Kailuo Tianxia is principally engaged in the development and operation of mobile games.

Pursuant to the agreements entered into on 31 December 2013 between the then shareholders of Kailuo Tianxia and Xiamen Guanghuan Information Technology Co., Ltd. ("Xiamen Guanghuan"), Xiamen Guanghuan acquired the entire equity interest of Kailuo Tianxia. Kailuo Tianxia became a wholly-owned subsidiary of Xiamen Guanghuan.

In the opinion of the director of Kailuo Tianxia, the ultimate holding company of Kailuo Tianxia is Feiyu, which is incorporated in the Cayman Islands.

### 2. BASIS OF PREPARATION

The Financial Information has been prepared in accordance with IFRSs which comprise all standards and interpretations approved by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance. All IFRSs effective for the accounting periods commencing from 1 January 2014, together with the relevant transitional provisions, have been early adopted by Kailuo Tianxia in the preparation of the Financial Information throughout the Relevant Periods.

The Financial Information has been prepared under the historical cost convention. The Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

#### 3.1 Issued but not yet effective IFRSs

Kailuo Tianxia has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

IFRS 9	<i>Financial Instruments</i> <sup>4</sup>
IFRS 9, IFRS 7 and IAS 39 Amendments	<i>Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39</i> <sup>4</sup>
IFRS 10 and IAS 28 Amendments	<i>Proposed amendments to IFRS10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>2</sup>
IFRS 11 Amendments	<i>Amendments to IFRS 11 Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations</i> <sup>2</sup>
IFRS 14	<i>Regulatory Deferral Accounts</i> <sup>2</sup>
IFRS 15	<i>Revenue from Contracts with Customers</i> <sup>3</sup>
IAS 19 Amendments	<i>Amendments to IAS 19 Employee Benefits – Defined Benefit Plans: Employee Contributions</i> <sup>1</sup>
IAS 16 and IAS 38 Amendments	<i>Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortisation</i> <sup>2</sup>
IAS 16 and IAS 41 Amendments	<i>Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture – Agriculture: Bearer Plants</i> <sup>2</sup>
IAS 27 Amendments	<i>Proposed amendments to IAS 27 Separate Financial Statements – Equity Method in Separate Financial Statements</i> <sup>2</sup>
<i>Annual Improvements 2010-2012 Cycle</i>	<i>Amendments to a number of IFRSs issued in December 2013</i> <sup>1</sup>
<i>Annual Improvements 2011-2013 Cycle</i>	<i>Amendments to a number of IFRSs issued in December 2013</i> <sup>1</sup>
<i>Annual Improvements 2012-2014 Cycle</i>	<i>Amendments to a number of IFRSs issued in September 2014</i> <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2014

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2016

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2017

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2018

Kailuo Tianxia is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, Kailuo Tianxia considers that these new and revised IFRSs may result in changes in accounting policies and are unlikely to have a significant impact on Kailuo Tianxia's results of operations and financial position.

### 3.2 Summary of significant accounting policies

#### *Impairment of non-financial assets*

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, financial assets, investment properties, goodwill and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss and comprehensive income in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss and comprehensive income in the period in which it arises.

#### *Related parties*

A party is considered to be related to Kailuo Tianxia if:

- (a) the party is a person or a close member of that person's family and that person
  - (i) has control or joint control over Kailuo Tianxia;
  - (ii) has significant influence over Kailuo Tianxia; or
  - (iii) is a member of the key management personnel of Kailuo Tianxia or of a parent of Kailuo Tianxia;
- (b) the party is an entity where any of the following conditions applies:
  - (i) the entity and Kailuo Tianxia are members of the same group;
  - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
  - (iii) the entity and Kailuo Tianxia are joint ventures of the same third party;
  - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either Kailuo Tianxia or an entity related to Kailuo Tianxia;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a); and
  - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

***Property, plant and equipment and depreciation***

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss and comprehensive income in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, Kailuo Tianxia recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

<b>Category</b>	
Office equipment . . . . .	32%
Electronic equipment . . . . .	19%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

***Intangible assets (other than goodwill)***

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

***Software***

Software is stated at cost less any impairment losses and is amortised on the straight-line basis over their estimated useful lives of 3 years.

***Research and development costs***

All research costs are charged to the statement of profit or loss and comprehensive income as incurred.

Expenditure incurred on projects to develop new products is capitalized and deferred only when Kailuo Tianxia can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

**Leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where Kailuo Tianxia is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss and comprehensive income on the straight-line basis over the lease terms.

**Investments and other financial assets***Initial recognition and measurement*

Financial assets are classified, at initial recognition, as loans and receivables, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that Kailuo Tianxia commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

*Subsequent measurement*

The subsequent measurement of financial assets depends on their classification as follows:

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss and comprehensive income. The loss arising from impairment is recognised in the statement of profit or loss and comprehensive income in finance costs for loans and in other expenses for receivables.

**Derecognition of financial assets**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from Kailuo Tianxia's statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- Kailuo Tianxia has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) Kailuo Tianxia has transferred substantially all the risks and rewards of the asset, or (b) Kailuo Tianxia has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When Kailuo Tianxia has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, Kailuo Tianxia continues to recognise the transferred asset to the extent of Kailuo Tianxia's continuing involvement. In that case, Kailuo Tianxia also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that Kailuo Tianxia has retained.

**Impairment of financial assets**

Kailuo Tianxia assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.



*Financial assets carried at amortised cost*

For financial assets carried at amortised cost, Kailuo Tianxia first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If Kailuo Tianxia determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss and comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to Kailuo Tianxia.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss and comprehensive income.

**Financial liabilities***Initial recognition and measurement*

Financial liabilities within the scope of IAS 39 are classified, at initial recognition, as loans and borrowings, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

Kailuo Tianxia's financial liabilities include other payables and accruals.

*Subsequent measurement*

The subsequent measurement of financial liabilities depends on their classification as follows:

*Loans and borrowings*

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss and comprehensive income when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss and comprehensive income.

**Derecognition of financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss and comprehensive income.

**Cash and cash equivalents**

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of Kailuo Tianxia's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

**Provisions**

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss and comprehensive income.

**Income tax**

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which Kailuo Tianxia operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

#### **Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to Kailuo Tianxia and when the revenue can be measured reliably.

##### *(a) Single player mobile game*

Kailuo Tianxia's single player games are played on individual mobile devices and allow players to play for free. Players can purchase in-game items and premium features, commonly known as virtual items, to enhance their game-playing experience. Kailuo Tianxia distributes its single player games through cooperation with various third-party game distribution platforms including mobile operators, online application stores, mobile game portals and derives its revenue from sales of in-game virtual items. Kailuo Tianxia is responsible for technical support for the operation of the games. The third party platforms are responsible for distribution, marketing, platform maintenance and payment collections from players. Players purchase Kailuo Tianxia's in-game items through the platforms' own charging systems by remitting the payment directly to the platforms. After deducting the commission charged by the platforms, the platforms remit the rest of the net proceeds to Kailuo Tianxia. The portion of the proceeds received by Kailuo Tianxia is calculated based on the standard price of in-game virtual items sold and agreed share ratio in contracts with platforms.

Certain third-party platforms like mobile operators, offer various marketing discounts from time to time to players to encourage spending on these platforms. The actual prices paid by individual players may be lower than the standard prices of virtual item. Such marketing discounts are neither available to be tracked reliably nor borne by Kailuo Tianxia. As such, Kailuo Tianxia is not able to make a reasonable estimate of the gross revenue (ie. the actual prices paid by the players). For revenue related to these platforms, it is measured at the fair value of the consideration received or receivable, which is the net amount from these third party platforms. The other third-party platforms like Apple application stores do not offer discounts to players and deduct a fixed percentage of purchase amount by players. For these platforms, revenue is recognised at gross amount and commission charged by these platforms is recorded in selling and distribution expenses as channel cost.

Since the single player games are downloaded and installed on each individual mobile device. Kailuo Tianxia does not have the obligation for game maintenance once the game is downloaded and neither has the access to the game data on each mobile device. Revenue is recognised upon the purchase of virtual items by players. The cost of providing ongoing technical support for the operation of the games is considered to be insignificant.

##### *(b) Advertising revenue*

Online advertising revenue is derived principally from online advertising arrangements. Kailuo Tianxia enters into advertising arrangements with advertisers to allow them to place advertisements on particular areas of Kailuo Tianxia's games. Advertising revenue from an advertising arrangement is recognised either ratably over the displaying period of the advertisement or upon particular action by players, ie., click, download or activate.

##### *(c) Interest income*

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset.

**Employee benefits***Pension scheme*

The employees of Kailuo Tianxia which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. Kailuo Tianxia is required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss and comprehensive income as they become payable in accordance with the rules of the central pension scheme.

**Foreign currencies**

These financial statements are presented in RMB, which is the Kailuo Tianxia's functional and presentation currency. Kailuo Tianxia determines its own functional currency and items included in the financial statements are measured using that functional currency. Foreign currency transactions recorded by Kailuo Tianxia are initially recorded using its functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss and comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

**3.3 Significant accounting judgements and estimates**

The preparation of Kailuo Tianxia's financial statements require management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

**Estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

*Impairment of non-financial assets (other than goodwill)*

Kailuo Tianxia assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

**4. OPERATING SEGMENT INFORMATION**

For management purposes, the director of Kailuo Tianxia consider that Kailuo Tianxia generates revenue primarily from the provision of single player mobile game services which is the sole operating segment of Kailuo Tianxia; therefore no further information about the operating segment is presented.

No operating segments have been aggregated to form the above reportable operating segment.



**7. DIRECTOR'S REMUNERATION**

Tao Lili is the solo executive director whose remuneration is as follows:

	Period from 3 May 2012 (date of incorporation) to 31 December 2012	Year ended 31 December 2013
	RMB'000	RMB'000
Salaries, allowances and benefits in kind . . . . .	9	83
Bonus . . . . .	—	24
Social welfare contributions . . . . .	—	20
	9	127
	9	127

There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods.

**8. FIVE HIGHEST PAID INDIVIDUALS**

Details of the remuneration for the period from 3 May 2012 (date of incorporation) to 31 December 2012 and the year ended 31 December 2013 of the highest paid employees who are not a director of Kailuo Tianxia are as follows:

	Period from 3 May 2012 (date of incorporation) to 31 December 2012	Year ended 31 December 2013
	RMB'000	RMB'000
Salaries, allowances and benefits in kind . . . . .	61	1,726
Bonus . . . . .	—	390
Social welfare contributions . . . . .	2	346
	63	2,462
	63	2,462

All the non-director, highest paid employees' remuneration fell within the band of nil to RMB1,000,000.

**9. INCOME TAX**

Under the relevant income tax law, Kailuo Tianxia is subject to income tax at the statutory rate of 25% for the Relevant Periods on its taxable income. However, Kailuo Tianxia was certified as a Software Enterprise in 2013 and is exempted from income tax for two years followed by a 50% reduction for the next three years. 2013 is the first profitable year. Therefore, Kailuo Tianxia is exempted from income tax for the year ended 31 December 2013.

	Period from 3 May 2012 (date of incorporation) to 31 December 2012	Year ended 31 December 2013
	RMB'000	RMB'000
Current tax . . . . .	237	—
Deferred tax . . . . .	—	—
Total tax charge . . . . .	237	—
	237	—

A reconciliation of the tax expense applicable to profit before tax using the statutory rate for the jurisdiction in which Kailuo Tianxia is domiciled to the tax expense at the effective tax rate is as follows:

	Period from 3 May 2012 (date of incorporation) to 31 December 2012	Year ended 31 December 2013
	RMB'000	RMB'000
Profit before tax	621	42,207
Tax at the applicable tax rate (25%)	155	10,552
Lower tax rate enacted by local authorities	—	(10,552)
Tax effect of non-deductible expenses	79	—
Deferred tax asset not recognised	3	—
Tax charge	237	—

#### 10. PROPERTY, PLANT AND EQUIPMENT

	Office equipment	Electronic equipment	Total
	RMB'000	RMB'000	RMB'000
<b>31 December 2012</b>			
At 3 May 2012 (date of incorporation), net of accumulated depreciation	—	—	—
Additions	97	160	257
Depreciation provided during the period	(16)	(27)	(43)
At 31 December 2012, net of accumulated depreciation	81	133	214
At 31 December 2012:			
Cost	97	160	257
Accumulated depreciation	(16)	(27)	(43)
Net carrying amount	81	133	214
<b>31 December 2013</b>			
At 31 December 2012 and at 1 January 2013:			
Cost	97	160	257
Accumulated depreciation	(16)	(27)	(43)
Net carrying amount	81	133	214
At 1 January 2013, net of accumulated depreciation	81	133	214
Additions	—	29	29
Depreciation provided during the year	(32)	(55)	(87)
At 31 December 2013, net of accumulated depreciation	49	107	156
At 31 December 2013:			
Cost	97	189	286
Accumulated depreciation	(48)	(82)	(130)
Net carrying amount	49	107	156



## 11. OTHER INTANGIBLE ASSETS

	<b>Software</b>
	<b>RMB'000</b>
<b>31 December 2012</b>	
At 3 May 2012 (date of incorporation), net of accumulated amortisation	—
Additions	55
Amortisation provided during the period	(8)
At 31 December 2012, net of accumulated amortisation	47
At 31 December 2012:	
Cost	55
Accumulated amortisation	(8)
Net carrying amount	47
<b>31 December 2013</b>	
At 31 December 2012 and at 1 January 2013:	
Cost	55
Accumulated amortisation	(8)
Net carrying amount	47
At 1 January 2013, net of accumulated amortisation	
Additions	—
Amortisation provided during the year	(18)
At 31 December 2013, net of accumulated amortisation	29
At 31 December 2013:	
Cost	55
Accumulated amortisation	(26)
Net carrying amount	29

## 12. ACCOUNTS RECEIVABLE AND RECEIVABLES DUE FROM THIRD-PARTY GAME DISTRIBUTION PLATFORMS AND PAYMENT CHANNELS

	<b>As at 31 December</b>	
	<b>2012</b>	<b>2013</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Accounts receivable from advertising customers	689	3,457
Receivables due from third-party game distribution platforms and payment channels	648	35,587
	1,337	39,044

Kailuo Tianxia's trading terms with its customers are mainly on credit. The credit period of receivables due from third-party game distribution platforms and payment channels is generally four months after the transaction date. The credit period of account receivables is generally two months after the transaction date. Kailuo Tianxia seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. Kailuo Tianxia does not hold any collateral or other credit enhancements over its receivable balances. Receivables are non-interest-bearing.

An aged analysis of the accounts receivable and receivables due from third-party game distribution platforms and payment channels as at the end of the reporting period, based on the transaction date and net of provisions, is as follows:

	As at 31 December	
	2012	2013
	RMB'000	RMB'000
Within 3 month .....	1,337	10,654
3 to 6 months .....	—	21,898
6 to 1 year .....	—	6,492
Over 1 year .....	—	—
	<u>1,337</u>	<u>39,044</u>

No provision has been made for impairment of accounts receivable and receivables due from third-party game distribution platforms and payment channels during the Relevant Periods.

	As at 31 December	
	2012	2013
	RMB'000	RMB'000
Neither past due nor impaired .....	1,337	15,427
Less than 6 months past due .....	—	23,617
Over 6 months past due .....	—	—
	<u>1,337</u>	<u>39,044</u>

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

### 13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December	
	2012	2013
	RMB'000	RMB'000
Prepayments .....	—	123
Deposits and other receivables .....	47	1,398
Prepaid expenses .....	35	69
	<u>82</u>	<u>1,590</u>

### 14. CASH AND CASH EQUIVALENTS

	As at 31 December	
	2012	2013
	RMB'000	RMB'000
Cash and bank balances .....	1,009	8,259

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, Kailuo Tianxia is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximate to their fair values.

## 15. OTHER PAYABLES AND ACCRUALS

	As at 31 December	
	2012	2013
	RMB'000	RMB'000
Other tax payables	32	1,104
Other payables	965	2,160
Salaries and welfare payables	68	1,764
Accruals	3	222
	<u>1,068</u>	<u>5,250</u>

Other payables are non-interest-bearing and are normally settled within three months. The salary and welfare payables are non-interest-bearing and payable on demand.

## 16. RESERVES

The amounts of Kailuo Tianxia's reserves and the movements therein for the Relevant Periods are presented in the statements of changes in equity.

**Statutory reserve**

Pursuant to the relevant PRC rules and regulations, Kailuo Tianxia which is domestic enterprise in the PRC is required to transfer no less than 10% of their profit after taxation, as determined under PRC accounting regulations, to the statutory reserves until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before the distribution of dividends to shareholders.

## 17. OPERATING LEASE ARRANGEMENTS

**As lessee**

Kailuo Tianxia leases certain of its office properties and office equipment under operating lease arrangements.

At the end of each of the Relevant Periods, Kailuo Tianxia had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December	
	2012	2013
	RMB'000	RMB'000
Within one year	35	399
In the second to fifth years, inclusive	—	30
	<u>35</u>	<u>429</u>

## 18. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods were as follows:

	As at 31 December	
	2012	2013
	RMB'000	RMB'000
<i>Financial asset</i>		
Accounts receivable	689	3,457
Receivables due from third-party game distribution platforms and payment channels	648	35,587
Financial assets included in prepayments, deposits and other receivables (note 13)	47	1,398
Cash and cash equivalents	1,009	8,259
	<u>2,393</u>	<u>48,701</u>

	<b>Financial liabilities at amortised cost as at 31 December</b>	
	<b>2012</b>	<b>2013</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Financial liabilities included in other payables and accruals (note 15) . . . . .	965	2,160
	<u>965</u>	<u>2,160</u>

#### 19. FAIR VALUE AND FAIR VALUE HIERARCHY

The fair values of cash and cash accounts receivable, receivables due from third-party game distribution platforms and payment channels, receivables from platforms and third party, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

At the end of each of the Relevant Periods, Kailuo Tianxia had no financial asset or liability measured at fair value.

During the Relevant Periods, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into or out of Level 3 fair value measurements.

#### 20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Kailuo Tianxia's principal financial instruments comprise cash and cash equivalents. The main purpose of these financial instruments is to raise finance for Kailuo Tianxia's operations. Kailuo Tianxia has various other financial assets and liabilities such as accounts receivable, receivables due from third-party game distribution platforms and payment channels and other payables and accruals, which arise directly from its operations.

The main risks arising from Kailuo Tianxia's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of director reviews and agrees policies for managing each of these risks and they are summarised below.

##### Foreign currency risk

Kailuo Tianxia has transactional currency exposures. Such exposures arise from sales by operating units in currencies other than the units' functional currencies. Approximately 10% (2012: nil) of Kailuo Tianxia's sales were denominated in currencies other than the functional currency of the operating units making the sale.

The following table demonstrates the sensitivity at the end of each of the Relevant Periods to a reasonably possible change in the exchange rate of the United States dollars ("US\$") against RMB exchange rate, with all other variables held constant, of Kailuo Tianxia's profit before tax (due to changes in the fair value of monetary assets and liabilities):

	<b>Increase/ (decrease) in US\$ rate</b>	<b>Increase/ (decrease) in profit before tax</b>
	<b>%</b>	<b>RMB'000</b>
<b>2013</b>		
If US\$ weakens against RMB . . . . .	(5%)	(54)
If US\$ strengthens against RMB . . . . .	5%	54

##### Credit risk

There are no significant concentrations of credit risk within Kailuo Tianxia. The credit risk of Kailuo Tianxia's other financial assets, which comprise cash and bank balances, accounts receivable, receivables due from third-party game distribution platforms and payment channels and prepayments, deposits and other receivables, arises from default of the counterparty with a maximum exposure equal to the carrying amounts of these instruments.

**Liquidity risk**

In the management of the liquidity risk, Kailuo Tianxia monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance Kailuo Tianxia's operations and mitigate the effects of fluctuations in cash flows.

The maturity profile of Kailuo Tianxia's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

	<b>31 December 2012 Within 1 year</b>
	<b>RMB'000</b>
Other payables (note 15) .....	965
	<b>31 December 2013 Within 1 year</b>
	<b>RMB'000</b>
Other payables (note 15) .....	2,160

**Capital management**

The primary objectives of Kailuo Tianxia's capital management are to safeguard Kailuo Tianxia's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

Kailuo Tianxia manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, Kailuo Tianxia may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

**21. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by Kailuo Tianxia in respect of any period subsequent to 31 December 2013.

Yours faithfully  
**ERNST & YOUNG**  
*Certified Public Accountants*  
Hong Kong

*The information set forth in this appendix does not form part of the Accountants' Report prepared by Ernst & Young, Certified Public Accountants, Hong Kong, the reporting accountant of our Company, as set forth in Appendix I to this prospectus, and is included herein for information only.*

*The unaudited pro forma financial information should be read in conjunction with "Financial Information" of this prospectus and the Accountants' Report set out in Appendix I to this prospectus.*

#### A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS OF OUR GROUP

The following unaudited pro forma statement of adjusted net tangible assets of our Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is prepared to show the effect on the audited net tangible assets of our Group as of 30 June 2014 as if the Global Offering had occurred on 30 June 2014 and is based on the combined net tangible assets of our Group as of 30 June 2014 attributable to the owners of our Company derived from the Accountants' Report as set out in Appendix IA to this prospectus and adjusted as described below.

The unaudited pro forma statement of adjusted net tangible assets of our Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial position of our Group as of 30 June 2014 or any future dates following the Global Offering.

	Combined net tangible assets of our Group attributable to the owners of our Company as of 30 June 2014	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted net tangible assets attributable to the owners of our Company	Unaudited pro forma adjusted net tangible assets per Share
	RMB'000 (Note 1)	RMB'000 (Note 2)	RMB'000	HK\$ (Note 3, 4 and 5)
Based on an Offer				
Price of HK\$1.85 per				
Share .....	137,104	369,534	506,638	0.43
Based on an Offer				
Price of HK\$2.55 per				
Share .....	137,104	533,284	670,388	0.56

Notes:

- (1) The combined net tangible assets of our Group attributable to owners of our Company as of 30 June 2014, was determined as follow:

	RMB'000
Audited combined net assets of our Group as set out in Appendix IA .....	609,874
Less: Non-controlling interests as set out in Appendix IA .....	199
Less: Goodwill as set out in Appendix IA .....	407,262
Less: Other intangible assets as set out in Appendix IA .....	65,309
Combined net tangible assets attributable to owners of our Company .....	137,104

- (2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK\$1.85 and HK\$2.55, respectively, after deduction of the underwriting fees and other related expenses payable by our Company. They do not take into account any Shares which may be issued pursuant to the Pre-IPO and Post-IPO share option scheme.
- (3) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to above and on the basis that 1,500,000,000 Shares expected to be in issue immediately following completion of the Global Offering and is converted into Hong Kong dollar at an exchange rate of HK\$1.00 to RMB0.7917. It does not take into account of any Shares which may be issued pursuant to the Pre-IPO and Post-IPO share option scheme.
- (4) The unaudited pro forma adjusted combined net tangible assets attributable to owners of our Company does not take into account a dividend of HK\$75,786,000 (equivalent to approximately RMB60,000,000) declared by our Company in September 2014. Had the dividend been taken into account, the unaudited pro forma adjusted combined net tangible assets per Share would be HK\$0.38 (assuming an Offer Price of HK\$1.85 per Share) and HK\$0.51 (assuming an Offer Price of HK\$2.55 per Share), respectively.
- (5) No adjustment has been made to reflect any trading results or other transactions of our Group entered into subsequent to 30 June 2014.



**B. REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION**

*The following is the text of a report received from our reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, prepared for the purposes of incorporation in this prospectus.*



Ernst & Young  
22/F, CITIC Tower  
1 Tim Mei Avenue  
Central, Hong Kong

25 November 2014

To the Directors of Feiyu Technology International Company Ltd.

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Feiyu Technology International Company Ltd. (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) by the directors of the Company (the “Directors”) for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets of the Group as at 30 June 2014, and related notes as set out on pages II-1 to II-2 of the prospectus issued by the Company dated 25 November 2014 (the “Unaudited Pro Forma Financial Information”), in connection with the proposed initial public offering of the shares of the Company. The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described on pages II-1 to II-2.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the global offering of shares of the Company on the Group’s financial position as at 30 June 2014 as if the global offering had taken place at 30 June 2014. As part of this process, information about the Group’s financial position has been extracted by the Directors from the Group’s financial information for the period ended 30 June 2014, on which an accountant’s report has been published.

**Directors’ responsibility for the Unaudited Pro Forma Financial Information**

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” (“AG7”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

**Reporting Accountant’s responsibilities**

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *“Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus”* issued by the HKICPA. This standard requires that the reporting accountant complies with ethical requirements and plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of Unaudited Pro Forma Financial Information included in the Prospectus is solely to illustrate the impact of the global offering of shares of the Company on unadjusted financial information of the Group as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant’s judgment, having regard to the reporting accountant’s understanding of the nature of the Group, the transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,  
**ERNST & YOUNG**  
*Certified Public Accountants*  
Hong Kong

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on March 6, 2014 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “Companies Law”). The Memorandum of Association (the “Memorandum”) and the Articles of Association (the “Articles”) comprise its constitution.

## 1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

## 2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on November 17, 2014 to take effect upon Listing. The following is a summary of certain provisions of the Articles:

### (a) Directors

- (i) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares

or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates (as defined in the Articles) is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or
- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

## (vi) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

## (vii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one



third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;
- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either

as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

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Note:

These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(ix) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) Register of Directors and Officers

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

**(b) Alterations to constitutional documents**

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

**(c) Alteration of capital**

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;

- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

**(d) Variation of rights of existing shares or classes of shares**

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

**(e) Special resolution-majority required**

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Articles), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special

resolution at a meeting of which notice of less than twenty-one (21) clear days and less than ten (10) clear business days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

**(f) Voting rights**

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

**(g) Requirements for annual general meetings**

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

**(h) Accounts and audit**

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting. However, an exempted company shall make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2009 Revision) of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing

standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

**(i) Notices of meetings and business to be conducted thereat**

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent (95%) in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
- (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.



**(j) Transfer of shares**

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the



Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

**(k) Power for the Company to purchase its own shares**

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

**(l) Power for any subsidiary of the Company to own shares in the Company and financial assistance to purchase shares of the Company**

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

**(m) Dividends and other methods of distribution**

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of

shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

**(n) Proxies**

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

**(o) Call on shares and forfeiture of shares**

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

**(p) Inspection of register of members**

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

**(q) Quorum for meetings and separate class meetings**

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

**(r) Rights of the minorities in relation to fraud or oppression**

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

**(s) Procedures on liquidation**

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the

members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

**(t) Untraceable members**

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

**(u) Subscription rights reserve**

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

**3. CAYMAN ISLANDS COMPANY LAW**

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

**(a) Operations**

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

**(b) Share capital**

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account."

At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "Court"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

**(c) Financial assistance to purchase shares of a company or its holding company**

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

**(d) Purchase of shares and warrants by a company and its subsidiaries**

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it



shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company shall be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company shall not be treated as a member for any purpose and shall not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share shall not be voted, directly or indirectly, at any meeting of the company and shall not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law. Further, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

**(e) Dividends and distributions**

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).



**(f) Protection of minorities**

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

**(g) Management**

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

**(h) Accounting and auditing requirements**

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

**(i) Exchange control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

**(j) Taxation**

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 23 September, 2014.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with United Kingdom in 2010 but otherwise are not party to any double tax treaties.

**(k) Stamp duty on transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

**(l) Loans to directors**

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

**(m) Inspection of corporate records**

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register shall be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic

form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2009 Revision) of the Cayman Islands.

**(n) Winding up**

A company may be wound up compulsorily by order of the Court voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by the company's articles of association and published in the Gazette in the Cayman Islands.

**(o) Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

**(p) Compulsory acquisition**

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

**(q) Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

**4. GENERAL**

Conyers Dill & Pearman (Cayman) Limited, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents Delivered to the Registrar of Companies and available for inspection" in Appendix V to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

## A. FURTHER INFORMATION ABOUT OUR COMPANY, ITS SUBSIDIARIES AND PRC OPERATING ENTITIES

### 1. Incorporation of our Company

Our Company was incorporated on March 6, 2014 in the Cayman Islands as an exempted company with limited liability with the registered company number OS-285710. Accordingly, our Company's corporate structure and Articles are subject to the relevant laws of the Cayman Islands. A summary of our Articles and Memorandum of Association is set out in Appendix III to this prospectus. Our registered office is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

Our principal place of business in Hong Kong is at Rooms 801 & 803, 8/F., Beverly House 93-107 Lockhart Road, Wanchai, Hong Kong. We were registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on July 14, 2014. Mr. Cheung Man Yu has been appointed as our agent for the acceptance of service of process in Hong Kong. The address for service of process is Flat 10, 31/F, Lung Sing House, Kam Lung Court, Ma On Shan, New Territories, Hong Kong.

Our Company's headquarters are located at Floor 2, Block 2, No.14 Wanghai Road, Ruanjian Yuan Two, Siming District, Xiamen, Fujian Province, PRC. The telephone number of the head office is 86-592-2208755.

### 2. Changes in authorised and issued share capital of our Company

As at the date of incorporation, our Company had an authorized share capital of US\$50,000 divided into 50,000,000 shares of US\$0.001 each.

Immediately after our Company's incorporation, we allotted and issued an aggregate of 100,000 shares of US\$0.001 each, to each of the then shareholders of Xiamen Guanghuan through their respective 100% owned BVI Holding Companies, namely, YAO Holdings Limited (wholly owned by Mr. Yao Jianjun), BILIN Holdings Limited (wholly owned by Mr. Bi Lin), Fishchen Holdings Limited (wholly owned by Mr. Chen Jianyu), Eastep Holdings Limited (wholly owned by Mr. Sun Zhiyan), LINCEN Holdings Limited (wholly owned by Mr. Lin Zhibin), LINT Holdings Limited (wholly owned by Mr. Lin Jiabin), Dinglin Investment Partners Limited (wholly owned by Ms. Chen Yongchun) and at the direction of Mr. Cai Wensheng, Baolink Capital Ltd (wholly owned by Ms. Wang Boashan, the wife of Mr. Cai Wensheng), representing 39.200%, 10.560%, 22.424%, 11.624%, 3.720%, 3.720%, 3.000% and 5.752% equity interests in the Company, respectively.

On November 17, 2014, our Company underwent a share sub-division whereby one ordinary share of par value of US\$0.001 each was sub-divided into 10 ordinary shares of par value of US\$0.0001 each (the "**Subdivision**"). Upon completion of the Subdivision, our authorised share capital was US\$50,000 divided into 500,000,000 shares of par value of US\$0.0001 each.

On November 17, 2014, a total of 200,000 shares of US\$0.0001 each were allotted and issued, at par, on a pro-rata basis to the then Shareholders of our Company: YAO Holdings Limited (78,400 shares), BILIN Holdings Limited (21,120 shares), Fishchen Holdings Limited (44,848 shares), Eastep Holdings Limited (23,248 shares), LINCEN Holdings Limited (7,440 shares), LINT Holdings Limited (7,440 shares), Dinglin Investment Partners Limited (6,000 shares) and Baolink Capital Ltd (11,504 shares) (the "**Allotment**").

On November 17, 2014, our Company further underwent a share sub-division whereby one ordinary share of par value of US\$0.0001 each was sub-divided into 1,000 Shares of par value of US\$0.0000001 each (the “**Further Subdivision**”). Upon completion of the Further Subdivision, our authorised share capital was US\$50,000 divided into 500,000,000,000 Shares of par value of US\$0.0000001 each.

There was no change to the shareholding interests held by our then Shareholders pursuant to the above Subdivision, Allotment and Further Subdivision.

Assuming that the Global Offering becomes unconditional and the Offer Shares are issued but taking no account of any Shares to be allotted and issued upon the exercise of the Over-allotment Option, exercise of the share options granted under Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and vesting of the RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan, a total of 1,500,000,000 shares would have been allotted and issued as fully paid and 498,500,000,000 Shares will remain unissued.

On the basis that the Over-allotment Option is exercised in full and taking no account of any Shares to be issued upon the exercise of any share options granted under the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme, or the vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan, the number of issued Shares will be 1,545,000,000 fully paid Shares, with 498,455,000,000 Shares remaining unissued.

Save as disclosed above, there has been no alteration in our share capital within two years immediately preceding the date of this prospectus.

### **3. Our corporate reorganization**

The companies comprising our Group underwent the Reorganization in preparation for the Listing. Please refer to the section headed “Our History, Reorganization and Corporate Structure” for further details.

### **4. Changes in the share capital of subsidiaries and PRC Operating Entities**

The following changes in the share capital of our subsidiaries and PRC Operating Entities have taken place within two years immediately preceding the issue of this prospectus:

#### ***Feiyu Hong Kong***

On March 25, 2014, Feiyu Hong Kong was incorporated with one share allotted and issued at an issue price of HKD1.00 to the Company. Since its incorporation, it has been wholly owned by the Company.

#### ***Feiyou Feixin***

Feiyou Feixin was established on November 13, 2014 with an initial registered share capital of RMB100,000. Xiamen Feiyou held 100% equity interest in it.

#### ***Feiyou Guangqu***

Feiyou Guangqu was established on November 10, 2014 with an initial registered share capital of RMB100,000. Xiamen Feiyou held 100% equity interest in it.



***Feiyou Guangyu***

Feiyou Guangyu was established on November 10, 2014 with an initial registered share capital of RMB100,000. Xiamen Feiyou held 100% equity interest in it.

***Feiyou Zhangxin***

Feiyou Zhangxin was established on October 27, 2014 with an initial registered share capital of RMB100,000 by Xiamen Feiyou and Mr. Dong Ting, the executive director and general manager of Xiamen Yidou and the supervisor of Feiyou Zhangxin, which respectively held 75% and 25% of the equity interests.

***Xiamen Feiyou***

Xiamen Feiyou was established on June 24, 2014 with an initial registered share capital of USD1,000,000. Feiyu Hong Kong held 100% equity interest in it.

***Xiamen Guanghuan***

Xiamen Guanghuan was established on January 12, 2009 by Mr. Yao Jianjun, Mr. Bi Lin, Mr. Ye Bin, Mr. Lin Zhibin and Mr. Lin Jiabin, who respectively held 40.000%, 21.000%, 13.000%, 13.000% and 13.000% equity interests initially. On February 10, 2009, the registered capital of Xiamen Guanghuan was increased from RMB30,000 to RMB500,000 and the shareholding percentage of Mr. Yao Jianjun, Mr. Bi Lin, Mr. Ye Bin, Mr. Lin Zhibin and Mr. Lin Jiabin remained the same.

On August 10, 2009, Mr. Lin Jiabin transferred his 7.000% equity interest to Mr. Yao Jianjun at a consideration of RMB35,000, Mr. Lin Zhibin transferred his 7.000% equity interest to Mr. Bi Lin at a consideration of RMB35,000 and Mr. Ye Bin transferred his 4.000% equity interest to Mr. Yao Jianjun at a consideration of RMB20,000. Upon the completion of transfer, Mr. Yao Jianjun, Mr. Bi Lin, Mr. Ye Bin, Mr. Lin Zhibin and Mr. Lin Jiabin each held 51.000%, 28.000%, 9.000%, 6.000% and 6.000% equity interests of Xiamen Guanghuan.

On April 22, 2011, Mr. Yao Jianjun transferred 7.100% equity interest to Xiamen Long Ling Investment Limited Partnership Enterprises (廈門隆領投資有限合夥企業) (“**Xiamen Longling**”) at a consideration of RMB35,500, Mr. Bi Lin transferred 12.700% equity interest to Xiamen Longling at a consideration of RMB63,500, Mr. Lin Zhibin and Mr. Lin Jiabin respectively transferred 1.500% equity interests to Xiamen Longling at a consideration of RMB7,500, and Mr. Ye Bin transferred 2.200% equity interests to Xiamen Longling at a consideration of RMB11,000. Upon completion of transfer, Mr. Yao Jianjun, Mr. Bi Lin, Mr. Ye Bin, Mr. Lin Jiabin, Mr. Lin Zhibin and Xiamen Longling respectively held 43.900%, 15.300%, 6.800%, 4.500%, 4.500% and 25.000% equity interests of Xiamen Guanghuan.

On June 22, 2011, Mr. Yao Jianjun transferred 43.900% equity interest to his wife, Ms. Li Zhenzhu at a consideration of RMB219,500. Upon the completion of transfer, Ms. Li Zhenzhu, Xiamen Longling, Mr. Bi Lin, Mr. Ye Bin, Mr. Lin Zhibin and Mr. Lin Jiabin respectively held 43.900%, 25.000%, 15.300%, 6.800%, 4.500% and 4.500% equity interests of Xiamen Guanghuan.

On December 5, 2011, Xiamen Longling transferred 7.100% equity interest to Ms. Li Zhenzhu at a consideration of RMB71,000, 4.300% equity interest to Mr. Bi Lin at a consideration of RMB43,000, 2.200% equity interest to Mr. Ye Bin at a consideration of



RMB22,000, 1.700% equity interests to Mr. Lin Jiabin at a consideration of RMB17,000 and further transferred 1.700% equity interest to Mr. Lin Zhibin at a consideration of RMB17,000. Upon completion of the transfers, Ms. Li Zhenzhu, Mr. Bi Lin, Mr. Ye Bin, Mr. Lin Jiabin, Mr. Lin Zhibin and Xiamen Longling respectively held 51.000%, 19.600%, 9.000%, 6.200%, 6.200% and 8.000% equity interests of Xiamen Guanghuan.

On July 4, 2012, Ms. Li Zhenzhu transferred 51.000% equity interest to Mr. Yao Jianjun at a consideration of RMB510,000. Upon completion of the transfer, Mr. Yao Jianjun, Mr. Bi Lin, Mr. Ye Bin, Mr. Lin Jiabin, Mr. Lin Zhibin and Xiamen Longling respectively held 51.000%, 19.600%, 9.000%, 6.200%, 6.200% and 8.000% equity interests of Xiamen Guanghuan.

On November 8, 2012, Xiamen Longling transferred 8.000% equity interest of Xiamen Guanghuan to Ms. Dai Rihe at a consideration of RMB10,000,000 and ceased to be a shareholder. Upon completion of the transfer, Mr. Yao Jianjun, Mr. Bi Lin, Mr. Ye Bin, Mr. Lin Jiabin, Mr. Lin Zhibin and Ms. Dai Rihe respectively held 51.000%, 19.600%, 9.000%, 6.200%, 6.200% and 8.000% equity interests of Xiamen Guanghuan.

On April 26, 2013, Mr. Ye Bin transferred 9.000% equity interest to Mr. Yao Jianjun at a consideration of RMB1.00 and ceased to be shareholder of Xiamen Guanghuan. Upon completion of the transfer, Mr. Yao Jianjun, Mr. Bi Lin, Mr. Lin Jiabin, Mr. Lin Zhibin and Ms. Dai Rihe respectively held 60.000%, 19.600%, 6.200%, 6.200% and 8.000% equity interests of Xiamen Guanghuan.

On February 10, 2014, Ms. Dai Rihe transferred her respective 3.000% and 5.000% equity interests in Xiamen Guanghuan to Mr. Cai Wensheng and Ms. Chen Yongchun at a consideration of RMB3,750,000 and RMB6,250,000 respectively, and ceased to be a shareholder of Xiamen Guanghuan. Upon completion of the transfers, Mr. Yao Jianjun, Mr. Bi Lin, Mr. Lin Jiabin, Mr. Lin Zhibin, Mr. Cai Wensheng and Ms. Chen Yongchun respectively held 60.000%, 19.600%, 6.200%, 6.200%, 3.000% and 5.000% equity interests in Xiamen Guanghuan.

On April 3, 2014, the registered share capital of Xiamen Guanghuan was increased from RMB1,000,000 to RMB1,666,666, among which Mr. Cai Wensheng contributed RMB65,867, Mr. Sun Zhiyan contributed RMB227,066 and Mr. Chen Jianyu contributed RMB373,733. Upon the completion of registered share capital increment, Mr. Yao Jianjun, Mr. Bi Lin, Mr. Lin Zhibin, Mr. Lin Jiabin, Mr. Cai Wensheng, Mr. Sun Zhiyan, Mr. Chen Jianyu and Ms. Chen Yongchun respectively held 36.000%, 11.760%, 3.720%, 3.720%, 5.752%, 13.624%, 22.424% and 3.000% of Xiamen Guanghuan.

On April 18, 2014, the registered share capital of Xiamen Guanghuan was increased from RMB1,666,666 to RMB10,000,000, among which Mr. Yao Jianjun contributed RMB3,320,002, Mr. Bi Lin contributed RMB860,000, Mr. Lin Zhibin contributed RMB310,000, Mr. Lin Jiabin contributed RMB310,000, Mr. Cai Wensheng contributed RMB479,335, Mr. Sun Zhiyan contributed RMB935,331, Mr. Chen Jianyu contributed RMB1,868,666 and Ms. Chen Yongchun contributed RMB250,000. Upon the completion of the registered share capital increment, Mr. Yao Jianjun, Mr. Bi Lin, Mr. Lin Zhibin, Mr. Lin Jiabin, Mr. Cai Wensheng, Mr. Sun Zhiyan, Mr. Chen Jianyu and Ms. Chen Yongchun respectively held 39.200%, 10.560%, 3.720%, 3.720%, 5.752%, 11.624%, 22.424% and 3.000% of Xiamen Guanghuan.

In November 2014, Xiamen Guanghuan commenced transferring all of its personnel and business operations to Xiamen Feiyou, Feiyou Guangqu and/or Feiyou Guangyu and thereafter, Xiamen Guanghuan will become a dormant company (apart from holding shares in its subsidiaries).

#### ***Xiamen Youli***

Xiamen Youli was established on September 19, 2011 with a registered share capital of RMB300,000 by Ms. Li Zhenzhu, the wife of Mr. Yao Jianjun acting as Mr. Yao Jianjun's nominee, and Mr. Bi Lin, who each held 50% equity interest.

On February 5, 2012, Ms. Li Zhenzhu transferred 50% equity interest to Mr. Yao Jianjun at a consideration of RMB150,000. Upon completion of the transfer, Mr. Yao Jianjun and Mr. Bi Lin respectively held 50% equity interest of Xiamen Youli and each of them held paid-in capital of RMB150,000. On the same day, the registered share capital of Xiamen Youli was increased from RMB300,000 to RMB10,000,000, among which RMB9,700,000 was paid by Xiamen Guanghuan. Accordingly, Xiamen Guanghuan, Mr. Yao Jianjun and Mr. Bi Lin held 97%, 1.5% and 1.5% equity interests of Xiamen Youli after increment of registered share capital.

On November 14, 2013, Mr. Bi Lin transferred 1.5% equity interest to Xiamen Guanghuan at a consideration of RMB150,000 and Mr. Yao Jianjun transferred 1.5% equity interest to Xiamen Guanghuan at a consideration of RMB150,000. Upon completion of the transfers, Xiamen Guanghuan became the sole shareholder of Xiamen Youli.

#### ***Xiamen Heihuo***

Xiamen Heihuo was established on June 7, 2013 with an initial registered share capital of RMB1,000,000 by Xiamen Guanghuan and Mr. Zhou Yangsi who respectively held 75% and 25% of the equity interests.

On December 18, 2013, Mr. Zhou Yangsi transferred 25% of the equity interest to Xiamen Guanghuan at a consideration of RMB250,000. Upon completion of the transfer, Xiamen Guanghuan became the sole shareholder of Xiamen Heihuo.

In August 2014, all personnel and business operations of Xiamen Heihuo was transferred to Xiamen Feiyou. Thereafter, Xiamen Heihuo became a dormant company.

#### ***Xiamen Yidou***

Xiamen Yidou was established on June 11, 2012 with a registered share capital of RMB1,000,000 by Mr. Dong Ting, and Xiamen Guanghuan Investment Partnership Enterprise (Limited Partnership) (廈門光環投資合作企業(有限合夥)) ("**Xiamen Guanghuan Partnership**"), an entity controlled by Mr. Yao Jianjun (50%) and Mr. Bi Lin (50%), who respectively held 49% and 51% equity interests, by contributing RMB490,000 and RMB510,000 respectively.

On September 26, 2012, Xiamen Guanghuan Partnership transferred its 51% equity interest in Xiamen Yidou to Xiamen Guanghuan at a consideration of RMB510,000. Upon completion of the transfer, Mr. Dong Ting and Xiamen Guanghuan respectively held 49% and 51% equity interests of Xiamen Yidou.

On December 31, 2013, Mr. Dong Ting transferred his 24% equity interest to Xiamen Guanghuan at a consideration of RMB240,000. Upon completion of the transfer, Xiamen Guanghuan and Mr. Dong Ting respectively held 75% and 25% equity interests of Xiamen Yidou. In August 2014, an additional consideration of RMB4,885,000 was paid by Xiamen Guanghuan to Mr. Dong Ting for such 24% equity interest.

In November 2014, Xiamen Yidou commenced transferring all of its personnel and business operations to Feiyou Zhangxin and thereafter, Xiamen Yidou will become a dormant company.

#### ***Kailuo Tianxia***

Kailuo Tianxia was established on May 3, 2012 with a registered share capital of RMB1,000,000 by Ms. Tao Lili, the wife of Mr. Chen Jianyu, who was the sole shareholder.

On July 16, 2013, Ms. Tao Lili transferred RMB450,000 of paid-up capital to Mr. Wang Linmi, RMB450,000 of paid-up capital to Mr. Sun Zhiyan and the remaining RMB100,000, paid-up capital, to Xiamen Longling. Upon completion of the transfer, Mr. Wang Linmi, Mr. Sun Zhiyan and Xiamen Longling respectively held 45%, 45% and 10% of equity interests of Kailuo Tianxia.

On September 18, 2013, Mr. Wang Linmi transferred RMB450,000 of paid-up capital to Mr. Chen Jianyu and Xiamen Longling transferred RMB100,000 of paid-up capital to Mr. Cai Wensheng. Upon completion of the transfers, Mr. Sun Zhiyan, Mr. Chen Jianyu and Mr. Cai Wensheng respectively held 45%, 45% and 10% of equity interests in Kailuo Tianxia.

On December 31, 2013, Mr. Chen Jianyu, Mr. Sun Zhiyan and Mr. Cai Wensheng each transferred his 45%, 45% and 10% equity interests in Kailuo Tianxia to Xiamen Guanghuan for a consideration of (1) issuance of an aggregate of 40% new equity interests in Xiamen Guanghuan in April 2014 and (2) a cash consideration of RMB13,594,000 to Mr. Chen Jianyu, RMB13,594,000 to Mr. Sun Zhiyan and RMB3,101,000 to Mr. Cai Wensheng, each paid in January 2014. Mr. Chen Jianyu, Mr. Sun Zhiyan and Mr. Cai Wensheng split the 40% equity interest in Xiamen Guanghuan among themselves by contributing to the increase in registered share capital of Xiamen Guanghuan in the amount of RMB373,733, RMB227,066 and RMB65,867 respectively, thereby receiving 22.424%, 13.624% and 3.952% equity interests in Xiamen Guanghuan, diluting the then Xiamen Guanghuan shareholders' equity interests on a pro rata basis. As a result, Xiamen Guanghuan became the sole shareholder of Kailuo Tianxia.

On February 28, 2014, the registered share capital of Kailuo Tianxia was increased from RMB1,000,000 to RMB10,000,000. Xiamen Guanghuan remained as the sole shareholder of Kailuo Tianxia.

#### ***Chengdu Guangcheng***

Chengdu Guangcheng was established by Mr. Liu Shaoyu, Mr. Cao Jun and Mr. Zhou Kaisheng on May 13, 2014 with an initial registered capital of RMB40,000. Mr. Liu Shaoyu, Mr. Cao Jun and Mr. Zhou Kaisheng each held 51%, 28% and 21% equity interest in Chengdu Guangcheng.

Pursuant to the investment agreement dated June 30, 2014, the registered share capital of Chengdu Guangcheng would be increased to RMB100,000, of which Xiamen Feiyou would receive 60% equity interest, at a consideration of RMB1,000,000. Upon payment of the consideration on August 25, 2014 and completion of the increase in registered share capital, Chengdu Guangcheng was held as to 60% by Xiamen Feiyou, 20.4% by Mr. Liu Shaoyu, 11.2% by Mr. Cao Jun and 8.4% by Mr. Zhou Kaisheng.

Save as set out above, there has been no alteration in the share capital of any of the subsidiaries and PRC Operating Entities of our Company within the two years immediately preceding the date of this prospectus.

#### **5. Resolutions in writing of all the Shareholders passed on November 17, 2014**

Written resolutions of the Shareholders were passed on November 17, 2014 approving, among others, the following:

- (a) The Subdivision, Allotment and Further Subdivision was approved and our Directors were authorised to allot and issue Shares pursuant to the Subdivision, Allotment and Further Subdivision.
- (b) Conditional upon all the conditions set out in the paragraph headed “Structure of the Global Offering — Conditions of the Hong Kong Public Offering” in this prospectus being fulfilled:
  - (i) The Global Offering and the Over-allotment Option;
  - (ii) A general mandate given to the Directors during the relevant period to exercise all the powers of the Company to allot, issue and deal with any Shares or securities convertible into Shares and to make an offer or agreement or grant an option (including but not limited to warrants, options, bonds, notes, securities and debentures conferring any rights to subscribe for or otherwise receive Shares) not exceeding 20% of the aggregate nominal vale of the Company’s share capital in issue immediately following the completion of the Global Offering;
  - (iii) A general mandate given to the Directors during the relevant period to exercise its power to repurchase its own securities not exceeding 10% of the aggregate nominal value of the Company’s share capital in issue immediately following the completion of the Global Offering; and
  - (iv) A general mandate granted to the Directors extended by the addition to the aggregate nominal amount of Shares which may be allotted and issued or agreed to be allotted and issued by the Directors not exceed 10% of the aggregate nominal value of the shares in issue immediately following completion of the Global Offering.
- (c) Conditional on (i) the listing committee of the Stock Exchange granting (or agreeing to grant) approval (subject to such conditions as the Stock Exchange may impose) for the listing of, and permission to deal in, the Shares which may be issued upon the exercise of share options granted under the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme, and vesting of RSUs granted under the Pre-IPO RSU Plan and the Post-IPO RSU Plan and (ii) the commencement of the dealings in the Shares on the Stock Exchange, the adoption of rules of the Post-IPO Share Option Scheme and the Post-IPO RSU Plan and authorization of the Board and/or delegation and authorisation by the Board (where applicable) to the Remuneration Committee of the Company to administer the Post-IPO Share Option Scheme and the Post-IPO RSU Plan.
- (d) The Memorandum and, conditional upon the Listing, the Articles were adopted as memorandum and articles of association respectively.

## 6. Repurchase of our Shares by our Company

This section includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by our Company of the Shares.

### *Provisions of the Listing Rules*

The Listing Rules permit companies with a primary listing on the Hong Kong Stock Exchange to repurchase their own securities on the Hong Kong Stock Exchange subject to certain restrictions, the more important of which are summarized below:

#### *(a) Shareholders' approval*

The Listing Rules provide that all share repurchases by a company with its primary listing on must be approved in advance by an ordinary resolution, which may be by way of general mandate, or by special resolution in relation to specific transactions. As mentioned in the paragraph headed "Resolutions in writing of all the Shareholders passed on November 17, 2014" in this appendix, the Directors were granted the Repurchase Mandate on November 17, 2014.

#### *(b) Sources of funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with the applicable laws, rules and regulations in the Cayman Islands, the Memorandum and the Articles. A listed company is prohibited from repurchasing its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

Any repurchases by our Company may be made out of profits, share premium, or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, subject to the Cayman Companies Law, out of capital and, in the case of any premium payable on the repurchase, out of profits of our Company or out of our Company's share premium account before or at the time our Shares are repurchased or, subject to the Cayman Companies Law, out of capital.

#### *(c) Trading Restrictions*

The total number of shares which a listed company may repurchase on the Hong Kong Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue. A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to exercise of warrants, share options or similar instruments requiring the issuer to issue securities, which were outstanding prior to such repurchase) without the prior approval of the Hong Kong Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares on the Hong Kong Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Hong Kong Stock Exchange. The Listing Rules also prohibit a listed company from repurchasing its securities if that repurchase would result in the number of securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Hong Kong Stock Exchange. A company is required to procure that the broker appointed by it to

effect a repurchase of securities discloses to the Hong Kong Stock Exchange such information with respect to the repurchase as the Hong Kong Stock Exchange may require.

*(d) Status of Repurchased Shares*

A listed company may not make any repurchase of securities at any time after inside information has come to its knowledge, or development which may constitute inside information has occurred or has been the subject of a decision until such time as the inside information has been made publicly available. In particular, during the period of one month immediately preceding the earlier of: (i) the date of the board meeting (as such date is first notified to the Hong Kong Stock Exchange in accordance with the Listing Rules) for the approval of a listed company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and (ii) the deadline for publication of an announcement of a listed company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules) and ending on the date of the results announcement, the listed company may not repurchase its shares on the Hong Kong Stock Exchange other than in exceptional circumstances. In addition, the Hong Kong Stock Exchange may prohibit a repurchase of securities on the Hong Kong Stock Exchange if a listed company has breached the Listing Rules.

*(e) Reporting Requirements*

Certain information relating to repurchases of securities on the Hong Kong Stock Exchange or otherwise must be reported to the Hong Kong Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following Business Day. In addition, a listed company's annual report is required to disclose details regarding repurchases of securities made during the year, including a monthly analysis of the number of securities repurchased, the purchase price per share or the highest and lowest price paid for all such purchase, where relevant, and the aggregate prices paid.

*(f) Connected parties*

The Listing Rules prohibit our Company from knowingly repurchasing our Shares on the Stock Exchange from a core connected person, which includes a Director, chief executive or substantial Shareholder or any of our subsidiaries or an associate of any of them and a core connected person shall not knowingly sell Shares to our Company.

**Reasons for repurchase**

The Directors believe that it is in the best interests of our Company and the Shareholders to have general authority from the Shareholders to enable the Directors to repurchase the Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net value of our Company and the assets and/or the earnings per Share and will only be made when the Directors believe that such repurchases will benefit our Company and the Shareholders.

**Funding of Repurchases**

In repurchasing securities, we may only apply funds legally available for such purpose in accordance with the Articles, the Listing Rules and the applicable laws of Hong Kong. On the basis of our current financial condition as disclosed in this prospectus and taking into account



our current working capital position, the Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on our working capital and/or our gearing position as compared with the position disclosed in this prospectus. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on our working capital requirements or the gearing levels which in the opinion of the Directors are from time to time appropriate for us.

### **General**

Exercise in full of the Repurchase Mandate, on the basis of 1,500,000,000 Shares in issue after completion of the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account of any Shares to be issued upon the exercise of the Pre-IPO Share Scheme and Post-IPO Share Option Scheme and any Shares which may be issued upon vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan), could accordingly result in up to 150,000,000 Shares being repurchased by us during the period prior to:

- (a) The conclusion of our next annual general meeting;
- (b) The expiration of the period within which our next annual general meeting is required by the Articles of Association, the Cayman Companies Law or any other applicable laws of Cayman Islands to be held; or
- (c) The revocation or variation of the Repurchase Mandate by an ordinary resolution of the Shareholders in a general meeting, whichever is the earliest.

None of the Directors nor, to the best of their knowledge and having made all reasonable enquiries, any of their associates currently intends to sell any Shares to our Company or its subsidiaries if the Repurchase Mandate is exercised. The Directors have undertaken to the Hong Kong Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules, the Memorandum and the Articles, the applicable laws, rules and regulations in the Cayman Islands.

If, as a result of a repurchase of securities, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purpose of the Hong Kong Takeovers Code. Accordingly, a Shareholder, or a group of Shareholders acting in concert (within the meaning of the Takeovers Code), could obtain or consolidate control of our Company and may become obliged to make a mandatory offer in accordance with Rule 26 of the Hong Kong Takeovers Code. Save as aforesaid, the Directors are not aware of any consequence which would arise under the Hong Kong Takeovers Code as a consequence of any repurchase made pursuant to the Repurchase Mandate immediately after the Listing.

No core connected person of our Company has notified our Company that he/she has a present intention to sell the Shares to our Company, or has undertaken not to do so, in the event the Repurchase Mandate is exercised.



**B. FURTHER INFORMATION ABOUT THE BUSINESS OF OUR GROUP AND THE PRC OPERATING ENTITIES****1. Summary of material contracts**

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of our Group and the PRC Operating Entities within the two years preceding the date of this prospectus:

- (a) the equity transfer agreement dated November 14, 2013 entered into between Yao Jianjun (姚劍軍) and Xiamen Guanghuan pursuant to which Yao Jianjun (姚劍軍) transferred his 1.5% equity interest in Xiamen Youli to Xiamen Guanghuan for a consideration of RMB150,000;
- (b) the equity transfer agreement dated November 14, 2013 entered into between Bi Lin (畢林) and Xiamen Guanghuan pursuant to which Bi Lin (畢林) transferred his 1.5% equity interest in Xiamen Youli to Xiamen Guanghuan for a consideration of RMB150,000;
- (c) the equity transfer agreement dated December 18, 2013 entered into between Zhou Yangsi (周楊思) and Xiamen Guanghuan pursuant to which Zhou Yangsi (周楊思) transferred his 25% equity interest in Xiamen Heihuo to Xiamen Guanghuan for a consideration of RMB250,000;
- (d) the equity transfer agreement dated December 31, 2013 entered into between Xiamen Guanghuan and Sun Zhiyan (孫志炎) pursuant to which Sun Zhiyan (孫志炎) transferred his 45% equity interest in Kailuo Tianxia to Xiamen Guanghuan for a consideration of RMB13,954,500;
- (e) the equity transfer agreement dated December 31, 2013 entered into between Xiamen Guanghuan and Chen Jianyu (陳劍瑜) pursuant to which Chen Jianyu (陳劍瑜) transferred his 45% equity interest in Kailuo Tianxia to Xiamen Guanghuan for a consideration of RMB13,954,500;
- (f) the equity transfer agreement dated December 31, 2013 entered into between Xiamen Guanghuan and Cai Wensheng (蔡文勝) pursuant to which Cai Wensheng (蔡文勝) transferred his 10% equity interest in Kailuo Tianxia to Xiamen Guanghuan for a consideration of RMB3,101,000;
- (g) the registered share capital transfer agreement dated December 31, 2013 entered into between Sun Zhiyan (孫志炎) and Xiamen Guanghuan pursuant to which Sun Zhiyan (孫志炎) transferred his RMB450,000 registered share capital in Kailuo Tianxia to Xiamen Guanghuan;
- (h) the registered share capital transfer agreement dated December 31, 2013 entered into between Chen Jianyu (陳劍瑜) and Xiamen Guanghuan pursuant to which Chen Jianyu (陳劍瑜) transferred his RMB450,000 registered share capital in Kailuo Tianxia to Xiamen Guanghuan;
- (i) the registered share capital transfer agreement dated December 31, 2013 entered into between Cai Wensheng (蔡文勝) and Xiamen Guanghuan pursuant to which Cai Wensheng (蔡文勝) transferred his RMB100,000 registered share capital in Kailuo Tianxia to Xiamen Guanghuan;

- (j) the equity transfer agreement dated December 31, 2013 entered into between Dong Ting (董挺) and Xiamen Guanghuan pursuant to which Dong Ting (董挺) transferred his 24% equity interest in Xiamen Yidou to Xiamen Guanghuan for a consideration of RMB240,000;
- (k) the supplemental agreement dated February 28, 2014 entered into between Xiamen Guanghuan and Dong Ting (董挺) to their equity transfer agreement dated December 31, 2013 pursuant to which Xiamen Guanghuan shall pay Dong Ting (董挺) additional performance based consideration in respect of the 24% equity interest in Xiamen Yidou;
- (l) the supplemental equity transfer agreement dated August 26, 2014 entered into between Xiamen Guanghuan and Sun Zhiyan (孫志炎) pursuant to which Sun Zhiyan (孫志炎) subscribed for a 13.62% equity interest in Xiamen Guanghuan for a consideration of RMB227,066;
- (m) the supplemental equity transfer agreement dated August 26, 2014 entered into between Xiamen Guanghuan and Chen Jianyu (陳劍瑜) pursuant to which Chen Jianyu (陳劍瑜) subscribed for a 22.42% equity interest in Xiamen Guanghuan for a consideration of RMB373,733;
- (n) the supplemental equity transfer agreement dated August 26, 2014 entered into between Xiamen Guanghuan and Cai Wensheng (蔡文勝) pursuant to which Cai Wensheng (蔡文勝) increased his equity interest in Xiamen Guanghuan to 5.75% for a consideration of RMB65,867;
- (o) the equity transfer agreement dated August 31, 2014 entered into between Xiamen Guanghuan and Xiamen Yiwán Internet Co. Ltd. (廈門易玩網絡有限公司) pursuant to which Xiamen Guanghuan transferred its registered share capital in Tianxia Jiayou to Xiamen Yiwán Internet Co. Ltd. (廈門易玩網路有限公司) for a consideration of RMB600,000;
- (p) the Exclusive Business Cooperation Agreement dated September 4, 2014 entered into between Xiamen Feiyou and Xiamen Guanghuan pursuant to which Xiamen Guanghuan appointed Xiamen Feiyou as its exclusive services provider of technical support, business support and consulting services in consideration for service fees to Xiamen Feiyou;
- (q) the Equity Interest Pledge Agreement dated September 4, 2014 entered into among Xiamen Feiyou, Chen Jianyu (陳劍瑜), Yao Jianjun (姚劍軍), Lin Zhibin (林志斌), Bi Lin (畢林), Chen Yongchun (陳永純), Cai Wensheng (蔡文勝), Sun Zhiyan (孫志炎), Lin Jiabin (林加斌) and Xiamen Guanghuan pursuant to which Chen Jianyu (陳劍瑜), Yao Jianjun (姚劍軍), Lin Zhibin (林志斌), Bi Lin (畢林), Chen Yongchun (陳永純), Cai Wensheng (蔡文勝), Sun Zhiyan (孫志炎) and Lin Jiabin (林加斌) agreed to pledge all their respective equity interests in Xiamen Guanghuan to Xiamen Feiyou as security for any and all losses suffered by Xiamen Feiyou;
- (r) the Exclusive Option Agreement dated September 4, 2014 entered into among Xiamen Feiyou, Chen Jianyu (陳劍瑜), Yao Jianjun (姚劍軍), Lin Zhibin (林志斌), Bi Lin (畢林), Chen Yongchun (陳永純), Cai Wensheng (蔡文勝), Sun Zhiyan (孫志炎), Lin Jiabin (林加斌) and Xiamen Guanghuan pursuant to which Chen Jianyu (陳劍瑜), Yao Jianjun (姚劍軍), Lin Zhibin (林志斌), Bi Lin (畢林), Chen Yongchun (陳永純), Cai Wensheng (蔡文勝), Sun Zhiyan (孫志炎) and Lin Jiabin (林加斌) exclusively, irrevocably and















- unconditionally granted Xiamen Feiyou an exclusive option to purchase all or part of their equity interest in Xiamen Guanghuan;
- (s) the Power of Attorney dated September 4, 2014 by Yao Jianjun (姚劍軍) in favour of Xiamen Feiyou, pursuant to which Xiamen Feiyou or its designee(s) was irrevocably authorised to exercise Yao Jianjun's shareholder's rights in Xiamen Guanghuan;
  - (t) the Power of Attorney dated September 4, 2014 by Chen Jianyu (陳劍瑜) in favour of Xiamen Feiyou, pursuant to which Xiamen Feiyou or its designee(s) was irrevocably authorised to exercise Chen Jianyu's shareholder's rights in Xiamen Guanghuan;
  - (u) the Power of Attorney dated September 4, 2014 by Bi Lin (畢林) in favour of Xiamen Feiyou, pursuant to which Xiamen Feiyou or its designee(s) was irrevocably authorised to exercise Bi Lin's shareholder's rights in Xiamen Guanghuan;
  - (v) the Power of Attorney dated September 4, 2014 by Sun Zhiyan (孫志炎) in favour of Xiamen Feiyou, pursuant to which Xiamen Feiyou or its designee(s) was irrevocably authorised to exercise Sun Zhiyan's shareholder's rights in Xiamen Guanghuan;
  - (w) the Power of Attorney dated September 4, 2014 by Lin Jiabin (林加斌) in favour of Xiamen Feiyou, pursuant to which Xiamen Feiyou or its designee(s) was irrevocably authorised to exercise Lin Jiabin's shareholder's rights in Xiamen Guanghuan;
  - (x) the Power of Attorney dated September 4, 2014 by Lin Zhibin (林志斌) in favour of Xiamen Feiyou, pursuant to which Xiamen Feiyou or its designee(s) was irrevocably authorised to exercise Lin Zhibin's shareholder's rights in Xiamen Guanghuan;
  - (y) the Power of Attorney dated September 4, 2014 by Chen Yongchun (陳永純) in favour of Xiamen Feiyou, pursuant to which Xiamen Feiyou or its designee(s) was irrevocably authorised to exercise Chen Yongchun's shareholder's rights in Xiamen Guanghuan;
  - (z) the Power of Attorney dated September 4, 2014 by Cai Wensheng (蔡文勝) in favour of Xiamen Feiyou, pursuant to which Xiamen Feiyou or its designee(s) was irrevocably authorised to exercise Cai Wensheng's shareholder's rights in Xiamen Guanghuan;
  - (aa) the Exclusive Business Cooperation Agreement dated October 31, 2014 entered into between Xiamen Feiyou and Xiamen Youli pursuant to which Xiamen Youli appointed Xiamen Feiyou as its exclusive services provider of technical support, business support and consulting services in consideration for service fees to Xiamen Feiyou;
  - (bb) the Exclusive Business Cooperation Agreement dated October 31, 2014 entered into between Xiamen Feiyou and Kailuo Tianxia pursuant to which Kailuo Tianxia appointed Xiamen Feiyou as its exclusive services provider of technical support, business support and consulting services in consideration for service fees to Xiamen Feiyou;
  - (cc) the Equity Interest Pledge Agreement dated October 31, 2014 entered into among Xiamen Feiyou, Xiamen Guanghuan and Xiamen Youli pursuant to which Xiamen Guanghuan agreed to pledge all its equity interests in Xiamen Youli to Xiamen Feiyou as security for any and all losses suffered by Xiamen Feiyou;
  - (dd) the Equity Interest Pledge Agreement dated October 31, 2014 entered into among Xiamen Feiyou, Xiamen Guanghuan and Kailuo Tianxia pursuant to which Xiamen Guanghuan agreed to pledge all its equity interests in Kailuo Tianxia to Xiamen Feiyou as security for any and all losses suffered by Xiamen Feiyou;











- (ee) the Exclusive Option Agreement dated October 31, 2014 entered into among Xiamen Feiyou, Xiamen Guanghuan and Xiamen Youli pursuant to which Xiamen Guanghuan exclusively, irrevocably and unconditionally granted Xiamen Feiyou an exclusive option to purchase all or part of its equity interest in Xiamen Youli;
- (ff) the Exclusive Option Agreement dated October 31, 2014 entered into among Xiamen Feiyou, Xiamen Guanghuan and Kailuo Tianxia pursuant to which Xiamen Guanghuan exclusively, irrevocably and unconditionally granted Xiamen Feiyou an exclusive option to purchase all or part of its equity interest in Kailuo Tianxia;
- (gg) the Power of Attorney dated October 31, 2014 by Xiamen Guanghuan in favour of Xiamen Feiyou, pursuant to which Xiamen Feiyou or its designee(s) was irrevocably authorised to exercise Xiamen Guanghuan's shareholder's rights in Xiamen Youli;
- (hh) the Power of Attorney dated October 31, 2014 by Xiamen Guanghuan in favour of Xiamen Feiyou, pursuant to which Xiamen Feiyou or its designee(s) was irrevocably authorised to exercise Xiamen Guanghuan's shareholder's rights in Kailuo Tianxia;
- (ii) the equity transfer agreement dated November 7, 2014 entered into between Xiamen Guanghuan and Tu Qin (涂琴) pursuant to which Xiamen Guanghuan transferred its 30% equity interest in Shenzhen Zhangxin to Tu Qin (涂琴) for a consideration of RMB4,000,000;
- (jj) the deed of indemnity dated November 17, 2014 entered into among the Controlling Shareholders and the Company;
- (kk) the deed of non-competition dated November 17, 2014 entered into among the Controlling Shareholders, Chen Jianyu (陳劍瑜), Sun Zhiyan (孫志炎), Fishchen Holdings Limited, Eastep Holdings Limited, Honour Gate Limited, Ace Kingdom Limited and the Company;
- (ll) the deed of lock-up dated November 19, 2014 entered into among the Company, Sun Zhiyan (孫志炎), Ace Kingdom Limited, Eastep Holdings Limited, the Joint Global Coordinators, the Joint Sponsors and the Underwriters;
- (mm) the cornerstone investment agreement dated November 19, 2014 entered into among the Company, Weblink Games Inc. and the Joint Global Coordinators; and
- (nn) the Hong Kong Underwriting Agreement.

## 2. Intellectual Property Rights of our Group

### (a) Trademark

As at the Latest Practicable Date, our Group was the owner of the following trademarks registered with the relevant authorities in respect of the class of goods and services specified below that are material to the operations of our Group:

No.	Trademark	Owner	Place of Registration	Class	Registration Number	Valid Period
1.		Kailuo Tianxia	PRC	28	11739173	April 21, 2014 to April 20, 2024
2.		Kailuo Tianxia	PRC	25	11739131	April 21, 2014 to April 20, 2024
3.		Kailuo Tianxia	PRC	16	11739103	April 21, 2014 to April 20, 2024
4.		Kailuo Tianxia	PRC	14	11739036	April 21, 2014 to April 20, 2024
5.		Kailuo Tianxia	PRC	41	11510209	February 21, 2014 to February 20, 2024
6.		Kailuo Tianxia	PRC	9	11487011	February 21, 2014 to February 20, 2024
7.		Kailuo Tianxia	PRC	41	11487029	February 21, 2014 to February 20, 2024
8.		Kailuo Tianxia	PRC	41	11487057	February 21, 2014 to February 20, 2024
9.		Kailuo Tianxia	PRC	9	11118902	November 14, 2013 to November 13, 2023
10.		Kailuo Tianxia	PRC	41	11118913	November 14, 2013 to November 13, 2023
11.		Kailuo Tianxia	PRC	41	11118919	November 7, 2013 to November 6, 2023
12.		Xiamen Yidou <sup>(1)</sup>	PRC	28	11242119	December 14, 2012 to December 13, 2023
13.		Xiamen Yidou <sup>(1)</sup>	PRC	16	11241999	December 14, 2013 to December 13, 2023
14.		Xiamen Yidou <sup>(1)</sup>	PRC	41	11242514	December 28, 2013 to December 27, 2023

No.	Trademark	Owner	Place of Registration	Class	Registration Number	Valid Period
15.		Xiamen Yidou <sup>(1)</sup>	PRC	42	11246756	April 14, 2014 to April 13, 2024
16.	神仙道	Xiamen Guanghuan <sup>(2)</sup>	PRC	41	9231935	March 28, 2012 to March 27, 2022
17.	神仙道	Xiamen Guanghuan <sup>(2)</sup>	PRC	9	9231914	April 7, 2012 to April 6, 2022
18.		Xiamen Guanghuan <sup>(2)</sup>	PRC	16	10007476	November 28, 2012 to November 27, 2022
19.		Xiamen Guanghuan <sup>(2)</sup>	PRC	42	10012653	November 28, 2012 to November 27, 2022
20.		Xiamen Guanghuan <sup>(2)</sup>	PRC	28	10007509	January 7, 2013 to January 6, 2023
21.		Xiamen Guanghuan <sup>(2)</sup>	PRC	35	10007560	January 7, 2013 to January 6, 2023
22.		Xiamen Guanghuan <sup>(2)</sup>	PRC	38	10007593	January 7, 2013 to January 6, 2023
23.		Xiamen Guanghuan <sup>(2)</sup>	PRC	28	10916121	August 21, 2013 to August 20, 2023
24.		Xiamen Guanghuan <sup>(2)</sup>	PRC	16	10912539	August 21, 2013 to August 20, 2023
25.		Xiamen Guanghuan <sup>(2)</sup>	PRC	35	10916254	August 21, 2013 to August 20, 2023
26.		Xiamen Guanghuan <sup>(2)</sup>	PRC	38	10916338	August 21, 2013 to August 20, 2023
27.		Xiamen Guanghuan <sup>(2)</sup>	PRC	41	10916485	August 21, 2013 to August 20, 2023
28.	 	the Company	HK	9, 16, 41, 42	303003650	May 21, 2014 to May 20, 2024















## Notes:

(1) in the process of transferring from Xiamen Yidou to Feiyou Zhangxin


















(2) in the process of transferring from Xiamen Guanghuan to Feiyou Guangyu














As at the Latest Practicable Date, our Group has applied for registration of following trademarks that are material to the operations of our Group with the relevant authorities in respect of the class of goods and services specified below the registration of which has not yet been granted:

No.	Trademark	Applicant	Place of Application	Class	Application Number	Application Date
1.	 萝卜工场	Kailuo Tianxia	PRC	9	12034007	January 11, 2013
2.	 LUOBO.CN	Kailuo Tianxia	PRC	9	12033981	January 11, 2013
3.	 LUOBO.CN	Kailuo Tianxia	PRC	41	12034052	January 11, 2013
4.	 萝卜工场	Kailuo Tianxia	PRC	41	12034021	January 11, 2013
5.		Kailuo Tianxia	PRC	9	11118891	June 25, 2012
6.		Kailuo Tianxia	PRC	9	11486995	September 13, 2012
7.		Xiamen Yidou <sup>(1)</sup>	PRC	9	14454703	April 25, 2014
8.		Xiamen Yidou <sup>(1)</sup>	PRC	16	14454704	April 25, 2014
9.		Xiamen Yidou <sup>(1)</sup>	PRC	28	14454705	April 25, 2014
10.		Xiamen Yidou <sup>(1)</sup>	PRC	35	14454706	April 25, 2014
11.		Xiamen Yidou <sup>(1)</sup>	PRC	38	14454707	April 25, 2014
12.		Xiamen Yidou <sup>(1)</sup>	PRC	41	14454708	April 25, 2014
13.		Xiamen Yidou <sup>(1)</sup>	PRC	42	14454709	April 25, 2014
14.		Xiamen Yidou <sup>(1)</sup>	PRC	9, 16, 28, 35, 38, 41, 42	14846343	June 12, 2014



No.	Trademark	Applicant	Place of Application	Class	Application Number	Application Date
15.		Xiamen Guanghuan <sup>(2)</sup>	PRC	9	12162895	February 6, 2013
16.		Xiamen Guanghuan <sup>(2)</sup>	PRC	16	12162943	February 6, 2013
17.		Xiamen Guanghuan <sup>(2)</sup>	PRC	28	12162981	February 6, 2013
18.		Xiamen Guanghuan <sup>(2)</sup>	PRC	35	12163006	February 6, 2013
19.		Xiamen Guanghuan <sup>(2)</sup>	PRC	38	12163021	February 6, 2013
20.		Xiamen Guanghuan <sup>(2)</sup>	PRC	41	12163033	February 6, 2013
21.		Xiamen Guanghuan <sup>(2)</sup>	PRC	42	12163045	February 6, 2013
22.		Xiamen Guanghuan <sup>(2)</sup>	PRC	9	12257278	March 13, 2013
23.		Xiamen Guanghuan <sup>(2)</sup>	PRC	16	12257416	March 13, 2013
24.		Xiamen Guanghuan <sup>(2)</sup>	PRC	42	12257475	March 13, 2013
25.		Xiamen Guanghuan <sup>(2)</sup>	PRC	9	12503960	April 27, 2013
26.		Xiamen Guanghuan <sup>(2)</sup>	PRC	16	12504054	April 27, 2013
27.		Xiamen Guanghuan <sup>(2)</sup>	PRC	28	12504161	April 27, 2013
28.		Xiamen Guanghuan <sup>(2)</sup>	PRC	35	12504065	April 27, 2013
29.		Xiamen Guanghuan <sup>(2)</sup>	PRC	38	12504096	April 27, 2013
30.		Xiamen Guanghuan <sup>(2)</sup>	PRC	41	12504144	April 27, 2013
31.		Xiamen Guanghuan <sup>(2)</sup>	PRC	42	12504215	April 27, 2013

No.	Trademark	Applicant	Place of Application	Class	Application Number	Application Date
32.		Xiamen Guanghuan <sup>(3)</sup>	PRC	9	12918917	July 15, 2013
33.		Xiamen Guanghuan <sup>(3)</sup>	PRC	16	12918993	July 15, 2013
34.		Xiamen Guanghuan <sup>(3)</sup>	PRC	28	12919071	July 15, 2013
35.		Xiamen Guanghuan <sup>(3)</sup>	PRC	38	12919101	July 15, 2013
36.		Xiamen Guanghuan <sup>(3)</sup>	PRC	41	12919136	July 15, 2013
37.		Xiamen Guanghuan <sup>(3)</sup>	PRC	42	12919169	July 15, 2013
38.		Xiamen Guanghuan <sup>(3)</sup>	PRC	9	13989329	January 27, 2014
39.		Xiamen Guanghuan <sup>(3)</sup>	PRC	16	13989379	January 27, 2014
40.		Xiamen Guanghuan <sup>(3)</sup>	PRC	28	13989450	January 27, 2014
41.		Xiamen Guanghuan <sup>(3)</sup>	PRC	35	13989566	January 27, 2014
42.		Xiamen Guanghuan <sup>(3)</sup>	PRC	38	13989606	January 27, 2014
43.		Xiamen Guanghuan <sup>(3)</sup>	PRC	41	13989653	January 27, 2014
44.		Xiamen Guanghuan <sup>(3)</sup>	PRC	42	13989697	January 27, 2014
45.		Xiamen Guanghuan <sup>(3)</sup>	PRC	9	13989304	January 27, 2014

## APPENDIX IV

## STATUTORY AND GENERAL INFORMATION

No.	Trademark	Applicant	Place of Application	Class	Application Number	Application Date
46.		Xiamen Guanghuan <sup>(3)</sup>	PRC	16	13989364	January 27, 2014
47.		Xiamen Guanghuan <sup>(3)</sup>	PRC	28	13989436	January 27, 2014
48.		Xiamen Guanghuan <sup>(3)</sup>	PRC	35	13989550	January 27, 2014
49.		Xiamen Guanghuan <sup>(3)</sup>	PRC	38	13989592	January 27, 2014
50.		Xiamen Guanghuan <sup>(3)</sup>	PRC	41	13989636	January 27, 2014
51.		Xiamen Guanghuan <sup>(3)</sup>	PRC	42	13989682	January 27, 2014
52.		Xiamen Guanghuan <sup>(2)</sup>	PRC	16	14462513	April 25, 2014
53.		Xiamen Guanghuan <sup>(3)</sup>	PRC	16	14462576	April 25, 2014
54.		Xiamen Guanghuan <sup>(3)</sup>	PRC	41	14485790	April 29, 2014
55.		Xiamen Guanghuan <sup>(3)</sup>	PRC	9, 16, 28, 35, 38, 41, 42	15122987	August 8, 2014
56.		Xiamen Youli	PRC	9	12918244	July 15, 2013
57.		Xiamen Youli	PRC	16	12918338	July 15, 2013
58.		Xiamen Youli	PRC	28	12918412	July 15, 2013
59.		Xiamen Youli	PRC	35	12918460	July 15, 2013
60.		Xiamen Youli	PRC	38	12918521	July 15, 2013
61.		Xiamen Youli	PRC	41	12918609	July 15, 2013
62.		Xiamen Youli	PRC	42	12918661	July 15, 2013

## Notes:

- (1) in the process of transferring from Xiamen Yidou to Feiyou Zhangxin  
 (2) in the process of transferring from Xiamen Guanghuan to Feiyou Guangyu  
 (3) in the process of transferring from Xiamen Guanghuan to Feiyou Guangqu

**(b) Domain Names**

As at the Latest Practicable Date, our Group has registered the following domain names that are material to the operations of our Group:

No.	Registrant	Domain Name	Date of registration	Expiry Date
1.	Feiyou Guangyu	www.gh-tj.com	December 13, 2013	November 8, 2017
2.	Feiyou Guangyu	www.guanghuan.com	March 14, 2013	March 7, 2015
3.	Feiyou Guangyu	www.feiyu.com	April 3, 2000	April 3, 2015
4.	Xiamen Youli	www.91www.com	July 20, 2014	August 18, 2015
5.	Xiamen Youli	www.qyy.com	December 2, 1999	December 2, 2014
6.	Xiamen Youli	www.douwan.com	May 8, 2011	May 7, 2021
7.	Feiyou Zhangxin	www.1dou.cn	February 17, 2012	February 17, 2015
8.	Kailuo Tianxia	www.luobo.cn	December 3, 2005	December 3, 2020
9.	Feiyu Hong Kong	www.feiyuhk.com	November 2, 2014	November 2, 2015

Information contained in the above websites does not form part of this prospectus.

**(c) Copyright**

As at the Latest Practicable Date, our Group has registered the following copyrights that are material to the operations of our Group.

No.	Copyright	Versions	Owner	Place of Registration	Registration No.	Date of Completion
1.	神仙道網頁遊戲軟件 web game software of Shenxiandao	V1.0	Feiyou Guangqu <sup>(1)</sup>	PRC	2010SR073590	November 20, 2010
2.	光環網頁版業務跟蹤系統 web version of business tracking system of Guanghuan	V1.0	Feiyou Guangqu <sup>(1)</sup>	PRC	2011SR018146	February 28, 2011
3.	OMS組織管理系統 OMS organization management system	V1.0	Feiyou Guangqu <sup>(1)</sup>	PRC	2011SR041284	April 30, 2011
4.	中秋博餅網頁遊戲軟件 Mid-Autumn Bobing web game software	V1.0	Feiyou Guangqu <sup>(1)</sup>	PRC	2011SR041283	May 30, 2011
5.	《神仙道》後台管理系統 backstage management system of Shenxiandao	V1.0	Feiyou Guangqu <sup>(1)</sup>	PRC	2011SR042369	May 20, 2011
6.	光環點餐系統 meal ordering system of Guanghuan	V1.0	Feiyou Guangqu <sup>(1)</sup>	PRC	2011SR065851	April 30, 2011
7.	光環戰記單機遊戲軟件 console game software of Guanghuan Zhanji	V1.0	Feiyou Guangqu <sup>(1)</sup>	PRC	2011SR065850	August 10, 2011

No.	Copyright	Versions	Owner	Place of Registration	Registration No.	Date of Completion
8.	光環學員培訓系統 trainee training system of Guanghuan	V1.0	Feiyou Guangqu <sup>(1)</sup>	PRC	2011SR068116	July 20, 2011
9.	光環專賣店管理系統 management system of Guanghuan franchised stores	V1.0	Feiyou Guangqu <sup>(1)</sup>	PRC	2011SR068129	August 3, 2011
10.	光環Bug管理系統 bug management system of Guanghuan	V1.0	Feiyou Guangqu <sup>(1)</sup>	PRC	2011SR070408	September 10, 2011
11.	神仙道網頁遊戲軟件web game software of Shenxiandao	V2.0	Feiyou Guangqu <sup>(1)</sup>	PRC	2011SR071739	May 10, 2011
12.	騰雲網頁遊戲軟件 web game software of Tengyun	V1.0	Feiyou Guangqu <sup>(1)</sup>	PRC	2012SR003490	January 9, 2012
13.	神仙道iOS版遊戲軟件 Shenxiandao game software (iOS version)	V1.0	Feiyou Guangqu <sup>(2)</sup> (Shanghai Pinzhi Culture Communication Company Limited (上海品志文化傳播有限公司) is co-owner of this copy right)	PRC	2012SR010150	January 5, 2012
14.	神仙道連連看單機遊戲軟件 console game software of Shenxiandao Lianliankan	V1.0	Feiyou Guangqu <sup>(1)</sup>	PRC	2012SR012565	January 3, 2012
15.	神仙道琵琶英雄手機版遊戲軟件 mobile game software of Shenxiandao Pipa Hero	V1.0	Feiyou Guangqu <sup>(1)</sup>	PRC	2012SR061696	October 1, 2011
16.	神仙道韓文版網頁遊戲軟件 web game software of Shenxiandao (Korean version)	V1.0	Feiyou Guangqu <sup>(1)</sup>	PRC	2012SR061702	January 10, 2012
17.	神仙道網頁遊戲軟件web game software of Shenxiandao	V3.0	Feiyou Guangqu <sup>(1)</sup>	PRC	2012SR062274	April 5, 2012
18.	品志神仙道Android版手機遊戲軟件Pinzhi Shenxiandao mobile game software (Android version)	V1.0	Feiyou Guangqu <sup>(2)</sup> (Shanghai Pinzhi Culture Communication Company Limited (上海品志文化傳播有限公司) is co-owner of this copy right)	PRC	2013SR001826	November 1, 2012
19.	神仙道網頁遊戲軟件web game software of Shenxiandao	V4.0	Feiyou Guangqu <sup>(1)</sup>	PRC	2013SR018672	January 15, 2013

No.	Copyright	Versions	Owner	Place of Registration	Registration No.	Date of Completion
20.	大話神仙網頁遊戲軟件 web game software of Dahuashenxian	V2.0	Feiyou Guangyu <sup>(1)</sup>	PRC	2013SR037639	January 9, 2013
21.	霸秦網頁遊戲軟件Baqin web game software	V1.0	Feiyou Guangqu <sup>(1)</sup>	PRC	2013SR060492	April 20, 2013
22.	品志神仙道iOS版手機遊戲軟件 Pinzhi Shenxiandao mobile game software (iOS version)	V3.0	Feiyou Guangyu <sup>(2)</sup> (Shanghai Pinzhi Culture Communication Company Limited (上海品志文化傳播有限公司) is co-owner of this copy right)	PRC	2013SR085841	May 30, 2013
23.	光環神仙道iOS版手機遊戲軟件 Guanghuan Shenxiandao mobile game software (iOS version)	V4.0	Feiyou Guangyu <sup>(2)</sup> (Shanghai Pinzhi Culture Communication Company Limited (上海品志文化傳播有限公司) is co-owner of this copy right)	PRC	2013SR087177	April 15, 2013
24.	神仙道網頁版手機助手軟件 mobile assistant software of Shenxiandao (web version)	V1.0	Feiyou Guangyu <sup>(1)</sup>	PRC	2013SR092394	July 25, 2013
25.	光環神仙道Android版手機遊戲軟件 Guanghuan Shenxiandao mobile game software (Android version)	V1.3	Feiyou Guangyu <sup>(2)</sup> (Shanghai Pinzhi Culture Communication Company Limited (上海品志文化傳播有限公司) is co-owner of this copy right)	PRC	2014SR012616	July 24, 2013
26.	電池快跑遊戲軟件 Battery Run game software	V1.0	Feiyou Guangqu <sup>(1)</sup>	PRC	2014SR079178	January 3, 2014
27.	光環大話神仙網頁遊戲軟件 Guanghuan Dahuashenxian web game software	V3.0	Feiyou Guangyu <sup>(1)</sup>	PRC	2014SR067991	March 10, 2014
28.	光環神仙道網頁遊戲軟件 Guanghuan Shenxiandao web game software	V5.0	Feiyou Guangyu <sup>(1)</sup>	PRC	2014SR067931	March 15, 2014

No.	Copyright	Versions	Owner	Place of Registration	Registration No.	Date of Completion
29.	野人來了遊戲軟件Wild Man is Coming game software	V1.0	Feiyou Guangqu <sup>(1)</sup>	PRC	2014SR152813	July 3, 2014
30.	品志神仙道iOS版手機遊戲軟件 Pinzhi Shenxiandao mobile game software (iOS version)	V6.0	Feiyou Guangyu <sup>(2)</sup> (Shanghai Pinzhi Culture Communication Company Limited (上海品志文化傳播有限公司) is co-owner of this copy right)	PRC	2014SR155030	August 20, 2014
31.	品志神仙道Android版手機遊戲軟件 Pinzhi Shenxiandao mobile game software (Android version)	V3.0	Feiyou Guangyu <sup>(2)</sup> (Shanghai Pinzhi Culture Communication Company Limited (上海品志文化傳播有限公司) is co-owner of this copy right)	PRC	2014SR155026	August 21, 2014
32.	保衛蘿蔔遊戲軟件 (carrot fantasy) Carrot fantasy game software	V1.0.5	Kailuo Tianxia	PRC	2012SR108667	August 1, 2012
33.	保衛蘿蔔遊戲軟件 (iOS挑戰版) Carrot fantasy game software (iOS challenge version)	1.0.6	Kailuo Tianxia	PRC	2013SR062017	November 15, 2012
34.	保衛蘿蔔遊戲軟件 (iOS深海版) Carrot fantasy game software (iOS deep ocean version)	1.0.7	Kailuo Tianxia	PRC	2013SR062022	December 1, 2012
35.	保衛蘿蔔遊戲軟件 (Android搶先版) Carrot fantasy game software (Android preemptive version)	1.0.6	Kailuo Tianxia	PRC	2013SR062219	January 16, 2013
36.	保衛蘿蔔遊戲軟件 (Android深海版) Carrot fantasy game software (Android deep ocean version)	1.0.7	Kailuo Tianxia	PRC	2013SR061975	March 25, 2013
37.	保衛蘿蔔遊戲軟件 (Android挑戰版) Carrot fantasy game software (Android challenge version)	1.1.0	Kailuo Tianxia	PRC	2013SR062123	April 29, 2013



No.	Copyright	Versions	Owner	Place of Registration	Registration No.	Date of Completion
38.	保衛蘿蔔2極地冒險遊戲軟件 (iOS版) Carrot fantasy2 polar region adventure game software (iOS version)	1.0.0	Kailuo Tianxia	PRC	2014SR021944	November 1, 2013
39.	保衛蘿蔔2極地冒險遊戲軟件 (Android版) Carrot fantasy2 polar region adventure game software (Android version)	1.0.0	Kailuo Tianxia	PRC	2014SR015266	December 6, 2013
40.	都玩遊戲平台軟件 Douwan game platform software	V1.0	Xiamen Youli	PRC	2012SR029932	February 3, 2012
41.	遊戲平台用戶管理系統 user management system of game platform	V1.0	Xiamen Youli	PRC	2013SR043242	December 25, 2012
42.	展示型網絡廣告系統 display online advertisement system	V1.0	Xiamen Youli	PRC	2013SR042735	December 26, 2012
43.	網絡廣告資源管理系統 online advertisement resources management system	V1.0	Xiamen Youli	PRC	2013SR042727	December 26, 2012
44.	企業OA管理系統 enterprises OA management system	V1.0	Xiamen Youli	PRC	2013SR033249	February 1, 2013
45.	網頁遊戲運營活動管理系統 web game operation management system	V1.0	Xiamen Youli	PRC	2014SR039961	April 12, 2013
46.	網頁遊戲客服服務管理系統 web game customer service management system	V1.0	Xiamen Youli	PRC	2014SR039959	April 16, 2013
47.	企業人事管理系統 enterprise human resources management system	V1.0	Xiamen Youli	PRC	2014SR039960	May 10, 2013
48.	企業員工信息查詢系統 enterprise employees information search system	V1.0	Xiamen Youli	PRC	2014SR039956	May 10, 2013
49.	游力737遊戲網後台管理系統軟件 Youli 737 games network backstage management system software	V1.0	Xiamen Youli	PRC	2013SR072258	May 15, 2013

No.	Copyright	Versions	Owner	Place of Registration	Registration No.	Date of Completion
50.	游力737遊戲網軟件系統 Youli 737 games network software system	V1.0	Xiamen Youli	PRC	2013SR072254	May 15, 2013
51.	手機遊戲玩家分析系統 mobile games users analysis system	V1.0	Xiamen Youli	PRC	2014SR039957	May 26, 2013
52.	游力囧西遊遊戲軟件Youli Jiongxiyou game software	V1.0	Xiamen Youli	PRC	2013SR067156	June 20, 2013
53.	手機遊戲玩家管理系統 mobile game users management system	V1.0	Xiamen Youli	PRC	2014SR041584	August 9, 2013
54.	手機遊戲(手機端資訊展示) 系統 mobile games (information display on mobile) system	V1.0	Xiamen Youli	PRC	2014SR039955	August 12, 2013
55.	手機遊戲運營分析系統 mobile game operation analysis system	V1.0	Xiamen Youli	PRC	2014SR039958	September 20, 2013
56.	手機遊戲渠道管理系統 mobile games channel management system	V1.0	Xiamen Youli	PRC	2014SR039954	September 20, 2013
57.	闖三國手機遊戲軟件 Chuangsanguo mobile game software	V1.0	Feiyou Zhangxin <sup>(3)</sup>	PRC	2012SR073298	June 18, 2012
58.	闖三國手機遊戲軟件 Chuangsanguo mobile game software	V2.0	Feiyou Zhangxin <sup>(3)</sup>	PRC	2013SR011033	September 17, 2012
59.	闖三國online手機遊戲軟件 Chuangsanguo online mobile game software	V3.0	Feiyou Zhangxin <sup>(3)</sup>	PRC	2013SR010486	September 27, 2012
60.	闖三國遊戲編輯器軟件 Chuangsanguo game editor software	V1.0	Feiyou Zhangxin <sup>(3)</sup>	PRC	2013SR048515	October 21, 2012
61.	亂世之刃2手機遊戲軟件 Luanshizhiren 2 mobile game software (變更後為 三國之刃手機遊戲軟件) Change to Sanguozhiren mobile game software	V1.0	Feiyou Zhangxin <sup>(3)</sup>	PRC	2013SR055705	May 15, 2013
62.	亂世之刃2手機遊戲軟件 Luanshizhiren 2 mobile game software	V2.0	Feiyou Zhangxin <sup>(3)</sup>	PRC	2014SR141253	June 5, 2014

## Notes:

(1) previously registered under Xiamen Guanghuan

(2) previously registered under Xiamen Guanghuan and Shanghai Pinzhi Culture Communication Company Limited (上海品志文化傳播有限公司)

(3) previously registered under Xiamen Yidou

As at the Latest Practicable Date, our Group has registered the following copyrights of artworks that are material to the operations of our Group.

No.	Copyright	Registration Number	Place of Registration	Owner	Date of registration
1.	Cartoon image of Ice Cone Tower (冰錐塔卡通形象)	國作登字 -2014-F-00139436	PRC	Kailuo Tianxia	January 14, 2014
2.	Cartoon Image of Magic Mall (魔法球卡通形象)	國作登字 -2014-F-00139435	PRC	Kailuo Tianxia	January 14, 2014
3.	Cartoon Image of Nuandoudou (暖兜兜卡通形象)	國作登字 -2014-F-00139434	PRC	Kailuo Tianxia	January 14, 2014
4.	Cartoon Image of Oumaigao (偶買糕卡通形象)	國作登字 -2014-F-00139433	PRC	Kailuo Tianxia	January 14, 2014
5.	Cartoon image of Fat Peach (胖桃兒卡通形象)	國作登字 -2014-F-00139432	PRC	Kailuo Tianxia	January 14, 2014
6.	Cartoon image of Flashlight Band 1, Flashlight (手電筒一級、手電筒卡通形象)	國作登字 -2014-F-00139431	PRC	Kailuo Tianxia	January 14, 2014
7.	Cartoon Image of Junior Mengyaya, Mengyaya (幼年萌芽芽、萌芽芽卡通形象)	國作登字 -2014-F-00139430	PRC	Kailuo Tianxia	January 14, 2014
8.	Cartoon image of The One-eyed Cute Bean (獨眼萌豆卡通形象)	國作登字 -2014-F-00139429	PRC	Kailuo Tianxia	January 14, 2014
9.	Cartoon image of Multiple Arrows (多重箭卡通形象)	國作登字 -2014-F-00139428	PRC	Kailuo Tianxia	January 14, 2014
10.	Cartoon image of Duoduoer (朵哆兒卡通形象)	國作登字 -2014-F-00139427	PRC	Kailuo Tianxia	January 14, 2014
11.	Cartoon image of Hashiqi (哈士企卡通形象)	國作登字 -2014-F-00139426	PRC	Kailuo Tianxia	January 14, 2014
12.	Cartoon image of Hanxiaodong (寒小凍卡通形象)	國作登字 -2014-F-00139425	PRC	Kailuo Tianxia	January 14, 2014
13.	Cartoon image of Red Carrot (紅蘿蔔卡通形象)	國作登字 -2014-F-00139424	PRC	Kailuo Tianxia	January 14, 2014
14.	Cartoon image of Happy Ball (歡樂球卡通形象)	國作登字 -2014-F-00139423	PRC	Kailuo Tianxia	January 14, 2014
15.	Cartoon image of Yellow Carrot (黃蘿蔔卡通形象)	國作登字 -2014-F-00139422	PRC	Kailuo Tianxia	January 14, 2014
16.	Cartoon Image of Jidongdong (雞凍凍卡通形象)	國作登字 -2014-F-00139421	PRC	Kailuo Tianxia	January 14, 2014
17.	Cartoon Image of Enlarged Head Claw (胖頭瓜瓜卡通形象)	國作登字 -2014-F-00139420	PRC	Kailuo Tianxia	January 14, 2014
18.	Cartoon Image of White Radish (白蘿蔔卡通形象)	國作登字 -2014-F-00139419	PRC	Kailuo Tianxia	January 14, 2014
19.	Cartoon Image of Surprised Sister (驚訝妹卡通形象)	國作登字 -2014-F-00139418	PRC	Kailuo Tianxia	January 14, 2014
20.	Cartoon Image of Elves Bat (精靈蝠卡通形象)	國作登字 -2014-F-00139417	PRC	Kailuo Tianxia	January 14, 2014

No.	Copyright	Registration Number	Place of Registration	Owner	Date of registration
21.	Cartoon Image of Kubi Bear (庫比熊卡通形象)	國作登字 -2014-F-00139416	PRC	Kailuo Tianxia	January 14, 2014
22.	Cartoon image of Little Green Cap (綠小帽卡通形象)	國作登字 -2014-F-00139415	PRC	Kailuo Tianxia	January 14, 2014
23.	Cartoon Image of Mammoth (猛獁象卡通形象)	國作登字 -2014-F-00139414	PRC	Kailuo Tianxia	January 14, 2014
24.	Cartoon image of Pharaoh Charlie, Iron Charlie, King Charlie (法老查理、鋼鐵查理、 國王查理卡通形象)	國作登字 -2014-F-00139413	PRC	Kailuo Tianxia	January 14, 2014
25.	Cartoon Image of Junior Modu, Modu (幼年魔啞、魔啞卡通形象)	國作登字 -2014-F-00139412	PRC	Kailuo Tianxia	January 14, 2014
26.	Cartoon Image of Junior Wakamiao, Wakamiao (幼年哇味喵、哇味喵卡通形象)	國作登字 -2014-F-00139410	PRC	Kailuo Tianxia	January 14, 2014
27.	Cartoon Image of Junior Yuangungun, Yuangungun (幼年圓滾滾、圓滾滾卡通形象)	國作登字 -2014-F-00139409	PRC	Kailuo Tianxia	January 14, 2014
28.	Cartoon Image of Bailing, Junior Bailing (白靈、幼年白靈卡通形象)	國作登字 -2014-F-00139408	PRC	Kailuo Tianxia	January 14, 2014
29.	Cartoon image of Moon (月亮卡通形象)	國作登字 -2014-F-00139407	PRC	Kailuo Tianxia	January 14, 2014
30.	Cartoon image of The One Horn Qingqing, The One Horn Qingqing Baby (獨角青青、 獨角青青寶寶卡通形象)	國作登字 -2013-F-00103118	PRC	Kailuo Tianxia	August 5, 2013
31.	Cartoon image of Blue Face Ah-Zhang, Blue Face Ah-Zhang Baby (藍臉阿章、藍臉阿章寶寶 卡通形象)	國作登字 -2013-F-00103117	PRC	Kailuo Tianxia	August 5, 2013
32.	Cartoon image of Blue Sister Egg (藍妹子蛋卡通形象)	國作登字 -2013-F-00103116	PRC	Kailuo Tianxia	August 5, 2013
33.	Cartoon image of The One Horn Green Egg (獨角青青蛋卡通形象)	國作登字 -2013-F-00103115	PRC	Kailuo Tianxia	August 5, 2013
34.	Cartoon Image of Rocket (火箭卡通形象)	國作登字 -2013-F-00103114	PRC	Kailuo Tianxia	August 5, 2013
35.	Cartoon image of Star Swordsman, Star Swordsman Baby (星星俠、星星俠寶寶卡通形象)	國作登字 -2013-F-00103113	PRC	Kailuo Tianxia	August 5, 2013
36.	Cartoon Image of Fishbone (魚刺卡通形象)	國作登字 -2013-F-00103112	PRC	Kailuo Tianxia	August 5, 2013
37.	Cartoon Image of Yuduoduo Baby (魚多多寶寶卡通形象)	國作登字 -2013-F-00103111	PRC	Kailuo Tianxia	August 5, 2013

No.	Copyright	Registration Number	Place of Registration	Owner	Date of registration
38.	Cartoon Image of Sunglass Ah-Qing, Sunglass Ah-Qing Baby (墨鏡阿慶、墨鏡阿慶寶寶 卡通形象)	國作登字 -2013-F-00103110	PRC	Kailuo Tianxia	August 5, 2013
39.	Cartoon Image of Octopus (章魚卡通形象)	國作登字 -2013-F-00103109	PRC	Kailuo Tianxia	August 5, 2013
40.	Cartoon image of Magical Ball (魔法球卡通形象)	國作登字 -2013-F-00103108	PRC	Kailuo Tianxia	August 5, 2013
41.	Cartoon image of Sun (太陽卡通形象)	國作登字 -2013-F-00103107	PRC	Kailuo Tianxia	August 5, 2013
42.	Cartoon image of The Bottle (瓶子卡通形象)	國作登字 -2013-F-00103106	PRC	Kailuo Tianxia	August 5, 2013
43.	Cartoon Image of Plane (飛機卡通形象)	國作登字 -2013-F-00103105	PRC	Kailuo Tianxia	August 5, 2013
44.	Cartoon Image of Fire Bottle (火瓶子卡通形象)	國作登字 -2013-F-00103104	PRC	Kailuo Tianxia	August 5, 2013
45.	Cartoon Image of Snowflake (雪花卡通形象)	國作登字 -2013-F-00103103	PRC	Kailuo Tianxia	August 5, 2013
46.	Cartoon Image of Small Hand, Small Hand Baby (小手手、小手手寶寶卡通形象)	國作登字 -2013-F-00103102	PRC	Kailuo Tianxia	August 5, 2013
47.	Cartoon image of Huang Xiaojian, Huang Xiaojian Baby (黃小賤、黃小賤寶寶卡通形象)	國作登字 -2013-F-00103100	PRC	Kailuo Tianxia	August 5, 2013
48.	Cartoon Image of Little Braid, Little Braid Baby (小辮兒、小辮兒寶寶卡通形象)	國作登字 -2013-F-00103101	PRC	Kailuo Tianxia	August 5, 2013
49.	Cartoon image of Cute Eyes Crab, Cute Eyes Crab Baby (萌眼蟹、萌眼蟹寶寶卡通形象)	國作登字 -2013-F-00103099	PRC	Kailuo Tianxia	August 5, 2013
50.	Cartoon Image of Xiwaiwai, Xiwaiwai Baby (細歪歪、細歪歪寶寶卡通形象)	國作登字 -2013-F-00103098	PRC	Kailuo Tianxia	August 5, 2013
51.	Cartoon Image of Xiwaiwai Egg (細歪歪蛋卡通形象)	國作登字 -2013-F-00103097	PRC	Kailuo Tianxia	August 5, 2013
52.	Cartoon image of Big Whale, Big Whale Baby (巨鯨、巨鯨寶寶卡通形象)	國作登字 -2013-F-00103096	PRC	Kailuo Tianxia	August 5, 2013
53.	Cartoon image of Anchor (船錨卡通形象)	國作登字 -2013-F-00103095	PRC	Kailuo Tianxia	August 5, 2013
54.	Cartoon image of Green Mi-Er Egg (綠咪兒蛋卡通形象)	國作登字 -2013-F-00103094	PRC	Kailuo Tianxia	August 5, 2013
55.	Cartoon Image of Pinpingzai Egg (瓶瓶崽蛋卡通形象)	國作登字 -2013-F-00103093	PRC	Kailuo Tianxia	August 5, 2013
56.	Cartoon image of Ah-Kui, Ah-Kui Baby (阿盔、阿盔寶寶卡通形象)	國作登字 -2013-F-00103092	PRC	Kailuo Tianxia	August 5, 2013

No.	Copyright	Registration Number	Place of Registration	Owner	Date of registration
57.	Cartoon image of Big Whale Egg (巨鯨蛋卡通形象)	國作登字 -2013-F-00103091	PRC	Kailuo Tianxia	August 5, 2013
58.	Cartoon image of Ninja Grass Mud Horse (忍者草泥馬卡通形象)	國作登字 -2012-F-00079376	PRC	Kailuo Tianxia	December 26, 2012
59.	Cartoon image of Dark Soul Cat (黑暗靈魂貓卡通形象)	國作登字 -2012-F-00079375	PRC	Kailuo Tianxia	December 26, 2012
60.	Cartoon image of Space Feichazai (太空肥叉仔卡通形象)	國作登字 -2012-F-00079374	PRC	Kailuo Tianxia	December 26, 2012
61.	Cartoon image of Single Horn Cute Beast (獨角萌獸卡通形象)	國作登字 -2012-F-00079373	PRC	Kailuo Tianxia	December 26, 2012
62.	Cartoon image of Party Troublemakers (聚會搗亂者卡通形象)	國作登字 -2012-F-00079372	PRC	Kailuo Tianxia	December 26, 2012
63.	Cartoon image of King of Wuwala (嗚哇啦大王卡通形象)	國作登字 -2012-F-00079371	PRC	Kailuo Tianxia	December 26, 2012
64.	Cartoon image of Dictator, White Beard Dictator (獨裁者、白鬚獨裁者卡通形象)	國作登字 -2012-F-00079370	PRC	Kailuo Tianxia	December 26, 2012
65.	Cartoon image of Devil Bird King, The Devil White Beard Bird King (鳥魔王、白鬚鳥魔王卡通形象)	國作登字 -2012-F-00079369	PRC	Kailuo Tianxia	December 26, 2012
66.	Cartoon image of Jalapeno Pepper, King of Jalapeno Pepper (墨西哥辣椒、墨西哥辣椒王卡通形象)	國作登字 -2012-F-00079368	PRC	Kailuo Tianxia	December 26, 2012
67.	Cartoon image of Rock Bottle, Rock Baby (搖滾奶瓶、搖滾寶寶卡通形象)	國作登字 -2012-F-00079367	PRC	Kailuo Tianxia	December 26, 2012
68.	Cartoon image of Caojimeng, The one-eyed king of Shanzhan, Pharaoh's mummy (草雞萌、獨眼山寨王、法老木乃伊卡通形象)	國作登字 -2012-F-00079366	PRC	Kailuo Tianxia	December 26, 2012
69.	Cartoon image of The Carrot Defense (The Whole Carrot, Handicapped Carrot, Seriously Injured Carrot) (保衛蘿蔔系列(完整的蘿蔔、殘疾蘿蔔、重傷蘿蔔)卡通形象)	國作登字 -2013-F-00083364	PRC	Kailuo Tianxia	February 1, 2013
70.	Cartoon image of Transmission Tower Class 1, Transmission Tower Class 2 and Transmission Tower (穿透塔一級、穿透塔二級、穿透塔卡通形象)	國作登字 -2014-F-00140013	PRC	Kailuo Tianxia	February 20, 2014

No.	Copyright	Registration Number	Place of Registration	Owner	Date of registration
71.	Cartoon image of the Carrot Fantasy Illustration 1 and Carrot Fantasy Illustration 2 (《保衛蘿蔔》圖形一、 《保衛蘿蔔》圖形二卡通形象)	國作登字 -2014-F-00124385	PRC	Kailuo Tianxia	May 13, 2014
72.	Cartoon image of the Carrot Fantasy Image 1 and Carrot Fantasy Image 2 (《保衛蘿蔔》圖標一、 《保衛蘿蔔》圖標二卡通形象)	國作登字 -2014-F-00124386	PRC	Kailuo Tianxia	May 13, 2014
73.	Jiong Xi You (囧西遊)	國作登字 -2013-F-00096837	PRC	Xiamen Youli	July 24, 2013
74.	Art book of Shenxiandao 神仙道原畫集	2011-L-052261	PRC	Feiyou Guangqu <sup>(1)</sup>	December 22, 2011
75.	Music of play sound of Shenxiandao (7 songs in total) 神仙道遊戲音樂(共7首)	2012-B-054411	PRC	Feiyou Guangqu <sup>(1)</sup>	February 24, 2012
76.	Cartoon image of Baqin 霸秦卡通形象	國作登字 -2013-F-00098497	PRC	Feiyou Guangqu <sup>(1)</sup>	July 15, 2013
77.	Cartoon image of Dahuashenxian 大話神仙卡通形象	國作登字 -2013-F-00103235	PRC	Feiyou Guangqu <sup>(1)</sup>	August 12, 2013
78.	Cartoon image of Shenxiandao 神仙道卡通形象	國作登字 -2013-F-00103236	PRC	Feiyou Guangqu <sup>(1)</sup>	August 12, 2013

## Notes:

(1) previously registered under Xiamen Guanghuan

Save as disclosed above, there are no other trade or service marks, patents, other intellectual or industrial property rights which are material to the business of our Group.



## C. FURTHER INFORMATION ABOUT DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

### 1. Disclosure of Interests

#### (a) *Interests of Directors and substantial shareholders in our share capital and our associated corporations following the Global Offering*

- (i) Immediately following completion of the Global Offering (without taking into account Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option, the exercise of share options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and the vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan), the interests of the Directors and chief executive of our Company in the equity or debt securities of our Company or any associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which they are taken or deemed to have under such provisions of the SFO) once the Shares are listed, or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein once the Shares are listed, or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, to be notified to our Company and the Stock Exchange once the Shares are listed will be as follows):

Name of Director/Chief Executive	Capacity/nature of interest	Relevant company (including associated corporation)	Number of underlying Shares immediately after the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be issued upon the exercise of share options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan)	Approximate percentage of shareholding in the total issued share capital of our Company after the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be issued upon the exercise of share options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan)	Approximate percentage of shareholding in the total issued share capital of our Company after the Global Offering (assuming the Over-allotment Option is fully exercised and without taking into account any Shares to be issued upon the exercise of share options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan)
Mr. Yao Jianjun (姚劍軍)	Founder of a discretionary trust; Interest of controlled corporation	YAO Holdings Limited (BVI) <sup>1</sup>	470,400,000	31.360%	30.447%
Mr. Chen Jianyu (陳劍瑜)	Founder of a discretionary trust; Interest of controlled corporation	Fishchen Holdings Limited (BVI) <sup>2</sup>	269,088,000	17.939%	17.417%
Mr. Bi Lin (畢林)	Founder of a discretionary trust; Interest of controlled corporation	BILIN Holdings Limited (BVI) <sup>3</sup>	126,720,000	8.448%	8.202%
Mr. Sun Zhiyan (孫志炎)	Founder of a discretionary trust; Interest of controlled corporation	Eastep Holdings Limited (BVI) <sup>4</sup>	139,488,000	9.299%	9.028%
Mr. Lin Zhibin (林志斌)	Founder of a discretionary trust; Interest of controlled corporation	LINCHEN Holdings Limited (BVI) <sup>5</sup>	44,640,000	2.976%	2.889%
Mr. Lin Jiabin (林加斌)	Founder of a discretionary trust; Interest of controlled corporation	LINT Holdings Limited (BVI) <sup>6</sup>	44,640,000	2.976%	2.889%

- 1 The entire share capital of YAO Holdings Limited (BVI) is wholly owned by Jolly Spring International Limited, as the nominee of TMF (Cayman) Ltd., the trustee of The Yao Family Trust, which was established by Mr. Yao (as the settlor) on August 13, 2014 as a discretionary trust for the benefit of Mr. Yao and his family members. Mr. Yao (as founder of The Yao Family Trust) and Jolly Spring International Limited are taken to be interested in 470,400,000 Shares held by YAO Holdings Limited (BVI) upon completion of the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be issued upon the exercise of share options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and Shares that may be issued upon vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan) pursuant to Part XV of the SFO.
- 2 The entire share capital of Fishchen Holdings Limited (BVI) is wholly owned by Honour Gate Limited, as the nominee of TMF (Cayman) Ltd., the trustee of The Chen Family Trust, which was established by Mr. Chen (as the settlor) on August 13, 2014 as a discretionary trust for the benefit of Mr. Chen and his family members. Mr. Chen (as founder of The Chen Family Trust) and Honour Gate Limited are taken to be interested in 269,088,000 Shares held by the Fishchen Holdings Limited (BVI) upon completion of the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be issued upon the exercise of share options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and Shares that may be issued upon vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan) pursuant to Part XV of the SFO.
- 3 The entire share capital of BILIN Holdings Limited (BVI) is wholly owned by Rayoon Limited, as the nominee of TMF (Cayman) Ltd., the trustee of The Bi Family Trust, which was established by Mr. Bi (as the settlor) on August 13, 2014 as a discretionary trust for the benefit of Mr. Bi and his family members. Mr. Bi (as founder of The Bi Family Trust) and Rayoon Limited are taken to be interested in 126,720,000 Shares held by BILIN Holdings Limited (BVI) upon completion of the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be issued upon the exercise of share options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and Shares that may be issued upon vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan) pursuant to Part XV of the SFO.
- 4 The entire share capital of Eastep Holdings Limited (BVI) is wholly owned by Ace Kingdom Limited, as the nominee of TMF (Cayman) Ltd., the trustee of The Sun Family Trust, which was established by Mr. Sun (as the settlor) on August 13, 2014 as a discretionary trust for the benefit of Mr. Sun and his family members. Mr. Sun (as founder of The Sun Family Trust) and Ace Kingdom Limited are taken to be interested in 139,488,000 Shares held by Eastep Holdings Limited (BVI) upon completion of the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be issued upon the exercise of share options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and Shares that may be issued upon vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan) pursuant to Part XV of the SFO.
- 5 The entire share capital of LINCEN Holdings Limited (BVI) is wholly owned by Sheen Field Limited, as the nominee of TMF (Cayman) Ltd., the trustee of The Zhi Family Trust, which was established by Mr. Lin Zhibin on August 13, 2014 as a discretionary trust for the benefit of Mr. Lin Zhibin and his family members. Mr. Lin Zhibin (as founder of The Zhi Family Trust) and Sheen Field Limited are taken to be interested in 44,640,000 Shares held by LINCEN Holdings Limited (BVI) upon completion of the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be issued upon the exercise of share options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and Shares that may be issued upon vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan) pursuant to Part XV of the SFO.
- 6 The entire share capital of LINT Holdings Limited (BVI) is wholly owned by Supreme Top Global Limited, as the nominee of TMF (Cayman) Ltd., the trustee of The Lin Family Trust, which was established by Mr. Lin Jiabin (as the settlor) on August 13, 2014 as a discretionary trust for the benefit of Mr. Lin Jiabin and his family members. Mr. Lin Jiabin (as founder of The Lin Family Trust) and Supreme Top Global Limited are taken to be interested in 44,640,000 Shares held by LINT Holdings Limited (BVI) upon completion of the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be issued upon the exercise of share options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and Shares that may be issued upon vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan) pursuant to Part XV of the SFO.

- (ii) Immediately following completion of the Global Offering (without taking into account Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option, exercise of share options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan), so far as our Directors are aware, the following persons will have or be deemed or taken to have an interest and/or short position in the Shares or the underlying Shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Capacity/Nature of Interest	Number of Shares held after the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be issued upon the exercise of share options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme and vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan)	Approximate percentage of shareholding in the total issued share capital of our Company after the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be issued upon the exercise of share options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme and vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan)	Approximate percentage of shareholding in the total issued share capital of our Company after the Global Offering (assuming the Over-allotment Option is fully exercised and without taking into account any Shares to be issued upon the exercise of share options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme and vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan)
TMF (Cayman) Ltd. <sup>1</sup> . . . . .	Trustee of the Family Trusts	1,094,976,000	72.998%	70.872%
YAO Holdings Limited (BVI) <sup>2, 3</sup>	Registered owner	470,400,000	31.36%	30.447%
Jolly Spring International Limited <sup>2, 3</sup> . . . . .	Interest in a controlled corporation	470,400,000	31.36%	30.447%
Mr. YAO Jianjun (姚劍軍) . . . . .	Founder of a discretionary trust; Interest in a controlled corporation	470,400,000	31.36%	30.447%
BILIN Holdings Limited (BVI) <sup>3, 4</sup> . . . . .	Registered owner	126,720,000	8.448%	8.202%
Rayoon Limited <sup>3, 4</sup> . . . . .	Interest in a controlled corporation	126,720,000	8.448%	8.202%
Mr. BI Lin (畢林) . . . . .	Founder of a discretionary trust; Interest in a controlled corporation	126,720,000	8.448%	8.202%
Fishchen Holdings Limited (BVI) <sup>5</sup> . . . . .	Registered owner	269,088,000	17.939%	17.417%

Name	Capacity/Nature of Interest	Number of Shares held after the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be issued upon the exercise of share options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme and vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan)	Approximate percentage of shareholding in the total issued share capital of our Company after the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be issued upon the exercise of share options granted under the Pre-IPO Share Option Scheme and vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan)	Approximate percentage of shareholding in the total issued share capital of our Company after the Global Offering (assuming the Over-allotment Option is fully exercised and without taking into account any Shares to be issued upon the exercise of share options granted under the Pre-IPO Share Option Scheme and vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan)
Honour Gate Limited <sup>5</sup> . . . . .	Interest in a controlled corporation	269,088,000	17.939%	17.417%
Mr. CHEN Jianyu (陳劍瑜) . . . . .	Founder of a discretionary trust; Interest in a controlled corporation	269,088,000	17.939%	17.417%
Eastep Holdings Limited (BVI) <sup>6</sup> . . . . .	Registered owner	139,488,000	9.299%	9.028%
Ace Kingdom Limited <sup>6</sup> . . . . .	Interest in a controlled corporation	139,488,000	9.299%	9.028%
Mr. SUN Zhiyan (孫志炎) . . . . .	Founder of a discretionary trust; Interest in a controlled corporation	139,488,000	9.299%	9.028%

1 TMF (Cayman) Ltd. is the trustee of The Yao Family Trust, The Bi Family Trust, The Chen Family Trust, The Sun Family Trust, The Lin Family Trust and The Zhi Family Trust, 6 trusts in total.

2 The entire share capital of YAO Holdings Limited (BVI) is wholly owned by Jolly Spring International Limited, as nominee of TMF (Cayman) Ltd., the trustee of The Yao Family Trust, which was established by Mr. Yao (as the settlor) on August 13, 2014 as a discretionary trust for the benefit of Mr. Yao and his family members. Mr. Yao (as founder of The Yao Family Trust) and Jolly Spring International Limited are taken to be interested in 470,400,000 Shares held by YAO Holdings Limited (BVI) upon completion of the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be issued upon the exercise of share options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and Shares that may be issued upon vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan) pursuant to Part XV of the SFO.

3 Mr. Yao Jianjun, Mr. Bi Lin, YAO Holdings Limited (BVI), BILIN Holdings Limited (BVI), Jolly Spring International Limited and Rayoon Limited are the Controlling Shareholders of the Company.

4 The entire share capital of BILIN Holdings Limited (BVI) is wholly owned by Rayoon Limited, as nominee of TMF (Cayman) Ltd., the trustee of The Bi Family Trust, which was established by Mr. Bi (as the settlor) on August 13, 2014 as a discretionary trust for the benefit of Mr. Bi and his family members. Mr. Bi (as founder of The Bi Family Trust) and Rayoon Limited are taken to be interested in 126,720,000 Shares held by BILIN Holdings Limited (BVI) upon completion of the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be issued upon the exercise of share options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and Shares that may be issued upon vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan) pursuant to Part XV of the SFO.

- 5 The entire share capital of Fishchen Holdings Limited (BVI) is wholly owned by Honour Gate Limited, as nominee of TMF (Cayman) Ltd., the trustee of The Chen Family Trust, which was established by Mr. Chen (as the settlor) on August 13, 2014 as a discretionary trust for the benefit of Mr. Chen and his family members. Mr. Chen (as founder of The Chen Family Trust) and Honour Gate Limited are taken to be interested in 269,088,000 Shares held by Fishchen Holdings Limited (BVI) upon completion of the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be issued upon the exercise of share options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and Shares that may be issued upon vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan) pursuant to Part XV of the SFO.
- 6 The entire share capital of Eastep Holdings Limited (BVI) is wholly owned by Ace Kingdom Limited, as nominee of TMF (Cayman) Ltd., the trustee of The Sun Family Trust, which was established by Mr. Sun (as the settlor) on August 13, 2014 as a discretionary trust for the benefit of Mr. Sun and his family members. Mr. Sun (as founder of The Sun Family Trust) and Ace Kingdom Limited are taken to be interested in 139,488,000 Shares held by Eastep Holdings Limited (BVI) upon completion of the Global Offering (assuming the Over-allotment Option is not exercised and taking into no account any Shares to be issued upon exercise of any share options under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and Shares that may be issued upon vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan) pursuant to Part XV of the SFO.

None of the Directors or our chief executive will immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be issued upon the exercise of share options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and Shares that may be issued upon vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan) have any disclosure interests (as referred to in (i) above), other than as disclosed at (i) above.

Taking no account of Shares which may be taken up under the Global Offering, none of the Directors know of any persons who will immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be issued upon the exercise of share options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and Shares that may be issued upon vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan) have notifiable interests (for the purposes of the SFO) in the Shares or, having such a notifiable interest, have any short positions (within the meaning of the SFO) in the Shares, other than as disclosed at (ii) above.

**(b) Particulars of Directors' service contracts and letter of appointment**

Each of our Executive Directors has entered into a service contract with our Company for an initial term of three (3) years, commencing from the Listing Date, which shall be renewed as determined by the Board or the Shareholders of the Company. The Executive Directors may from time to time be entitled to Share options and RSUs. The office of an Executive Director is liable to be vacated in certain circumstances pursuant to the Articles. The appointment of each of the Executive Director may be terminated by either party by giving at least three month's written notice to the other.

Each of our Independent Non-Executive Directors has entered into a letter of appointment with our Company for a an initial term of three (3) years, commencing from the Listing Date, which shall be renewed as determined by the Board or the Shareholders of the Company. The Independent Non-Executive Directors may from time to time be entitled to Share options and RSUs. The office of an Independent Non-Executive is liable to be vacated in certain

circumstances pursuant to the Articles. The appointment of each of the Independent Non-Executive Directors may be terminated by either party by giving at least three month's written notice to the other.

Save as disclosed above, none of our Directors has or is proposed to have a service contract or a letter of appointment with any member of our Group (excluding agreements expiring or determinable by any member of our Group within one year without payment of compensation other than statutory compensation).

**(c) Remuneration of Directors**

The aggregate amount of remuneration (including salaries, discretionary bonuses, other benefits and contributions to pension schemes) which were paid to our Directors for the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014 were approximately RMB713,000, RMB1,906,000, RMB31,109,000 and RMB1,419,000, respectively. During the year ended December 31, 2013, one of the Directors was granted equity interest in Xiamen Guanghuan in respect of his service to our Group by the shareholders of Xiamen Guanghuan. The fair value of such equity interest, which has been recognized as share-based compensation in our financial statements, is included in the figures aforementioned.

It is estimated that remuneration equivalent to approximately RMB3 million in aggregate will be paid and granted to our Directors by us in respect of the year ending December 31, 2014 under arrangements in force at the date of this prospectus.

Our policy concerning the remuneration of the Directors is that the amount of remuneration is determined on the basis of the relevant Director's experience, responsibility, performance and the time devoted to our business.

Save as disclosed in this prospectus, no Directors has been paid in cash or shares or otherwise by any person either to include him to become, or to qualify him as a Director, or otherwise for service rendered by him in connection with the promotion or formation of us.

**(d) Agency fees or commission**

Save as disclosed in this prospectus, within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of us or any of our subsidiaries.

**(e) Related party transactions**

Please refer to Note 29 of Section II to the Accountant's Report in Appendix IA to this prospectus for details of the related party transactions. Our Directors confirm that all related party transactions are conducted on normal commercial terms, and that their terms are fair and reasonable.



## 2. Disclaimers

Save as disclosed in this prospectus:

- (a) none of our Directors or chief executive of our Company has any interests and short positions in the Shares, underlying shares and debentures of our Company or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered into the register referred to therein, or which will be required to be notified to us and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors and Listed Companies;
- (b) none of the Directors nor experts referred to in the section headed “Qualifications and consents of experts” has any direct or indirect interest in the promotion of us, or in any assets which have within the two years immediately preceding the date of this prospectus been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (c) none of the Directors or experts referred to in the section headed “Qualifications and consents of experts” is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole;
- (d) none of the Directors has any existing or proposed services contracts with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation));
- (e) taking no account of any Shares which may be taken up or upon the exercise of the Over-allotment Option, Shares that may be issued upon the exercise share options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and upon vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan, none of the Directors knows of any person (not being a Director or chief executive of us) who will, immediately following completion of the Global Offering, have an interest or short position in the shares or underlying shares of us which would fall to be disclosed to us under the provisions of Division 2 and 3 of Part XV of the SFO or be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group;
- (f) none of the experts referred to under the section headed “Qualifications and consents of experts” has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group; and
- (g) so far as is known to the Directors, none of the Directors, their respective close associates (as defined under the Listing Rules) or Shareholders who are interested in more than 5% of our share capital have any interests in the five largest customers or the five largest suppliers of our Group.



## D. PRE-IPO SHARE OPTION SCHEME

The following is a summary of the principal terms of the Pre-IPO Share Option Scheme conditionally adopted pursuant to the written resolutions of the Shareholders passed on November 17, 2014 and the written resolutions of the Directors passed on November 17, 2014 (the “**Adoption Date**”). The terms of our Pre-IPO Share Option Scheme are not subject to the provisions of Chapter 17 of the Listing Rules as our Pre-IPO Share Option Scheme will not involve the grant of options by us to subscribe for Shares once we have become a listed issuer.

### 1. Purpose of the Pre-IPO Share Option Scheme

The purpose of the Pre-IPO Share Option Scheme is to provide an incentive for Eligible Participants (as defined below) and to reward their performance with rights which permit a Grantee (as defined below) to subscribe for Shares in the Company in accordance with terms of the Pre-IPO Share Option Scheme (the “**Options**,” each an “**Option**”) and to own the Company in proportion with their contribution to the Company and/or any of its Subsidiaries.

### 2. Participants of the Pre-IPO Share Option Scheme and the basis of determining the eligibility of the participants

The Board of our Company may, at any time before the Listing Date, subject to and in accordance with the provisions of the Pre-IPO Share Option Scheme and the Listing Rules, at its discretion grant Options to any full-time employees, consultants, executives or officers (including executive, non-executive and independent non-executive Directors) of our Company or any of its subsidiaries who, in the absolute discretion of the Board has contributed or will contribute to our Group (collectively “**Eligible Participants**”).

### 3. Offer and Grant of Option

An offer shall be made to an Eligible Participant (when offered grant of an Option or Options in accordance with rules of the Pre-IPO Share Option Scheme, the “**Grantee**”) by an offer document (the “**Offer Document**”) which states such information and in such form as our Board may from time to time determine, requiring the participant to undertake to hold the Option on the terms on which it is to be granted and to be bound by the provisions of the Pre-IPO Share Option Scheme.

### 4. Maximum Number of Shares

The total number of Shares subject to the Pre-IPO Share Option Scheme is 105,570,000, representing 8.80% of the issued share capital of the Company on the Adoption Date and approximately 7.04% of the issued share capital of the Company immediately upon the completion of the Global Offering assuming the Over-allotment Option is not exercised, and excluding any Shares which may be issued upon the exercise of the options granted or to be granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme or the vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan.

The total number of Shares subject to the Pre-IPO Share Option Scheme may be adjusted upon the occurrence of any alteration in the capital structure of the Company as provided in paragraph 9 below.

## 5. Exercise Price

The exercise price in relation to each Option offered to an Eligible Participant shall, subject to adjustments referred to in paragraph 9, be determined by the Board in its sole discretion (the “**Exercise Price**”). However, in no circumstances shall the Exercise Price be less than the par value of the Shares as amended as a result of any sub-division, consolidation, reclassification or reconstruction of the share capital of the Company from time to time.

## 6. Rights are Personal to the Grantee

An Option and an offer to grant an Option shall be personal to the Grantee (as defined below) and shall not be transferable or assignable, and no Grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third party over or in relation to any Option held by him or any offer relating to the grant of an Option made to him or attempt to do so (save that the Grantee may nominate a nominee in whose name the Shares issued pursuant to the Pre-IPO Share Option Scheme may be registered). Any breach of the foregoing shall entitle the Company to cancel any outstanding Options or any part thereof granted to such Grantee.

## 7. Exercise of Options and Duration of the Pre-IPO Share Option Scheme

Except as provided otherwise and subject to the terms and conditions upon which such Option was granted, any Option granted to a Grantee under the Pre-IPO Share Option Scheme will be valid and effective for a period commencing on the Adoption Date and ending on the fifth anniversary of the Listing Date (both dates inclusive) (the “**Scheme Period**”) after which no further options will be exercisable but the provisions of the Pre-IPO Share Option Scheme shall in all other respects remain in force to the extent necessary to give effect to the exercise of any Options which are granted during the life of the Pre-IPO Share Option Scheme or otherwise as may be required in accordance with the provisions of the Pre-IPO Share Option Scheme, and Options granted prior thereto but not yet exercised shall continue to be valid and exercisable in accordance with provisions of the Pre-IPO Share Option Scheme.

Unless otherwise provided in the respective Grantee’s Offer Document, an Option that is vested may be exercised by the Grantee at any time or times during the period within which, as notified by the Board, the Grantee may exercise the Options (the “**Option Period**”) provided that:

- (a) in the event of the Grantee ceasing to be an Eligible Participant for any reason other than his death, ill-health, injury, disability or the termination of his relationship with the Company and/or any of its subsidiaries on one or more of the grounds specified in sub-paragraph 10(e) below, the Grantee may exercise Options up to his entitlement at the date of his cessation of being an Eligible Participant (to the extent not already exercised) within the period of one month (or such longer period as the Board may determine) following the date of such cessation (which date shall be, in relation to a Grantee who is an Eligible Participant by reason of his employment with the Company or any of its Subsidiaries, the last actual working day with the Company or the relevant subsidiary, whether salary is paid in lieu of notice or not);

- (b) in the case of the Grantee ceasing to be an Eligible Participant by reason of death, ill-health, injury or disability (all evidenced to the satisfaction of the Board) and none of the events which would be a ground for termination of his relationship with the Company and/or any of its subsidiaries under sub-paragraph 10(e) has occurred, the Grantee or the personal representative(s) of the Grantee shall be entitled, within a period of 12 months (or such longer period as the Board may determine) from the date of cessation of being an Eligible Participant or death, to exercise the Option in full (to the extent not already exercised);
- (c) if a general offer (whether by way of take-over offer, share repurchase offer or scheme of arrangement or otherwise in like manner) is made to all the holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or in concert with the offeror), the Company shall use its best endeavours to procure that such offer is extended to all the Grantees (on the same terms *mutatis mutandis*, and assuming that they shall become, by the exercise in full of the Options granted to them as shareholders of the Company). If such offer, having been approved in accordance with applicable laws and regulatory requirements, becomes, or is declared unconditional, the Grantee (or his legal personal representative(s)) shall be entitled to exercise his Option in full (to the extent not already exercised) at any time within 14 days after the date on which such general offer becomes or is declared unconditional;
- (d) if a compromise or arrangement between the Company and its shareholders and/or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies pursuant to the Companies Law, the Company shall give notice thereof to all the Grantees (together with a notice of the existence of the provisions of this paragraph) on the same day as it despatches to shareholders and/or creditors of the Company a notice summoning the meeting to consider such a compromise or arrangement, and thereupon each Grantee shall be entitled to exercise all or any of his Options in whole or in part at any time prior to 12 noon (Hong Kong time) on the Business Day immediately preceding the date of the general meeting directed to be convened by the relevant court for the purposes of considering such compromise or arrangement and if there is more than one meeting for such purpose, the date of the first meeting. With effect from the date of such meeting, the rights of all Grantees to exercise their respective Options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all Options shall, to the extent that they have not been exercised, lapse and determine. The Board shall endeavour to procure that the Shares issued as a result of the exercise of Options in such circumstances shall for the purposes of such compromise or arrangement form part of the issued share capital of the Company on the effective date thereof and that such Shares shall in all respects be subject to such compromise or arrangement. If for any reason such compromise or arrangement is not approved by the relevant court (whether upon the terms presented to the relevant court or upon any other terms as may be approved by such court), the rights of the Grantees to exercise their respective Options shall with effect from the date of the making of the order by the relevant court be restored in full as if such compromise or arrangement had not been proposed by the Company and no claim shall lie against the Company or any of its officers for any loss or damage sustained by any Grantee as a result of the aforesaid suspension; and

- (e) in the event a notice is given by the Company to its shareholders to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall, on the same date as or soon after it despatches such notice to each member of the Company, give notice thereof to all Grantees and thereupon, each Grantee (or in the case of the death of the Grantee, his personal representative(s)) shall be entitled to exercise all or any of his Options (to the extent not already lapsed or exercised) at any time not later than two Business Days prior to the proposed general meeting of the Company by giving notice in writing to the Company, accompanied by a remittance for the full amount of the aggregate Exercise Price for the Shares in respect of which the notice is given whereupon the Company shall as soon as possible and, in any event, no later than the Business Day immediately prior to the date of the proposed general meeting referred to above, allot and issue the relevant Shares to the Grantee, credited as fully paid.

### **8. Ranking of Shares**

The Shares to be allotted upon the exercise of an Option shall be subject to all the provisions of the Articles and shall rank *pari passu* in all respects with and shall have the same voting, dividend, transfer and other rights, including those arising from liquidation of the Company as attached to the fully paid Shares in issue on the date of issue and rights in respect of any dividend or other distributions paid or made on or after the date of issue. Shares issued on the exercise of an Option shall not rank for any rights attaching to Shares by reference to a record date preceding the date of allotment.

### **9. Effect of Alterations to Capital**

In the event of any capitalisation issue, rights issue, open offer (if there is a price dilutive element), sub-division or consolidation of shares, or reduction of capital of the Company in accordance with applicable laws and regulatory requirements, corresponding alterations (if any) shall be made (except on an issue of securities of the Company as consideration in a transaction which shall not be regarded as a circumstance requiring alteration or adjustment) in:

- (a) the number of Shares subject to any outstanding Options;
- (b) the Exercise Price; and/or
- (c) the number of Shares subject to the Pre-IPO Share Option Scheme,

as the auditors of the Company, shall at the request of the Company or any Grantee, certify in writing either generally or as regards any particular Grantee, to be in their opinion fair and reasonable, provided that any such alterations shall be made on the basis that a Grantee shall have as near as possible the same proportion of the equity capital of the Company as that to which he was entitled to subscribe had he exercised all the Options held by him immediately before such adjustments and the aggregate Exercise Price payable by a Grantee on the full exercise of any Option shall remain as nearly as possible the same as (but shall not be greater than) it was before such event. The capacity of the auditors in this paragraph is that of experts but not arbitrators and their certificate shall, in the absence of manifest error, be final and conclusive and binding on the Company and the Grantees.

## 10. Lapse of Option

Unless otherwise provided in the respective Grantee's Offer Document, an Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (a) the expiry date relevant to that Option;
- (b) the expiry of any of the periods referred to in paragraph 7;
- (c) the date on which the scheme of arrangement of the Company referred to in paragraph 7(d) becomes effective;
- (d) the date of commencement of the winding up of the Company (as determined in accordance with the Companies Law);
- (e) the date on which the Grantee ceases to be an Eligible Participant by reason of his resignation or dismissal, or by reason of the termination of his relationship with the Company and/or any of its subsidiaries on any one or more of the grounds that he has been guilty of serious misconduct or has been convicted of any criminal offence involving his integrity or honesty or in relation to an employee or consultant of the Company and/or any of its subsidiaries (if so determined by the Board) on any other ground on which an employer would be entitled to unilaterally terminate his employment or service at common law or pursuant to any applicable laws or under the Grantee's service contract with the Company or the relevant subsidiary. A resolution of the Board or the board of directors of the relevant subsidiary to the effect that the relationship of the Grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive;
- (f) the date that is thirty (30) days after the date on which the Grantee is terminated by the Company and/or any of its subsidiaries on a ground other than those set forth in sub-paragraph 10(e);
- (g) the date on which the Board shall exercise the Company's right to cancel the Option at any time after the Grantee commits a breach of paragraph 6 or the Options are cancelled in accordance with paragraph 12; and
- (h) the occurrence of such event or expiry of such period as may have been specifically provided for in the Offer Document.

## 11. Alteration of the Pre-IPO Share Option Scheme

The terms and conditions, and the regulations for the administration and operation of the Pre-IPO Share Option Scheme may be altered in any respect by resolution of the Board except that:

- (a) any alteration to the advantage of the Grantees or the Eligible Participants (as the case may be), including without limitation, the definitions of "**Eligible Participant**," "**Expiry Date**," "**Grantee**" and "**Option Period**" contained in the Pre-IPO Share Option Scheme; or

- (b) any material alteration to the terms and conditions of the Pre-IPO Share Option Scheme or any change to the terms of Options granted (except any alterations which take effect automatically under the terms of the Pre-IPO Share Option Scheme), or any change to the authority of the Board in respect of alteration of the Pre-IPO Share Option Scheme,

must be made with the prior approval of the shareholders of the Company in general meeting at which any persons to whom or for whose benefit the Shares may be issued under the Pre-IPO Share Option Scheme shall abstain from voting provided that no alteration shall operate to affect adversely the terms of issue of any Option granted or agreed to be granted prior to such alteration or to reduce the proportion of the equity capital to which any person was entitled pursuant to such Option prior to alteration except with:

- (i) the consent in writing of Grantees holding in aggregate Options which if exercised in full on the date immediately preceding that on which such consent is obtained would entitle them to the issue of three-fourths in nominal value of all Shares which would fall to be issued upon the exercise of all Options outstanding on that date; or
- (ii) the sanction of a special resolution.

Written notice of any alterations made in accordance with the above paragraph shall be given to all Grantees.

## **12. Cancellation of Options**

Any cancellation of Options granted but not exercised must be approved in writing by the Grantees of the relevant Options. Where our Company cancels Options and offers new Options to the same Grantee, the offer of such new Options may only be made with available Options to the extent not yet granted (excluding the cancelled Options) within the limit referred to in paragraph 4 above.

## **13. Termination of the Pre-IPO Share Option Scheme**

The Company may by ordinary resolution in general meeting or the Board at any time terminate the operation of the Pre-IPO Share Option Scheme, and in such event, no further option shall be offered or granted. The provisions of the Pre-IPO Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any Option granted prior to the termination or otherwise as may be required in accordance with the provisions of the Pre-IPO Share Option Scheme. Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the Pre-IPO Share Option Scheme.

### ***Outstanding Options***

As of the Latest Practicable Date, options to subscribe for an aggregate of 105,570,000 Shares, representing approximately 7.04% of the issued share capital of our Company upon completion of the Global Offering (assuming the Over-allotment Option is not exercised, and excluding all Shares which may be issued upon the exercise of the options granted or to be granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme and upon vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan), or approximately 6.58% of the enlarged issued share capital of our Company upon full exercise of all the outstanding options granted under the Pre-IPO Share Option Scheme on completion of



the Global Offering (assuming the Over-allotment Option is not exercised, and without taking into account any Shares to be issued pursuant to exercise of options granted under the Post-IPO Share Option Scheme, and vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan), at an exercise price representing approximately 75% discount to the midpoint of the indicative Offer Price range of HK\$1.85 and HK\$2.55, had been conditionally granted by our Company to 2 members of the senior management and 120 other Grantees under the Pre-IPO Share Option Scheme.

As such, assuming full exercise of the outstanding Options granted under the Pre-IPO Share Option Scheme (assuming the Over-allotment Option is not exercised, and without taking into account any Shares to be issued upon the exercise of options granted or to be granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and upon vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan), the shareholding of our Shareholders immediately following the Listing will be diluted by approximately 6.58%. If the Options granted under the Pre-IPO Share Option Scheme are exercised, there would be a dilutive effect on the earnings per Share of our Company. For example, assuming, among others, all Options for the 105,570,000 shares that may be granted under the Pre-IPO Share Option Scheme were granted and exercised on January 1, 2014, our earnings per share would decrease from RMB0.03428 to RMB0.03202, a dilutive effect of RMB0.00226 per share. Please see the table below for an explanation of the above illustrated example, however, as the Options are exercisable over a five-year period, any such dilutive effect on earnings per Share will be staggered over several years.

Profit attributable to the equity holders of the Company for the six months ended June 30, 2014 .....	RMB51,418,000
Unaudited pro forma basic earnings per share for the six months ended June 30, 2014 .....	RMB0.03428 <sup>Note 1</sup>
Unaudited pro forma diluted earnings per share for the six months ended June 30, 2014 .....	RMB0.03202 <sup>Note 2</sup>

Notes:

- 1 The calculation of the unaudited pro forma basic earnings per share for the six months ended June 30, 2014 is based on the profit attributable to the equity holders of the Company for the six months ended June 30, 2014 and 1,500,000,000 Shares being issued assuming the Global Offering were completed on January 1, 2014 (assuming the Over-allotment Option was not exercised and without taking into account any Shares to be issued pursuant to exercise of share options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan).
- 2 The calculation of the unaudited pro forma diluted earnings per share for the six months ended June 30, 2014 is based on the profit attributable to the equity holders of the Company for the six months ended June 30, 2014 and 1,605,570,000 Shares being issued, assuming the Global Offering were completed on January 1, 2014 (assuming the Over-allotment Option was not exercised and without taking into account of any Shares to be issued pursuant to exercise of share options granted under the Post-IPO Share Option Scheme, and vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan) and the Options for 105,570,000 Shares under the Pre-IPO Share Option Scheme are all granted and exercised on January 1, 2014, without taking into account of the related expense recognized in profit or loss for these share options.



**Details of the Grantees under the Pre-IPO Share Option Scheme****(a) Directors**

None of our Directors has been granted Options under the Pre-IPO Share Option Scheme.

**(b) Senior Management**

Our senior management has been granted Options under the Pre-IPO Share Option Scheme to subscribe for a total of 10,940,000 Shares, representing approximately 0.73% of the issued share capital of our Company upon completion of the Global Offering, assuming the Over-allotment Option is not exercised, and without taking into account any Shares to be issued upon the exercise of options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and any Shares to be issued upon vesting of RSUs granted under the Pre-IPO RSU Plan and the Post-IPO RSU Plan.

Below is a list of members of our senior management who are Grantees under the Pre-IPO Share Option Scheme:

Name of Grantee	Position held with our Group	Address	Consideration Paid for the Grant	Exercise Price	Number of Shares under the Options Granted	Date of Grant	Approximate Percentage of Issued Shares Immediately after Completion of the Global Offering
Zhou Yandan . .	Vice President	Room 805, Unit 2, Block 6, Pingguopai Zone, No. 2 Park, Huangqudong Road, Chaoyang District, Beijing, PRC	nil	HK\$0.55	4,510,000	November 17, 2014	0.30%
Cheung Man Yu <sup>(3)</sup> . . . . .	Chief Financial Officer	Flat 10, 31/F, Lung Sing House, Kam Lung Court, Ma On Shan, New Territories, Hong Kong	nil	HK\$0.55	6,430,000	November 17, 2014	0.43%

**Notes:**

- (1) The par value of Shares is subject to amendments as a result of any sub-division, consolidation, reclassification or reconstruction of the share capital of the Company from time to time. As of the date of grant, the par value of each Share was USD0.0000001.
- (2) The above table assumes 1,500,000,000 Shares are issued and outstanding as at completion of the Global Offering, assuming the Over-allotment Option is not exercised, and without taking into account any Shares to be issued upon the exercise of options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and any Shares to be issued upon vesting of RSUs granted the Pre-IPO RSU Plan and the Post-IPO RSU Plan.
- (3) A connected person under the Listing Rules.

*(c) Other Grantees*

Among the Grantees, other than 2 members of our senior management, 120 other Grantees (two of which are connected persons of the Group) have been granted Options under the Pre-IPO Share Option Scheme to subscribe for a total of 94,630,000 Shares, representing approximately 6.31% of the issued share capital of our Company upon completion of the Global Offering assuming the Over-allotment Option is not exercised, and without taking into account any Shares to be issued upon the exercise of options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan, with the number of Shares to be issued upon exercise of the relevant options ranging from 80,000 Shares to 9,770,000 Shares individually.

The table below shows the details of the other Grantees who can subscribe for more than 3,000,000 Shares.

Name of Grantee	Position held	Address	Consideration	Exercise price	Number of Shares	Date of Grant	Approximate percentage of issued Shares immediately after Completion of the Global Offering %
Zhou Yangsi <sup>(3)</sup> . .	Producer	202, No.128 Oriental Bali Jinbang Road, Siming District, Xiamen	nil	HK\$0.55	9,770,000	November 17, 2014	0.65%
Dong Ting <sup>(3)</sup> . . .	Producer	601, No. 713 Lian Qian Xi Road Siming District, Xiamen	nil	HK\$0.55	7,510,000	November 17, 2014	0.50%
Song Xiulun . . .	Financial Controller	602, No. 856 Lian Qian Dong Road, Xiamen	nil	HK\$0.55	4,510,000	November 17, 2014	0.30%
Jiang Guozhong . . .	Producer	303, No. 59 Hong Lian Xi Li Siming District, Xiamen	nil	HK\$0.55	3,010,000	November 17, 2014	0.20%

## Notes:

- (1) The par value of Shares is subject to amendments as a result of any sub-division, consolidation, reclassification or reconstruction of the share capital of the Company from time to time. As of the date of grant, the par value of each Share was USD0.0000001.
- (2) The above table assumes 1,500,000,000 Shares are issued and outstanding as at completion of the Global Offering, assuming the Over-allotment Option is not exercised, and without taking into account any Shares to be issued upon the exercise of options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and any Shares to be issued upon vesting of RSUs granted the Pre-IPO RSU Plan and the Post-IPO RSU Plan.
- (3) Each a connected person under the Listing Rules.

The table below shows the details of Options granted to the remainder of the other Grantees:

<u>Rank/position held with our Group</u>	<u>Consideration Paid for the Grant</u>	<u>Exercise Price</u>	<u>Number of Shares under the Options Granted</u>	<u>Date of Grant</u>	<u>Approximate Percentage of Issued Shares Immediately after Completion of the Global Offering</u>
36 producers, supervisors and team leaders . . . . .	nil	HK\$0.55	43,220,000	November 17, 2014	2.88%
80 other employees . . . . .	nil	HK\$0.55	26,610,000	November 17, 2014	1.77%

As at the date of this prospectus, no single Grantee among the 80 other employees who have been granted Options under the Pre-IPO Share Option Scheme is entitled to a total number of Options exceeding the total entitlement of any single senior management member of the Group whom has been disclosed on a named individual basis in the table above.

**Consideration paid for the grant of Options, the vesting period and the exercise period of the Options granted under the Pre-IPO Share Option Scheme**

The Grantees under the Pre-IPO Share Option Scheme as referred to in the table above are not required to pay for the grant of any Option under the Pre-IPO Share Option Scheme.

For the Options granted on November 17, 2014, the exercise price per Share is HK\$0.55, representing a discount of approximately 75% from the midpoint of the indicative Offer Price range of HK\$1.85 to HK\$2.55.

The Options of each Grantee shall be vested in accordance with the vesting schedule as follows:

- (i) as to 25% of the aggregate number of Shares underlying the Options on 31 December 2015;
- (ii) as to 25% of the aggregate number of Shares underlying the Options on 31 December 2016;

- (iii) as to 25% of the aggregate number of Shares underlying the Options on 31 December 2017; and
- (iv) as to the remaining 25% of the aggregate number of Shares underlying the Options on 31 December 2018.

Each Option granted under the Pre-IPO Share Option Scheme has a five-year exercise period from the Listing Date provided that none of the Options (whether exercised or not) shall be exercisable prior to the Listing.

Save as disclosed above, no Option has been granted by our Company to any Director, senior management, connected person and other Grantee, on an individual basis, who has the right to subscribe for more than 3,000,000 Shares under the Pre-IPO Share Option Scheme.

We will ensure compliance with the minimum public float requirement of Rule 8.08 of the Listing Rules.

### **Waiver and Exemption**

Our Company has applied for and has been granted (i) a waiver from the Stock Exchange from strict compliance with the disclosure requirements under Rule 17.02(1)(b) and paragraph 27 of Appendix 1A to the Listing Rules; and (ii) an exemption from the SFC from strict compliance with the disclosure requirements of sub-paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance. Please refer to the section headed "Waivers from Strict Compliance with the Listing Rules and Exemption from the Strict Compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance" to this prospectus for details.

## **E. POST-IPO SHARE OPTION SCHEME**

The following is a summary of the principal terms of the Post-IPO Share Option Scheme conditionally adopted pursuant to the written resolutions of the Shareholders and Directors passed on November 17, 2014:

### **1. Purpose of the Post-IPO Share Option Scheme**

The purpose of the Post-IPO Share Option Scheme is to provide an incentive or reward for the Grantees (as defined below) for their contribution or potential contribution to our Company and/or any of its subsidiaries.

## 2. Participants of the Post-IPO Share Option Scheme and the basis of determining the eligibility of the participants

The Board of our Company may, subject to and in accordance with the provisions of the Post-IPO Share Option Scheme and the Listing Rules, at its discretion grant options to any full-time or part-time employees, consultants or potential employees, consultants, executives or officers (including executive, non-executive and independent non-executive Directors) of our Company or any of its subsidiaries, and any suppliers, customers, consultants, agents and advisers who, in the sole opinion of the Board has contributed or will contribute to our Group (collectively, the “**Eligible Participants**”) and whom the Board may in its absolute discretion select and subject to such conditions as it may think fit.

## 3. Status of the Post-IPO Share Option Scheme

### (a) Conditions of the Post-IPO Share Option Scheme

The Post-IPO Share Option Scheme shall take effect conditional upon and is subject to:

- (i) the passing of the necessary resolutions by the Board and the Shareholders to approve and adopt the rules of the Post-IPO Share Option Scheme;
- (ii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares to be issued pursuant to the exercise of Options under the Post-IPO Share Option Scheme;
- (iii) the obligations of the Underwriters (under the Underwriting Agreements) becoming unconditional (including, if relevant, following the waiver(s) of any conditions by the Joint Sponsors, acting for and on behalf of the Underwriters) and not being terminated in accordance with their terms or otherwise; and
- (iv) the commencement of dealings in the Shares on the Stock Exchange,

(the “**Conditions**”).

### (b) Life of the Post-IPO Share Option Scheme

The Post-IPO Share Option Scheme shall be valid and effective for a period commencing on the date on which the Post-IPO Share Option Scheme was conditionally adopted by an ordinary resolution of the Shareholders of our Company and ending on the tenth anniversary of the Listing Date (both dates inclusive) (the “**Scheme Period**”), after which time no further option will be granted, but the provisions of the Post-IPO Share Option Scheme shall remain in full force and effect in all other respects to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of the Post-IPO Share Option Scheme and options granted prior thereto but not yet exercised shall continue to be valid and exercisable in accordance with the Post-IPO Share Option Scheme.

## 4. Grant of options

### (a) Making of offer

An offer shall be made to an Eligible Participant by an offer document in such form as our Board may from time to time determine, requiring the participant to undertake to hold the option on the terms on which it is to be granted and to be bound by the provisions of the Post-IPO Share Option Scheme (the “**Offer Document**”).

**(b) Acceptance of offer**

An option shall be deemed to have been granted to (subject to certain restrictions in the Post-IPO Share Option Scheme), and accepted by, the Eligible Participant (the “**Grantee**”) and to have taken effect upon the issue of an option certificate after the duplicate Offer Document comprising acceptance of the option duly signed by the Grantee together with a remittance in favor of our Company of HK\$1.00 by way of consideration for the grant of the option is received by our Company on or before the last day for acceptance set out in the Offer Document above. The remittance is not in any circumstances refundable and shall be deemed as part payment of the Exercise Price (as defined below). Once accepted, the option is granted as from the date on which it was offered to the Grantee (the “**Offer Date**”).

**(c) Restrictions on time of grant**

- (i) No grant of options shall be made after any inside information has come to the knowledge of our Company until such inside information has been announced pursuant to the requirements of the Listing Rules. In particular, no option shall be granted during the period of one month immediately preceding the earlier of:
  - (1) the date of the Board meeting as shall have been notified to the Stock Exchange for the approval of our Company’s results for any year, half-year or quarterly or any other interim period (whether or not required under the Listing Rules); and
  - (2) the deadline for our Company to publish an announcement of its results for any year or half-year under the Listing Rules or quarterly or any other interim period (whether or not required under the Listing Rules),

and ending on the actual date of the results announcement for such year, half year, quarterly or interim period (as the case may be). The period during which no option may be granted will cover any period of delay in the publication of a results announcement.

- (ii) For so long as the shares are listed on the Stock Exchange, no options may be granted to a Director on any day which financial results of our Company are published and:
  - (1) during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and
  - (2) during the period of 30 days immediately preceding the publication date of the quarterly results (if any) and half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results.

**(d) Grant to connected persons**

Any grant of options to a connected person must be approved by all Independent Non-Executive Directors (excluding any Independent Non-Executive Director who is also a proposed Grantee (as defined below) of the options, the vote of such Independent Non-Executive Director shall not be counted for the purposes of approving the grant).

**(e) Grant to substantial shareholders and independent non-executive directors**

Without prejudice to sub-paragraph 4(c) above, any grant of options to a Substantial Shareholder or an Independent Non-Executive Director of our Company or any of their respective associates shall be subject to, in addition to the approval of the Independent Non-Executive Directors of our Company in sub-paragraph (d) above, the issue of a circular by our Company to its Shareholders and the approval of the Shareholders of our Company in general meeting if the Shares issued and to be issued upon exercise of all options already granted and proposed to be granted to him (whether exercised, cancelled or outstanding) under the Post-IPO Share Option Scheme or any other scheme in the 12 month period up to and including the Offer Date:

- (i) would represent in aggregate more than 0.1%, or such other percentage as may from time to time be provided under the Listing Rules, of the Shares in issue on the Offer Date; and
- (ii) would have an aggregate value, based on the official closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange on the Offer Date, in excess of HK\$5,000,000 (or such other amount as shall be permissible under the Listing Rules from time to time).

**(f) Proceedings in general meeting to approve the grant of option**

At the general meeting to approve the proposed grant of options under sub-paragraph 4(e) above, all connected persons of our Company must abstain from voting. At such general meeting, the vote to approve the grant of such options must be taken on a poll in accordance with the Articles and the relevant provisions of the Listing Rules.

**(g) Performance target**

Our Board has the discretion to require a particular Grantee to achieve certain performance targets specified at the time of grant before any option granted under the Post-IPO Share Option Scheme can be exercised. There are no specific performance targets stipulated under the terms of the Post-IPO Share Option Scheme and our Board currently has no intention to set any specific performance targets on the exercise of any options granted or to be granted under the Post-IPO Share Option Scheme.

**5. Exercise price**

The price per Share at which a Grantee may subscribe for Shares upon exercise of an option (the "**Exercise Price**") shall, subject to any adjustment pursuant to paragraph 7 below, be determined by the Board in its sole discretion but in any event shall be at least the highest of:

- (i) the official closing price of the Shares as stated in the Stock Exchange's daily quotations sheets on the Offer Date;
- (ii) the average of the official closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the Offer Date; and
- (iii) the nominal value of a Share;

provided that for the purpose of determining the Exercise Price under sub-paragraph 5(ii) above where the Shares have been listed on the Stock Exchange for less than five Business Days



preceding the Offer Date, the issue price of the Shares in connection with such listing shall be deemed to be the closing price of the Shares for each Business Day falling within the period before the listing of the Shares on the Stock Exchange.

## **6. Maximum number of Shares available for subscription**

### **(a) Scheme Limit**

Subject to sub-paragraphs 6(b) and 6(c) below, the maximum number of Shares in respect of which options may be granted under the Pre-IPO Share Option Scheme, the Post-IPO Share Option Scheme, and any other share option schemes of our Company shall not in aggregate exceed the number of Shares that shall represent 10% of the total number of Shares in issue immediately upon completion of the Global Offering (assuming that the Over-allotment Option is not exercised and without taking into account Shares that may be allotted and issued upon exercise of options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and vesting of RSUs granted under the Pre-IPO RSU Plan and Post-RSU Plan) (the “**Scheme Limit**”) which is expected to be 150,000,000 Shares. For the purpose of calculating the Scheme Limit, options which have lapsed in accordance with the terms of the relevant scheme shall not be counted.

### **(b) Renewal of Scheme Limit**

Our Company may seek approval by our Shareholders in general meeting for renewing the Scheme Limit provided that the total number of Shares in respect of which options may be granted under the Post-IPO Share Option Scheme and any other schemes of our Company under the Scheme Limit as renewed from time to time must not exceed 10% of the total number of Shares in issue as at the date of the shareholders’ approval. Options previously granted under the Post-IPO Share Option Scheme, whether outstanding, cancelled, lapsed in accordance with its applicable rules or already exercised, will not be counted for the purpose of calculating the limit as renewed.

For the purpose of seeking the approval of our Shareholders under this sub-paragraph 6(b), a circular containing the information required under Rule 17.02(2) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules must be sent to our Shareholders.

### **(c) Grant of Options beyond Scheme Limit**

Our Company may seek separate approval by our Shareholders in general meeting for granting options beyond the Scheme Limit provided that the options in excess of the Scheme Limit are granted only to Eligible Participants who are specifically identified by the Board before such approval is sought.

For the purpose of seeking the approval of our Shareholders under this sub-paragraph (6)(c), our Company must send a circular to our Shareholders containing a generic description of the specified Eligible Participants who may be granted such options, the number and terms of the options to be granted, the purpose of granting such options to the Grantees with an explanation as to how the terms of options serve such purpose and the information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer as required under Rule 17.02(4) of the Listing Rules.

### **(d) Maximum number of Shares issued pursuant to the Post-IPO Share Option Scheme**

Notwithstanding anything to the contrary in the Post-IPO Share Option Scheme, the maximum limit on the number of Shares which may be issued upon exercise of all outstanding

options granted and yet to be exercised under the Post-IPO Share Option Scheme and any other schemes of our Company must not in aggregate exceed such number of Shares as shall represent 30% of the Shares in issue from time to time. No options may be granted under any schemes of our Company or subsidiaries if such grant will result in this 30% limit being exceeded.

**(e) Grantee's maximum holding**

Unless approved by our Shareholders in general meeting in the manner prescribed in the Listing Rules, the Board shall not grant options to any Grantee if the acceptance of those options would result in the total number of Shares issued and to be issued to that Grantee on exercise of his options during any 12 month period up to the Offer Date exceed 1% of the total Shares then in issue.

Where any further grant of options to a Grantee, if exercised in full, would result in the total number of Shares already issued or to be issued upon exercise of all options granted and to be granted to such Grantee (including exercised, cancelled and outstanding options) in any 12-month period up to and including the date of such further grant exceed 1% of the total number of Shares in issue, such further grant must be separately approved by our Shareholders in general meeting with such Grantee and his close associates abstaining from voting. Our Company must send a circular to our Shareholders and the circular must disclose the identity of the Grantee, the number and terms of the options to be granted and options previously granted to such Grantee and the information required under Rule 17.02(2) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules. The number and terms (including the Exercise Price) of the options to be granted to such Grantee must be fixed before the Shareholders' approval. The date of the meeting of the Board for proposing such further grant of option should be taken as the date of grant for the purpose of calculating the Exercise Price.

**(f) Adjustment**

The number of Shares subject to the Post-IPO Share Option Scheme shall be adjusted in such manner as our Company's independent financial advisor shall certify to the Board to be appropriate, fair and reasonable in accordance with paragraph 7 below but in any event shall not result in the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Share Option Scheme and the other schemes exceed the limit set out in sub-paragraph 6(d).

**7. Capital restructuring**

**(a) Adjustment of options**

In the event of any capitalisation issue, rights issue, open offer (if there is a price dilutive element), sub-division or consolidation of Shares, or reduction of capital of our Company in accordance with applicable laws and regulatory requirements, such corresponding alterations (if any) shall be made (except on an issue of securities of our Company as consideration in a transaction which shall not be regarded as a circumstance requiring alteration or adjustment) in:

- (i) the number of Shares subject to any outstanding option;
- (ii) the Exercise Price; and/or
- (ii) the number of Shares subject to the Post-IPO Share Option Scheme;

as the approved independent financial adviser shall at the request of our Company or any Grantee, certify in writing either generally or as regards any particular Grantee, to be in their

opinion fair and reasonable provided that any such alterations shall be made on the basis that a Grantee shall have as near as possible the same proportion of the equity capital of our Company (as interpreted in accordance with the supplementary guidance attached to the letter from the Stock Exchange dated September 5, 2005 to all the issuers relating to share option scheme) as that to which the Grantee was previously entitled to subscribe had he exercised all the options held by him immediately before such adjustments and the aggregate Exercise Price payable by a Grantee on the full exercise of any option shall remain as nearly as possible the same as (but shall not be greater than) it was before such event, but not so that the effect would be to enable any Share to be issued to a Grantee at less than its nominal value, provided that no adjustment to the Exercise Price and number of Shares should be made to the advantage of the Eligible Participants without specific prior approval of our Shareholders.

**(b) Independent financial advisor confirmation**

On any capital reorganization, independent financial advisor shall certify in writing to the Board that the adjustments satisfy the requirements set out in Rule 17.03(13) of the Listing Rules and the note thereto and the supplementary guidance attached to the letter from the Stock Exchange dated September 5, 2005 to all issuers relating to share option schemes and/or such other requirement prescribed under the Listing Rules from time to time.

**8. Cancellation of options**

Any cancellation of options granted but not exercised must be approved in writing by the Grantees of the relevant options. For the avoidance of doubt, such approval is not required in the event any option is cancelled pursuant to paragraph 9. Where our Company cancels options, the grant of new options to the same Grantee may only be made under the Post-IPO Share Option Scheme within the limits set out in sub-paragraphs 6(a), 6(b), and 6(e).

**9. Assignment of options**

An option is personal to the Grantee and shall not be transferable or assignable. No Grantee shall sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favor of any third party over or in relation to any option held by him or attempt to do so (except that the Grantee may nominate a nominee, in whose name the Shares issued pursuant to the Post-IPO Share Option Scheme may be registered).

**10. Rights attached to the Shares**

The Shares to be allotted upon exercise of an option will be subject to all the provisions of the Articles and will rank *pari passu* with the fully paid Shares in issue on the date of issue. Accordingly, the Shares will entitle the holders to have the same voting, dividend, transfer and other rights, and to participate in all dividends or other distributions paid or made on or after the date on which the allottee is registered as a member (the “**Registration Date**”) other than any dividends or other distributions previously declared or recommended or resolved to be paid or made with respect to a record date which is before the Registration Date.

A Share issued upon the exercise of an option shall not carry any voting rights until completion of registration of the Grantee or his nominee as the holder of the Share on the register of members of our Company.

Shares issued on the exercise of an option shall not rank for any rights attaching to Shares by reference to a record date preceding the date of allotment.

## 11. Exercise of options

Unless otherwise provided in the respective Grantee's Offer Document, an option may be exercised by a Grantee at any time or times during the period notified by the Board during which the Grantee may exercise his option(s) (the "**Option Period**") provided that:

- (a) in the event of the Grantee ceasing to be an Eligible Participant for any reason other than his death, ill-health, injury, disability or the termination of his relationship with the Company and/or any of its subsidiaries on one or more of the grounds specified in sub-paragraph 12(v) below, the Grantee may exercise the option up to his entitlement at the date of cessation of being an Eligible Participant (to the extent not already exercised) within the period of one month (or such longer period as the Board may determine) following the date of such cessation (which date shall be, in relation to a Grantee who is an Eligible Participant by reason of his employment with the Company or any of its subsidiaries, the last actual working day with the Company or the relevant subsidiary whether salary is paid in lieu of notice or not);
- (b) in the case of a Grantee ceasing to be an Eligible Participant by reason of death, ill-health, injury or disability (all evidenced to the satisfaction of the Board) and none of the events which would be a ground for termination of his relationship with the Company and/or any of its subsidiaries under sub-paragraph 12(e) has occurred, the Grantee or the personal representative(s) of the Grantee shall be entitled within a period of 12 months (or such longer period as the Board may determine) from the date of cessation of being an Eligible Participant or death to exercise his option in full (to the extent not already exercised);
- (c) if a general offer (whether by way of take-over offer, share repurchase offer or scheme of arrangement or otherwise in like manner) is made to all the holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or in concert with the offeror), the Company shall use its best endeavours to procure that such offer is extended to all the Grantees (on the same terms mutatis mutandis, and assuming that they shall become, by the exercise in full of the options granted to them as shareholders of the Company). If such offer, having been approved in accordance with applicable laws and regulatory requirements, becomes, or is declared unconditional, the Grantee (or his legal personal representative(s)) shall be entitled to exercise his option in full (to the extent not already exercised) at any time within 14 days after the date on which such general offer becomes or is declared unconditional;
- (d) if a compromise or arrangement between the Company and its Shareholders and/or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies pursuant to the Companies Law, the Company shall give notice thereof to all the Grantees (together with a notice of the existence of the provisions of this paragraph) on the same day as it despatches to Shareholders and/or creditors of the Company a notice summoning the meeting to consider such a compromise or arrangement, and thereupon each Grantee shall be entitled to exercise all or any of his options in whole or in part at any time prior to noon (Hong Kong time) on the Business Day immediately preceding the date of the general meeting directed to be convened by the relevant court for the purposes of considering such compromise or arrangement and if there is more than one meeting for such purpose, the date of the first meeting. With effect from the date of such meeting, the rights of all Grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or

arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine. The Board shall endeavour to procure that the Shares issued as a result of the exercise of options in such circumstances shall for the purposes of such compromise or arrangement form part of the issued share capital of the Company on the effective date thereof and that such Shares shall in all respects be subject to such compromise or arrangement. If for any reason such compromise or arrangement is not approved by the relevant court (whether upon the terms presented to the relevant court or upon any other terms as may be approved by such court), the rights of the Grantees to exercise their respective options shall with effect from the date of the making of the order by the relevant court be restored in full as if such compromise or arrangement had not been proposed by the Company and no claim shall lie against the Company or any of its officers for any loss or damage sustained by any Grantee as a result of the aforesaid suspension; and

- (e) in the event a notice is given by the Company to its shareholders to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall on the same date as or soon after it despatches such notice to each member of the Company give notice thereof to all Grantees and thereupon, each Grantee (or in the case of the death of the Grantee, his personal representative(s)) shall be entitled to exercise all or any of his options (to the extent not already lapsed or exercised) at any time not later than two Business Days prior to the proposed general meeting of the Company by giving notice in writing to the Company, accompanied by a remittance for the full amount of the aggregate Exercise Price for the Shares in respect of which the notice is given whereupon the Company shall as soon as possible and, in any event, no later than the Business Day immediately prior to the date of the proposed general meeting referred to above, allot and issue the relevant Shares to the Grantee credited as fully paid.

## 12. Lapse of options

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (i) the expiry of the Option Period;
- (ii) the expiry of the periods referred to in sub-paragraphs 11(b) to (e) above;
- (iii) the date of the commencement of the winding-up of our Company in respect of the situation contemplated in sub-paragraph 11(e);
- (iv) the date the scheme or compromise referred to in sub-paragraph 11(d) above becomes effective;
- (v) the date on which the Grantee ceases to be an Eligible Participant by reason of his resignation or dismissal, or by reason of the termination of his relationship with the Company and/or any of its subsidiaries on any one or more of the grounds that he has been guilty of serious misconduct or has been convicted of any criminal offence involving his integrity or honesty or in relation to an employee or consultant of the Company and/or any of its subsidiaries (if so determined by the Board) on any other ground on which an employer would be entitled to unilaterally terminate his employment or service at common law or pursuant to any applicable laws or under the Grantee's service contract with the Company or the relevant subsidiary. A resolution of the Board or the board of directors of the relevant subsidiary to the effect that the relationship of the Grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive;

- (vi) the date that is thirty (30) days after the date on which a Grantee is terminated by our Company and/or any of its subsidiaries by reasons other than termination of employment on grounds under sub-paragraph 12(v);
- (vii) the date on which a Grantee commits a breach of paragraph 9 above or the options are cancelled in accordance with paragraph 8 above; or
- (viii) the occurrence of such event or expiry of such period as may have been specifically provided for in the Offer Document, if any.

### 13. Alteration of the Post-IPO Share Option Scheme

The terms and conditions of the Post-IPO Share Option Scheme and the regulations for the administration and operation of the Post-IPO Share Option Scheme may be altered in any respect by resolution of the Board except that:

- (a) any alteration to the advantage of the Grantees or the Eligible Participants (as the case may be), in respect of matters contained in Listing Rule 17.03, including without limitation, the definitions of “**Eligible Participant**,” “**Expiry Date**,” “**Grantee**” and “**Option Period**” contained in the Post-IPO Share Option Scheme; or
- (b) any material alteration to the terms and conditions of the Post-IPO Share Option Scheme or any change to the terms of options granted (except any alterations which take effect automatically under the terms of the Post-IPO Share Option Scheme), or any change to the authority of the Board in respect of alternation of the Post-IPO Share Option Scheme,

must be made with the prior approval of the Shareholders in general meeting at which any persons to whom or for whose benefit the Shares may be issued under the Post-IPO Share Option Scheme and their respective associates shall abstain from voting provided that no alteration shall operate to affect adversely the terms of issue of any option granted or agreed to be granted prior to such alteration or to reduce the proportion of the equity capital to which any person was entitled pursuant to such option prior to such alteration except with:

- (i) the consent in writing of the Grantees holding in aggregate options which if exercised in full on the date immediately preceding that on which such consent is obtained would entitle them to the issue of three-fourths in nominal value of all Shares which would fall to be issued upon the exercise of all options outstanding on that date; or
- (ii) the sanction of a special resolution.

Written notice of any alterations made in accordance with this paragraph shall be given to all Grantees.

### 14. Termination

We may by ordinary resolution in general meeting or the Board at any time terminate the operation of the Post-IPO Share Option Scheme and in such event no further option shall be offered or granted. Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the Post-IPO Share Option Scheme.



As of the Latest Practicable Date, no option has been granted by our Company under the Post-IPO Share Option Scheme.

### ***Dilutive Effect***

Assuming full exercise of all the Options that can be granted under the Post-IPO Share Option Scheme (assuming the Over-allotment Option is not exercised, and without taking into account any Shares to be issued upon the exercise of options granted or to be granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and upon vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan), the shareholding of our Shareholders immediately following the Listing will be diluted by approximately 2.88%. If the Options granted under the Post-IPO Share Option Scheme are exercised, there would be a dilutive effect on the earnings per Share of our Company. For example, assuming, among others, all Options for the 44,430,000 shares that may be granted under the Post-IPO Share Option Scheme were granted and exercised on January 1, 2014, our earnings per share would decrease from RMB0.03428 to RMB0.03329, a dilutive effect of RMB0.0099 per share. Please see the table below for an explanation of the above illustrated example, however, as the Options are exercisable over a period of time, any such dilutive effect on earnings per Share will be staggered over several years.

Profit attributable to the equity holders of the Company for the six months ended June 30, 2014.....	RMB51,418,000
Unaudited pro forma basic earnings per share for the six months ended June 30, 2014.....	RMB0.03428 <sup>Note 1</sup>
Unaudited pro forma diluted earnings per share for the six months ended June 30, 2014.....	RMB0.03329 <sup>Note 2</sup>

Notes:

- 1 The calculation of the unaudited pro forma basic earnings per share for the six months ended June 30, 2014 is based on the profit attributable to the equity holders of the Company for the six months ended June 30, 2014 and 1,500,000,000 Shares being issued assuming the Global Offering were completed on January 1, 2014 (assuming the Over-allotment Option was not exercised and without taking into account any Shares to be issued pursuant to exercise of share options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan).
- 2 The calculation of the unaudited pro forma diluted earnings per share for the six months ended June 30, 2014 is based on the profit attributable to the equity holders of the Company for the six months ended June 30, 2014 and 1,544,430,000 Shares being issued, assuming the Global Offering were completed on January 1, 2014 (assuming the Over-allotment Option was not exercised and without taking into account of any Shares to be issued pursuant to exercise of share options granted under the Pre-IPO Share Option Scheme and vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan) and the options underlying 44,430,000 Shares under the Post-IPO Share Option Scheme are all granted and exercised on January 1, 2014, without taking into account of the related expense recognized in profit or loss for these share options.



## F. PRE-IPO RSU PLAN

### Summary of Terms

The Company approved and adopted the Pre-IPO RSU Plan on November 17, 2014. The Pre-IPO RSU Plan is not subject to the provisions of Chapter 17 of the Listing Rules as the Pre-IPO RSU Plan does not involve the grant of options by our Company to subscribe for new Shares.

#### 1. *Purposes of the Pre-IPO RSU Plan*

The purposes of the Pre-IPO RSU Plan is to reward the RSU Participants (as defined below) for their contribution to the success of the Group, and to provide incentives to them to further contribute to the Group and to attract suitable personnel for further development to the Group.

For the purposes of the Pre-IPO RSU Plan, “**Board**” means the board of directors of the Company or a duly authorized administration committee thereof or such other committee as the Board may authorize.

#### 2. *Awards*

An award of RSUs under the Pre-IPO RSU Plan (“**Award(s)**”) gives a RSU Participant (as defined below) in the Pre-IPO RSU Plan a conditional right to vest the Award to obtain either Shares or an equivalent value in cash with reference to the market value of the Shares on or about the date of vesting, as determined by the Board in its absolute discretion. An Award may include, if so specified by the Board in its entire discretion, cash and non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those Shares from the date that the Award is granted to the date that it vests.

#### 3. *RSU Participants of the Pre-IPO RSU Plan*

Participants of the Pre-IPO RSU Plan (“**RSU Participants**”) include the following:

- (i) the full-time employees or officers (including executive, non-executive and independent non-executive directors) of the Company;
- (ii) the full-time employees of any of the subsidiaries and PRC Operating Entities;
- (iii) any suppliers, customers, consultants, agents, advisers that have contributed or will contribute to the Company, any of its subsidiaries and/or the PRC Operating Entities; and
- (iv) any other person who, in the sole opinion of the Board, has contributed or will contribute to the Company, any of its subsidiaries and/or the PRC Operating Entities.

#### 4. *Status of the Pre-IPO RSU Plan*

The Pre-IPO RSU Plan is conditional upon:

- (1) the passing of an ordinary resolution by the Shareholders to approve and adopt the Pre-IPO RSU Plan, and to authorize the Directors of the Company to grant Awards and to allot and deal with Shares in connection with the Pre-IPO RSU Plan (such shareholders resolution was passed on November 17, 2014);
- (2) the Stock Exchange granting approval of the listing of and permission to deal in the Shares that are the subject of the Awards that may be granted pursuant to the Pre-IPO RSU Plan; and
- (3) the commencement of dealings in the Shares on the Stock Exchange (collectively, the “**RSU Conditions**”).

#### 5. *Administration of the Pre-IPO RSU Plan*

This Pre-IPO RSU Plan shall be subject to the administration of the Board in accordance with the rules of the Pre-IPO RSU Plan. The Board has the power to construe and interpret the rules of the Pre-IPO RSU Plan and the terms of the Awards granted hereunder. Any decision of the Board or the authorised administration committee made in accordance with the rules of the Pre-IPO RSU Plan shall be final and binding on all parties, provided in each case that such decision is made in accordance with the Articles and any applicable laws.

#### 6. *Term of the Pre-IPO RSU Plan*

Subject to the RSU Conditions being satisfied and the termination provisions, the Pre-IPO RSU Plan shall be valid and effective for the period of five (5) years commencing on the date of adoption (the “**Term of the RSU Plan**”), after which no further Awards will be granted, but the provisions of the Pre-IPO RSU Plan shall in all other respects remain in full force and effect and the Awards that are granted during the Term of the RSU Plan may continue to be exercisable in accordance with their terms of grant.

#### 7. *Maximum number of Shares available for grant*

(i) *Plan Limit*

Subject to sub-paragraph 7(ii) below, the maximum number of Shares underlying all Awards made pursuant to the Pre-IPO RSU Plan (excluding Awards that have lapsed or have been cancelled in accordance with paragraphs 16 and 17 shall not exceed 0.92% of the number of Shares in issue immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account Shares that may be allotted and issued upon exercise of options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan), that is 13,850,000 Shares (the “**RSU Plan Limit**”).

(ii) *Refresh of plan limit*

Our Company may seek approval by our Shareholders in general meeting for refreshing the RSU Plan Limit, provided that the total number of Shares that underlie the Awards granted following the date of approval of the refreshed limit under the refreshed limit as refreshed from time to time must not exceed 0.92% of the number of Shares in issue

as at the date of the Shareholders' approval. Shares underlying the RSUs previously granted under the Pre-IPO RSU Plan, whether outstanding, cancelled, lapsed in accordance with its applicable rules or already vested, will not be counted for the purpose of calculating the limit as refreshed.

#### **8. Grant of Award**

On and subject to the terms of the Pre-IPO RSU Plan and the terms and conditions that the Board imposes pursuant to the Pre-IPO RSU Plan, the Board shall be entitled at any time during the life of the Pre-IPO RSU Plan to make a grant to any RSU Participant (the "Grantee") as the Board may in its absolute discretion determine.

Awards may be granted on such terms and conditions (e.g. by linking the vesting of the RSUs to the attainment or performance of milestones by any member of the Group, a particular RSU Participant or any group of RSU Participants as the Board may determine) provided that such terms and conditions shall not be inconsistent with any other terms and conditions of the Pre-IPO RSU Plan.

A grant shall be made to a RSU Participant by a letter and/or any such notice or document in such form as the Board may from time to time determine ("**RSU Grant Letter**") and such grant shall be subject to the terms as specified in the Pre-IPO RSU Plan. The RSU Participant shall undertake to hold the Award on the terms on which it is granted and be bound by the provisions of the Pre-IPO RSU Plan. Such Award shall remain open for acceptance by the RSU Participant to whom a grant is made for a period to be determined by the Board, provided that no such grant shall be open for acceptance after the fifth anniversary of the adoption date of the Pre-IPO RSU Plan or after the Pre-IPO RSU Plan has been terminated in accordance with the provisions of the Pre-IPO RSU Plan.

#### **9. Acceptance of Grant**

A grant of Award shall be deemed to have been accepted when in respect of a Board Lot or an integral multiple thereof, is such manner as specified in the RSU Grant Letter.

#### **10. Restrictions on grants**

The Board shall not grant any Award to any RSU Participant in any of the following circumstances:

- (i) the requisite approvals for such grant from any applicable regulatory authorities have not been obtained;
- (ii) the securities laws or regulations require that a prospectus or other offering documents be issued in respect of the grant of Awards or in respect of the Pre-IPO RSU Plan, unless the Board determines otherwise;
- (iii) the grant would result in a breach by the Group or any of its Directors or senior management of any applicable laws, regulations or rules; or
- (iv) the grant would result in breach of the Pre-IPO RSU Limit or other rules of the Pre-IPO RSU Plan.

#### **11. Rights attached to Awards**

A Grantee does not have any rights of a shareholder in any Shares underlying the Awards unless and until these Shares are actually allotted and issued or transferred (as the case may

be) to the Grantee from the Administrator (as defined below) upon the vesting of the RSUs. Furthermore, a Grantee may not exercise any voting right in respect of the Shares underlying the RSUs, unless otherwise specified by the Board in its sole discretion in the RSU Grant Letter addressed to the Grantee, nor do they have any rights to any cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions from any Shares underlying the Awards.

### **12. Rights attached to Shares**

Any Shares allotted and issued, or transferred to a Grantee upon vesting of RSUs shall be subject to the Articles and will rank *pari passu* in all respects with the existing fully paid Shares in issue on the date of the allotment and issuance or transfer, or if that date falls on a day when the register of members of the Company is closed, the first day of the reopening of the register of members, and accordingly will entitle the Grantee to participate in all dividends or other distributions paid or made on or after the date of allotment and issuance or transfer of Shares, or if that date falls on a day when the register of members of the Company closed, the first day of the reopening of the register of members, other than any dividends or distributions previously declared, recommended or resolved to be paid or made if the record date is before the date of allotment and issuance or transfer.

### **13. Awards to be personal to the Grantees**

Awards granted pursuant to the Pre-IPO RSU Plan shall be personal to each Grantee and shall not be assignable or transferrable, except assignment or transfer from each Grantee to a company wholly-owned by him or between two companies both of which are wholly-owned by him. Notwithstanding the above, the Grantees are prohibited from selling, transferring, assigning, charging, mortgaging, encumbering, hedging or creating any interest in favor of any other person over or in relation to any property held by the Administrator (as defined below) on trust for the Grantees, Awards, Shares underlying any Awards or any interest or benefits therein.

### **14. Vesting**

Subject to the terms of the Pre-IPO RSU Plan and the specific terms and conditions applicable to each Award, the RSUs granted in an Award shall be subject to a vesting period, to the satisfaction of performance and/or other conditions to be determined by the Board. If such conditions are not satisfied, the RSU shall be cancelled automatically on the date on which such conditions are not satisfied, as determined by the Board in our absolute discretion.

The RSUs which have vested shall be satisfied, at the Company's absolute discretion, either by:

- (i) the Company allotting and issuing a fully paid-up Share to the Grantee for each RSU. The Company shall accordingly issue to the Grantee (or, as the case may be, his legal representative(s) or its custodian agent) share certificates in respect of Shares so allotted and issued. Any issue of Shares to a Grantee shall be subject to the applicable laws, regulations, rules and requirements of any relevant country or jurisdiction;
- (ii) the Company appointing an administrator to assist with the administration and vesting of RSUs granted pursuant to the Pre-IPO RSU Plan (the "**Administrator**"). The Company may:
  - (a) allot and issue Shares to the Administrator to be held by the Administrator pending the vesting of the RSUs awarded which will be used to satisfy the RSUs upon vesting at the Company's direction; and/or

- (b) direct and procure the Administrator to make on-market purchases of Shares to satisfy the RSUs upon vesting at the Company's direction;
- (iii) directing and procuring the Administrator to transfer the Shares underlying the Award (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those Shares) to the Grantee from the assets consisting of the Shares acquired by the Administrator under the Pre-IPO RSU Plan held by the Administrator pursuant to the Pre-IPO RSU Plan (the "**RSU Fund**") which the Administrator has either acquired by making on-market purchases of Shares or which the Company has allotted and issued to the Administrator as fully paid up Shares; and/or
- (iv) paying, or directing and procuring the Administrator to pay, to the Grantee in cash an amount which is equivalent to the value of the Shares (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those Shares) set out in sub-paragraph (iii) above.

### **15. Acceleration of Vesting**

The Board has the sole discretion to determine, at any time, whether to accelerate the vesting of any RSUs granted to any Grantee for various considerations as set out below.

#### *(i) Rights on a takeover*

In the event a general offer by way of takeover, merger or otherwise in a like manner (other than by way of scheme of arrangement as set out in paragraph (ii) below) is made to all the Shareholders (or such shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror) and the general offer to acquire the Shares is approved and becomes or is declared unconditional in all respects prior to the vesting date of any RSU, the RSUs of the Grantee(s) will vest immediately to the extent specified in a notice given by the Company.

#### *(ii) Rights on a scheme of arrangement*

In the event a general offer for Shares by way of scheme of arrangement is made by any person to all the Shareholders and has been approved by the necessary number of Shareholders at the requisite meetings prior to the vesting of any RSU, the RSUs of the Grantee(s) will vest immediately to the extent specified in a notice given by the Company.

#### *(iii) Rights on a compromise or arrangement*

If a compromise or arrangement between the Company and its Shareholders and/or creditors is proposed in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies, and a notice is given by the Company to its Shareholders to convene a general meeting to consider and if thought fit approve such compromise or arrangement prior to the vesting of RSUs by the Grantee(s), the RSUs of the Grantee(s) will vest immediately to the extent specified in a notice given by the Company.

#### *(iv) Rights on a voluntary winding-up*

In the event that an effective resolution is passed during the period of 5 years commencing on the adoption date of the Pre-IPO RSU Plan for voluntarily winding-up of the Company (other than for the purposes of a reconstruction, amalgamation or scheme of arrangement as set out above), prior to the vesting of any RSU, the RSUs of the Grantee(s) will vest immediately to the

extent specified in a notice given by the Company provided that all unvested RSUs must be vested and effected by no later than one business day before the day of the proposed general meeting to be convened for the purpose of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company (or to pass written resolutions of the Shareholders to the same effect).

#### **16. Lapse of RSUs**

An unvested RSU shall be cancelled automatically upon the earliest of:

- (i) the date of the termination of the Grantee's employment or service by the Company, any of its subsidiaries or PRC Operating Entities for Cause (as defined below); or
- (ii) the date on which the offer (or, as the case may be, revised offer) referred to in paragraph 15(i) closes; or
- (iii) the record date for determining entitlements under the scheme of arrangement; or
- (iv) the date of the commencement of the winding-up of the Company; or
- (v) the date on which the Grantee commits a breach of paragraph 13; or
- (vi) the date on which it is no longer possible to satisfy any outstanding conditions to vesting.

If the Grantee's employment or service with the Company, the subsidiaries or PRC Operating Entities is terminated for any reason other than for Cause (as defined below) (including by reason of resignation, retirement, death, disability or non-renewal of the employment or service agreement upon its expiration for any reason other than for Cause), the Board shall determine at its absolute discretion and shall notify the Grantee whether any unvested RSU granted to such Grantee shall vest and the period within which such RSU shall vest. If the Board determines that such RSU shall not vest, such RSU shall be cancelled automatically with effect from the date on which the Grantee's employment or service is terminated.

For the purpose of the Pre-IPO RSU Plan, "**Cause**" means, with respect to a Grantee, the summary termination of employment or office on any one or more of the following grounds: the Grantee has been guilty of misconduct, or has been convicted of any criminal offence involving his integrity or honesty or (if so determined by the Board in its absolute discretion) on any other ground on which the relevant company in our Group would be entitled to terminate his employment or office summarily at common law or pursuant to any applicable laws or under the Grantee's service contract with the relevant company in our Group. Notwithstanding the foregoing, a resolution of the Board or the board of directors of the relevant subsidiary or PRC Operating Entity to the effect that the employment or office of a Grantee has or has not been terminated on one or more of the grounds specified herein shall be conclusive.

The Board may at any time cancel any unvested RSUs granted to a Grantee subject to consent by the Grantee. Where the Company cancels unvested RSUs and makes a grant of new Awards to the same Grantee, such grant may only be made with available RSUs to the extent not yet granted (excluding the cancelled RSUs) within the limits. Notwithstanding the aforesaid in this paragraph, in each case, the Board may in its absolute discretion decide that any RSU shall not be cancelled or determined subject to such conditions or limitations as the Board may decide.



**17. Cancellation of RSUs**

The Board may at its sole discretion cancel any RSU that has not vested or lapsed, provided that:

- (i) our Company or its appointees pay to the Grantee an amount equal to the fair value of the RSU at the date of the cancellation as determined by the Board, after consultation with an independent financial adviser appointed by the Board;
- (ii) our Company or its appointees provides to the Grantee a replacement RSU of equivalent value to the RSU to be cancelled; or
- (iii) the Board makes any arrangement as the Grantee may agree in order to compensate him for cancellation of the RSU.

**18. Reorganization of Capital Structure**

In the event of an alteration in the capital structure of the Company whilst any RSU has not vested by way of capitalisation of profits or reserves, bonus issue, rights issue, open offer, subdivision or consolidation of shares, reduction of the share capital of the Company or otherwise howsoever in accordance with legal requirements and requirements of the Stock Exchange (other than an issue of Shares as consideration in respect of a transaction to which the Company, the subsidiaries or PRC Operating Entities is a party or in connection with any share option, restricted share unit or other equity incentive schemes of the Group or in the event of any distribution of the Company's capital assets to its Shareholders on a pro rata basis (whether in cash or in specie) (other than dividends paid out of the net profits attributable to its Shareholders for each financial year of the Company), such corresponding alterations (if any) shall be made to the number or nominal amount of Shares subject to the RSUs so far as unvested as the auditors or an approved independent financial adviser shall certify in writing, either generally or as regard any particular Grantee, to have in their opinion, fairly and reasonably satisfied the requirement that such adjustments give the Grantee the same proportion (or rights in respect of the same proportion) of the share capital as that to which that Grantee was previously entitled, but that no such adjustments be made to the extent that a Share would be issued at less than its nominal value. The capacity of the auditors or the approved independent financial adviser in this paragraph is that of experts and not of arbitrators and their certification shall, in absence of manifest error, be final and binding on the Company and the Grantees. The costs of the auditors or the approved independent financial adviser shall be borne by the Company.

**19. Alteration or Amendment of the Pre-IPO RSU Plan**

Save for any material amendments to the Pre-IPO RSU Plan, the Pre-IPO RSU Plan may be altered in any respect by a resolution of the Board. The Board's determination as to whether any proposed alteration to the terms and conditions of the Pre-IPO RSU Plan is material shall be conclusive.

Any alteration to the terms and conditions of the Pre-IPO RSU Plan, which is of a material nature, or any change to the terms of any Award granted or agreed to be granted must be approved by the Shareholders in a general meeting, except where such alterations take effect automatically under the existing terms of the Pre-IPO RSU Plan.

Shareholder in general meeting must approve any change to the authority of the Board in relation to any alteration to the terms of the Pre-IPO RSU Plan.



**20. Termination of the Pre-IPO RSU Plan**

Our Company by ordinary resolution in general meeting or the Board may at any time terminate the operation of the Pre-IPO RSU Plan and in such event no further RSUs will be offered but in all other respects the provisions of the Pre-IPO RSU Plan shall remain in full force and effect in respect of RSUs which are granted during the life of the Pre-IPO RSU Plan and which remain unvested immediately prior to the termination of the operation of the Pre-IPO RSU Plan.

**21. General**

An application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, new Shares underlying any Awards which may be granted pursuant to the Pre-IPO RSU Plan.

As of the Latest Practicable Date, no Award has been granted or agreed to be granted by our Company pursuant to the Pre-IPO RSU Plan. The grant of any Awards and vesting of RSUs pursuant to the Pre-IPO RSU Plan will be in compliance with Rule 10.08 of the Listing Rules.

The Company will issue announcements according to the applicable Listing Rules, disclosing particulars of any Awards granted under the Pre-IPO RSU Plan, including the date of grant, number of Shares involved, the vesting period, the appointment and arrangement with the Administrator and compliance with Chapter 14A of the Listing Rules. Details of the Pre-IPO RSU Plan, including particulars and movements of the Awards granted during each financial year of our Company, and our employee related costs arising from the grant of the Awards will be disclosed in our annual and interim reports.

**22. Potential Dilution Effect**

The maximum aggregate number of Shares underlying all grants of RSUs pursuant to the Pre-IPO RSU Plan is 13,850,000. The grant of 13,850,000 Shares could incur a dilution of approximately 0.91% of the shareholding of the Shareholders immediately following the Listing (without taking into account any Shares to be issued upon the exercise of the Over-allotment Option, exercise of options granted under the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme, and vesting of RSUs granted under the Post-IPO RSU Plan).

**Outstanding RSUs**

As of the Latest Practicable Date, we had granted an aggregate of 13,850,000 RSUs to 9 Grantees under the Pre-IPO RSU Plan and no more Awards will be granted under the Pre-IPO RSU Plan after the Listing. Among all the Grantees, 2 are members of our senior management and 7 are our other employees. Two of the Grantees have been granted RSUs representing more than 0.1% of the issued share capital of the Company upon completion of the Global Offering (without taking into account any Shares to be allotted and issued upon the exercise of the Over-allotment Option, exercise of options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan). The total number of Shares underlying the 13,850,000 RSUs represents approximately 0.91% of the enlarged share capital of our Company upon completion of the Global Offering (assuming the Over-allotment Option is not exercised, and without taking into account any Shares which may be issued upon the exercise of the options under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme and vesting of RSUs

granted under the Post-IPO RSU Plan). As of the Latest Practicable Date, no Share had been allotted and issued under the Pre-IPO RSU Plan.

Assuming full vesting of the outstanding RSUs granted under the Pre-IPO RSU Plan (assuming the Over-allotment Option is not exercised, and without taking into account any Shares to be issued upon the exercise of options granted or to be granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan), the shareholding of our Shareholders immediately following the Listing will be diluted by approximately 0.91%. If the RSUs granted under the Pre-IPO RSU Plan are vested, there would be a dilutive effect on the earnings per Share of our Company. For example, assuming, among others, all RSUs underlying 13,850,000 Shares that may be granted under the Pre-IPO RSU Plan were granted and vested on January 1, 2014, our earnings per share would decrease from RMB0.03428 to RMB0.03397, a dilutive effect of RMB0.00031 per share. Please see the table below for an explanation of the above illustrated example.

Profit attributable to the equity holders of the Company for the six months ended June 30, 2014 .....	RMB51,418,000
Unaudited pro forma basic earnings per share for the six months ended June 30, 2014 .....	RMB0.03428 <sup>Note 1</sup>
Unaudited pro forma diluted earnings per share for the six months ended June 30, 2014 .....	RMB0.03397 <sup>Note 2</sup>

Notes:

- 1 The calculation of the unaudited pro forma basic earnings per share for the six months ended June 30, 2014 is based on the profit attributable to the equity holders of the Company for the six months ended June 30, 2014 and 1,500,000,000 Shares being issued assuming the Global Offering were completed on January 1, 2014 (assuming the Over-allotment Option was not exercised and without taking into account any Shares to be issued pursuant to exercise of share options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan).
- 2 The calculation of the unaudited pro forma diluted earnings per share for the six months ended June 30, 2014 is based on the profit attributable to the equity holders of the Company for the six months ended June 30, 2014 and 1,513,850,000 Shares being issued, assuming the Global Offering were completed on January 1, 2014 (assuming the Over-allotment Option was not exercised and without taking into account of any Shares to be issued pursuant to exercise of share options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and vesting of RSUs granted under the Post-IPO RSU Plan) and the RSUs underlying 13,850,000 Shares under the Pre-IPO RSU Plan are all granted and vested on January 1, 2014, without taking into account of the related expense recognized in profit or loss for these RSUs.

### Details of the Grantees under the Pre-IPO RSU Plan

#### (a) Directors

None of our Directors has been granted RSUs under the Pre-IPO RSU Plan.

**(b) Senior Management**

Our senior management have been granted RSUs under the Pre-IPO RSU Plan to subscribe for a total of 2,550,000 Shares, representing approximately 0.17% of the issued share capital of our Company upon completion of the Global Offering, but without taking into account any Shares to be issued upon vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan, and any Shares to be issued pursuant to exercising of options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme.

Below is a list of members of our senior management who are Grantees under the Pre-IPO RSU Plan:

Name of Grantee	Position held with our Group	Address	Consideration Paid for the Grant	Number of Shares underlying the RSUs Granted	Date of Grant	Approximate Percentage of Issued Shares Immediately upon Completion of the Global Offering
Zhou Yandan . . . . .	Vice President	Room 805, Unit 2, Block 6, Pingguopai Zone, No. 2 Park, Huangqudong Road, Chaoyang District, Beijing, PRC	nil	1,050,000	November 17, 2014	0.07%
Cheung Man Yu <sup>(3)</sup> . . .	Chief Financial Officer	Flat 10, 31/F, Lung Sing House, Kam Lung Court, Ma On Shan, New Territories, Hong Kong	nil	1,500,000	November 17, 2014	0.10%

## Notes:

- (1) The par value of Shares is subject to amendment as a result of any sub-division, consolidation, reclassification or reconstruction of the share capital of the Company from time to time. As of the date of grant, the par value of the Share was USD0.0000001.
- (2) The above table assumes 1,500,000,000 Shares are issued and outstanding as at completion of the Global Offering, but without taking into account any Shares to be issued upon vesting of options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and any Shares to be issued pursuant to exercise of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan.
- (3) A connected person under the Listing Rules.

**(c) Other Grantees**

Save for the 2 members of our senior management, 7 other Grantees (2 of which are connected persons of the Group) have been granted RSUs under the Pre-IPO RSU Plan to subscribe for a total of 11,300,000 Shares, representing approximately 0.75% of the issued share capital of our Company upon completion of the Global Offering but without taking into account any Shares to be issued upon vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan, and exercising of options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme.

The table below shows details of RSUs granted to the 2 other Grantees who are connected persons of our Group:

Name of Grantee	Position held with our Group	Address	Consideration Paid for the Grant	Number of Shares underlying the RSUs Granted	Date of Grant	Approximate Percentage of Issued Shares Immediately upon Completion of the Global Offering
Zhou Yangsi <sup>(3)</sup> . . . .	Producer	202, No.128 Oriental Bali Jinbang Road, Siming District, Xiamen	nil	3,680,000	November 17, 2014	0.25%
Dong Ting <sup>(3)</sup> . . . . .	Producer	601, No. 713 Lian Qian Xi Road Siming District, Xiamen	nil	5,260,000	November 17, 2014	0.35%

## Notes:

- (1) The par value of Shares is subject to amendments as a result of any sub-division, consolidation, reclassification or reconstruction of the share capital of the Company from time to time. As of the date of grant, the par value of each Share was USD0.0000001.
- (2) The above table assumes 1,500,000,000 Shares are issued and outstanding as at completion of the Global Offering, assuming the Over-allotment Option is not exercised, and without taking into account any Shares to be issued upon the exercise of options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and any Shares to be issued upon vesting of RSUs granted the Pre-IPO RSU Plan and the Post-IPO RSU Plan.
- (3) Each a connected person under the Listing Rules.

The table below shows the details of RSUs granted to the remainder of the other Grantees:

Rank/position held with Our Group	Consideration Paid for the Grant	Number of Shares underlying the RSUs Granted	Date of Grant	Approximate Percentage of Issued Shares Immediately upon Completion of the Global Offering
5 producers, supervisors and team leaders . . . . .	nil	2,360,000	November 17, 2014	0.16%

As at the Latest Practicable Date, 2 out of the 7 producers, supervisors and team leaders who have been granted RSUs under the Pre-IPO RSU Plan is entitled to a total number of RSUs exceeding the total entitlement of any single senior management member of our Group whom has been disclosed on a named individual basis in the table above.

### **Consideration paid for the grant of RSUs and the vesting period of the RSUs granted under the Pre-IPO RSU Plan**

The Grantees of the RSUs granted under the Pre-IPO RSU Plan as referred to in the tables above are not required to pay for the grant of any RSU under the Pre-IPO RSU Plan.

The 13,850,000 RSUs were granted on November 17, 2014 to the named Grantees set out in the tables above, they shall be vested in full on April 1, 2015.

We shall ensure compliance with the minimum public float requirement in Rule 8.08 of the Listing Rules.

### **G. POST-IPO RSU PLAN**

We conditionally approved and adopted the Post-IPO RSU Plan on November 17, 2014, which will become effective subject to (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the new Shares underlying the awards of RSUs which may be granted pursuant to the Post-IPO RSU Plan (“**Post-IPO Awards**”) and (ii) the commencement of trading of the Shares on the Main Board of the Stock Exchange.

Other than the key differences summarized below, the rules of the Post-IPO RSU Plan are substantially similar to those of the Pre-IPO RSU Plan:

#### **1. Post-IPO RSU Mandate Limit**

The maximum aggregate number of Shares underlying all grants of Post-IPO Awards pursuant to the Post-IPO RSU Plan (excluding RSUs that have lapsed or been cancelled in accordance with the rules of the Post-IPO RSU Plan) will not exceed 45,000,000 Shares, representing approximately 3% of the number of Shares in issue on the Listing Date (assuming that the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme and vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan) (“**Post-IPO RSU Mandate Limit**”).

The Post-IPO RSU Mandate Limit may be refreshed subject to prior approval from our Shareholders (such as at annual general meeting). The total number Shares underlying all grants of Post-IPO Awards pursuant to the Post-IPO RSU Plan following the date of approval of the refreshed limit (“**New Approval Date**”) must not exceed 3% of the number of Shares in issue as of the New Approval Date (including Shares issued before the New Approval Date pursuant to vesting of RSUs granted under the Post-IPO RSU Plan).

Our Company shall at each of its annual general meeting propose for the Shareholders to consider and if thought fit, pass an ordinary resolution approving an annual mandate specifying: (i) the maximum number of new Shares that may underlie the Post-IPO Awards granted pursuant to the Post-IPO RSU Plan during the Applicable Period (as defined below); and (ii) the Board has the power to deal with, allot and issue Shares, procure the transfer of Shares and otherwise deal

with Shares pursuant to the vesting of any RSUs that are granted pursuant to the Post-IPO RSU Plan during the Applicable Period, as and when such RSUs vest.

The above mandate shall remain in effect during the period (“**Applicable Period**”) from the passing of the ordinary resolution granting the mandate until the earliest of: (1) the conclusion of the next annual general meeting; (2) the end of the period within which the Company is required by any applicable laws or by the Articles to hold the next annual general meeting; or (3) the date on which such mandate is varied or revoked by an ordinary resolution of the Shareholders in a general meeting.

## 2. Restrictions on Grant

The Board or the Remuneration Committee shall not grant any Post-IPO Awards under the Post-IPO RSU Plan to any selected participant in any of the following circumstances:

- (1) after an event which may constitute inside information has occurred or a matter involving inside information has been the subject of a decision until such inside information has been announced by the Company in accordance with the requirements of the Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of:
  - (i) the date of the meeting of the Board (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company’s results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and
  - (ii) the deadline for the Company to publish an announcement of its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules) and ending on the date of the results announcement,such period will cover any period of delay in the publication of a results announcement.
- (2) if any Post-IPO Award is proposed to be granted to a Director, it shall not be granted on any day on which the financial results of the Company are published and during the period of:
  - (i) 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and
  - (ii) 30 days immediately preceding the publication date of the quarterly results (if any) and half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results.

### ***Dilutive Effect***

Assuming full exercise of all the RSUs granted under the Post-IPO RSU Plan (assuming the Over-allotment Option is not exercised, and without taking into account any Shares to be issued upon the exercise of options granted or to be granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and upon vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan), the shareholding of our Shareholders immediately following the Listing will be diluted by approximately 2.91%. If the RSUs granted under the Post-IPO RSU Plan are vested, there would be a dilutive effect on the earnings per Share of our Company. For

example, assuming, among others, all RSUs for the 45,000,000 shares that may be granted under the Post-IPO RSU Plan were granted and vested on January 1, 2014, our earnings per share would decrease from RMB0.03428 to RMB0.03328, a dilutive effect of RMB0.001 per share. Please see the table below for an explanation of the above illustrated example.

Profit attributable to the equity holders of the Company for the six months ended June 30, 2014 .....	RMB51,418,000
Unaudited pro forma basic earnings per share for the six months ended June 30, 2014 .....	RMB0.03428 <sup>Note 1</sup>
Unaudited pro forma diluted earnings per share for the six months ended June 30, 2014 .....	RMB0.03328 <sup>Note 2</sup>

Notes:

- 1 The calculation of the unaudited pro forma basic earnings per share for the six months ended June 30, 2014 is based on the profit attributable to the equity holders of the Company for the six months ended June 30, 2014 and 1,500,000,000 Shares being issued assuming the Global Offering were completed on January 1, 2014 (assuming the Over-allotment Option was not exercised and without taking into account any Shares to be issued pursuant to exercise of share options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and vesting RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan).
- 2 The calculation of the unaudited pro forma diluted earnings per share for the six months ended June 30, 2014 is based on the profit attributable to the equity holders of the Company for the six months ended June 30, 2014 and 1,545,000,000 Shares being issued, assuming the Global Offering were completed on January 1, 2014 (assuming the Over-allotment Option was not exercised and without taking into account of any Shares to be issued pursuant to exercise of share options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and vesting of RSUs granted under the Pre-IPO RSU Plan) and the RSUs underlying 45,000,000 Shares under the Post-IPO RSU Plan are all granted and exercised on January 1, 2014, without taking into account of the related expense recognized in profit or loss for these RSUs.

### 3. Grants to Connected Persons

Any grant of Post-IPO Awards to any Director, chief executive or substantial shareholder of our Company, any of their respective associates, or any other connected person under the Post-IPO RSU Plan, shall be subject to the prior approval of the Independent Non-Executive Directors (excluding the Independent Non-Executive Director who is the proposed grantee of such Post-IPO Awards) and shall otherwise be subject to compliance with the requirements of the Listing Rules.

Notwithstanding the above, any grant of Post-IPO Awards to a Director as part of such Director's remuneration under his/her service contract with the Company shall be exempted from reporting, announcement and independent shareholders' approval requirements pursuant to Rule 14A.73(6) of the Listing Rules.

## H. OTHER INFORMATION

### 1. Litigation

As of the Latest Practicable Date, we were the plaintiff in the lawsuit regarding purchase of a real estate between Xiamen Youli and Tianxi (Xiamen) Cartoon Shareholding Company Limited (天熹(廈門)動漫股份有限公司) in 2012. The judge in Siming District Court of Xiamen has ruled on December 16, 2013 in favor of Xiamen Youli.



Except as disclosed in this prospectus, as of the Latest Practicable Date, we were not engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on our results of operations or financial conditions.

## 2. Deed of Indemnity

Each of our Controlling Shareholders has entered into a deed of indemnity in favor of our Group in as at the date of this prospectus to provide the following indemnities in favor of our Group.

### ***Tax indemnities***

Under the deed of indemnity, amongst others, our Controlling Shareholders will jointly and severally indemnify the Company and each of the members of our Group against:

- (a) any taxation falling on our Group relating to any estate duty in any part of the world on or before the Listing Date;
- (b) any taxation falling on our Group resulting from or by reference to, *inter alia*, any income received on or before the Listing Date;
- (c) all reasonable costs which our Group may properly incur in connection with any taxation claim against our Group; and
- (d) any taxation arising out of any additional assessments by any fiscal authorities in relation to the tax years beginning January 1, 2011 and ending on the Listing Date;

The indemnity will not cover any taxation claim, to the extent that, *inter alia*:

- (a) full provision or allowance has been made for such taxation in the audited accounts of the Group up to June 30, 2014;
- (b) subject to (a) above, such taxation arises as a result of any retrospective change in law or increase in tax rates coming into force after the Listing Date;
- (c) the liability for such taxation that is caused by the act or omission of, or transaction voluntarily effected by our Group in the ordinary course of business;
- (d) any provision or reserve made for such taxation in the audited accounts of our Group up to June 30, 2014, which is finally established to be an over-provision or an excessive reserve.

### ***Non-compliance with and/or breach of laws, rules and regulations***

Our Controlling Shareholders will jointly and severally indemnify the Company and each of the members of our Group, *inter alia*, against any claims, actions, losses, liabilities, costs incurred by our Group as a result of any non-compliance with the applicable laws, rules and regulations by our Group on or before the Listing Date.

The above indemnity does not apply to a liability arising out of any retrospective change in the law coming into force after Listing Date.

***Failure to complete the registrations of trademark transfers***

Our Controlling Shareholders will jointly and severally indemnify the Company and each of the members of our Group, *inter alia*, against any claims, actions, losses, liabilities, costs incurred by our Group as a result of any failure to complete the registrations with the PRC Trademark Office of the transfers of trademarks from Xiamen Guanghuan and Xiamen Yidou to Xiamen Feiyou and/or its subsidiaries by June 30, 2015.

**3. Preliminary expenses**

The preliminary expenses relating to the incorporation of our Company are approximately US\$7,000 and are payable by our Company.

**4. Promoter**

Our Company has no promoter for the purpose of the Listing Rules. Within the two years preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given or is proposed to be paid, allotted or given to any promoter in connection with the Global Offering and the related transactions described in this prospectus.

**5. Application for Listing**

The Joint Sponsors have made an application on behalf of our Company to the Listing Committee of the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Shares to be issued as mentioned in this prospectus, any Shares which may be issued upon the exercise of the Over-allotment Option, exercise of options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and vesting of RSUs granted under the Pre-IPO RSU Plan and Post-IPO RSU Plan. All necessary arrangements have been made to enable the securities to be admitted into CCASS.

**6. No Material Adverse Change**

The Directors confirm that there has not been any material adverse change in our financial or trading position, indebtedness, mortgage, contingent liabilities, guarantees or prospects of our Group since June 30, 2014, the date of the latest audited combined financial statements of our Group.

**7. Agency Fees and Commissions Received**

The Underwriters will receive an underwriting commission as referred to in this section headed “Underwriting — Underwriting Arrangements and Expenses — Commissions and Expenses and Joint Sponsors’ Fees.”

**8. Qualifications and consents of experts**

The qualifications of the experts (as defined under the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance) who have given their opinions and/or advise in this prospectus are as follows:

Name	Qualifications
Citigroup Global Markets Asia Limited .....	A licensed corporation under the SFO to engage in type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 5 (advising on future contracts), type 6 (advising on corporate finance) and type 7 (providing automated trading services) of the regulated activities defined under the SFO
Merrill Lynch Far East Limited ..	A licensed corporation under the SFO to engage in type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 7 (providing automated trading services) of the regulated activities defined under the SFO
Ernst & Young .....	Certified Public Accountants
Conyers Dill & Pearman (Cayman) Limited. ....	Cayman Islands attorneys-at-law
Han Kun Law Offices. ....	PRC legal advisers
Shanghai iResearch Co., Ltd ...	Independent Industry Consultant
App Annie Inc. ....	Independent Application Store Market Data Provider

**9. Consents**

Each of Citigroup Global Markets Asia Limited and Merrill Lynch Far East Limited, Ernst & Young, Conyers Dill & Pearman (Cayman) Limited, Han Kun Law Offices, Shanghai iResearch Co., Ltd and App Annie Inc. has given and has not withdrawn their respective written consents to the issue of this prospectus with the inclusion of their reports and/or letters and/or the references to their names included herein in the form and context in which they are respectively included.

None of the experts named above has any shareholding interests in the Company or any of its subsidiaries or PRC Operating Entities or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe in the Company or any of its subsidiaries or the PRC Operating Entities.

**10. Binding Effect**

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penalty provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

**11. Independence of Sponsors; Sponsors' fees**

Each of the Joint Sponsors satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules. The Joint Sponsors will be paid by the Company a total fee of approximately US\$1.5 million to act as sponsors to the Company in connection with the Global Offering.

**12. Taxation of holders of Shares**

Dealing in Shares registered on our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty. The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty, the current rate of which is 0.2% of the consideration or, if higher, the value of the Shares being sold or transferred. Dividends paid on Shares will not be subject to tax in Hong Kong and no tax is imposed in Hong Kong in respect of capital gains. However, profits from dealing in the Shares derived by persons carrying on a business of trading or dealings in securities in Hong Kong arising in or derived from Hong Kong may be subject to Hong Kong profit tax.

We may be treated as a PRC resident enterprise as described in "Risk Factors — Risks Relating to Conducting Business in the PRC — We may be classified as a "PRC resident enterprise" for PRC enterprise income tax purposes, which could result in our global income being subject to 25% PRC enterprise income tax." In that case, distributions to our shareholders may be subject to PRC withholding tax and gains from dispositions of our Shares may be subject to PRC tax. See "Risk Factors — Risks Relating to Conducting Business in the PRC — We may be classified as a "PRC resident enterprise" for PRC enterprise income tax purposes, which could result in our global income being subject to 25% PRC enterprise income tax."

Potential investors in the Global Offering are urged to consult their professional tax advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of, and dealing in our Shares (or exercising rights attached to them). None of us, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors or any other person or party involved in the Global Offering accept responsibility for any tax effects on, or liabilities of, any person, resulting from the subscription, purchase, holding or disposal of, dealing in or the exercise of any rights in relation to, our Shares.

**13. Miscellaneous**

Save as otherwise disclosed in this prospectus:

- (i) Within the two years preceding the date of this prospectus, no share or loan capital or debentures of our Company or of any of our principal operating subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly either for cash or for a consideration other than cash;
- (ii) Within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of the principal subsidiaries;
- (iii) Within the two years preceding the date of this prospectus, no commission has been paid or is payable (except commissions to underwriters) for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any Shares in our Company;

- (iv) Neither our Company nor any of our subsidiaries have issued or agreed to issue any founder shares, management shares or deferred shares;
- (v) No share or loan capital of our Company or any of our consolidated subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (vi) None of the parties (save in connection with the Underwriting Agreements) listed in the sub-paragraph headed “Consents” under the paragraph headed “Other Information” in this appendix:
  - (a) is interested legally or beneficially in any securities of any member of our Group;  
or
  - (b) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

#### **14. Estate duty**

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

#### **15. Bilingual prospectus**

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided in section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES**

The documents attached to the copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were (i) copies of the WHITE, YELLOW and GREEN Application Forms, (ii) the written consents referred to in paragraph headed “Appendix IV — Statutory and General Information — H. Other Information — 9. Consents” in this prospectus, and (iii) copies of each of the material contracts referred to in paragraph headed “Appendix IV — Statutory and General Information — B. Further Information about the Business of our Group and PRC Operating Entities — 1. Summary of material contracts” in this prospectus.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the offices of Brandt Chan & Partners in association with Dentons HK LLP, at Suite 3201, Jardine House, 1 Connaught Place, Central, Hong Kong, during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) our Memorandum of Association and Articles of Association;
- (b) the accountants’ report of our Company from Ernst & Young, the text of which is set out in Appendix IA to this prospectus;
- (c) the audited combined financial statements of our Company for the three years ended December 31, 2011, 2012 and 2013, and the six months ended June 30, 2014;
- (d) the accountants’ report of Kailuo Tianxia from Ernst & Young, the text of which is set out in Appendix IB to this prospectus;
- (e) the audited financial statements of Kailuo Tianxia for the period from May 3, 2012 (the date of Kailuo Tianxia’s incorporation) to December 31, 2012 and the year ended December 31, 2013;
- (f) the report from Ernst & Young relating to the unaudited pro forma financial information of our Company, the text of which is set out in Appendix II to this prospectus;
- (g) the letter of advice prepared by Conyers Dill & Pearman (Cayman) Limited, our legal adviser on Cayman Islands laws, summarizing certain aspects of the Cayman Islands company law referred to in paragraph headed “Appendix III — Summary of the Constitution of our Company and Cayman Companies Law — 4. General” in this prospectus;
- (h) the Cayman Companies Law;
- (i) the PRC legal opinion dated November 25, 2014 issued by Han Kun Law Offices, our PRC legal adviser, in respect of our general matters and property interests;
- (j) copies of material contracts referred to in the paragraph headed “Appendix IV — Statutory and General Information — B. Further Information About the Business of Our Group and the PRC Operating Entities — 1. Summary of material contracts” in this prospectus;
- (k) the written consents referred to in the paragraph headed “Appendix IV — Statutory and General Information — H. Other Information — 9. Consents” in this prospectus;

- (l) the service agreements and letters of appointment referred to in the paragraph headed “Appendix IV — Statutory and General Information — C. Further Information About Directors and Substantial Shareholders — 1. Disclosure of interests — (b) Particulars of Directors’ service contracts and letter of appointment” in this prospectus;
- (m) the full list of all the Grantees of the Pre-IPO Share Option Scheme, containing all the details in respect of each option required under the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Listing Rules;
- (n) the Pre-IPO Share Option Scheme;
- (o) the Post-IPO Share Option Scheme;
- (p) the Pre-IPO RSU Plan; and
- (q) the Post-IPO RSU Plan.



