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SinoCom

SINOCOM SOFTWARE GROUP LIMITED

中訊軟件集團股份有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 299)

**CLARIFICATION ANNOUNCEMENT
AND
DISCLOSEABLE TRANSACTION IN RELATION TO
THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL
IN KINGWORLD HOLDINGS LIMITED
AND
RESUMPTION OF TRADING**

THE ACQUISITION

The Board is pleased to announce that on 28 July 2015 (after trading hours), the Company entered into a Share Purchase Agreement in respect of the acquisition of the entire issued share capital of the Target Company.

**PROPOSED GRANT OF SPECIFIC MANDATE TO ISSUE THE
CONSIDERATION SHARES**

Pursuant to the Share Purchase Agreement, the Consideration Shares will be issued by the Buyer to the Seller under the Specific Mandate to be obtained at the EGM to satisfy its obligation as payment of such part of the Consideration in the amount of HK\$149,500,000 payable on the Completion Date under the Share Purchase Agreement. In the case where the Specific Mandate shall not have been approved or the Listing Approval shall not have been obtained by 30 November 2015, the Buyer shall pay to the Seller cash in the amount of HK\$149,500,000 as part of the settlement of the Consideration on Completion Date. The Consideration Shares shall, upon issuance, rank pari passu in all respects with the Shares in issue.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholder has a material interest in the Acquisition nor will be required to abstain from voting on the resolutions to approve the grant of a specific mandate at the EGM to allot and issue the Consideration Shares.

IMPLICATIONS UNDER THE LISTING RULES

As more than one of the applicable percentage ratios with respect to the Acquisition calculated by reference to Rule 14.07 of the Listing Rules are 5% or more but less than 25%, the Acquisition constitutes a discloseable transaction for the Company under Rule 14.06(2) of the Listing Rules and is subject to reporting and announcement requirements under Chapter 14 of the Listing Rule.

The EGM will be convened for the purpose of, among other matters, considering and if thought fit, approving the grant of the Specific Mandate. The voting in respect of the grant of the Specific Mandate will be conducted by way of poll. As no Shareholder has any material interest in the Acquisition which is different from that of other Shareholders, none of the Shareholders is required to abstain from voting at the EGM for approving the grant of the Specific Mandate..

As completion of the Share Purchase Agreement is subject to the fulfilment of certain conditions precedent, the issue of this announcement should not be regarded in any way as implying that the Acquisition will be completed or the Consideration Shares will be issued. Therefore, the Shareholders and investors in general should exercise caution when dealing in the Shares.

RESUMPTION OF TRADING

At the request of the Company, trading in the shares of the Company on the Stock Exchange was halted with effect from 9:00 a.m. on Wednesday, 29 July 2015 pending the release of this announcement. The Company has applied to the Stock Exchange for resumption of trading in the shares of the Company with effect from 1:00 p.m. on Thursday, 30 July 2015.

Reference is made to the announcements of the Company dated 18 December 2014, 19 December 2014, 2 April 2015 and 1 June 2015 in relation to the possible acquisition of Kingworld Beijing (the “**Announcements**”).

As set out in the Announcements, a Framework Agreement in relation to the possible acquisition of 100% equity interest in Kingworld Beijing was entered into by the Company and the Vendors (as defined in the Announcements). The transaction as contemplated under the Framework Agreement was classified to constitute a major transaction for the Company under the Listing Rules, as set out in the announcement of the Company dated 18 December 2014.

The Company wishes to update that, in the course of the due diligence review, it was discovered that the total assets of Kingworld Beijing was mistakenly stated in its accounts provided to the Company before the entering into of the Framework Agreement. Revised accounts stating the revised total assets of Kingworld Beijing which was audited by the auditor of Kingworld Beijing in accordance with China Accounting Standards for Business Enterprises was subsequently provided to the Company.

The Company would wish to clarify that, based on the revised audited total assets of Kingworld Beijing as set out in the said audited accounts, more than one of the applicable percentage ratios with respect to the Acquisition calculated by reference to Rule 14.07 of the Listing Rules are 5% or more but all the applicable percentage ratios are less than 25%. Accordingly, the Acquisition constitutes a discloseable transaction for the Company (instead of a major transaction) under the Listing Rules. Details of the implications under the Listing Rules in respect of the Acquisition shall be set out in the section headed “IMPLICATIONS UNDER THE LISTING RULES” in this announcement.

THE ACQUISITION

The Share Purchase Agreement

The Board is pleased to announce that on 28 July 2015 (after trading hours), the Company entered into a Share Purchase Agreement in respect of the acquisition of the entire issued share capital of the Target Company (the “**Acquisition**”).

Date

28 July 2015

Parties

- (a) the Buyer;
- (b) the Company;
- (c) the Seller;
- (d) the Target Company;
- (e) 徐蓉 (Xu Rong); and
- (f) 周旭 (Zhou Xu).

To the best of the knowledge, information and belief of the Directors, and having made all reasonable enquiries, each of the Seller, the Target Company, Xu Rong and Zhou Xu is, at the date of this announcement, a third party independent of the Company and its connected persons (as defined in the Listing Rules).

Assets to be acquired

Pursuant to the Share Purchase Agreement, subject to the fulfillment or waiver (as the case may be) of Conditions Precedent, the Buyer has conditionally agreed to purchase and the Seller has conditionally agreed to sell the Sale Shares, being the entire issued share capital in the Target Company.

Consideration and the method of payment

Pursuant to the Share Purchase Agreement, the Consideration for the Sale Shares shall be HK\$450,000,000, less the Adjustment Amount (if any), of which:

- (a) HK\$135,000,000 was paid by the Buyer to the Seller on 29 December 2014 by way of cash;
- (b) HK\$165,500,000, an amount in relation to which the bank has been instructed by the Buyer to pay to the Seller by way of fund transfer on the date when the Share Purchase Agreement is signed; and
- (c) HK\$149,500,000 will be settled by the Buyer on the Completion Date,
 - i. in the case where the Specific Mandate shall be approved by the Shareholders at the EGM and the Listing Approval shall be obtained, by the issue and allotment to an entity designated by the Seller of the Consideration Shares; or
 - ii. in the case where the Specific Mandate shall not have been approved or the Listing Approval shall not have been obtained by 30 November 2015, by the payment of cash in the amount of HK\$149,500,000.

The Adjustment Amount shall be calculated as follows:

$$\text{Adjustment Amount} = 6 \times (\text{RMB}60,000,000 - \text{2016 Net Profit After Tax})$$

The Adjustment Amount shall be payable by the Seller to the Buyer in cash within 10 Business Days after the date on which the auditors appointed by the Buyer have issued an audited report in relation to the 2016 Net Profit After Tax. For the avoidance of doubt, in the event that the 2016 Net Profit After Tax is equal to or more than RMB60,000,000, no Adjustment Amount shall be payable by the Seller to the Buyer.

Basis of determining Consideration

The Consideration was determined after arm's length negotiations among the parties to the Share Purchase Agreement on normal commercial terms having regard to various factors such as (i) the prevailing market condition; (ii) the exclusive license of Kingworld Beijing to develop and operate the official wireless platform (including but not limited to Wechat) and mobile application for Chinese Football Association Super League; (iii) the operating performance of Kingworld Beijing and the rapid growth in its number of registered users of the official mobile application for Beijing Guoan Football Club for the past year and the large circulation of the magazine for Beijing Guoan Football Club; (iv) the huge market potential for soccer fans in the PRC; and (v) the positive business prospects of the Target Group on sports-related internet market and the great opportunity for the Company to enter into the rapidly expanding sports-related internet market in the PRC as a result of the Acquisition.

Based on the aforesaid, the Directors are of the opinion that the terms of the Share Purchase Agreement is fair and reasonable and on normal commercial terms and that the entering into of the Share Purchase Agreement is in the interests of the Company and the Shareholders as a whole.

Conditions Precedent

The completion of the Share Purchase Agreement is conditional upon the following conditions having been fulfilled or waived (as the case may be):

- (a) the Buyer is satisfied with the results of the due diligence of the Target Group;
- (b) WFOE has been established as an independent legal entity and has the full capacity to act;
- (c) Xu Rong and Zhou Xu have transferred all of their equity interest in Kingworld Beijing for a consideration of RMB1 to individual(s) designated by the Buyer;
- (d) the Control Agreements have been entered into in a manner satisfactory to the Buyer;
- (e) to the extent permitted by law, Kingworld Beijing and FFMobile have transferred all of their core assets, personnel and business to WFOE in a manner satisfactory to the Buyer;
- (f) the Target Reorganization is completed in accordance with the relevant rules and regulations and the relevant tax incurred has been paid;
- (g) each company within the Target Group appoints legal representatives (if any), directors and management in accordance with the Buyer's instructions;
- (h) all the liability of, or security given by the Target Group have been released;
- (i) the financial statements of the Target Group for the financial year ended 31 December 2014 and the first half year ended 30 June 2015 are correct, accurate and are not misleading statement;
- (j) there is no material adverse change in the operation or financial conditions of the Target Group;
- (k) on the Completion Date, the Target Group has an amount of RMB10,000,000 of cash as working capital;
- (l) no companies within the Target Group has disposed its major assets or created any securities over its major assets and no member of the Target Group has occurred any major indebtedness exceeding RMB500,000;
- (m) the Target Group have fully paid the social security fund and housing provident fund for all the employees and there exists no labour dispute;
- (n) Xu Rong and Zhou Xu have entered into employment agreements with the relevant companies within the Target Group designated by the Seller;

- (o) the members of the Target Group have entered into employment contracts, confidentiality agreements and non-competition agreements with their key employees;
- (p) from the date of the Share Purchase Agreement, no key employee of the Target Group has submitted resignation;
- (q) where approval in respect of this Acquisition is required from any third party, such approval has been obtained;
- (r) there is no pending legal proceedings that might prohibit the completion of the Acquisition;
- (s) each of the Seller and any company within the Target Group has not breached any of its obligations under the Share Purchase Agreement;
- (t) none of governmental authority has published any law or regulation that may restrict the completion of the Acquisition; and
- (u) other additional Conditions Precedent which the Buyer deems necessary after the due diligence are fulfilled.

All the Conditions Precedent above may be waived by the Buyer in writing. If the above Conditions Precedent are not fulfilled or waived (as the case may be) by the Buyer by 31 December 2015, the Buyer shall be entitled to terminate the Share Purchase Agreement by notice in writing to the other parties thereto, and whereupon the Share Purchase Agreement shall be terminated and neither of the parties thereto shall be entitled to claim damages from the other parties thereto arising from the termination thereof (save and except that certain provisions including the return of the Consideration paid by the Buyer as set out in the paragraph below and other provisions relevant for the purpose of interpreting the Share Purchase Agreement shall survive termination of the Share Purchase Agreement).

Should the Share Purchase Agreement be terminated upon the non-fulfilment and non-waiver of the Conditions Precedent by 31 December 2015, the Seller, Xu Rong and Zhou Xu shall return to the Buyer the Consideration paid by the Buyer under the Share Purchase Agreement with interests accrued thereupon at 10% per annum within 5 Business Days of the non-fulfilment and non-waiver of the Conditions Precedent.

The Directors confirm that as at the date of this announcement, none of the above Conditions Precedent have been breached or fulfilled and the Company has no intention to waive any of the above Conditions Precedent.

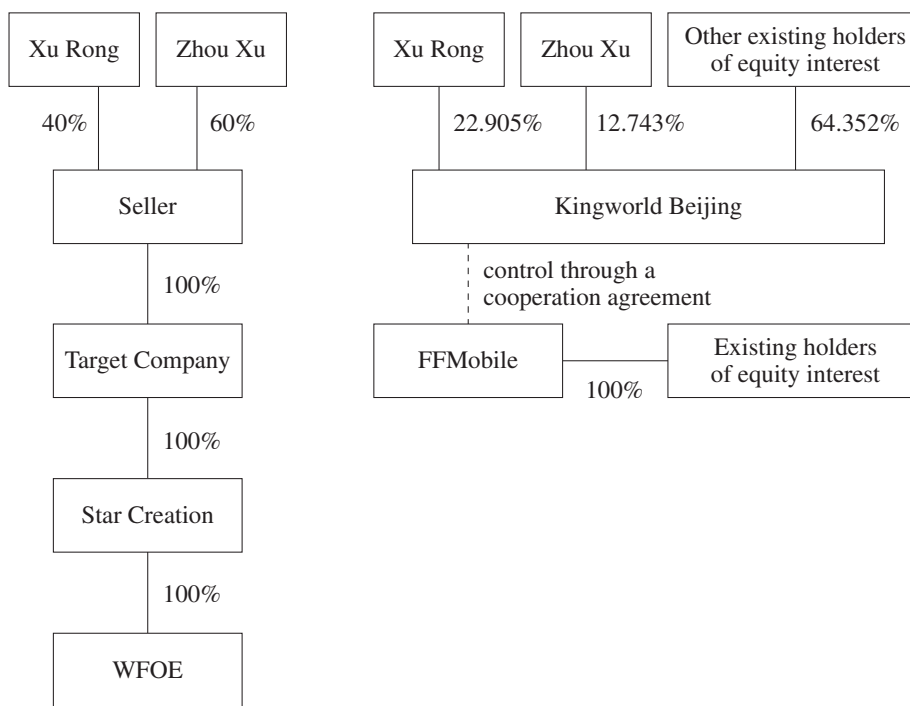
Pre-Acquisition Target Reorganization

The Acquisition is subject to the Target Reorganization, which comprises of the following steps:

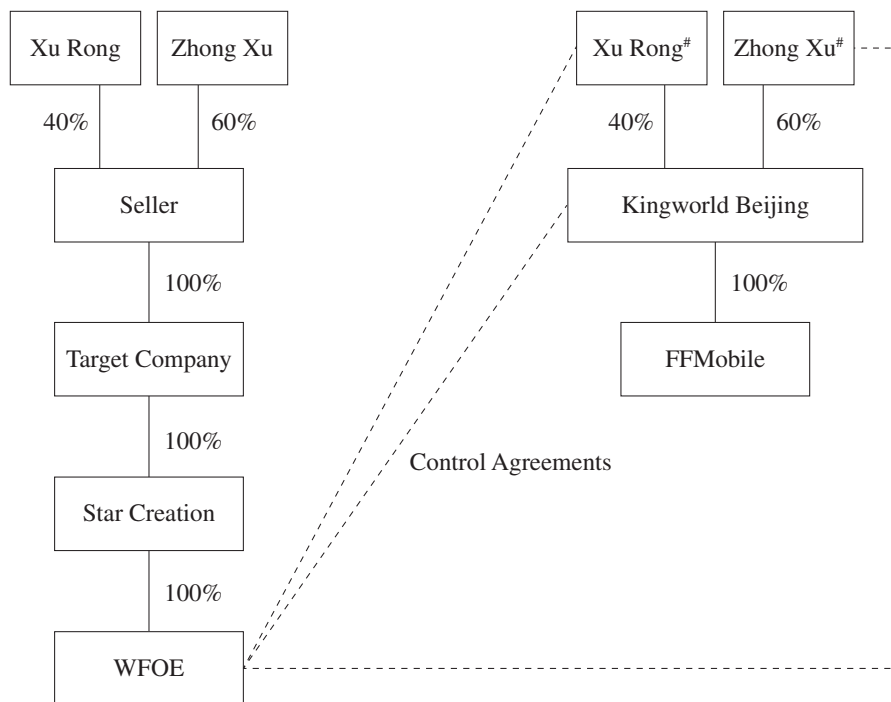
- (a) the transfer of all the equity interest in Kingworld Beijing by its existing shareholders (other than Xu Rong and Zhou Xu) to Xu Rong and Zhou Xu, so that upon completion of the said transfer, each of Xu Rong and Zhou Xu will hold respectively 40% and 60% of the equity interest in Kingworld Beijing;
- (b) after the completion of step (a) as set out above, the entering into of the Control Agreements between each of Kingworld Beijing, Xu Rong and Zhou Xu and the WFOE;
- (c) the acquisition of the entire equity interest in FFMobile by Kingworld Beijing from the existing holders of equity interest in FFMobile, each of whom is a third party independent of the Company and its connected persons (as defined in the Listing Rules);
- (d) to the extent permitted by laws, the transfer of all core assets, personnel and business from each of FFMobile and Kingworld Beijing to the WFOE.

Details of Control Agreements will be set out in the section headed “CONTROL AGREEMENTS”.

The following diagram shows the shareholding and corporate structure of the Target Group as at the date of this announcement:



The following diagram shows the shareholding and corporate structure of the Target Group immediately upon the completion of the Target Reorganization (but before completion of the Acquisition):



Notes:

“—————” denotes legal or beneficial ownership

“- - - - -” denotes contractual relationship

As a Condition Precedent to the completion of the Acquisition under the Share Purchase Agreement, subsequent to the completion of the Target Reorganisation each of Xu Rong and Zhong Xu shall transfer all of their equity interest in Kingworld Beijing to individual(s) designated by the Buyer. The said individual(s) being new holder(s) of equity interest in Kingworld Beijing will together with Kingworld Beijing, enter into new Control Agreements with the WFOE.

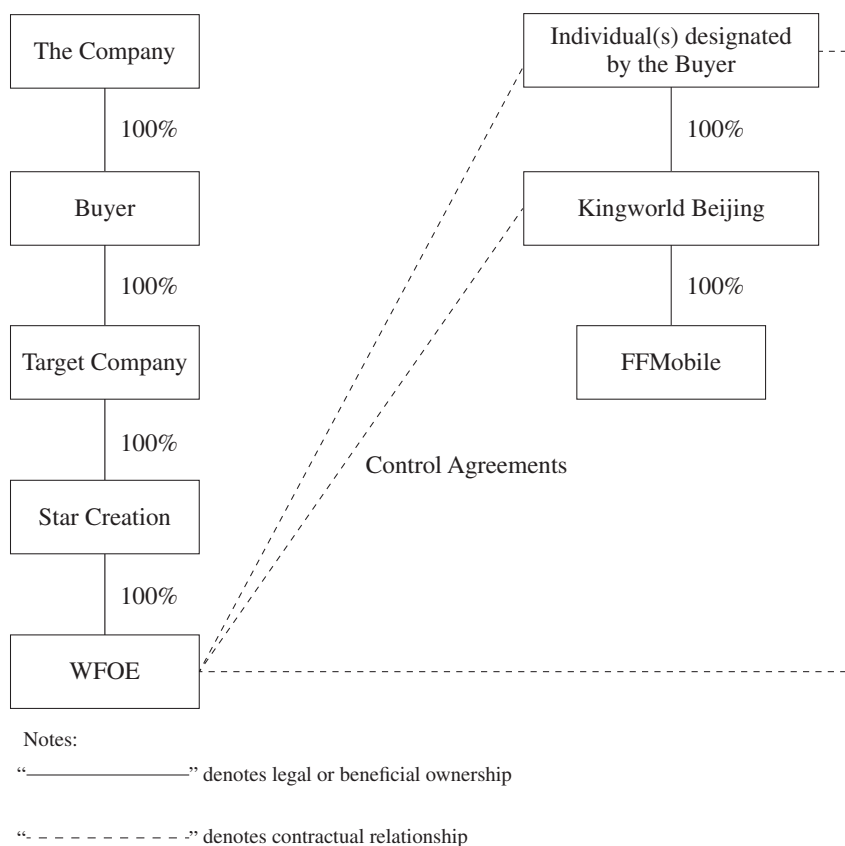
Completion

Completion of the Share Purchase Agreement shall take place on the Completion Date, i.e. the date which is within 5 Business Days after the date on which the last of the Conditions Precedent under the Share Purchase Agreement are satisfied or waived (as the case may be), or such other date as the parties to the Share Purchase Agreement may agree in writing. Upon completion of the Acquisition on the Completion Date, the Target Company will become an indirect wholly-owned subsidiary of the Company and the accounts of the Target Company will be consolidated into the financial statements of the Company under an acquisition accounting method.

Pursuant to the Control Agreements, the WFOE is able to control the finance and operation of Kingworld Beijing so as to obtain economic interest and benefits from their business activities despite the lack of registered equity ownership. Therefore, the Directors have

discussed with the auditor of the Company and are of the view that the financial results and conditions of Kingworld Beijing are capable of being consolidated into the financial statement of the Company upon completion of the Acquisition.

The following diagram shows the shareholding and corporate structure of the Target Group immediately upon the completion of the Acquisition:



Undertakings

Pursuant to the Share Purchase Agreement, the major undertakings given by the Seller, Xu Rong and Zhou Xu jointly and severally are as follows:

- (a) each of the Seller, Xu Rong and Zhou Xu has jointly and severally undertaken to hold the Target Group harmless for any loss arising from events before the Completion Date;
- (b) within 5 years after the Completion Date, Xu Rong and Zhou Xu shall not resign from any position in the Target Group and each of the Seller, Xu Rong and Zhou Xu shall not engage in any business or activities which may compete with the business of the Target Group; and
- (c) the Seller, or any entity designated by the Seller (as the case may be) shall not in the period of 1 calendar year after the Completion Date dispose of or otherwise create any option or any encumbrances in respect of the Consideration Shares.

Information of the Consideration Shares and Issue Price

Subject to the completion of the Acquisition having occurred and the Specific Mandate having been approved at the EGM and the Listing Approval having been obtained, the Consideration Shares will be issued at HK\$2.3 each in settlement of HK\$149,500,000 of the Consideration payable by the Buyer. The issue price of HK\$2.3 per Consideration Share represents:

- (a) a discount of approximately 11.20% to HK\$2.59, the closing price of the Shares on the Stock Exchange on 28 July 2015, being the last trading day prior to this announcement;
- (b) a discount of approximately 4.96% to HK\$2.42, the average closing price of the Shares on the Stock Exchange for the last 10 consecutive trading days prior to this announcement;
- (c) a discount of approximately 3.36% to HK\$2.38, the average closing price of the Shares on the Stock Exchange for the last 15 consecutive trading days prior to this announcement; and
- (d) a discount of approximately 22.03% to HK\$2.95, the average closing price of the Shares on the Stock Exchange for the last 30 consecutive trading days prior to this announcement.

The Consideration Shares represent (i) approximately 4.91% of the issued share capital of the Company as at the date of this announcement; and (ii) approximately 4.68% of the issued share capital of the Company as enlarged by the Consideration Shares. The Consideration Shares, once issued and fully paid, shall rank pari passu in all respects with the Shares in issue on the date of allotment and issue thereof, save in respect of any distribution or other corporate action the record date for which falls before the date of allotment and issue thereof.

An application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

Shareholding structure of the Company

The table below sets forth the shareholding structure of the Company (i) as at the date of this announcement; and (ii) upon allotment and issue of the Consideration Shares (assuming Completion having occurred and the Specific Mandate having been approved at the EGM and any outstanding share options not having been exercised and the Listing Approval having been obtained and the number of Shares owned by each of the Shareholders below between the date of this announcement and the date of issue of the Consideration Shares remain unchanged):

Shareholders	As at the date of this announcement		Immediately after the allotment and issue of the Consideration Shares (assuming completion of the Acquisition having occurred and the Specific Mandate having been approved at the EGM and any outstanding share options not having been exercised and the Listing Approval having been obtained and the number of Shares owned by each of the Shareholders below between the date of this announcement and the date of issue of the Consideration Shares remain unchanged)	
	Number of Shares	Approximate %	Number of Shares	Approximate %
Benefit Power Inc.	175,990,000	13.31%	175,990,000	12.68%
Dymagin Global Limited	221,000,000	16.71%	221,000,000	15.93%
Power View Group Limited	250,000,000	18.90%	250,000,000	18.02%
Nomura Holdings Inc	88,356,100	6.68%	88,356,100	6.37%
Public Shareholders				
Seller or an entity designated by the Seller	0	0.00%	65,000,000	4.68%
Other public Shareholders	<u>587,153,028</u>	<u>44.40%</u>	<u>587,153,028</u>	<u>42.32%</u>
Total	<u>1,322,499,128</u>	<u>100.00%</u>	<u>1,387,499,128</u>	<u>100.00%</u>

Save as disclosed above, as at the date of this announcement, the Directors are not aware of any person who has an interest or short position in the Shares, or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was recorded in the register kept by the Company under section 336 of the SFO.

INFORMATION OF THE TARGET GROUP

The Target Company is an investment holding company incorporated under the laws of the Republic of Seychelles. As of the date of this announcement, operation of the Target Company and its subsidiaries are minimal. Target Company is the sole beneficial owner of Star Creation which in turn owns 100% of the equity interest in WFOE. For illustration of the shareholding structure of each of the Target Company, Star Creation and WFOE as at the date of the Share Purchase Agreement, please refer to the paragraph headed “Pre-Acquisition Target Reorganization”.

Kingworld Beijing is a company established under the laws of the PRC and is principally engaging in publishing, selling, developing and investing internet and mobile interaction entertainment products, including online games, browser-based games and games on mobile platforms.

FFMobile is a company established under the laws of the PRC and is principally engaging in the publication of magazines in China. As of the date of the Share Purchase Agreement, Kingworld Beijing has control over FFMobile through a cooperation agreement.

Immediately upon the Target Reorganization, (i) Kingworld Beijing will own the entire equity interest in FFMobile; and (ii) Kingworld Beijing, together with Xu Rong and Zhong Xu, will enter into the Control Agreements with the WFOE.

Set out below is the financial information of Target Group[#] for each of the two financial years ended 31 December 2013 and 2014:

	For the financial year ended 31 December 2013 (audited*) RMB'000	For the financial year ended 31 December 2014 (audited*) RMB'000
Revenue	34,042	12,968
Net loss before tax	(2,735)	(7,574)
Net loss after tax	(3,769)	(7,574)

* Audited by the PRC auditors of Kingworld Beijing

[#] The financial information of the Target Group was taken from the audited financial information of Kingworld Beijing as the operation of the Target Company and its subsidiaries is minimal

As at 31 December 2014, the audited total asset value and net asset value of the Target Company was respectively approximately RMB32,757,000 and RMB11,648,135.

Upon completion of the Acquisition, the Target Company will become a wholly-owned subsidiary of the Company. Accordingly, the financial results of the Target Company will be consolidated into the financial statements of the Company.

Pursuant to the Control Agreements, the WFOE is able to control the finance and operation of Kingworld Beijing so as to obtain economic interest and benefits from their business activities despite the lack of registered equity ownership. Therefore, the Directors have discussed with the auditor of the Company and are of the view that the financial results and conditions of Kingworld Beijing are capable of being consolidated into the financial statement of the Company upon completion of the Acquisition.

CONTROL AGREEMENTS

The Control Agreements Background

Pursuant to the Regulation on Telecommunications of the PRC (《中華人民共和國電信條例》), Internet information service is categorized as value-added telecommunications business. Foreign investment in value-added telecommunications business is restricted under Catalogue of Industries for Guiding Foreign Investment (2011 Revision) (《外商投資產業指導目錄(2011年修訂)》) and Catalogue of Industries for Guiding Foreign Investment (2015 Revision) (《外商投資產業指導目錄(2015年修訂)》) (collectively the “Catalogue of Industries for Guiding Foreign Investment”), and the foreign ownership in the PRC companies operating such business (excluding e-commerce) cannot exceed 50%. Therefore, the Company’s PRC legal adviser is of the view that the WFOE, as a foreign-owned company, is not allowed to acquire the entire equity interests of Kingworld Beijing under the PRC laws.

As such, the WFOE, Kingworld Beijing and the registered holders of equity interest in Kingworld Beijing will enter into the Control Agreements before the completion of the Acquisition to enable the financial results, the entire economic benefits and the risks of the businesses of Kingworld Beijing to flow onto the WFOE and to enable the WFOE to gain control over Kingworld Beijing.

Each of the registered holders of equity interest in Kingworld Beijing has undertaken that in the event it is permissible under the relevant PRC laws, rules and regulations for the WFOE or its nominee to acquire the entire equity interests of Kingworld Beijing in the future, the WFOE or its nominee shall exercise the options under the Exclusive Option Agreement as soon as practicable and the relevant Control Agreements shall be terminated.

In view of the 50% foreign ownership restriction under the Catalogue of Industries for Guiding Foreign Investment, the Board has considered the option of acquiring 45% equity interest of Kingworld Beijing directly. However, as advised by the Company’s PRC legal adviser, pursuant to the Provisions on the Administration of Foreign-funded Telecommunications Enterprises (《外商投資電信企業管理規定》) promulgated by the State Council of the PRC on 11th December 2001 and amended on 10th September 2008, the foreign shareholders of companies engaging in value-added telecommunications business should possess satisfactory track record and experience in operating value-added telecommunications business (the “Qualifications”). As the Company and its subsidiaries do not possess the required Qualifications, it is not possible for the Company or its subsidiaries to be the foreign shareholder of Kingworld Beijing.

Additionally, online game operator is required to hold a variety of permits and licenses, which, among others, include:

- Internet Content Provider License (the “ICP License”) (《中華人民共和國增值電信業務經營許可證》). Under current PRC laws and regulations, including the Telecommunications Regulations and the Internet Measures, a commercial operator of internet content provision services must obtain a value-added telecommunications business-operating license for Internet content provision from the appropriate

telecommunications authorities in order to carry on any commercial Internet content provision operations in the PRC. All online game publishing platforms in the PRC are required to obtain such licenses.

- Network Culture Business Permit (《網絡文化經營許可證》). With respect to the online game industry in the PRC, since online games fall within the definition of “Internet culture products” under the Provisional Regulations for the Administration of Online Culture (《互聯網文化管理暫行規定》), which were issued by the Ministry of Culture (the “MOC”) and took effect on April 1, 2011 (the “Online Culture Regulations”) and replaced the Provisional Regulations for the Administration of Online Culture which had been in effect since 2003, a commercial operator of online games must obtain an Internet culture operation license in addition to the ICP License, from the appropriate culture administrative authorities for its operation of online games. All online game publishing platforms in the PRC are required to obtain such licenses.
- Internet Publication License (《互聯網出版許可證》). General Administration of Press and Publication of the PRC (the “GAPP”) and the Ministry of Industry and Information and Technology (the “MIIT”) jointly impose a license requirement for any company that intends to engage in Internet publication. Internet publication is defined as any act by an Internet content provider to select, edit and process content or programs and to make such content or programs publicly available on the Internet. According to the Tentative Measure for Internet Publication administration (《互聯網出版管理暫行規定》), which were jointly promulgated by the GAPP and the MIIT and took effect in 2002 and other relevant regulations, the publication of online games is deemed an internet publication activity. Therefore an internet content provider, such as an online game developer, needs to obtain an internet publication license in order to engage in Internet publication for online games.

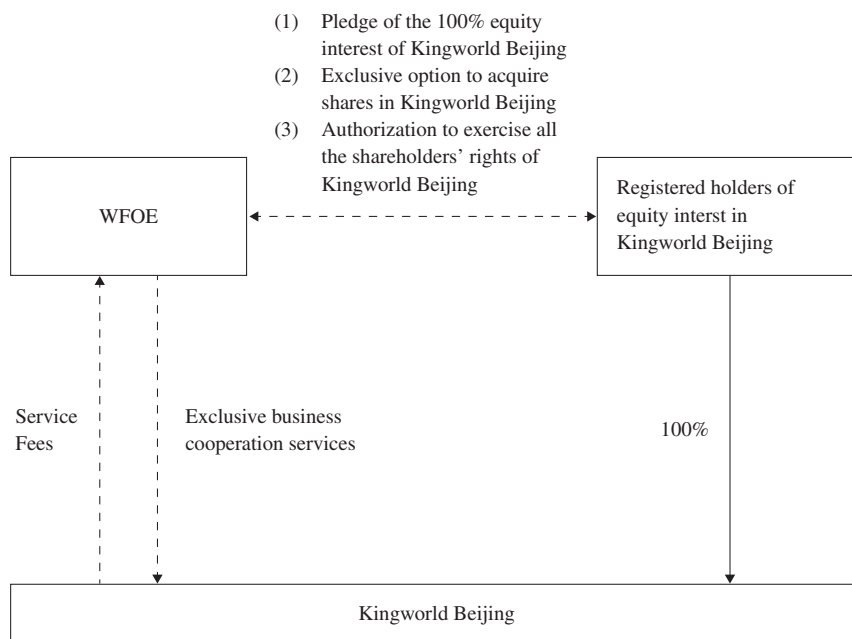
Additionally, the Notice on Interpretation of the State Commission Office for Public Sector Reform on Several Provisions relating to Animation, Online Game and Comprehensive Law Enforcement in Culture Market in the ‘Three Provisions’ jointly promulgated by the MOC, the State Administration of Radio Film and Television (“SARFT”), and the GAPP (《中央編辦對文化部、廣電總局、新聞出版總署 (‘三定’規定中有關動漫、網路遊戲和文化市場綜合執法的部分條文的解釋》) (“the Interpretation”), which was issued by the State Commission Office for Public Sector Reform (a division of the State Council) and became effective on September 7, 2009, provides that the GAPP will have responsibility for the examination and approval over the publication of online games before they are uploaded on the Internet and that, after such upload, online games will be administered by the MOC. Further, the Interpretation emphasizes that the MOC is the sole regulatory authority for the online games’ operation, and that even if an online game is launched on the Internet without prior approval of the GAPP, the MOC (instead of the GAPP) has the direct authority for investigation and enforcement.

The Notice Regarding the Consistent Implementation of the “Regulation Stipulations on Three Provisions” of the State Council and the Relevant Interpretations of the State Commission Office for Public Sector Reform and the Further Strengthening of the Administration of Pre-examination and Approval of Online Games and the Examination and Approval of Imported Online Games (《關於貫徹落實國務院〈‘三定’規定〉和中央編辦有關解釋，進一步加強網路遊戲前置審批和進口網路遊戲審批管理的通知》), promulgated by

the GAPP, together with the National Copyright Administration and the National Office of Combating Pornography and Illegal Publications, on September 28, 2009 (the “GAPP Notice”), provides in its Article 4, 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. However, the Company is unaware that any implementation rule or interpretation on Article 4 of the GAPP Notice has been issued by the GAPP or any other PRC regulatory authority. Additionally, as the Company is aware, in practice, the State Administration of Press, Publication, Radio, Film and Television (the “SAPPRFT”) or its Beijing branch has never, individually or collectively with other PRC regulatory authorities, imposed any administrative proceedings or penalties on any online game company pursuant to the Article 4 of the GAPP Notice and Beijing Department of Culture is deemed as the sole regulatory authority to regulate the online gaming industry in Beijing, as to whether the contractual arrangements violate the relevant PRC laws and regulations on foreign investment in online gaming industry.

Details of the Control Agreements

The following simplified diagram illustrates the flow of economic benefits from the Kingworld Beijing to the WFOE stipulated under the Control Agreements:



Notes:

“—————>” denotes direct legal and beneficial ownership in the equity interest

“- - - - ->” denotes contractual relationship under the Control Agreements

Before the completion of the Acquisition, the Control Agreements will be signed by Xu Rong and Zhou Xu, Kingworld Beijing and the WFOE as described in the paragraph headed “Pre-Acquisition Target Reorganization”. Subsequently and in any event before the date of completion of the Acquisition, each of Xu Rong and Zhou Xu will transfer all its equity interest in Kingworld Beijing to individual(s) designated by the Buyer. The said individual(s) being new holder(s) of equity interest in Kingworld Beijing will, together with Kingworld Beijing, enter into the new Control Agreements with substantially the same clauses as the old ones with the WFOE.

The details of the Control Agreements are summarized as follows:

(1) Exclusive Business Cooperation Agreement (獨家業務合作協議)

Date Undated, to be signed before the completion of the Acquisition.

Parties To be signed by before the completion of the Acquisition:

(i) WFOE

(ii) Kingworld Beijing

(iii) Xu Rong*

(iv) Zhou Xu*

* individual(s) designated by the Buyer will enter into new Exclusive Business Cooperation Agreement with WFOE and Kingworld Beijing upon completion of transfer of equity interest in Kingworld Beijing to such individual(s). In such case, the term and subject of the Exclusive Business Cooperation Agreement shall be construed accordingly.

Term The Exclusive Business Cooperation Agreement shall take effect at the date of its signing. Unless earlier terminated in accordance with the provisions of the Exclusive Business Cooperation Agreement or relevant agreements separately executed between the parties, the term of the Exclusive Business Cooperation Agreement shall be ten (10) years. After the execution of the Exclusive Business Cooperation Agreement, the parties shall review the Exclusive Business Cooperation Agreement every three (3) months to determine whether to amend or supplement the provisions in the said agreement based on the actual circumstances at that time.

Subject Pursuant to the Exclusive Business Cooperation Agreement, the WFOE shall provide Kingworld Beijing with exclusive management consultancy services. Detailed provisions have been set out in the Exclusive Business Cooperation Agreement pursuant to which Kingworld Beijing must operate in accordance with the provisions insofar as permitted under relevant PRC laws and regulations and seek for the prior written approval from the WFOE if required. For services provided by the WFOE, Kingworld Beijing shall pay to the WFOE, as consultancy services fee, its 100% profits before income tax (net of operating and other tax expenses) on a monthly basis.

Since Kingworld Beijing must operate in accordance with the advice or recommendations provided by the WFOE and Kingworld Beijing is required to pay the WFOE its entire profits before income tax (net of operating and other tax expenses) as consultancy service fee pursuant to the Exclusive Business Cooperation Agreement, the Board is of the view that the Exclusive Business Cooperation Agreement enables the WFOE to gain control over the finance and business operations of Kingworld Beijing.

(2) Exclusive Option Agreement (獨家購買權合同)

Date Undated, to be signed before the completion of the Acquisition.

Parties To be signed by before the completion of the Acquisition:

(i) WFOE

(ii) Kingworld Beijing

(iii) Xu Rong*

(iv) Zhou Xu*

* individual(s) designated by the Buyer will enter into new Exclusive Option Agreement with WFOE and Kingworld Beijing upon completion of transfer of equity interest in Kingworld Beijing to such individual(s). In such case, the term and subject of the Exclusive Option Agreement shall be construed accordingly.

Term This Agreement shall become effective as at the date of its signing, and remain effective for a term of 10 years, and may be renewed at WFOE's election.

- Subject
- (i) Pursuant to the Exclusive Option Agreement, the registered holders of the equity interest in Kingworld Beijing agreed to irrevocably grant a right to the WFOE that insofar as permitted under applicable PRC laws and regulations, they shall transfer their respective equity interests in Kingworld Beijing to the WFOE with a consideration of RMB 10 or a minimum price to the extent permitted by the PRC law.
 - (ii) The registered holders of the equity interest in Kingworld Beijing shall, upon request from the WFOE at any time, immediately and unconditionally transfer their entire equity interest in Kingworld Beijing to such representative(s) as nominated by the WFOE.
 - (iii) The registered holders of the equity interest in Kingworld Beijing undertake that, among other things, they will not authorize any sale, transfer, pledge, disposal or creation of any encumbrances over the legal or beneficial interests of Kingworld Beijing, save in respect of the pledge of equity interest to the WFOE in accordance with the terms of the Equity Interest Pledge Agreement; or approve or authorize Kingworld Beijing for any merger, amalgamation, acquisition or make any investments.
 - (iv) The Exclusive Option Agreement also sets out detailed provisions that prohibit Kingworld Beijing to act without the prior written approval from the WFOE.

Since the registered holders of the equity interest in Kingworld Beijing are required to return the full amount of consideration (if any) received by or paid to them in the event of transfer of equity interests in Kingworld Beijing to the WFOE and they have undertaken to take no action which may result in reduction or loss in assets or have adverse effect on the business, operations and asset value of Kingworld Beijing pursuant to the Exclusive Option Agreement, the Board is of the view that the Exclusive Option Agreement enables the WFOE to gain control cover the finance and business operations of Kingworld Beijing.

(3) Loan Agreement (貸款協議)

Date Undated, to be signed before the completion of the Acquisition.

Parties To be signed by before the completion of the Acquisition:

- (i) WFOE
- (ii) Xu Rong*
- (iii) Zhou Xu*

* individual(s) designated by the Buyer will enter into new Loan Agreement with the WFOE upon completion of transfer of equity interest in Kingworld Beijing to such individual(s) In such case, the term and subject of the Loan Agreement shall be construed accordingly.

Term The term of the Loan Agreement starts from the date that Xu Rong and Zhou Xu received the loan and expires on a date to be confirmed when signing, and could be extended upon the written agreement of the parties through negotiations. During the term or extended term of such a loan, WFOE may accelerate the loan repayment, if any of the following events occurs:

- (i) Any of Xu Rong or Zhou Xu dies or becomes disabled;
- (ii) Any of Xu Rong or Zhou Xu commits a crime or is involved in a crime;
- (iii) Any of Xu Rong or Zhou Xu has incurred any individual indebtedness over RMB500,000 without prior consent of WFOE; or
- (iv) WFOE or its designated party has successfully acquired the ownership interest in the Target Company.

Subject

- (i) Under the loan agreement, WFOE grants the holders of equity interest of Kingworld Beijing a loan, and the loan amount is to be confirmed when signing of this loan agreement before the completion of the Acquisition.
- (ii) The interest rate should equal to the annual lending guidance rate published by the People's Bank of China from time to time.
- (iii) The loan may, upon the request of WFOE, be repaid by means of transferring the registered holders' equity interests in Kingworld Beijing to WFOE or any of its designees, in proportion to the amount of the loan to be repaid.

(4) Equity Interest Pledge Agreement (股權質押合同)

Date Undated, to be signed before the completion of the Acquisition.

Parties To be signed by completion of the Acquisition:

- (i) WFOE
- (ii) Xu Rong*
- (iii) Zhou Xu*
- (iv) Kingworld Beijing

* individual(s) designated by the Buyer will enter into new Equity Interest Pledge Agreement with the WFOE and Kingworld Beijing upon completion of transfer of equity interest in Kingworld Beijing to such individual(s). In such case, the term and subject of the Equity Interest Pledge Agreement shall be construed accordingly.

Term The pledge under the Equity Interest Pledge Agreement shall become effective on such date when the pledge of the equity interest has been registered with relevant administration for industry and commerce (the “AIC”). The said pledge shall be continuously valid until all payments due under the Exclusive Business Cooperation Agreement have been fulfilled by Kingworld and all payments due under the Loan Agreement have been fulfilled by both Xu Rong and Zhou Xu. The parties agree that within 3 Business Days following the execution of the said agreement, Xu Rong, Zhou Xu and Kingworld Beijing shall register the said pledge in the register of equity interest holders of Kingworld Beijing; and within 10 Business Days following the execution of the Equity Interest Pledge Agreement, Xu Rong, Zhou Xu and Kingworld Beijing shall submit application to the AIC for the registration of the said pledge. Xu Rong, Zhou Xu and Kingworld Beijing shall submit all necessary documents and complete all necessary procedures, as required by the PRC laws and regulations and the relevant AIC, to ensure that the said pledge shall be registered with the AIC as soon as possible after filing.

Subject Pursuant to the Equity Interest Pledge Agreement, the registered holders of equity interest in Kingworld Beijing agreed to pledge the entire equity interest of Kingworld Beijing to the WFOE, as security for the payment obligation under the Exclusive Business Cooperation Agreement. Under the Equity Interest Pledge Agreement, except with prior written consent of the WFOE or under the terms of the Exclusive Option Agreement, the registered holders of equity interest in Kingworld Beijing are prohibited from transferring any of their equity interest in Kingworld Beijing, or creating or allowing any creation of any pledge which may affect the rights and benefits of the WFOE.

Since the entire equity interest of Kingworld Beijing has been pledged to the WFOE as security for the payment obligation under the Exclusive Business Cooperation Agreement and the registered holders of equity interest in Kingworld Beijing are prohibited from transferring any of their equity interest in Kingworld Beijing, or creating or allowing any creation of any pledge which may affect the rights and benefits of the WFOE pursuant to the Equity Interest Pledge Agreement, the Board is of the view that the Equity Interest Pledge Agreement enables the WFOE to further secure its control over the finance and business operations of Kingworld Beijing.

(5) Power of Attorney (授權委託書)

Date	Undated, to be signed before the completion of the Acquisition.
Parties	A Power of Attorney to be signed by each of the person below in favour of the WFOE: (i) Xu Rong* (ii) Zhou Xu* * individual(s) designated by the Buyer will sign the Power of Attorney in favour of the WFOE upon completion of transfer of equity interest in Kingworld Beijing to such individual(s). In such case, the term and subject of the Power of Attorney shall be construed accordingly.
Term	This Power of Attorney shall be irrevocable and continuously valid from the date of execution of this Power of Attorney, so long as Xu Rong and Zhou Xu respectively remain as the shareholder of Kingworld Beijing.
Subject	WFOE is authorized to act on behalf of Xu Rong and Zhou Xu as their exclusive agent and attorney with respect to all matters concerning their Shareholding, including without limitation to: (1) attend shareholders' meetings of Kingworld Beijing; (2) exercise all the shareholder's rights and shareholder's voting rights Xu Rong and Zhou Xu are entitled to under the laws of China and articles of association of Kingworld Beijing, including but not limited to the sale or transfer or pledge or disposition of their Shareholding in part or in whole; and (3) designate and appoint on behalf of Xu Rong and Zhou Xu the legal representative (chairperson), the director, the executive director, the supervisor, the chief executive officer and other senior management members of Kingworld Beijing.

Since the registered holders of equity interest in Kingworld Beijing have unconditionally and irrevocably authorized and appointed the WFOE to exercise all the rights as a holder of equity interest in Kingworld Beijing, the Board is of the view that the Power of Attorney delivered by each of holder of equity interest in Kingworld Beijing enables the WFOE to gain control cover the finance and business operations of Kingworld Beijing.

(6) Spouse Consent Letter (配偶同意函)

Date	Undated, to be signed before the completion of the Acquisition.
Parties	A spouse Consent Letter to be signed by each of the persons below: <ul style="list-style-type: none">(i) The spouse of Xu Rong*(ii) The spouse of Zhou Xu* <p>* the spouse of each of the individual(s) designated by the Buyer will sign the new Spouse Consent Letter upon completion of transfer of equity interest in Kingworld Beijing to such individual(s). In such case, the term and subject of the Spouse Consent Letter shall be construed accordingly.</p>
Term	Not defined.
Subject	The spouses of Xu Rong and Zhou Xu, respectively, among other things, agree the transaction documents to signed by Xu Rong and Zhou Xu and agree that Xu Rong and Zhou Xu could provide several and joint liabilities to WFOE.

Compliance of Control Agreements with PRC laws, rules and regulations

As advised by the Company's PRC legal adviser, the Control Agreements upon signing comply with the PRC laws, rules and regulations applicable to the business of the WFOE and Kingworld Beijing (including the Catalogue of Industries for Guiding Foreign Investment), do not contravene the articles of the WFOE and Kingworld Beijing, and would not be deemed as "concealing illegal intentions with a lawful form" and void under the PRC Contract Law. The Control Agreements upon signing are valid and enforceable against the parties to the Control Agreements. The Company's PRC legal adviser also confirms that all necessary actions or steps have been taken to enable it to reach its legal conclusions. Up to the date of this announcement, as advised by the Seller, the WFOE will not encounter any interference or encumbrance from any governing bodies in operating its business through Kingworld Beijing under the Control Agreements.

Dispute resolution clauses in the Control Agreements

The Control Agreements contain dispute resolution clauses that provide the China International Economic and Trade Arbitration Commission for arbitration in Beijing in accordance with the then effective arbitration rules and that arbitrators may award remedies over the shares or assets of Kingworld Beijing. The arbitration ruling shall be final and binding on all parties. Any party shall have the right to apply to the courts with competent jurisdiction for enforcement of arbitration rulings after the arbitration rulings come into force. According to the Control Agreements, the signing parties agreed that the Control Agreements shall be governed by and construed in accordance with the PRC laws.

Internal control measures

The Control Agreements contain certain provisions in order to exercise effective control over and to safeguard the assets of Kingworld Beijing, including but not limited to that, without the prior written consent of the WFOE, the registered holders of equity interest in Kingworld Beijing shall not at any time sell, transfer, pledge, or otherwise dispose or create any encumbrances over the legal or beneficial interests of Kingworld Beijing, Kingworld Beijing shall conduct its business in ordinary and usual course to preserve the asset value of Kingworld Beijing and shall not engage in any action (or inaction) which may have any adverse effect on the business, operations and asset value of Kingworld Beijing, and etc. Besides, Kingworld Beijing's directors, legal representative, general manager, chief financial officer and other executives may be appointed under the WFOE's recommendations and such senior management will have the physical possession of all Kingworld Beijing's common seals, company chops and books and records.

Having considered that the existing senior management team possesses relevant experience and industry knowledge in the business operation of Kingworld Beijing and Kingworld Beijing has successfully achieved a rapid growth under the leadership of current senior management, it is the current intention of the WFOE to retain the existing senior management team of Kingworld Beijing. The existing senior management team of Kingworld Beijing will terminate the current service contracts with Kingworld Beijing and enter into new service contracts with the WFOE. The WFOE will then recommend Kingworld Beijing to re-appoint the relevant senior management. As a result, the senior management of Kingworld Beijing will effectively be under the control and instruction of the WFOE.

Economic risks the WFOE bears as the primary beneficiary of Kingworld Beijing, financial support to Kingworld Beijing and potential exposure of the Target Company to losses

As the primary beneficiary of Kingworld Beijing, the WFOE bears economic risks which may arise from difficulties in the operation of Kingworld Beijing's business. The WFOE will share both profit and loss of Kingworld Beijing. Under the Control Agreements, the WFOE shall provide financial support in the event of financial difficulty of Kingworld Beijing. On the other hand, the WFOE shall have the sole and absolute discretion to decide and resolve whether to continue the business and operations of Kingworld Beijing, and Kingworld Beijing must unconditionally agree to such decision as determined by the WFOE.

Board's view on the Control Agreements

Based on the above, the Board is of the view that the Control Agreements upon signing are narrowly tailored to achieve Kingworld Beijing's business purpose and to minimize the potential conflict with the registered shareholders of Kingworld Beijing and are enforceable under the relevant PRC laws and regulations. The Control Agreements upon signing enable the WFOE to gain control over the finance and business operations of Kingworld Beijing, and the WFOE is entitled to the economic interest and benefits of Kingworld Beijing. The Control Agreements upon signing also provide that the WFOE will unwind the Control Agreements as soon as relevant PRC rules and regulations governing foreign investment in online game business are issued to allow the WFOE to register itself as shareholder of Kingworld Beijing.

Possible impact of the Draft Law on the Control Agreements and the business of the Target Group The Draft Law

On 19 January 2015, the Ministry of Commerce of the PRC published the Draft Law, which contains changes to the PRC foreign investment legal regime and the treatment of the contractual arrangements such as the Control Agreements. The Draft Law clearly defines the contractual arrangements such as the Control Agreements as a form of foreign investment. However, there is no concrete guidance on how the existing and new contractual arrangements such as the Control Agreements should be treated in the Draft Law and additionally the Draft Law is currently in consultation stage and has not yet been effective or legally binding. As there are uncertainties on the final content and interpretations of the Draft Law if and when it is adopted and becomes law, there is no assurance whether the Control Agreements and the business of the Target Group will be materially affected or not in the future. In order to continuously monitor the development of the Draft Law to assess the possible impact on the Control Agreements and the business of the Target Group, the Board will monitor the updates of the Draft Law and discuss with the Company's PRC legal adviser on a regular basis. In case there would be material impact on the Group or the business of the Target Group, the Company will timely publish announcements in relation to material developments of and arising from the Draft Law.

At completion of the Acquisition, the Company will receive a legal opinion, which shall be issued by a qualified lawyer in the PRC and shall be in such form and substance acceptable to the Company that the Control Agreements comply with the PRC laws, rules and regulations and will not be deemed as concealing illegal intentioned with a lawful form and void under the PRC contract law.

RISK FACTORS IN RELATION TO THE CONTROL AGREEMENTS

There is no assurance that the Control Agreements could comply with future changes in the regulatory requirements in the PRC and the PRC government may determine that the Control Agreements do not comply with applicable regulations

Despite there is currently no indication that the Control Agreements will be interfered or objected by any PRC regulatory authorities, the Company's PRC legal adviser has advised that there is a possibility that the relevant PRC regulatory authorities may have different opinions on the interpretation of the relevant regulations and would not agree that the Control Agreements comply with the current PRC laws, regulations or rules or those that may be adopted in future, and the authorities may deny the validity, effectiveness and enforceability of the Control Agreements.

On 19th January 2015, the Ministry of Commerce of the PRC published the Draft Law pursuant to which foreign companies gaining control over domestic companies via contractual arrangement or the Control Agreements will be regarded as foreign investments and will be governed by the Draft Law when it is adopted and becomes law. According to the Company's PRC legal adviser, the Draft Law is currently in consultation stage and has not yet been effective or legally binding. As there are uncertainties on the final content and interpretations of the Draft Law if and when it is adopted and becomes law, there is no assurance that the Control Agreements will comply with the Draft Law when it is adopted and becomes law.

If the authorities deny the validity, effectiveness and enforceability of the Control Agreements, the Group would lose control of Kingworld Beijing, be unable to consolidate the financial results of Kingworld Beijing, or properly safeguard, awarded or control the assets of Kingworld Beijing, which would result in a material adverse effect on the Group's business, financial condition and results of operations.

If the PRC government determines that our ownership structure does not comply with the restrictions contained in the GAPP Notice, the Company could be subject to severe penalties.

On September 28, 2009, GAPP, which was consolidated with the State Administration of Radio, Film and Television on March 22, 2013 and currently known the SAPPRFT, together with the National Copyright Administration, and the National Office of Combating Pornography and Illegal Publications jointly issued the GAPP Notice. The GAPP Notice provides, in its Article 4, that foreign investors are not permitted to invest in online game operating businesses in China via wholly owned, equity joint venture or cooperative joint venture investments, and expressly prohibits foreign investors from gaining control over or participating in PRC operating companies' online game operations through indirect ways, such as establishing other joint venture companies, entering into contractual arrangements with or providing technical support for such operating companies, or through a disguised form, such as incorporating user registration, user account management or payment through game cards into online gaming platforms that are ultimately controlled or owned by foreign investors. It is not clear whether the regulatory authority of SAPPRFT applies to the regulation of ownership structures of online game companies based in China, and the Company is not aware of any online game companies adopting the same or similar contractual arrangements as ours having been penalized or ordered to be terminated since the GAPP Notice first became effective. Other government agencies that have regulatory jurisdiction over the online game operations in China, such as the MOC, and the MIIT, did not join the SAPPRFT in issuing the GAPP Notice. To date, the SAPPRFT has not issued any interpretation of the GAPP Notice. It is unclear how the GAPP Notice will be implemented and whether the SAPPRFT will deem our contractual arrangement to be such an "indirect means" for foreign investors to exercise control over or participate in the operation of a domestic online game business. If our contractual arrangements were deemed to be such an "indirect means" or "disguised form" under the GAPP Notice, our contractual arrangements may be challenged by the SAPPRFT. If the Company, our PRC subsidiaries or structured entities are found to be in violation of the GAPP Notice to operate our online games or mobile games, the SAPPRFT, in conjunction with relevant regulatory authorities, would have the power to investigate and deal with such violations, including in the most serious cases where relevant licenses and registrations would be suspended or revoked.

The Control Agreements may not be as effective in providing control over and entitlement to the economic interests in Kingworld Beijing as direct ownership

The Control Agreements may not be as effective in providing the WFOE with control over and entitlement to the economic interests in Kingworld Beijing as direct ownership. If the WFOE had direct ownership of Kingworld Beijing, the WFOE would be able to directly exercise its rights as a shareholder to effect changes in the board of directors of Kingworld Beijing. However, under the Control Agreements, the WFOE can only rely on Kingworld Beijing and its shareholders' performance of their contractual obligations to exercise

effective control. The Control Agreements generally have a term from the execution of the Control Agreements until Kingworld Beijing's equity interests is transferred to the WFOE. In general, neither Kingworld Beijing nor its shareholders may terminate the contracts within the terms of the Control Agreements. However, the shareholders of Kingworld Beijing may not act in the best interests of the WFOE or may not perform their obligations under the Control Agreements. Such risks exist and the Target Group expects them to continue to exist throughout the period in which the Target Group intends to operate its business through the Control Agreements with Kingworld Beijing. In addition, the Target Group has not purchased any insurance to cover risks relating to the enforcement of the Control Agreements due to unavailability of such insurance product in the market at the moment based on the best knowledge of the Target Group. Therefore, the Control Agreements may not be as effective as direct ownership in providing the Target Group with control over Kingworld Beijing.

Pursuant to the Exclusive Option Agreement, Zhou Xu and Xu Rong agreed, or the persons to be designated by the Buyer shall agree, to irrevocably undertake that insofar as permitted under applicable PRC laws and regulations, they shall transfer their respective equity interests in Kingworld Beijing to the WFOE with nominal consideration. In the event that consideration is required to be provided for such transfer under relevant PRC laws and regulations, such consideration shall be the minimum as permitted under applicable PRC laws and regulations, and that insofar as permitted under PRC laws and regulations. However, if the shareholders of Kingworld Beijing were to refuse to transfer their equity interest in Kingworld Beijing to the WFOE when the WFOE exercises the call option pursuant to these Control Agreements, or if they were otherwise to act in bad faith toward the WFOE, then the WFOE may have to take legal action to compel them to fulfill their obligations under the Exclusive Option Agreement.

Besides, if the consideration for the transfer of equity interest in Kingworld Beijing to the WFOE required by the PRC laws and regulations is substantially high and Zhou Xu and Xu Rong or the persons to be designated by the Buyer fail to return the consideration to the WFOE or the competent tax authority may require the WFOE to pay enterprise income tax for such returned ownership transfer income with reference to the market value instead of the consideration as stipulated under the Control Agreements, in which case the WFOE may be subject to a substantial amount of tax, the financial conditions of the WFOE may be materially and adversely affected. As a result, the Group's investment in the Target Group could also be materially and adversely affected.

Potential conflicts of interest among the WFOE, Kingworld Beijing and the registered shareholders of Kingworld Beijing may exist

Kingworld Beijing and its shareholders may fail to take certain actions required for the Target Group's business or to follow its instructions despite their contractual obligations to do so. If they fail to perform their obligations under their respective Control Agreements with the Target Group, the Target Group may have to rely on legal remedies under the PRC law, including seeking specific performance or injunctive relief, which may not be effective.

The Control Agreements may be subject to scrutiny of the PRC tax authorities and additional tax may be imposed

The Control Agreements may be subject to scrutiny of the PRC tax authorities and additional tax may be imposed on the WFOE. The WFOE may face adverse tax consequences if the PRC tax authorities determine that the Control Agreements were not entered into based on arm's length negotiations. If the PRC tax authorities determine that the Control Agreements were not entered into on an arm's length basis, they may adjust the income and expenses of the WFOE for the PRC tax purposes, which could result in higher tax liabilities on the WFOE.

The operating and financial results of the WFOE may be materially and adversely affected if the tax liabilities of Kingworld Beijing or those of the WFOE increase significantly or if they are required to pay interest on late payments.

REASONS FOR THE ACQUISITION

The Group is principally engaged in the provision of software outsourcing development and technical support services, and the design, development and operation of the mobile and web-games. In view of the operational performance of the software outsourcing development and technical support services business, the Group has currently been putting emphasis on the development of its mobile and web-game business.

The Seller is an investment holding company incorporated under the laws of the Republic of Seychelles. As of the date of this announcement, the Seller is 60% and 40% owned by Zhou Xu and Xu Rong respectively. The sole asset of the Seller is 100% of the equity interest in the Target Company.

Zhou Xu

Zhou Xu has been the first round investor and chairman of the board of Kingworld Beijing since December 2007. He has more than 25 years of experience in telecom industry in PRC especially value added telecom services. He holds a master degree in business administration from China Europe International Business School.

Xu Rong

Xu Rong is the founder and the chief executive officer of Kingworld Beijing since December 2007. Ms. Xu holds a master degree in business administration from China Europe International Business School and a master degree in materials science and engineering from Tsinghua University. She is currently a member of Tsinghua Entrepreneur & Executive Club (清華企業家協會). Ms. Xu has joined the internet online industry since 1997, and has around 18 years' experience in information technology, internet and online games industries.

The Group has been looking for acquisition opportunities that have potentials and enhance long-term growth. With an aim to further develop and expand the business scope of the Group, and taking into account the potentials of the exclusive official mobile application for

Chinese Football Association Super League, the Board is of the view that the terms of the Share Purchase Agreement are fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole.

PROPOSED GRANT OF SPECIFIC MANDATE TO ISSUE THE CONSIDERATION SHARES

Pursuant to the Share Purchase Agreement, the Consideration Shares will be issued by the Buyer to the Seller under the Specific Mandate to be obtained at the EGM to satisfy its obligation as payment of such part of the Consideration in the amount of HK\$149,500,000 payable on the Completion Date under the Share Purchase Agreement. In the case where the Specific Mandate shall not have been approved or the Listing Approval shall not have been obtained by 30 November 2015, the Buyer shall pay to the Seller cash in the amount of HK\$149,500,000 as part of the settlement of the Consideration on Completion Date. The Consideration Shares shall, upon issuance, rank pari passu in all respects with the Shares in issue.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholder has a material interest in the Acquisition nor will be required to abstain from voting on the resolutions to approve the grant of a specific mandate at the EGM to allot and issue the Consideration Shares.

IMPLICATIONS UNDER THE LISTING RULES

As more than one of the applicable percentage ratios with respect to the Acquisition calculated by reference to Rule 14.07 of the Listing Rules are 5% or more but less than 25%, the Acquisition constitutes a discloseable transaction for the Company under Rule 14.06(2) of the Listing Rules and is subject to reporting and announcement requirements under Chapter 14 of the Listing Rule.

The EGM will be convened for the purpose of, among other matters, considering and if thought fit, approving the grant of the Specific Mandate. The voting in respect of the grant of the Specific Mandate will be conducted by way of poll. As no Shareholder has any material interest in the Acquisition which is different from that of other Shareholders, none of the Shareholders is required to abstain from voting at the EGM for approving the grant of the Specific Mandate.

To the best knowledge, information and belief of the Directors, and having made all reasonable enquiries, each of the parties to the Share Purchase Agreement (except the Company and the Buyer) is independent of and not connected with the Company and its connected person (as defined under the Listing Rules).

A circular containing further information in relation to the Specific Mandate together with the notice of EGM will be made by the Company as and when appropriate in compliance with the Listing Rules.

RESUMPTION OF TRADING

At the request of the Company, trading in the shares of the Company on the Stock Exchange was halted with effect from 9:00 a.m. on Wednesday, 29 July 2015 pending the release of this announcement. The Company has applied to the Stock Exchange for resumption of trading in the shares of the Company with effect from 1:00 p.m. on Thursday, 30 July 2015.

As completion of the Share Purchase Agreement is subject to the fulfilment of certain conditions precedent, the issue of this announcement should not be regarded in any way as implying that the Acquisition will be completed or the Consideration Shares will be issued. Therefore, the Shareholders and investors in general should exercise caution when dealing in the Shares.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“2016 Net Profit after Tax”	the net profit after tax of the Target Group (excluding any income or loss of the Target Group generated by activities outside the ordinary and usual course of its business) for the financial year ending 31 December 2016 as referred to the accounts thereof audited by the auditors appointed by the Buyer
“Acquisition”	has the meaning as defined in the section headed “THE ACQUISITION”
“Adjustment Amount”	has the meaning as defined in the paragraph headed “Consideration and the method of payment”
“Announcements”	has the meaning as defined in the first paragraph of this announcement
“Board”	the board of directors of the Company
“Business Day”	a day other than a Saturday, Sunday or public holiday in the PRC
“Buyer”	SinoCom Investment Holding Limited, being a wholly-owned subsidiary of the Company incorporated under the laws of British Virgin Islands
“Company”	SinoCom Software Group Limited, a company incorporated under the laws Cayman Islands with limited liability and whose shares are listed on The Stock Exchange of Hong Kong Limited (stock code: 299)

“Completion Date”	the date which is within five (5) Business Day after the date on which the Conditions Precedent under the Share Purchase Agreement are satisfied or waived or such other date as the parties to the Share Purchase Agreement may agree in writing
“Conditions Precedent”	the conditions precedent to the completion of the Acquisition under the Share Purchase Agreement
“Consideration”	the consideration of HK\$450,000,000, subject to adjustment, for the purchase of the Sale Shares pursuant to the Share Purchase Agreement
“Consideration Shares”	collectively, 65,000,000 new Shares to be allotted and issued at an issue price of HK\$2.30 each to an entity designated by the Seller as settlement of part of the Consideration under the Share Purchase Agreement
“Control Agreements”	(i) Exclusive Business Cooperation Agreement; (ii) Exclusive Option Agreement to acquire shares in Kingworld Beijing with the minimum consideration permitted by the PRC law; (iii) Loan Agreement to provide a loan to the registered shareholders of Kingworld Beijing; (iv) Equity Interest Pledge Agreement to pledge the entire equity interest of Kingworld Beijing; (v) Power of Attorney for the registered shareholders of Kingworld Beijing to grant authorization to WFOE to exercise all the shareholder’s rights of Kingworld Beijing; and (vi) Spouse Consent Letter to be signed by the spouse of each of the registered shareholders of Kingworld Beijing
“Directors”	directors of the Company
“EGM”	an extraordinary general meeting to be convened by the Company to consider and approve the Specific Mandate
“FFMobile”	北京趣遊指尖科技有限公司, a company incorporated under the laws of the PRC, being in de facto control by Kingworld Beijing through a cooperation agreement
“Framework Agreement”	an agreement dated 18 December 2014 (as supplemented and amended by a supplemental agreement dated 2 April 2015 and a second supplemental agreement dated 1 June 2015) entered into by the Company and the Vendors (as defined in the announcement of the Company dated 18 December 2014) in relation to a possible acquisition of 100% equity interest in 九合天下 (北京) 科技有限公司 (Kingworld (Beijing) Technology Co., Ltd.)

“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	means Hong Kong dollars, the lawful currency of Hong Kong
“Kingworld Beijing”	九合天下（北京）科技有限公司（Kingworld (Beijing) Technology Co., Ltd.), a company incorporated under the laws of the PRC with limited liability
“Listing Approval”	the Stock Exchange having granted the listing of, and permission to deal in, the Consideration Shares on the Stock Exchange
“Listing Rules”	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PRC”	the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Shares”	the entire issued share capital of the Target Company to be sold to the Buyer pursuant to the terms of the Share Purchase Agreement
“Seller”	Century Edge International Limited（世鋒國際有限公司），a company incorporated under the laws of the Republic of Seychelles
“SFO”	Securities and Futures Ordinance
“Share Purchase Agreement”	an agreement dated 28 July 2015 entered into by the Buyer, the Company, the Seller, the Target Company, Xu Rong and Zhou Xu in relation to the Acquisition
“Share(s)”	ordinary share(s) of HK\$0.025 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Specific Mandate”	the specific mandate proposed to be granted to the Directors by the Shareholders to allot and issue the Consideration Shares at the EGM
“Star Creation”	Star Creation Development Limited, a company incorporated under the laws of Hong Kong

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Kingworld Holdings Limited, a company incorporated under the laws of the Republic of Seychelles
“Target Group”	Target Company, Star Creation, WFOE, Kingworld Beijing and FFMobile
“Target Reorganization”	the pre-acquisition reorganization carried out as detailed in the paragraph headed “Pre-Acquisition Target Reorganization” in this announcement
“WFOE”	九合無限(北京)體育科技有限公司, a company incorporated under the laws of the PRC as a wholly foreign-owned enterprise

By order of the Board
SinoCom Software Group Limited
Zuo Jian Zhong
Co-Chairman

Hong Kong, 30 July 2015

As at the date of this announcement, the Company’s executive directors are Mr. Wang Zhiqiang, Mr. Zuo Jian Zhong, Mr. Tang Yau Sing, Mr. Zhang Zhige and Mr. Liu Wei; and the independent non-executive directors of the Company are Mr. Chui Man Lung Everett, Mr. Han Chu and Mr. Wu Hong.