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RISKS RELATED TO OUR BUSINESS

More than 70% of our revenue is generated from a small number of games and any significant adverse impacts to these games could materially affect our business

Our revenue for the years ended 31 December 2011 and 2012 was primarily generated from our three proprietary online games, Galaxy Online II, Godswar and Texas HoldEm Poker Deluxe. For each of the two years ended 31 December 2011 and 2012, we derived 70.5% and 75.9%, respectively, of our revenue from these three games. For the five months ended 31 May 2013, Wings of Destiny became our third most popular game by revenue, and we derived 79.1% of our revenue from these four most popular games. We cannot assure you that the new games we plan to launch will be as popular and will attract as many paying users as our four most popular games. We expect that we will continue to derive a significant amount of our revenue from a limited number of games for the year ending 31 December 2013. Accordingly, should there be (i) any reduction in the number of paying players in such games or any decrease in their popularity in the markets we operate; (ii) any failure by us to make improvements, upgrades or enhancements to such games in a timely manner; (iii) any lasting or prolonged server interruption due to network failures or other factors out of our control; or (iv) any other adverse developments specific to such games, our business, financial condition and results of operation could be adversely affected.

Players’ acceptance of the F2P model may change in the future

We do not charge our players any fees to play our games, but generate revenue by selling virtual items to them to be used in our games. This F2P model enables us to quickly attract new players to experience our games and gradually attract them to our games in order to develop a habit to purchase our virtual items. However, our future revenue and profit depend substantially on the continued acceptance of this business model and willingness of our players to purchase virtual items. While the F2P model has been used by Internet companies for some time, there can be no assurance that our consumers will continue to accept and use this model in a manner that is profitable to us or that a new business model will not emerge that will make our reliance on the F2P model untenable. If any such change occurs, our business, financial condition and results of operations may be adversely affected.

We may not be successful in operating and improving our games to satisfy the changing demands of game players

We depend on the purchases and continued consumption of virtual items by our game players to generate revenue, which in turn depend on the continued attractiveness of our games to players and their satisfactory game-playing experience. We provide support for our games and collect players’ feedback on their game-playing experience in order to resolve any programming flaws or other game operational issues in a timely manner. However, we cannot assure you that our efforts will be effective in eliminating programming errors associated with our games, improving our game operations, satisfying our player demands or maintaining the appeal of our games.

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Our failure to address any of the issues mentioned above could adversely affect the game-playing experience of our players, damage the reputation of our Company and our games, shorten the lifespan of our games, and/or result in the loss of players and a decrease in our revenue, which would adversely affect our business, financial condition and results of operations.

We may not adhere to our timetable for launching new games, and our new games may not be commercially successful

We will need to continue to introduce new games that can generate additional revenue and diversify our revenue source in order to remain competitive and maintain sustainability. As at the Latest Practicable Date, we expected to launch an additional six new games by the end of 2013. The timelines of the launches of our games depend on a number of factors, including technical difficulties and the lack of sufficient game development personnel and other resources. We cannot assure you that we will be able to meet our timetable for new game launches. In addition, there is no guarantee that our new games will be well received by the market or profitable. There are many factors that may adversely affect the popularity of our new games. For example, we may fail to anticipate and adapt to future technical trends, new business models and changing game player preferences, fail to effectively plan and organize marketing and promotional activities, or fail to differentiate our new games from our existing games or the games of our competitors. If the new games we introduce are not commercially successful, we may not be able to recover our product development and marketing costs, which can be significant. Failure on our part to launch successful new games on a timely basis, or at all, would adversely affect our business, financial condition and results of operations.

We may not be able to successfully implement our business strategies and sustain high gross profit margin

We have historically focused on PC-based online games. However, as smart phones and tablet PCs have recently emerged and became major online game operational platforms, we intend to expand in the mobile game market and devote a significant portion of our development resources to the mobile game sector, while continuing to be active in the browser games and client-based games markets. We plan to launch six new games by the end of 2013 to expand our portfolio, all of which will be mobile games. Our experience in developing games for mobile platforms is limited as we only introduced our first mobile game, Texas HoldEm Poker Deluxe, in October 2011. For the five months ended 31 May 2013, only 14.8% of our revenue was generated from mobile games. We cannot guarantee that our understanding of the market trend is correct, or that our new mobile games will be as attractive to players as our existing browser games and client-based games. Our new business strategy of focusing primarily on developing mobile games in the foreseeable future may not be profitable for us, which would adversely affect our business, financial condition and results of operations.

We depend on our existing management, our key development personnel and qualified technical personnel, and our business may be severely disrupted if we lose their services

Our future success depends substantially on the continued services of our executive officers and our key development personnel, such as Mr. Zongjian Cai, our chief executive officer and executive Director, Mr. Yuan Chi, our senior vice president and executive Director, Mr. Yuan Xu, our chief operating officer and Mr. Hong Zhang, our chief technology officer. If one or more of our executive

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officers or key development personnel were unable or unwilling to continue in their present positions, we might not be able to replace them easily or at all. In addition, if any of our executive officers or key employees joins a competitor or forms a competing company, we may lose know-how, key professionals and staff members as well as suppliers. These executive officers and key employees could develop and operate games that could compete with us or take game players away from our existing and future games. Each of our executive officers and key personnel has entered into an employment agreement and non-competition agreement with us. However, if any dispute arises between us and our executive officers, and key employees, these non-competition provisions may not be enforceable in China, the United States or elsewhere. If any of these were to happen, our competitive position and business prospects may be materially and adversely affected.

Our diversified player base exposes us to potential regulatory and litigation risks in different jurisdictions

Our online games are offered to players in various jurisdictions around the world. As players may log-on to our online game from anywhere in the world, we are exposed to potential regulatory and litigation risks in these jurisdictions. A particular jurisdiction may have or may enact a restrictive law or regulation governing players’ behavior or activities on the Internet. We may be liable for any non-compliance with such law or regulation. In addition, we may be subject to lawsuits from our game players with respect to their game playing experience. Any breach of law or regulation in different jurisdictions in which we operate or any claims against us by our game players could adversely affect our business, financial condition and results of operations.

Our online games may contain undetected programming errors or other defects and encounter external interruptions

Our online games may contain undetected programming errors or other defects and we face the challenge of external interruptions. For example, parties unrelated to us may develop programs to interrupt the operation of our online games. Players may also develop programs or use other means to infringe upon the game accounts of other players. The occurrence of undetected errors or defects in our online games, and our failure to discover and stop the external interruptions could disrupt our operations, damage our reputation and weaken our players’ game experience. As a result, such errors, defects and external interruptions could adversely affect our business, financial condition and results of operations.

Our technology infrastructure may experience unexpected network interruption or inadequacy or security breaches

Our technology infrastructure is vulnerable to damage from fire, flood, power loss, telecommunications failures, computer virus, hackings and similar events. Any network interruption or inadequacy that causes unavailability of our games or deterioration in the quality of access to our games or failure to maintain the network and server or failure to solve such problems quickly could reduce our players’ satisfaction. In addition, while we did not encounter any security breach during the Track Record Period, any security breach caused by hacking, which involves efforts to gain

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unauthorized access to information of our products or our Company or private information that we collected from our customers or to cause intentional malfunctions, loss or corruption of data, software, hardware or other computer equipment, and the inadvertent transmission of computer viruses could have a material adverse effect on our business, financial condition and results of operations.

Unauthorised use of our intellectual property may adversely affect our business and reputation

Our copyrights, domain names, trademarks and other intellectual property are critical to our success. As at 31 May 2013, we owned 29 domain names and 156 trademarks in China and other countries and regions. We were also the registered owner of 29 software copyrights in China, and owned 29 software copyrights in Singapore. We rely on trademark and copyright laws and regulations, and confidentiality agreements with our employees, customers, business partners and others to protect our intellectual property rights. Despite our precautions, it may be possible for third parties to obtain and use the intellectual property without authorization which may have an adverse effect to our business.

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 and certain other countries are immature or do not protect intellectual property rights to the same extent as do the laws and enforcement procedures of the more developed countries. For example, Singapore, where we hold the majority of our software copyrights, does not require registration for software copyrights protection. Therefore, 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 and results of operations.

We may be exposed to infringement or misappropriation claims by third parties, which, if determined adversely to us, could subject us to significant liabilities and other costs

Our success depends largely on our ability to use and develop our technology and know-how without infringing the intellectual property rights of third parties. We cannot assure you that third parties will not assert intellectual property claims against us during the course of our operation.

The validity and scope of claims relating to the intellectual property of game development and technology involve complex scientific, legal and factual questions and analyses, which results in uncertainty and ambiguity. If third parties assert copyright or patent infringement or violations of other intellectual property rights against us, we may need to defend ourselves in litigation or administrative proceedings, which can be both costly and time consuming and may significantly divert the efforts and resources of our technical and management personnel. An adverse determination in any such litigation or proceedings to which we may become a party could subject us to significant liability to third parties, require us to seek licenses from third parties, to pay ongoing royalties, or to redesign our games or subject us to injunctions prohibiting the development and operation of our games.

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Currently we are not subjected to any lawsuits, with regard to our activities infringing third party’s intellectual property rights, but we cannot guarantee that there will be no such lawsuit in the future.

Taxation authorities could challenge our allocation of taxable income which could increase our consolidated tax liability

During the Track Record Period, IGG Singapore purchased game-related intellectual property from Fuzhou Tianmeng and Fuzhou Tianji, and outsourced customer support to Fuzhou Tianji. IGG Singapore has also entered into certain contractual arrangements with IGG USA, pursuant to which IGG USA provides sales and marketing and server hosting services to IGG Singapore. IGG HK has entered into contractual arrangement with IGG Singapore, pursuant to which IGG Singapore provides sales and marketing and server hosting services to IGG HK. We expect that such arrangements will continue in the foreseeable future. We have determined transfer prices that we believe are the same as the prices that would be charged by unrelated third parties dealing with each other on an arms’ length basis. However, there can be no assurance that tax authorities reviewing such arrangements would agree that we are in compliance with transfer pricing laws, or that such laws will not be modified. In the event an authority of any relevant jurisdiction finds that transfer prices were manipulated in a way that distorts true taxable income, such authority could require our relevant subsidiaries to re-determine transfer prices and thereby reallocate the income or adjust the taxable income or deduct cost and expense of the relevant subsidiary in order to accurately reflect such income. Any such reallocation or adjustment could result in a higher overall tax liability for us and adversely affect our business, financial condition and results of operations.

We cannot guarantee that we will continue to enjoy preferential tax treatment in the future

Our Singapore subsidiary enjoys preferential tax treatment in accordance with the Development and Expansion Incentive and Approved Royalties Incentive issued by the Singapore Economic Development Board. This preferential tax treatment began on 1 January 2010 and will last for the duration of seven years if we can meet certain conditions required by the Singapore Economic Development Board. We enjoy a preferential income tax rate and royalties tax rate. There can be no assurance that we will continue to enjoy such preferential tax treatment after the expiry of the Development and Expansion Incentive and Approved Royalties Incentive. In addition, we may fail to meet the terms and conditions set out in the Development and Expansion Incentive and Approved Royalties Incentive and lose our preferential status earlier. Considering that in each of the years ended 31 December 2011 and 2012 and the five months ended 31 May 2013, 91.0%, 94.5% and 94.2% of our total revenue was recorded in IGG Singapore, the discontinuation of preferential tax treatment in IGG Singapore would adversely affect our financial condition.

Fuzhou Tianmeng, which was certified as a Software Enterprise, is exempted from corporate income tax for two years starting from the first year it generates taxable profit, followed by a 50% reduction for the next three years. In the year ended 31 December 2012, Fuzhou Tianmeng started generating taxable profit and therefore for the year ended 31 December 2012, Fuzhou Tianmeng was exempted from corporate income tax and is expected to continue to be exempt from corporate income tax for the year ending 31 December 2013. There can be no assurance that Fuzhou Tianmeng will continue to be certified as Software Enterprise and enjoy such preferential tax reduction in the future.

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We may be deemed to be a PRC resident enterprise under the EIT Law and be subject to the PRC taxation on our worldwide income

Under the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) (the “EIT Law”), which took effect on 1 January 2008, enterprises established outside the PRC whose “de facto management bodies” are located in the PRC are considered “resident enterprises” and will generally be subject to the uniform 25% EIT rate as to their global income. Under the implementation rules of the EIT Law, “de facto management bodies” is defined as the bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise. In April 2009, the State Administration of Taxation promulgated a circular to clarify the criteria to determine whether the “de facto management bodies” are located within the PRC for enterprises incorporated overseas with controlling shareholder being PRC enterprises.

The EIT Law and its implementation rules have certain ambiguities with respect to the interpretation of the provisions relating to resident enterprise issues. As some of our management is currently based in the PRC and is likely to remain in the PRC in the future, we may be treated as a PRC resident enterprise for PRC EIT purposes. If we are deemed to be a PRC resident enterprise, we will be subject to PRC EIT at the rate of 25% on our worldwide income.

If IGG HK is deemed to be a Singapore resident enterprise under relevant laws and regulations of Singapore, accordingly, it may be subject to corporate income tax in Singapore

Under the relevant Singapore tax law, a company is deemed to be a resident in Singapore for Singapore tax purposes if the control and management of its business are exercised in Singapore. Singapore resident companies are subject to Singapore corporate income tax on income accrued in or derived from Singapore, and on foreign-sourced income received or deemed received in Singapore, subject to certain exceptions.

All of IGG HK’s income during the Track Record Period was deemed non-taxable for Hong Kong profits tax as it was sourced outside Hong Kong. However, certain business activities of IGG HK have been outsourced to and performed in Singapore by IGG Singapore, including, among others, the provision of sales and marketing and server hosting services to IGG HK. Accordingly, IGG HK maybe deemed to be a Singapore tax resident. In the event all of IGG HK’s income during Track Record Period is deemed to be subject to Singapore corporate income tax, IGG HK will be subject to the 17% Singapore corporate income tax rate, and will pay Singapore corporate income tax of approximately US\$275,000 incurred during the Track Record Period.

Our revenue generated from diversified player base exposes us to potential taxation risks in different jurisdictions

We offer our online games to players in various jurisdictions around the world and we are exposed to potential taxation risks in these jurisdictions. A particular jurisdiction may request us to pay corporate income taxes or sales taxes for the revenue generated from the IP locations of the players in those jurisdictions. If we are requested to pay corporate income taxes or sales taxes in those jurisdictions, it could result in a higher overall tax liability for us and adversely affect our business, financial condition and results of operations.

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We may not be able to pay dividends in accordance with our proposed dividend policy

We are a holding company, and we rely principally on dividends and other distributions on equity paid by our members, including the funds necessary to repay any debt we may incur. Whilst we intend to make dividend payments in the future, the amount of dividends to be declared will be subject to, among other things, the full discretion of our Directors, taking into consideration the amount of our earnings, financial position, cash requirements and availability, the provisions of applicable laws and regulations and other relevant factors. In addition, if any of our members incurs debt on its own behalf in the future, the instruments governing the debt may restrict the ability of such subsidiary to pay dividends or make other distributions to us.

We do not have business interruption insurance coverage

According to TSMP Law Corporation, our Singapore legal advisers, we are not required to maintain an insurance policy to cover losses related to our business operations in Singapore. Moreover, the insurance industry in the PRC is still at an early stage of development and as a result, PRC insurance companies offer limited business insurance products. Therefore, we have not yet taken out any insurance to cover our business operations in either the PRC or our overseas markets. The advent of any business disruption, litigation or natural disaster could result in substantial costs and diversion of resources on our part, and could adversely affect our financial conditions and results of operations.

Charge backs or refunds may decrease our revenue

Some of our players use credit cards to purchase virtual currency, which is credited to players' accounts and is used by players to purchase virtual items in our games. Because of our payment structure, we are susceptible to “charge back” claims in which players report to the payment platforms certain purchases of virtual currency or virtual items as suspicious or fraudulent activity. These claims may be real, meaning there actually occurred unauthorized or fraudulent usage of the players' credit cards, or may be false, meaning the players made purchases of virtual currency or virtual items but later misrepresented that they did not. The payment platforms may not conduct thorough reviews of the claims and will normally refund the purchases, causing us to lose revenue. For the five months ended 31 May 2013, such “charge back” claims accounted for 1.7% of total gross revenue for the period. We cannot guarantee that our charge back amount will not rise in the future and negatively impact our business or financial conditions.

Our marketing arrangements may be subject to potential misuse which could significantly increase our advertising costs

For some of our marketing platforms, we pay platform operators fees based on a certain rate for each click on our advertisements or for each successful registration in our games. It is possible that anyone, including any of our competitors, could falsely or maliciously click on our advertisements appearing on the websites of these marketing platforms or register for our games to significantly

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increase our marketing costs while no revenue will be generated from these click or registrations. We cannot guarantee that our procedures will be able to shield us entirely from these measures to reduce the risks of falsely inflated marketing costs, which would adversely affect our financial conditions and results of operations.

Any material change of policies from our payment channel partners may adversely affect our business

Players can play our browser games on certain social network websites, such as Facebook and Google Play, which also require our game players to utilise their payment channels exclusively. In addition, as we shift our focus to developing mobile games going forward, we will rely more on Apple App Store and Google Play as the exclusive payment channels to collect payments from our mobile game customers. The payment channels deduct a certain percentage of the proceeds they collect for us as service fee. Apple App Store and Google Play both charge a flat, fixed service fee rate of 30% for all in-app purchases made by users. Our other payment channel partners usually have a lower payment service fee rate. Therefore, as we continue to derive more revenue from our mobile game business, we expect our overall cost of payment channel partners as a percentage of revenue to increase. Further details of our payment channels are set out in the section headed “Business — Our Operation — Payment” in this document. These partners may materially and unilaterally change their policies, such as raising their service fee rates. Because these partners also provide operating platforms for our games, we may be forced to accept such adverse changes in their policies. This could significantly increase our payment channel cost and thereby, materially and adversely affect our business, financial condition and results of operations.

We had net current liabilities and incurred net losses during the Track Record Period and may experience net losses or liquidity shortage in the future

As at 31 December 2011 and 2012, our Group had net current liabilities of US\$45.0 million and US\$57.8 million, respectively. The net current liabilities position as at 31 December 2012 was primarily due to the classification of the Preferred Shares of our Group as current liabilities of our Group at estimated fair value based on the valuation of our Company by Jones Lang LaSalle, thereby resulting in substantially higher total current liabilities than total current assets. The Preferred Shares are treated as current liabilities due to the ability of the holders of a series of the Preferred Shares having the right, upon the necessary vote, to cause us to redeem such series of Preferred Shares in accordance with the relevant Shareholder Agreement, please see “History and Corporate Structure — [●] Investment”. The Preferred Shares are measured at fair value as at the end of each Track Record Period due to the embedded derivatives. As a result of the increase in the fair value loss of the Preferred Shares, we incurred a net loss of US\$13.4 million for the year ended 31 December 2012.

On 31 May 2013, all of the Preferred Shares were converted to ordinary Shares by conversion in accordance with the then applicable Articles of Association, and we had net current assets of US\$14.9 million as at 31 May 2013. However, there can be no assurance that we will always be able to maintain sufficient working capital or raise necessary funding to finance our working capital requirements. In such circumstances, our business, financial conditions and results of operations may be materially and adversely affected.

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Our ability to continue to obtain the necessary licenses and permits or to fulfill other regulatory requirements for the operation of online games in China is uncertain

The Internet industry, including the operation of online games, in the PRC is strictly regulated by the PRC government. Various regulatory authorities of the central PRC government, including but not limited to the MIIT, the GAPP, the MOC and the NCAC, are empowered to issue and implement regulations governing various aspects of the online game industry.

Although Fuzhou Tianmeng only contributed 4.8%, 3.2% and 3.7% of our revenue for the years ended 31 December 2011 and 2012 and the five months ended 31 May 2013, respectively, it holds all necessary licenses and permits for our Group to carry out our online game business in the PRC and is required to continue to maintain all applicable permits or approvals from different PRC regulatory authorities in order to provide its services. Failure to comply with such terms and conditions may subject Fuzhou Tianmeng to monetary penalties or restrict its ability to pass the annual inspection of the ICP license or to obtain their renewal upon the expiration of its current term. If Fuzhou Tianmeng fails to obtain or maintain any of the required permits or approvals, it may be subject to various penalties, including fines and the discontinuation or restriction of its operations. Any such disruption in our business operations would adversely affect our financial condition and results of operations.

We did not fully contribute to the mandatory social insurance in the PRC during the Track Record Period

Pursuant to relevant PRC laws and regulations, we are required to contribute to social welfare schemes for all of our employees. Such schemes include social insurance contributions (including unemployment insurance, medical insurance, work-related insurance, pension insurance and maternity insurance). During the Track Record Period, we did not fully comply with the social insurance contributions requirements.

As advised by Jingtian & Gongcheng, our PRC legal advisers, if we fail to pay the full amount of social insurance as scheduled, the relevant authorities may order us to make the social insurance payment or make up the difference within a stipulated period and (i) in respect of any overdue social insurance incurred before 1 July 2011, if payment is not made within the stipulated period, levy a surcharge equal to 0.2% of the overdue social insurance for each day from the date on which the social insurance became overdue; and (ii) in respect of any overdue social insurance incurred on or after 1 July 2011, levy a surcharge equal to 0.05% of the overdue social insurance for each day from the date on which the social insurance became overdue, and if payment is not made within the stipulated period, the relevant administration department may impose a fine of one to three times the amount of overdue social insurance on us.

We made a provision for the underpayment of our social security insurance contributions in the amount of US\$0.7 million as at 31 May 2013, which was equivalent to the amount of underpayment for the past two years for all of our current employees as at 31 May 2013. We have fully settled the payment of outstanding social insurance contributions as at the date of this document, however, if we do not comply with the social insurance contribution requirements in the future, our business and reputation may be adversely affected. Please refer to “Business — Legal Proceedings and Non-compliance” for more details.

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Our landlord does not possess or has not provided us with the relevant building ownership certificate for a property we lease

As at 31 May 2013, for the office leased by Fuzhou Tianmeng in Fuzhou, Fujian Province, China, which has a gross floor area of approximately 3,756.7 sq.m., the landlord has not obtained proper building ownership certificate. The gross floor area of the aforementioned leased property accounts for 83.8% of the total gross floor area of the buildings we occupy. None of our landlord had agreed to indemnify us for any potential liabilities we may incur as a result of any title defects regarding our leased properties.

Before our landlord obtain and/or provide the proper building ownership certificate, our rights to such property may not be entirely protected. Any dispute or claim related to the title of the building we lease may result in the requirement to relocate our office. We cannot assure you that our use and occupation of the building will not be challenged, and there is no assurance we will be able to secure alternative space for our business if we are required to relocate. If our landlord cannot obtain the relevant building ownership certificate in a timely manner and our legal right to use or occupy the building is challenged, we may incur additional relocation costs or our business operation may be disrupted, any of which will have a material and adverse effect on our business, financial condition and results of operations.

RISKS RELATING TO THE INDUSTRY IN WHICH WE OPERATE

Our business may not succeed in a highly competitive market

Competition in the online game industry in the global market, including the PRC is becoming increasingly intense. There are already several online game companies, such as Zynga.com, Electronic Arts, Perfect World, NetDragon Websoft Inc., NetEase.com, Tencent Holding Limited and Changyou.com, which have successfully listed their shares on NASDAQ, or the Hong Kong [●]. These companies all have significantly greater financial resources than we do. Moreover, there are many venture-backed private companies focusing on online game development further intensifying the competition, particularly in the global market. Recently, many of our competitors have not only been aggressively recruiting talent to bolster their game development capabilities, but also increasing their spending on game marketing. Increased competition in the online game market may make it difficult for us to retain our existing employees, attract new employees, acquire new players and sustain our growth rate.

The online game industry is subject to rapid technological changes which may render our games obsolete or unattractive to our players

We are impacted by the emergence of new technologies and games. New technologies in online game development or operations could render the games that we design or plan to develop obsolete or unattractive to players, thereby limiting our ability to recover the development costs, which could potentially adversely affect our future profitability and growth prospects.

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We may be adversely affected by the global economic slowdown caused by the financial crisis and European debt crisis

We rely on the spending of our game players for our revenue, which may in turn depend on the players’ level of disposable income, job security, perceived future earnings capabilities and willingness to spend.

The global economy experienced a slowdown since the financial crisis in 2008, and the slowdown was further exacerbated by European debt crisis in 2009. It is uncertain how long and to what extent global economic difficulties will continue and how much adverse impact it will have on the economies in markets where we operate our games, such as North America, Europe, and Asia. If our game players reduce their spending on playing games due to such uncertain economic conditions, our business, financial condition and results of operations may be adversely affected.

RISKS RELATING TO OUR CONTRACTUAL ARRANGEMENTS

There is no assurance that the contractual arrangements between Fuzhou Tianji and Fuzhou Tianmeng will be deemed to be in compliance with existing or future PRC laws and regulations, and if the relevant regulations or their interpretations change in the future, we could be forced to relinquish our interests in our PRC operation company.

According to our PRC legal advisers, Jingtian & Gongcheng, each of the Structured Contracts between Fuzhou Tianji and Fuzhou Tianmeng is valid and binding to all parties thereto and does not violate any compulsory requirements of any PRC laws as promulgated by the National People’s Congress, administrative regulations or their respective articles of association. Accordingly, to the best of their knowledge, our Directors confirm that the Structured Contracts, as at the Latest Practicable Date, have not been terminated, rendered void, or in any way challenged by any relevant PRC regulatory authorities. However, there can be no assurance that these contractual arrangements will be deemed by the relevant governmental or judicial authorities to be in compliance with existing PRC laws and regulations or that the relevant governmental or judicial authorities will not in the future interpret the existing laws or regulations in such a way that the contractual arrangements would be deemed not to be in compliance of the PRC laws and regulations.

On December 11, 2001, the State Council promulgated Regulations for the Administration of Foreign-invested Telecommunications Enterprises (the “Telecom Regulations”), which were subsequently amended on September 10, 2008. Under the Telecom Regulations, foreign ownership of companies that provide value-added telecommunication services, which include the operation of website 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 of the Qualification Requirement. Despite our extensive experience in the overseas online game industry, because of the lack of clear guidance or interpretation of the Qualification Requirement, we cannot assure you that our overseas business experience in the online game industry will satisfy the Qualification Requirements. In addition, each of the Structured Contracts provides that Fuzhou Tianji and Fuzhou Tianmeng shall terminate the Structured Contracts

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once Fuzhou Tianji is allowed to hold equity interests in Fuzhou Tianmeng under the PRC laws. As a result, if the restriction on foreign ownership in companies providing value-added communications services under the current PRC laws is revoked, we may be required to unwind the Contractual Arrangements before we are in a position to comply with the Qualification Requirement. If requirement to restructure our Contractual Arrangements causes us to lose the rights to direct the activities of Fuzhou Tianmeng or our right to receive its economic benefits, we would no longer be able to consolidate the financial results of Fuzhou Tianmeng in our financial statements.

In addition, except for the value-added telecommunications business operation license, foreigner and foreign-invested enterprises are currently not eligible to apply for other required licenses needed to engage in the online game business in the PRC. We are a limited liability company incorporated in the Cayman Islands and we conduct a portion of our operations in the PRC through Fuzhou Tianji, our indirectly wholly-owned subsidiary. We and Fuzhou Tianji are foreign or foreign-invested enterprises under PRC laws and accordingly are ineligible to apply for the relevant licenses to engage in the online game business. In order to comply with foreign ownership restrictions, a portion of our business in the PRC is operated through Fuzhou Tianmeng. Fuzhou Tianji has entered into the Structured Contracts with Fuzhou Tianmeng and its equity holders, Mr. Zongjian Cai and Mr. Yuan Chi. Details of the Structured Contracts are set out in the section headed “History and Corporate Structure — Structured Contracts” of this document. As a result of these contractual arrangements, our Group is able to govern the financial and operating policies of Fuzhou Tianmeng and to substantially obtain all economic benefits from the activities conducted by Fuzhou Tianmeng. Accordingly, the financial position and operating results of Fuzhou Tianmeng are included in our Group’s consolidated financial statements as if Fuzhou Tianmeng is our Group’s subsidiary. If Fuzhou Tianmeng fails to remain all applicable permits and approvals, our business and operation in the PRC would be materially and adversely affected.

In addition, the MIIT Notice issued in July 2006 requires that ICP license holders or their shareholders directly own the domain names and trademarks used by such ICP license holders in their daily operations. The MIIT Notice further requires each ICP license holder 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 telecommunication service providers are required to maintain network and information security in accordance with the standards set forth under relevant PRC regulations. The MIIT Notice prohibits ICP license holders from leasing, transferring or selling its telecommunications business operating license to any foreign investors in any form, or providing any resource, sites or facilities to any foreign investors for their illegal operation of telecommunications business in the PRC. The MIIT Notice has imposed a more stringent regulatory environment on foreign investment in value-added telecommunication business, which introduces an increased risk of the contractual arrangements being challenged by the relevant PRC regulatory authorities. Therefore, we and our PRC counsel, cannot rule out the possibility that the relevant PRC regulatory authorities may require that we unwind the contractual arrangements as a result of their increased attention on companies such as ours following the introduction of the MIIT Notice.

Furthermore, on 28 September 2009, the General Administration of Press and Publication, or the GAPP, together with the National Copyright Administration, and National Office of Combating Pornography and Illegal Publications jointly issued a Notice on Further Strengthening of the Administration of Pre-examination and Approval of Online Game and the Examination and Approval

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of Imported Online Game (the “GAPP Notice”). The GAPP Notice provides, among other things, 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 domestic online game operators through indirect ways such as establishing other joint venture companies, or contractual or technical arrangements. We are not aware of any online game companies adopting the same or similar contractual arrangements as ours entered before the issuance of the GAPP Notice having been penalized or ordered to be terminated since the GAPP Notice first became effective. As advised by our PRC counsel, there is uncertainty with respect to the implementation of the GAPP Notice, including possible subsequent joint actions by relevant authorities in charge, such as the MOC. In the event that we, our PRC subsidiaries or PRC consolidated affiliated entities are found to be in violation of the prohibition under GAPP Notice, the GAPP, in conjunction with the relevant regulatory authorities in charge, may impose penalties, which in the most serious cases may include suspension or revocation of relevant licenses and registrations.

There are substantial uncertainties regarding the interpretation and application of PRC laws and regulations. As reported in an article published on the New York Times on 2 June 2013 (“New York Times Article”), there has been one recent court decision involving a dispute on the validity of a contractual arrangement for obtaining control on certain foreign-restricted company(ies) established in the PRC through a trust and lending structure, and two arbitration decisions purportedly involving disputes on the validity of a contractual arrangement for obtaining control on certain foreign-restricted company(ies) established in the PRC through the use of variable interest entities. Pursuant to Article 52 of the Contract Law of the PRC (“PRC Contract Law”), a contract shall be void when, amongst others, it conceals an illegitimate purpose under the guise of legitimate acts (sub-clause 3) or violates the mandatory provisions of laws and administrative regulations (sub-clause 5).

By virtue of the aforesaid law, it was ruled in the reported court decision that the contractual arrangement involved in that case was intended to circumvent restrictions on foreign investment in the PRC, and hence was void. For the two arbitration decisions, our Directors and Jingtian & Gongcheng, our PRC legal advisers, are not in a position to ascertain the relevance of such decisions to the Structured Contracts as there is insufficient public available information relating to such arbitration decisions. Although the contractual arrangement involved in the reported court decision was a trust and lending contract, and hence fundamentally different from the Structured Contracts, it is still possible for PRC courts or arbitration bodies to rule that the Structured Contracts are intended to circumvent restrictions on foreign investment in the PRC and hence will be void under the PRC Contract Law. For further details about the Structured Contracts, please refer to the paragraph headed “Structured Contracts” in the section headed “History and Corporate Structure” of this document.

If the contractual arrangement between Fuzhou Tianji and Fuzhou Tianmeng and its equity holders is deemed 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:

- imposing economic penalties and/or confiscating the proceeds generated from the operation under the contractual arrangements;
- discontinuing or restricting operations of Fuzhou Tianji and/or Fuzhou Tianmeng;

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- imposing conditions or requirements with which Fuzhou Tianji or Fuzhou Tianmeng may not be able to comply;
- requiring us to restructure the relevant ownership structure or operations;
- taking other regulatory or enforcement actions that could be harmful to our business; and
- revocation of business licenses and/or the licenses of Fuzhou Tianji and/or Fuzhou Tianmeng.

Any of these actions could have a material adverse effect on our business, financial condition and results of operations.

We depend upon contractual arrangements with Fuzhou Tianmeng in conducting our operations and receiving payments through Fuzhou Tianmeng, which may not be as effective in providing operational control as direct ownership

We conduct a certain portion of our operations through the Structured Contracts between Fuzhou Tianji and Fuzhou Tianmeng. In each of the two years ended 31 December 2011 and 2012 and the five months ended 31 May 2013, we generated 4.8%, 3.2% and 3.7% of our revenue from Fuzhou Tianmeng, respectively. These contractual arrangements may not be as effective in providing us with control over Fuzhou Tianmeng as if it were a direct wholly-owned subsidiary.

These contractual arrangements are governed by PRC law and provide for the resolution of disputes through arbitration in the PRC. Accordingly, these contracts would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. If Fuzhou Tianmeng fails to perform its obligations under these contractual arrangements, we may have to rely on legal remedies under PRC law, including seeking specific performance or injunctive relief, and claiming damages, which we cannot guarantee would be effective. The legal environment in the PRC is not as developed as in certain other jurisdictions. As a result, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements. In addition, during the years ended 31 December 2011 and 2012, Fuzhou Tianmeng did not pay any technical service fee to Fuzhou Tianji and we cannot predict to what extent this lack of payment of technical service fees could affect a regulator’s view on the validity of the Structured Contracts.

We may lose our ability to use and enjoy assets held by Fuzhou Tianmeng that are important to our operations if Fuzhou Tianmeng declares bankruptcy or becomes subject to a dissolution or liquidation proceedings

As at 31 May 2013, Fuzhou Tianmeng employed 208 employees, representing 36.7% of our Group’s total number of employees. In addition, as at 31 May 2013, Fuzhou Tianmeng held non-current assets, such as computers, servers and office equipment, in the amount of US\$0.6 million, representing 28.6% of our Group’s total non-current assets. In the event Fuzhou Tianmeng declares bankruptcy or becomes subject to liquidation proceedings in the PRC, we will be unable to utilise the

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staff employed by Fuzhou Tianmeng and the non-current assets held by Fuzhou Tianmeng in connection with our global operations, which will have a material and adverse effect on our business, financial condition and results of operations.

The pricing arrangement under the contractual arrangements among our members may be challenged by tax authorities

We could face adverse tax consequences if the PRC tax authorities determine that the Structured Contracts and/or such other contractual arrangements between Fuzhou Tianji and Fuzhou Tianmeng were not entered into based on arm’s length negotiations. If the PRC tax authorities determine that the Structured Contracts between Fuzhou Tianji and Fuzhou Tianmeng were not entered into on an arm’s length basis, they may adjust our income and expenses for PRC tax purposes which could result in higher tax liability.

We may be subject to higher income tax rates and incur additional taxes as a result of the Structured Contracts, which may increase our tax expenses and decrease our net profit margin

For the years ended 31 December 2011 and 2012, Fuzhou Tianmeng did not pay any technical service fee to Fuzhou Tianji. For the five months ended 31 May 2013, it paid US\$0.8 million of technical service fee to Fuzhou Tianji, which represented a portion of its net income. The technical services fee is subject to a value-added tax at a rate of 6%. Going forward, Fuzhou Tianji will require Fuzhou Tianmeng to transfer 100% of Fuzhou Tianmeng’s total revenue after deducting all related expenses, costs and taxes in accordance with the Structured Contracts through technical service fees on a quarterly basis, which will, accordingly, increase our tax expense. In addition, Fuzhou Tianmeng was certified as a Software Enterprise and was exempted from CIT for the first two years beginning from the first year in which it generates taxable profit and enjoy a 50% reduction for the next three years. In the year ended 31 December 2012, Fuzhou Tianmeng started to generate taxable profit and therefore, was exempted from CIT for the year ended 31 December 2012 and the year ending 31 December 2013. Currently, the applicable tax rate for Fuzhou Tianji is 25%. If Fuzhou Tianji is not able to apply for beneficial tax treatments with the relevant tax authorities and entitle to a lower tax rate than Fuzhou Tianmeng, our Group’s effective income tax rate will increase as Fuzhou Tianmeng’s preferential income tax rate does not benefit us if it transfers all of its net income to Fuzhou Tianji under the Structured Contracts, which will, accordingly, decrease our net profit margin.

We depend on dividends and other distributions on equity paid by our members and there may be restrictions on our dividend distributions

Through the Structured Contracts between Fuzhou Tianji and Fuzhou Tianmeng, we generated 4.8%, 3.2% and 3.7%, respectively, of our revenue for the two years ended 31 December 2011 and 2012 and the five months ended 31 May 2013 from Fuzhou Tianmeng. These transactions must be conducted on an arm’s length basis under applicable PRC tax rules and regulations and are subject to review by the relevant PRC authorities. As a result, the determination of service fees and other payments, if any, to Fuzhou Tianji may be challenged and deemed not in compliance with these rules and regulations. The relevant PRC tax authorities may also adjust our taxable income of our subsidiary and thus lower our distributable profits. In any such event, our business, financial condition and results of operations may be adversely affected. In addition, PRC legal restrictions permit payments

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of dividends by PRC entities only out of their retained earnings, if any, determined in accordance with the PRC accounting standards and regulations. Under the PRC law, our PRC subsidiary is also required to set aside at least 10% of their net profit each year to fund the designated statutory reserve fund until such reserve fund reaches 50% of its registered capital. These reserves are not distributable as cash dividends. As a result of these and other restrictions under the PRC laws and regulations, our PRC subsidiary is restricted in their ability to transfer a portion of its net assets to our Company in the form of dividends, loans or advances.

We do not have any insurance coverage for the risks relating to the Structured Contracts

Our Company’s operation depends on the validity, legality and enforceability of the Structured Contracts. The insurance industry in the PRC is still at an early stage of development and there are limited business insurance products available in the market, and to the best knowledge of our Directors, no insurance products specifically designed for protecting the risks relating to the Structured Contracts are available in the PRC market. Further, it is not compulsory for an online game developer and operator to maintain an insurance policy to cover risks relating to the Structured Contracts under the applicable PRC laws and regulations. Therefore, we have not yet taken out any insurance to cover risks relating to the Structured Contracts. If the Structured Contracts and/or contractual arrangements between Fuzhou Tianji and Fuzhou Tianmeng and its equity holder are adjudicated to be in violation of any existing or future PRC laws or regulations, or in the event that the relevant PRC regulatory authorities require that we unwind the contractual arrangements under the Structured Contracts, our business will be adversely affected.

A substantial amount of costs and time may be involved in transferring the ownership of Fuzhou Tianmeng from Mr. Zongjian Cai and Mr. Yuan Chi to us under the Call Option Agreement

The Call Option Agreement provides Fuzhou Tianji or its designee (a) a right to acquire part or all of the equity interest in the registered capital of Fuzhou Tianmeng; and (b) a right to acquire all or part of the assets of Fuzhou Tianmeng from Mr. Zongjian Cai and Mr. Yuan Chi. Nevertheless, such rights can only be exercised by Fuzhou Tianji as and when permitted by the relevant PRC laws and regulations, in particular, when there are no limitation on (i) foreign ownership in PRC companies that provide value-added telecommunications, Internet content and Information services, and online games and (ii) the eligibility of foreign invested enterprises to apply for the required license for engaging in online game business in the PRC. In addition, a substantial amount of costs and time may be involved in transferring the ownership of Fuzhou Tianmeng from Mr. Zongjian Cai and Mr. Yuan Chi to us if we choose to exercise the exclusive right to acquire all or part of the equity interest and assets in Fuzhou Tianmeng under the Call Option Agreement, which may have a material adverse impact on our Group’s business, prospects and results of operation.

The shareholders Fuzhou Tianmeng may have potential conflicts of interest with our Company

Mr. Zongjian Cai and Mr. Yuan Chi are shareholders of Fuzhou Tianmeng. Mr. Zongjian Cai is the executive director of Fuzhou Tianmeng and Mr. Yuan Chi is the supervisor of Fuzhou Tianmeng. PRC laws provides that director and supervisor owe a fiduciary duty to the company they serve. As director and supervisor of Fuzhou Tianmeng, Mr. Zongjian Cai and Mr. Yuan Chi must therefore act in good faith and in the best interests of Fuzhou Tianmeng. On the other hand, as Directors of our

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Company, Mr. Zongjian Cai and Mr. Yuan Chi have a duty of care to our Company and our Shareholders. As a result, conflict of interests may arise due to their dual roles as our Directors and the director, and the supervisor and shareholders of Fuzhou Tianmeng. For example, Mr. Zongjian Cai and Mr. Yuan Chi may breach or cause Fuzhou Tianmeng to breach or refuse to renew the existing Structured Contracts which allow our Group to effectively control Fuzhou Tianmeng and receive economic benefits from them. If we cannot resolve any conflicts of interest or disputes between us and Mr. Zongjian Cai and Mr. Yuan Chi, we would have to rely on legal proceedings to resolve these disputes and/or enforce our agreements under the Structured Contracts, which may be costly, time-consuming and disruptive to our operations.

RISKS RELATING TO OVERSEAS MARKETS AND THE PRC

Our operations are subject to various laws and regulations of various jurisdictions in which we operate

Our operations are subject to various laws and regulations of various jurisdictions in which we operate, including but not limited to laws regarding consumer protection, intellectual property, export and national security, that are continuously evolving and developing, under various jurisdictions, including but not limited to Singapore, the United States, PRC, Hong Kong and the Philippines. The scope and interpretation of the laws that are or may be applicable to us are often uncertain and may be conflicting. It is also likely that as our business grows and evolves and our games are played in a greater number of countries, we will become subject to laws and regulations in additional jurisdictions.

We are potentially subject to a number of foreign and domestic laws and regulations that affect the offering of certain types of content, such as that which depicts violence, many of which are ambiguous, still evolving and could be interpreted in ways that could harm our business or expose us to liability. In addition, certain of our games, including Texas HoldEm Poker Deluxe, may become subject to gambling-related rules and regulations and expose us to civil and criminal penalties if we do not comply. It is difficult to predict how existing laws will be applied to our business and the new laws to which we may become subject. If we are not able to comply with these laws or regulations or if we become liable under these laws or regulations, we could be directly harmed, and we may be forced to implement new measures to reduce our exposure to this liability. This may require us to expend substantial resources or to modify our games, which would harm our business, financial condition and results of operations. In addition, the increased attention focused upon liability issues as a result of lawsuits and legislative proposals could harm our reputation or otherwise impact the growth of our business. Any costs incurred as a result of this potential liability could harm our business and operating results. Furthermore, the growth and development of electronic commerce and virtual goods may prompt calls for more stringent consumer protection laws that may impose additional burdens on companies such as ours conducting business through the Internet and mobile devices. Notwithstanding our efforts to comply with applicable laws and regulations, there is no assurance that we will at all times be in full compliance with all of the laws and regulations in the jurisdictions where we operate, and the requirements and regimes thereunder that apply to our operations. Any failure, or any claim that we have failed to comply with any of them, may attract

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significant monetary penalties and cause material disruption to our operations. In addition, any tightening of the regulatory framework to which our operations are subject could result in increased costs and liabilities. If any of these events occurs, our business, results of operations and financial position may be materially and adversely affected.

The introduction of any new policies, laws and regulations, or changes to the existing policies, laws and regulations, in Singapore may have a negative effect on our business and operations in Singapore

Singapore policies, laws and regulations govern our operations in Singapore. The Singapore economy continues to evolve and the Singapore government is likely to develop new policies, laws and regulations so as to meet the changing needs of the economy. Any changes in policies by the Singapore government may lead to changes in laws and regulations or interpretation thereof, as well as changes in import and export restrictions and taxation policies. Should the laws and regulations applicable to our business and operations in Singapore become more stringent in the future, they may restrict our ability to operate at the same level or require us to incur unanticipated liabilities or additional compliance costs, which may in turn have a negative effect on our business and operations in Singapore.

The PRC’s political, economic and social conditions could affect our business, financial condition, results of operations and prospects.

Political, economic and social conditions, laws, regulations and policies in China could affect our businesses and results of operations.

China’s economy differs from the economies of most developed countries in many respects, including but not limited to structure, level of government involvement, level of development, growth rate, control of foreign exchange, and allocation of resources.

China’s economy has been transitioning from a planned economy to a more market-oriented economy. For the past three decades, the PRC government has implemented economic reform measures to emphasize the utilization of market forces in economic development. We cannot predict whether changes in China’s political, economic and social conditions, as well as its laws, regulations and policies, will have any material adverse effect on our current or future business, financial condition and results of operations.

It may be difficult to enforce judgments obtained from non-PRC courts against our Company or our Directors or senior executive officers residing in China

Some of our Directors and senior management members reside in China. The legal framework in China is materially different in certain areas from that of other jurisdictions, including Hong Kong and the United States, particularly with respect to the protection of minority shareholders. While the PRC Company Law (中華人民共和國公司法) was amended in 2005 and took effect in 2006 to allow shareholders to commence actions against directors, supervisors, officers or any third party on behalf of a company under certain limited circumstances, the mechanism for enforcement of rights under the corporate governance framework in China is still relatively underdeveloped and untested.

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China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with countries such as Singapore, the United States, the Cayman Islands, and therefore, enforcement of court judgments from these jurisdiction in China may be difficult or impossible.

Gains on the sales of our Shares by foreign investors and dividends on our Shares payable to foreign investors may become subject to the PRC income taxes

Under the EIT Law and its implementation rules, any gain realized by “non-resident enterprises” is subject to PRC income tax at the rate of up to 10% to the extent such gain is sourced within the PRC and (i) such “non-resident enterprise” has no establishment or premise in the PRC, or (ii) it has an establishment or premise in the PRC, but its income sourced within the PRC has no real connection with such establishment or premise, unless otherwise exempted or reduced by tax treaties. The EIT Law and its implementation have certain ambiguities with respect to the interpretation of the provisions relating to identification of PRC-sourced income. If we are recognised as a PRC resident enterprise under the EIT Law by the PRC tax authorities, our foreign Shareholders that are “non-resident enterprises” may become subject to PRC income tax at the rate of up to 10% under the EIT Law as to the capital gains realized from sales of our Shares by and dividends distributed to such foreign Shareholders as such income may be regarded as income from “sources within the PRC”, unless any such foreign Shareholder is qualified for a preferential income tax rate or tax exemption under a tax treaty or tax law, and we may be required to withhold such income tax on the dividends payable by us to such foreign Shareholders.

If the PRC tax authorities recognise us as a PRC resident enterprise under the EIT Law, Shareholders who are not PRC tax residents and seek to enjoy preferential tax rates under relevant tax treaties will need to apply to the PRC tax authorities for recognition of eligibility for such benefits in accordance with the Measures on Tax Conventions Treatments for Non-Residents (for Trial Implementation)* (非居民享受稅收協定待遇管理辦法(試行)), issued by the State Administration of Taxation on 24 August 2009. It is likely that eligibility will be based on a substantive analysis of the Shareholder’s tax residency and economic substance. With respect to dividends, the beneficial ownership tests under the Notice on Interpretation and Recognition of “Beneficial Owner” under Tax Conventions* (關於如何理解和認定稅收協定中“受益所有人”的通知) will also apply. If determined to be ineligible for treaty benefits, such a Shareholder would become subject to the PRC tax rates higher than the preferential tax rates under the relevant tax treaties on capital gains realized from sales of our Shares and on dividends on our Shares. In such circumstances, the value of such foreign Shareholders’ investment in our [●] may be materially and adversely affected.

Some transactions during our Corporate Reorganisation may be subject to income tax, which could adversely affect our business, financial condition and results of operation

The Ministry of Finance and SAT jointly issued, on 30 April 2009, the Circular on Issues Concerning Process of Enterprise Income Tax in Enterprise Restructuring Business (Cai Shui [2009] No. 59) (《關於企業重組業務企業所得稅處理若干問題的通知》) (財稅[2009]59號), which became effective retrospectively in January 2008. In addition, the SAT issued the Notice on Strengthening the Administration of Enterprise Income Tax on Non-resident Enterprises’ Equity Transfer Income (Guo Shui Han [2009] No. 698) (《國家稅務總局關於加強非居民企業股權轉讓所得企業稅管理的通知》)

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(國稅函[2009]698號) on 10 December 2009, effective on 1 January 2008. Under the aforementioned circular, the transfer of equity interest in certain PRC subsidiaries directly or indirectly held by our offshore subsidiaries to our other offshore subsidiaries is subject to an income tax of 10% on capital gains which may be determined as the difference between the fair value of the equity interests transferred and cost of investment, and special tax treatment will be applicable if certain conditions are satisfied. For more details of the Corporate Reorganisation, please refer to “History and Corporate Structure — Corporate Reorganisation” of this document. In case we are required to pay the income tax on capital gains as a result of the Reorganisation, our tax liability may increase and our net profits and cash flow may be affected.

Failure to comply with PRC regulations in respect of the registration of our PRC citizen employees’ share options and restricted share units may subject such employees or us to fines and legal or administrative sanctions

Pursuant to the Implementation Rules of the Administration Measure for Individual Foreign Exchange (個人外匯管理辦法實施細則), or the Individual Foreign Exchange Rules, issued on 5 January 2007 by SAFE and relevant guidance issued by SAFE in March 2007, and Circular of the State Administration of Foreign Exchange on Issues concerning the Administration of Foreign Exchange Used for Domestic Individuals’ Participation in Equity Incentive Plans of Companies Listed Overseas (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) issued by SAFE on 15 February 2012, PRC citizens who are granted shares or share options by an overseas listed company according to its employee share option or share incentive plan are required, through the PRC subsidiary of such overseas listed company or other qualified PRC agents, to register with SAFE and complete certain other procedures related to the share option or other share incentive plan. We and our PRC citizen employees who will be granted share options, or PRC option holders, will be subject to these rules upon the [●]. If we or our PRC option holders fail to comply with these rules in the future, we or our PRC option holders may be subject to fines and legal or administrative sanctions. Please also refer to the paragraph headed “Regulatory Overview — PRC Regulations — Regulations Relating to Employee Share Options” in this document.