

## **INDUSTRY OVERVIEW**

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### **SOURCES OF INFORMATION**

We commissioned Analysys Consulting to conduct an analysis of the online game industry in the global market and other relevant economic data and prepare the Analysys Report. We have agreed to pay a fee of approximately RMB240,000 for the Analysys Report, which we believe reflects market rates. Our Directors are of the view that the payment of the fee does not affect the fairness of the conclusions drawn in the Analysys Report. Analysys Consulting is an independent consulting firm based in Beijing, providing data, information, and advice to companies around the world in the industry of the Internet and information technology.

The Analysys Report includes both historical and forecast information relating to the online game industry in the global market, and other relevant economic data. Analysys Consulting relies on a variety of industry sources worldwide in determining its market data, including but not limited to, interviews with market participants, publicly released corporate information and the expertise of Analysys Consulting industry analysts.

The projections in the Analysys Report relating to the global online game market are based on the following general bases and assumptions:

- **Stable political environment.** The global political environment is comparatively stable and there is no adverse political policies around the world to restrict the development of online games.
- **Gradual economic recovery.** As the global economy recovers from the recent financial crisis, individual disposable income has increased as well as the amount spent on online games. In addition, because of globalization, the development of the online payment channels worldwide has provided support for the global publishing for online games.
- **No revolutionary technological innovation.** Although the rapid development of the Internet, mobile and 3D technologies have provided Global support for the development of online games, for purposes of the projections made in the Analysys Report, we assume there will not be any revolutionary technological advances in the next five years.

### **GROWTH OF THE GLOBAL ONLINE GAME INDUSTRY**

#### **Growth in the market size of the global online game industry**

According to Analysys Consulting, as game consoles and arcade games have declined in popularity worldwide, online games have become the main driver of growth in the global electronic game market. In 2012, revenue generated from the online game market rose 19.4% to US\$27,954 million. Analysys Consulting estimates revenue will further expand to US\$40,778 million in the year ending 31 December 2015. The development of the global online game market is primarily due to the following reasons:

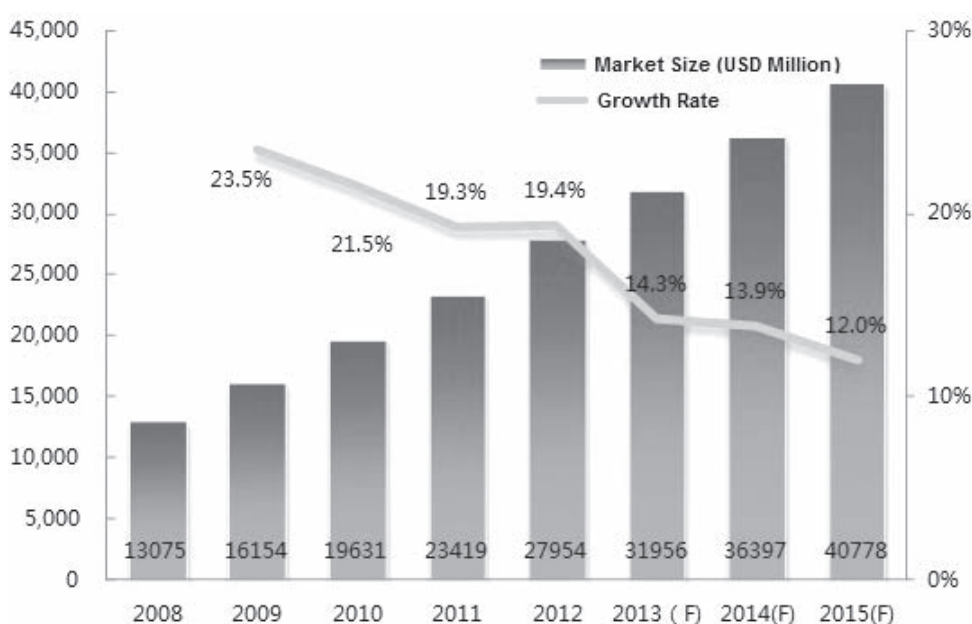
- online games are more accessible to game players, conforming to their routine habits;

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- the supply of online games increased by a large margin; and
- the number of the online game providers increased due to the relatively low cost of development compared with arcade games and console games.

The following table sets forth the historical and projected revenue of the global online game industry.

**Market Size of the Global Online Game Industry**



Source: EnfoDesk © Analysys Consulting

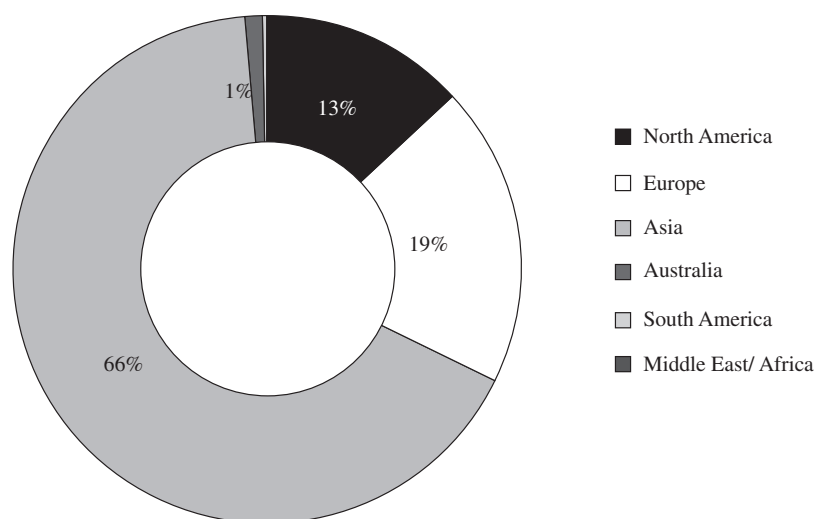
According to Analysys Consulting, Asia has become the largest online game market globally, accounting for 66% of total revenue worldwide. This is due partly to the fact that there are more online game players in Asia than in any other region of the world. Europe comprises the second largest market, accounting for 19% of the total global online game revenue, followed by North America with 13%. The following chart sets forth the breakdown of the total revenue of the global online game market by region for the year ended 31 December 2012.

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### Revenue of the Global Online Game Market by Region in 2012



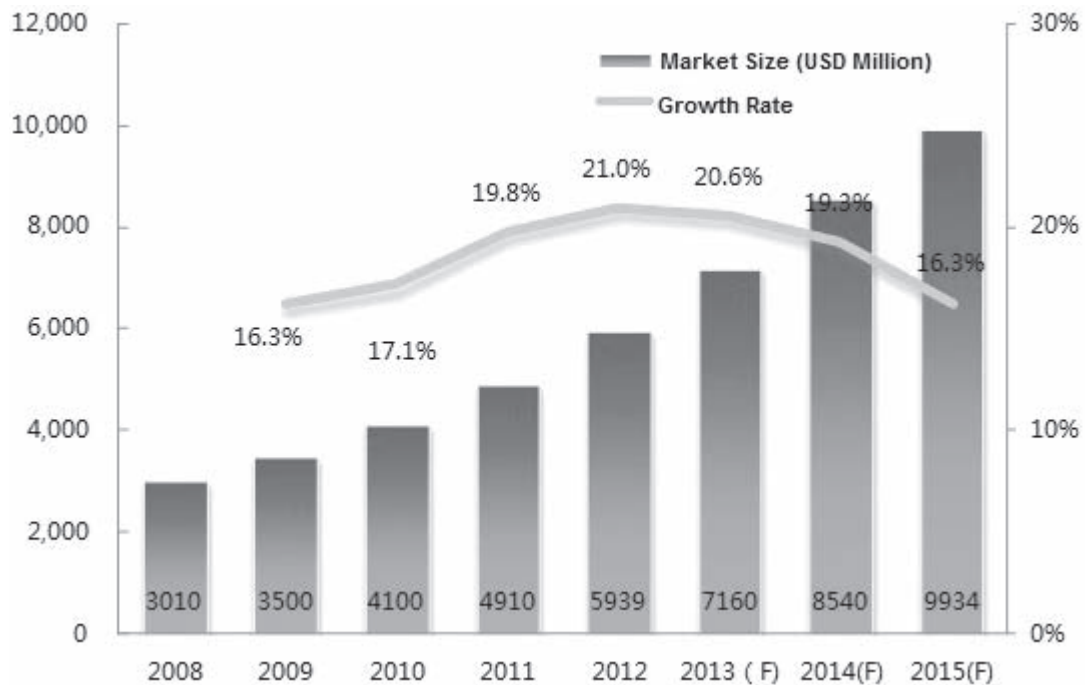
Source: EnfoDesk © Analysys Consulting

### Growth in the market size of the mobile game segment

According to Analysys Consulting, in 2012, the mobile games market segment of the online game industry expanded rapidly with a total market value of US\$5,939 million. This growth can be attributed to the development of smart mobile devices and operating systems. The market is expected to grow further as smart mobile devices become more sophisticated and as the number of mobile game players increases. The following chart sets forth the historical and projected market size of the global mobile game industry.

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**Market Size of the Global Mobile Game Industry in 2012 and Future Trend Forecast**



Source: EnfoDesk © Analysys Consulting

According to Analysys Consulting, Asia remains a dominant regional market globally, accounting for 44% of the total revenue of the global mobile game market. As at 31 December 2012, there were more smart mobile devices used by the population in Asia than any other region, and is expected to expand in the near future. Although Europe maintains a relatively small player base, the rate of paying users and ARPU (“Average Revenue Per User”) is relatively high. As a result, the European market ranks second in the world with 31% of the global mobile game industry. As a result of globalization and improvement of mobile game distribution systems, mobile game providers can distribute their products to players around the world. Therefore, certain mobile games were able to achieve tremendous international popularity such as Draw Something and Texas Hold’em Poker.

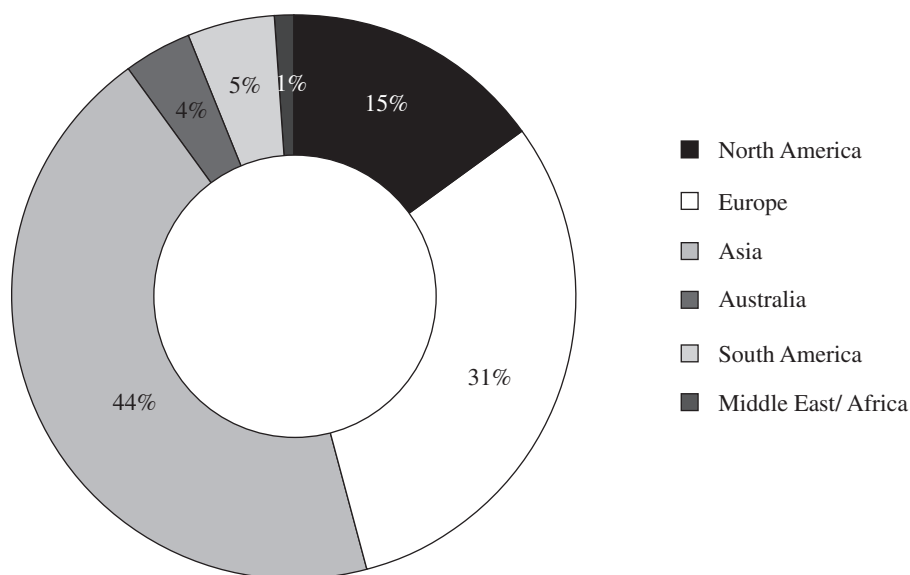
The advent of tablets and smart phones has greatly changed the global game market. The touch screen technology introduced a new element to game product design, facilitating the creation of novel game experiences and opportunities for profit. Because of this potential, game developers must now focus on developing family game console and PC games or developing new games for the more emerging mobile platforms. The following chart sets forth the revenue of the global mobile game market by region for the year ended 31 December 2012.

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The Revenue of the Global Mobile Game Market by Region in 2012



Source: EnfoDesk © Analysys Consulting

### OVERVIEW OF THE MAJOR ONLINE GAME MARKETS

#### Asia market

According to Analysys Consulting, Asia has consistently been a major market for online games, boasting higher revenue for various online games than any other regional markets such as North America and Europe. The revenue of Asia’s online game market reached US\$17,139 million in 2012, and is expected to rise to US\$24,960 million by 2015. In Asia, browser games, client-based games and mobile games dominate the development of the game industry, underscoring the vitality and potential of the online game market in the region. Moreover, the relatively early commencement of online game development activities in Asia resulted in a higher degree of global recognition of its online game products due to the quality of the game design and the variety of game genres. More precisely, China, South Korea, Japan and Vietnam are among the leading countries in the global online game industry, all of whose products enjoy worldwide popularity.

Within Asia, China is the largest online game market. At the end of 2012, the revenue from China reached US\$7,296 million, illustrating the maturity of China’s online game market and the improvement of engagement and profitability.

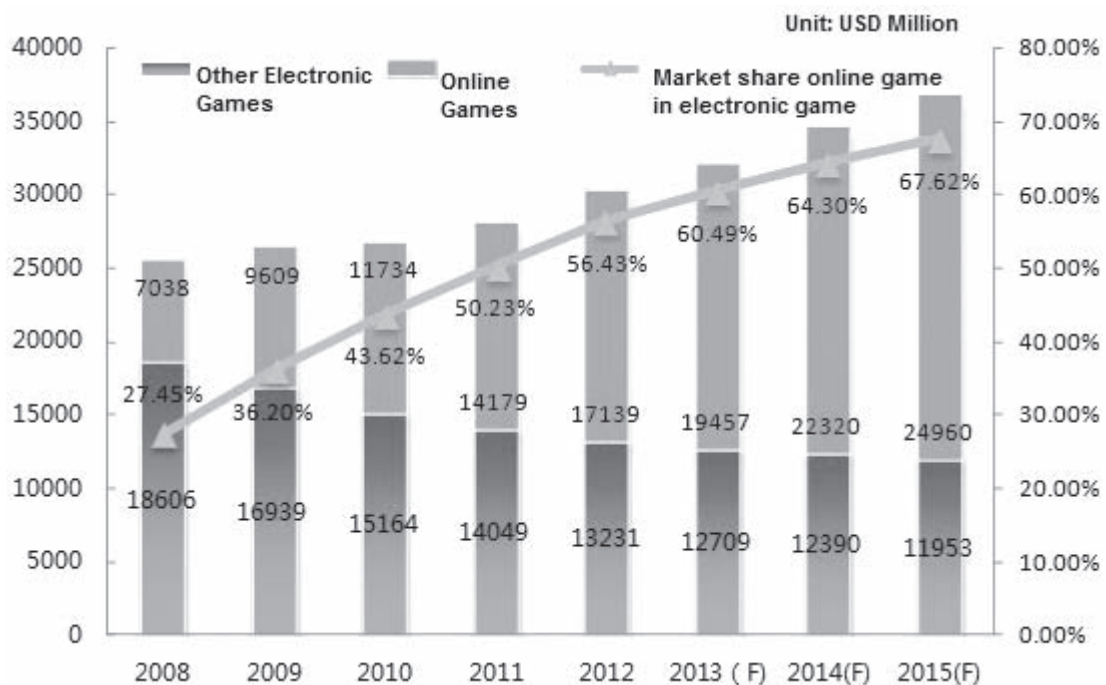
South Korea is another major producer of online games in Asia. The revenue from its online game industry reached US\$6,100 million in 2012 and is estimated to reach US\$9,600 million by 2014. In 2012, South Korea’s mobile game market grew rapidly with several world-renowned companies entering the global mobile game sector.

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The demand for online games in Japan is considerable. 2012 marked the end of Japan’s five-year recession in terms of revenue from the online game market. Vietnam is the largest online game market in Southeast Asia. In 2012, its revenue reached US\$282 million.

The revenue from the Asian online game industry as a proportion of the revenue from the larger electronic game industry in which online game industry forms a part grew from 27.45% in 2008 to 56.43% in 2012. According to Analysys Consulting, the proportion is expected to reach 67.62% in 2015. The following table sets forth the historical and projected market size of the game industry in Asia and future trend forecast from 2008 to 2015.

**Market Size of the Asia Online Game Industry in 2012 and Future Trend Forecast**



Source: EnfoDesk © Analysys Consulting

### European market

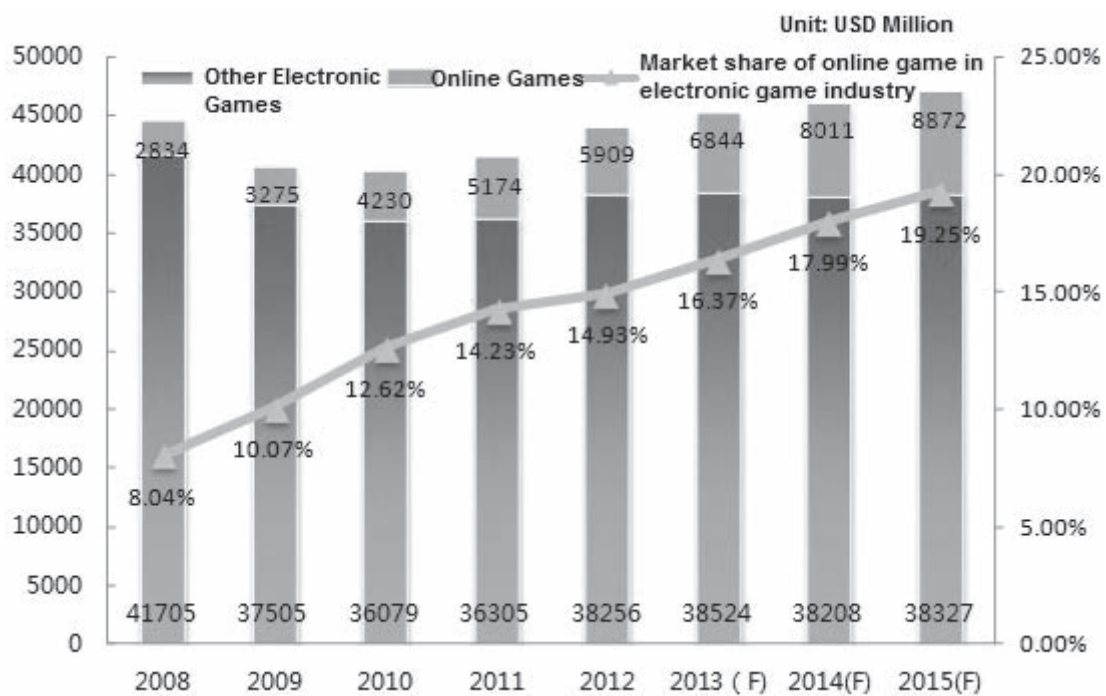
According to Analysys Consulting, in Europe, the revenue from the online game industry reached US\$5,909 million in 2012. The number of online games in the European game market rose at a faster pace than in North America. European game players rank first in the world in terms of the ability to pay for game products. To date, there are 35 million online game players in Europe, 48% of whom are paying users. European players’ acceptance of online games is relatively high, and approximately 57% of European online game players are also mobile game customers.

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In Europe, Germany demonstrated the largest growth in terms of volume of online game players in 2012, with an increase of 37%, as well as in terms of industry revenue, which increased to US\$700 million. Turkey and Russia are also major markets for online games. Turkey showed great potential as a growing online game market in 2012, boasting 21.8 million total online game users and a paying user percentage of 49%. The online game market in Russia has also exhibited rapid growth. The revenue of Russia’s online game industry has increased to US\$50 million, of which client-based games constitute 65%.

The revenue from the European online game industry as a proportion of the revenue from the larger European electronic game industry grew from 8.04% in 2008 to 14.93% in 2012. Furthermore, the proportion is expected to reach 19.25% by the 2015, according to Analysys Consulting. The following chart sets forth the historical and projected revenue of the game industry in Europe from 2008 to 2015.

**Market Size of the European Online Game Industry in 2012  
and Future Trend Forecast**



Source: EnfoDesk © Analysys Consulting

### North American Market

According to Analysys Consulting, North America is unequivocally the world’s largest electronic game market in terms of its global market share. Historically, the family game console dominated the North American game market. However, as the global financial crisis limited the amount of per capita

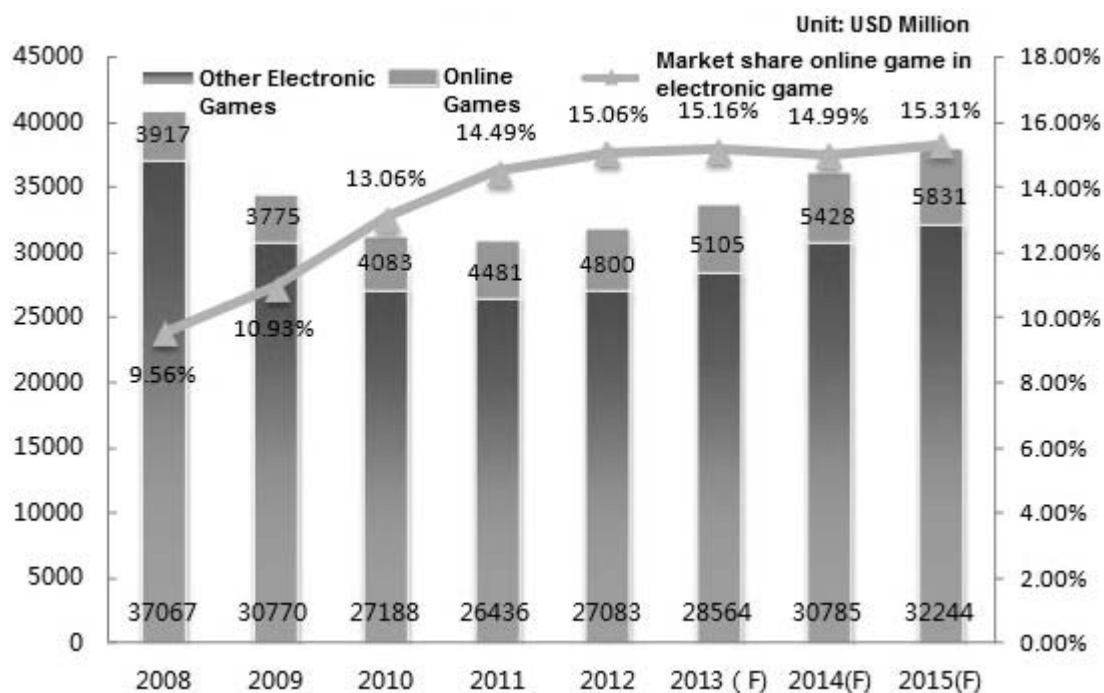
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disposable income North Americans dedicated to entertainment and as new technology rendered the family game console obsolete, online games became more and more popular within the region. In 2012, the consumption volume of online games, including browser games, client-based games and mobile games, reached US\$4,800 million.

The United States is a major game market in North America, contributing nearly 90% of the region’s revenue. In 2012, American game players increased their total online gaming time by 26%. As a whole, American gamers dedicated 22% of their total gaming time to playing browser-based games, far surpassing the amount of time spent playing client-based games.

The revenue from the online game industry as a proportion of revenue from the larger North American electronic game industry increased from 9.56% in 2008 to 15.06% in 2012. According to Analysys Consulting, the proportion is expected to continue to increase slightly to 15.31% by 2015. The following chart sets forth the historical and projected market size of the game industry in North America from 2008 to 2015.

**Market Size of the North American Online Game Industry in 2012 and Future Trend Forecast**



Source: EnfoDesk © Analysys Consulting



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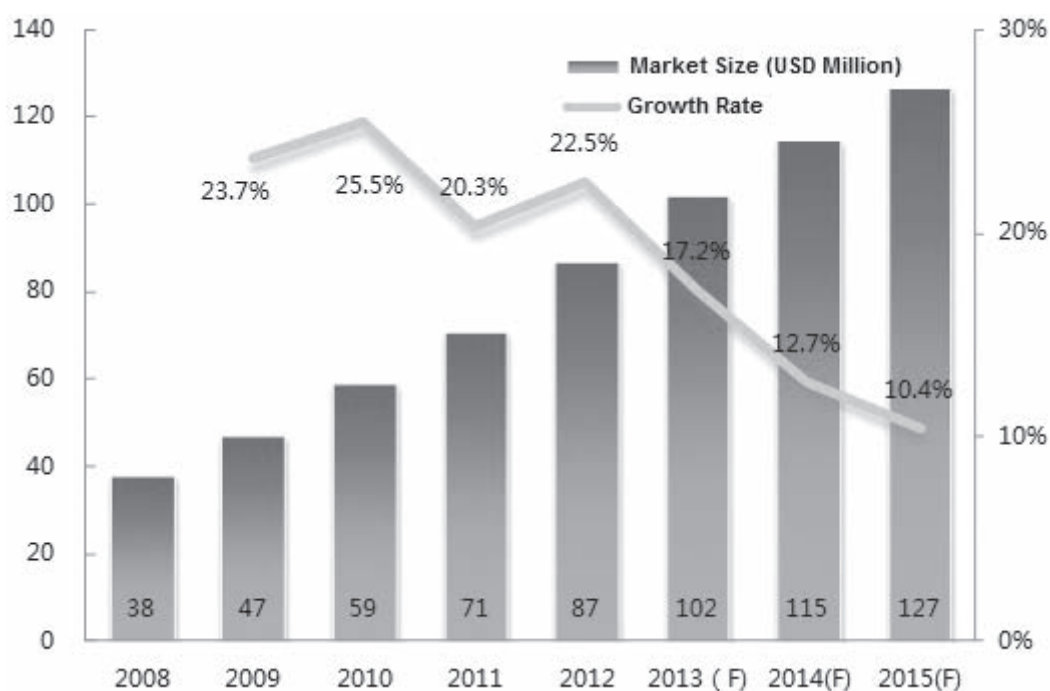
### COMPETITIVE LANDSCAPE

According to Analysys Consulting, the online game industry is comprised of three main segments: the browser games, client-based games and mobile games.

#### The Competitive landscape of the browser game segment

According to Analysys Consulting, the browser game segment has developed rapidly since 2008. The development of various social network platforms in recent years enhanced the visibility and accessibility of browser games, partly accounting for the significant expansion in the segment’s market size. In 2012, the revenue from the global browser game market reached US\$87 million, representing an increase of 22.5% from 2011. It is estimated that the market size could reach US\$127 million in 2015. The following table sets forth the historical and projected market size of the global browser game segment from 2008 to 2015.

**Market Size of the Global Browser Game Market in 2012 and Future Trend Forecast**



Source: EnfoDesk © Analysys Consulting

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Major browser game providers include Tencent, 7 Road, Tianshenhudong.com, among others. The following table sets forth the top five browser games in the global market.

Game	Game provider	Major operating countries	Revenue <i>(USD million)</i>
Qixiongzhengba . . . . .	Tencent (China)	China and Korea	216
DanDanTang . . . . .	7 Road (China)	China, Singapore, Vietnam and US	132.3
Aojian. . . . .	Tianshenhudong.com (China)	China, Singapore and Malaysia	95.4
Shenxiandao . . . . .	Xingdong.com (China)	China and Thailand	94.1
Longjiang . . . . .	My9yu.com (China)	China and Singapore	61.9

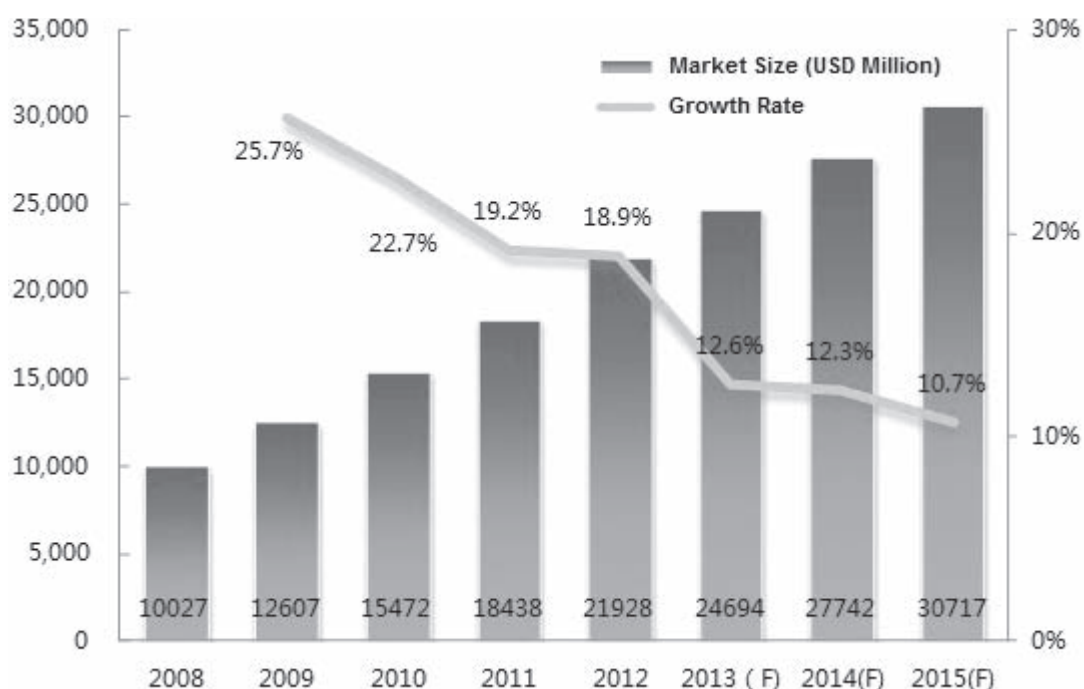
### **The competitive landscape of the client-based segment**

According to Analysys Consulting, the development of client-based games dates back to 1978. Currently, client-based games constitute the most profitable sector in the online game industry. The global market scale of client-based games reached US\$21,928 million in 2012, and is expected to hit US\$30,717 million in 2015.

According to the market breakdown prepared by Analysys Consulting, Asia generated more revenue from client-based games than any other regions in the world. Though the quality of its game products was generally inferior to that of the providers in Europe and the United States, Asia’s high revenue can be attributed to its large user base and extensive experience in cultivating client-based online games. In other words, players in Asia exhibited market-friendly consumption habits, thereby facilitating the fast development of the client-based market in the region. The following table sets forth the historical and projected market size of the global client-based game segment from 2008 to 2015.

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**Market Size of the Global Client-based Game Market in 2012 and Future Trend Forecast**



Source: EnfoDesk © Analysys Consulting

Major client-based game providers include Blizzard Entertainment, Smile Gate, Perfect World, NetEase, NCSOFT, among others. The following table sets forth the top five client-based games in the global market in terms of revenue generated in 2012.

Game	Game provider	Major operating countries	Revenue (USD million)
World of Warcraft . . . . .	Blizzard Entertainment(US)	China, US and Korea	793.6
CrossFire . . . . .	Smile Gate (South Korea)	China	761.9
Fantasy Westward Journey . . . . .	NetEase (China)	China	305
Perfect World . . . . .	Perfect World (China)	China and Vietnam	256
LINEAGE II . . . . .	NCSOFT (South Korea)	Korea and Japan	210

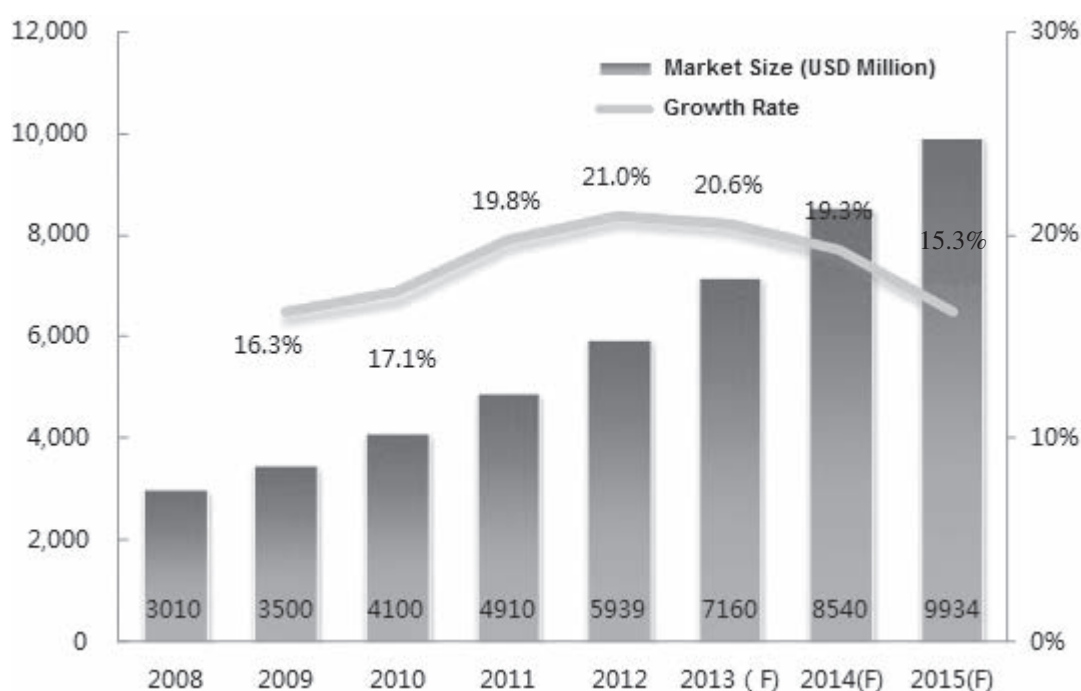
### The competitive landscape of the mobile game segment

In the past several years, as the popularity and accessibility of mobile Internet and smart devices fulfilled the hardware requirements for the development of mobile games and as providers’ increased

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investments in mobile games expanded the range of products available to players, mobile game markets around the world grew with profitable points existing in many corners rather than concentrated in a certain region. The revenue from the global mobile game market reached US\$5,939 million for 2012, representing an increase of 21% compared to 2011. It is estimated that revenue will expand further to US\$9,934 million in 2015, according to Analysys Consulting. The following table sets forth the historical and projected market size of the global mobile game segment from 2008 to 2015.

**Market Size of the Global Mobile Game Market in 2012 and Future Trend Forecast**



Source: EnfoDesk © Analysys Consulting

Major mobile game providers include EA, Zynga, GREE, Gameloft, among others. The following table sets forth the top five online games in the global market.

<b>Game Provider</b>	<b>Registration Country</b>	<b>Major operating countries</b>	<b>Revenue (USD million)</b>
Electronic Arts Mobile . .	US	US, Japan and China	241
Zynga . . . . .	US	US and Japan	211
GREE . . . . .	Japan	China and Japan	135
Gameloft. . . . .	France	Western Europe and China	79
Storm8 . . . . .	US	US	55

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### **COMPETITIVE ADVANTAGES OF IGG**

According to Analysys Consulting, we have the following key competitive advantages, among others:

#### ***Integrated in-house development and publishing for streamline operation***

The successful integration of proprietary product development and online game publishing enhances the overall performance of an online game provider and underscores the maturity of our company. For instance, maintaining proprietary development capabilities provides flexibility in terms of upgrading and improving game products while the experience obtained in the operation of such proprietary developed products stimulates future development as well as facilitates better localization of products.

#### ***Optimization of human resources allocation***

Our development team is comprised of individuals of different nationalities and cultures. This diversity enables our team to address and solve cross-regional and cultural obstacles encountered in the process of developing and operating our products. Moreover, the strategic location of our regional office in China provides a competitive cost advantage in terms of human resource costs and development capacity.

#### ***Various marketing strategies to attract quality players to various game products***

We employ different marketing strategies for different types of games. We had in the past displayed advertisement in gaming portals such as online game forums, video sharing sites, to promote our client-based games. Additionally, we chose to cooperate with social network websites to market our browser games. We engaged these websites by providing social games that were more familiar to the European and American players. Our company demonstrated deep understanding of the online game advertising market, and comprehension of various promotion channels. As a result, we were able to achieve greater market share.

### **DIRECTORS' CONFIRMATION**

The Directors confirm, after taking reasonable care, that there is no adverse change in the market information since the date of the Analysys Report, which may qualify, contradict or have an impact on the information in this section.