

## **BUSINESS**

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### **OVERVIEW**

We are a fast-growing global online games developer and operator with headquarters in Singapore and regional offices in the United States, China and the Philippines. We offer multi-language browser games, client-based games and mobile games to players around the world. We target our games to mid-core and hard-core players who usually spend not less than one hour per day for game playing. In addition to our international presence, we place most of our development personnel in China, which allows us to leverage our cost advantage and develop our games in a cost-effective manner.

We operate our online games under the F2P model, which encourages players to experience our games and facilitates the growth of our gamer communities. Under this model, our players can download and play our games for free. Our revenue is generated by selling virtual items to players, which can be purchased using virtual currency sold by us, to enhance their game-playing experience. Once the players have purchased such virtual currency through our payment channel partners, including PayPal, Facebook Payments, Skrill, MOL, Amazon Payments and Google Checkout, they are able to charge items directly to their accounts.

While we traditionally focused on the development and operation of client-based games and browser games, we have recently shifted our attention to developing and operating browser games and mobile games in response to the evolving market trend. According to Distimo.com, an independent third party provider of mobile application analytics, we were ranked in the top ten game publishers globally, top three in Hong Kong and Singapore, top five in Taiwan and Australia, top six in the United States and Canada, and top seven in Russia and United Kingdom, in terms of weekly gross sales generated by our mobile games on Google Play for the week ended 22 September 2013. We regularly offer expansion packages, which contain significant upgrades and updates to our games. Through continuous improvements and upgrades to our online games, we believe we can improve the game-playing experience and extend the life cycle of our online games.

Benefiting from our strong game development capability and successful multi-language game development and marketing strategy, we generated a substantial portion of our revenue from sales of virtual items in our proprietary online games to large and diversified user bases around the world during the Track Record Period. Our player community consisted of over 70 million player accounts around the world, including a total MAU of approximately 6.1 million as at 31 May 2013. A majority of our revenue is derived from North America, Europe and Asia. For the five months ended 31 May 2013, 40.2%, 23.2% and 26.2% of our total revenue came from players with IP addresses in North America, Europe and Asia, respectively.

The following table sets for the ARPDAU, MAU and DAU of our browser games, client-based games and mobile games as at 31 December 2011 and 2012 and 31 May 2013. Unless otherwise indicated, these metrics are based on internally-derived measurements across all platforms on which

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## BUSINESS

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our games are played. In addition, the metrics we have developed or those available from third parties regarding our industry and the performance of our games, including ARPDau, MAU and DAU, may not be indicative of our financial performance.

Game	As at 31 December 2011			As at 31 December 2012			As at 31 May 2013		
	ARPDau	MAU	Average DAU	ARPDau	MAU	Average DAU	ARPDau	MAU	Average DAU
	(US\$)			(US\$)			(US\$)		
Browser games . . . . .	0.18	1,859,665	341,493	0.26	2,747,064	338,636	0.31	2,450,243	360,553
Client-based games . . . . .	0.21	442,182	109,405	0.24	361,026	80,330	0.27	269,310	69,364
Mobile games . . . . .	0.55	4,399	468	0.07	1,459,093	84,656	0.08	3,379,331	317,497

We currently have six online games in our development pipeline. These new games, all of which will be run on a mobile platform, offer different themes and gaming experience to attract various types of players. We expect most of these new online games will be launched in the fourth quarter of 2013. For the details of our online games in pipeline, please refer to “— Our Pipeline” of this document.

Our marketing strategy focuses on cooperation with leading Internet platforms, such as Facebook, Apple App Store and Google Play. In addition, we have established business relationships with more than 40 other game promotional platforms. As at 31 May 2013, we provided 36 payment channels for players to purchase virtual currency to be used in our games.

### COMPETITIVE STRENGTHS

We believe that the following competitive strengths enable us to compete effectively and to take advantage of the rapid growth in the online game market:

**Our large and multifarious player base affords us access to clients worldwide and decreases the risks associated with operating in a single market**

We offer our online games to players in a large number of countries and regions across the world. Our player community consisted of over 70 million player accounts from over 180 different countries and regions, including a total MAU of 6.1 million as at 31 May 2013. Our revenue, therefore, also comes from diverse geographic areas.

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**BUSINESS**

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The following table sets forth a breakdown of our revenue by major regions based on players’ IP locations for the periods indicated:

	Year ended 31 December				Five months ended 31 May			
	2011		2012		2012		2013	
	<i>US\$’000</i>	%	<i>US\$’000</i>	%	<i>US\$’000</i>	%	<i>US\$’000</i>	%
					<i>(Unaudited)</i>			
North America . . . . .	11,710	37.7	14,587	33.8	5,681	33.4	9,754	40.2
Asia . . . . .	8,806	28.3	13,582	31.5	5,188	30.5	6,359	26.2
Europe. . . . .	7,230	23.3	10,532	24.4	4,445	26.2	5,619	23.2
Oceania . . . . .	1,710	5.5	2,297	5.3	849	5.0	1,191	4.9
South America . . . . .	1,520	4.9	2,032	4.7	778	4.6	1,252	5.2
Africa . . . . .	104	0.3	124	0.3	48	0.3	83	0.3
<b>Total. . . . .</b>	<u>31,080</u>	<u>100.0</u>	<u>43,154</u>	<u>100.0</u>	<u>16,989</u>	<u>100.0</u>	<u>24,258</u>	<u>100.0</u>

To increase the marketability of our games in different countries and regions, and to enhance the gaming experience for our players while alleviating communication problems among players from the same communities, we provide multiple versions of our games in different languages. For example, one of our leading games in 2011 and 2012, Galaxy Online II, has been released in 15 different language versions, including Chinese, English, French, German, Spanish, Russian, Italian, Japanese, Korean, Arabic, Turkish, Portuguese, Bahasa Indonesian, Thai and Vietnamese in 2012 compared to ten language versions in 2011. These multi-language versions helped us to attract a significant number of new players between 2011 and 2012, particularly in Asia, where annual revenue grew 54.2%, and in Europe, where annual revenue grew 45.7%.

We believe our existing diversified player base located around the world and our extensive experience in developing and operating games in a variety of different markets and languages allow us to capture players and growth opportunities when they arise and to reduce our reliance on any single market. Accordingly, we believe we have extensive overseas operating experience in meeting the Qualification Requirement, which requires a foreign investor, who intends to invest in a value-added telecommunications business in the PRC to possess prior experience in operating the relevant business and a proven track record of operation overseas.

**We have a strong development team with diverse backgrounds, most of whom are located in China, which enables us to design games in a cost effective manner, broaden our market appeal and keep us aligned with trends in the online game industry**

We designate Fuzhou, Fujian Province, China, as the primary location of our development team, which provides us access to highly trained, experienced and skilled personnel at cost-effective rates, and enables us to maintain strong development capabilities at costs we believe are comparatively lower than those of our overseas competitors. More importantly, this allows us to devote more capital and resources into our marketing efforts. We also have development personnel based in Singapore. As at 31 May 2013, our product development team in Fuzhou and Singapore consisted of 291 game development personnel. These skilled personnel use an integrated game development process, which

## **BUSINESS**

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emphasizes game design, programming, graphics and testing, to effectively control the quality, cost and pace of product development. For further details of our game development process and our development team, please see “— Our Operations — Game development and operation” and “Directors, Senior Management and Employees” in this document.

In addition to maintaining our cost advantage, we also boast an international development team with diverse backgrounds. The different backgrounds of our skilled development employees offer us diversity of experiences and ideas, which we believe are essential for us to develop games that cater to a wider array of customers and thereby, broaden our market appeal. As at 31 May 2013, we had established a team of 567 employees, 63 of whom were located in offices outside of the PRC, including the United States and Singapore. Those employees include our international development personnel, support staff and customer service representatives. We also opened an office in the Philippines in January 2013. In particular, the diverse cultural backgrounds and experiences of our development team enable us to not only develop and operate games in different themes, including, among others, ancient warfare, science fiction, pirates and classic heroism, but also to integrate different cultural features into our games, such as the merging of Eastern and Western cultures. We believe that our internationally diverse development team is particularly capable of developing an innovative and diversified game portfolio complete with distinct visual aesthetics, thereby allowing us to appeal to and capture a broad player base and keep us aligned with trends in the online game industry.

### **Our effective marketing strategy and our broad relationships with leading Internet platforms worldwide help us to target and attract more potential clients and to build brand recognition**

We have developed a multi-channel marketing strategy to target potential players, and we cooperate with other leading Internet platforms to expand our brand influence. Apple App Store and Google Play are our primary platforms for providing players with easy access to our mobile games. We have received positive customer feedback and high rankings for some of our games via Apple App Store and Google Play, which have helped us attract new players. Facebook is another powerful platform we use to advertise our browser games. We believe leveraging the large user base of Facebook has allowed us to achieve significant growth for our browser games and created additional distribution opportunities. We also cooperate with more than 40 other online promotional game platforms, including informational and operational game websites, to expand our marketing platforms to promote our games. Further details of our marketing strategy are set out in the “— Our Operations — Marketing” section of this document. We believe that our marketing strategy allows us to identify potential players and build brand recognition among mobile device and social network users in a targeted and cost-effective manner.

### **We develop most of our games in-house, which allows us to create our games with multi-language versions in an efficient manner to keep up with global player preferences**

We hold the software copyrights of all of the games we have developed in-house. As at the Latest Practicable Date, we had 30 games in our game portfolio, of which, 25 games were developed by us in-house, including each of our most popular games in terms of revenue and revenue growth during the Track Record Period: Godswar, Galaxy Online II, Wings of Destiny and Texas HoldEm Poker Deluxe. Because we hold the IP rights of in-house developed games, in the event of changing customer

## **BUSINESS**

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preferences or advancement of online game technologies, we believe we are well-positioned to adapt and design games quickly in order to satisfy the player demand and capture market share. Unlike some of our competitors who publish online games through licenses obtained from third party game developers, if we detect a need to develop one of our existing games for a new platform, we would be able to quickly dispatch development resources and do not need to negotiate with third party license holders. This allows us to design different versions of our existing games for different platforms on a timely fashion.

### **Our global service platform and various regional offices allow us to conduct our international operations more efficiently**

We have built extensive service-providing platform to support our global operations. As at 31 May 2013, we had 1,474 production servers either self-owned or leased in the United States, Singapore, Amsterdam, China, Hong Kong and Taiwan. Further details of our facilities are set out in the “— Our Operations — Facilities” of this document. To further facilitate our operations worldwide, we have established headquarters in Singapore and regional offices in each of the United States, China and the Philippines. Our regional office in Fuzhou, Fujian Province, China serves as our development center. As at 31 May 2013, 88.9% of our personnel are located in Fuzhou, approximately 57.5% of whom are members of our development team. Our regional office in the United States employs an international operation team consisting of 16 employees who provide services to our players in seven different languages. The diverse geographic backgrounds and language skills of our employees engaged in game development enable us to localize our online games more accurately and efficiently. Our team in Singapore is responsible for managing our operations in Southeast Asia and coordinating localization of our products to cater to the preferences and needs of our customers in that region. Additionally, our Singapore office also has a team focusing on advanced game operations and connecting players in global markets to our development center in China. With a service team of 22 members as at 31 May 2013, our regional office in the Philippines serves as our customer support center for overseas players, providing assistance 24 hours a day. To further improve customer service for our players worldwide, we plan to expand our Philippines office into a larger and multi-lingual customer service center in the near future.

### **Our skilled management team possesses the extensive overseas operational experience and industry knowledge necessary to continue leading us to success**

We have an experienced management team with extensive overseas operational experience in the Internet industry. Mr. Zongjian Cai, our chief executive officer and executive Director, has over 13 years of experience working in various areas of the computer game industry, including game development, marketing, business development and management. Mr. Yuan Chi, our senior vice President and executive Director who is in charge of our game development in China, has over 14 years of experience working in the Internet industry. Mr. Yuan Xu, our chief operation officer, has over 13 years of experience working in the online game industry and related technical fields, and manages our business and operations overseas. Mr. Hong Zhang, our chief technology officer, has over 15 years of experience working in the IT industry. This core team has been working together since the launch of our first MMORPG online game, Myth War Online, in North America in 2006. After six years of

## **BUSINESS**

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operation, our management team has accumulated extensive global operational experience and we believe we are adept at predicting, identifying and capitalizing on changes in the trends of the global online game market. We believe that the development and operational experience and skills of these core management team members will be critical to our continued success.

### **OUR STRATEGIES**

Our objective is to create popular online games for players around the world and promote them globally to enhance our profitability and expand into new game markets. We intend to achieve these objectives by pursuing the following strategies:

#### **Expand and diversify our game portfolio**

We generate our annual game development plan at the beginning of each year. As at the Latest Practicable Date, we offered 13 browser games, eight client-based games and nine mobile games. We have an additional six mobile games in development which we expect to launch by the end of 2013. We will continue to operate and provide content updates for our major current titles, such as Godswar, Galaxy Online II, Wings of Destiny and Texas HoldEm Poker Deluxe, which remain profitable. However, we expect to decrease our overall reliance on browser games and client-based games by offering more mobile games catering to mid-core players, primarily for the following reasons:

- *Development time and expenses* — According to our experience, developing a browser or client-based game normally takes a development team of about 100 personnel between one to three years due to the complex nature of its story line, whereas developing a mobile game typically requires fewer personnel and less development time, and costs only 30% to 50% and 15% to 30% of the cost typically required to develop a browser game and a client-based game, respectively;
- *Operating efficiency* — operating browser or client-based games is more complicated than operating mobile games. First, we need to provide CDN service globally to our players in order to enable them to download browser or client-based games. Second, due to their complex nature, operating browser or client-based games typically requires more customer service personnel to handle large volumes of customer inquiries. On the other hand, mobile games can be downloaded anywhere in the world directly from Apple App Store and/or Google Play, as the case may be, and because mobile games are generally more simple and straight-forward, fewer customer support employees are needed;
- *Cost structure* - user acquisition cost is a major component of our game operating expense. User acquisition cost for mobile games is significantly lower than that of browser games and client-based games as it is approximately 20% to 30% and 10% to 20% of the user acquisition cost of browser games and client-based games, respectively; and
- *Player behavior and life cycle of games*— mobile devices give players access to games anytime, and virtually anywhere in the world, making them a fast-growing platform for entertainment on demand.

## **BUSINESS**

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We have been developing and operating F2P games for over seven years and have accumulated substantial knowledge and experience in game design and user experience, back-end system design and monetisation strategy for our browser and client-based games, on which we believe we can leverage in our focus to develop more mobile games. For example, certain of our mobile games, such as Texas HoldEm Poker Deluxe, our first mobile game, and Galaxy Online II, were developed and refined based on the browser game versions that were launched on Facebook in December 2010 and February 2011, respectively. In addition, our mobile game development personnel has been and will continue to utilise the knowledge and skills of our browser and client-base game development teams when developing our mobile games.

By the end of 2013, we expect to provide a more diversified game portfolio consisting of eight client-based games, 13 browser games and 15 mobile games. As smart phones and tablet PCs have emerged as major online game operating platforms, we intend to invest more capital, human resources and development focus in mobile games in the immediate future, including casino games, cards games, tower defense games and strategy games. While revenue from mobile games accounted for 0.04%, 5.08% and 14.8% of our total revenue in each of the years ended 31 December 2011 and 2012 and the five months ended 31 May 2013, respectively, our goal is to increase revenue from mobile games such that they will account for over 70% of our total revenue in the near future. We believe our strong game development resources based in China combined with our existing player customer base and our international presence and experience will allow us to identify and exploit market trends and to make the transition to a more mobile-focused game portfolio relatively quickly and inexpensively compared to our competitors.

### **Enhance and diversify our game development and localization capabilities**

As at 31 May 2013, we had 291 employees focused on game development. We plan to further invest in, and significantly expand, our game development capabilities by continuing to recruit and train new members for our development team, while retaining current employees. We plan to expand our development team members to 317 by the end of 2013 primarily by recruiting seasoned senior-level talent from the industry. We plan to retain and motivate our key employees through a combination of competitive salaries, performance-based bonuses and equity-based compensation plans. In addition, in order to further enhance our development capabilities, we also intend to gradually decentralize our development resources. Currently, our development strength is primarily located in China. We believe a largely China-based development capability supports global sales and provides us an advantageous cost structure. However, in order to better understand and cater to the different gaming preferences of our players worldwide, we intend to engage an additional development team in Canada to outsource some of our development capabilities overseas in 2013. In Singapore, we have expanded our team consisting of operation and graphic design personnel from 23 to 32 employees by 31 August 2013 and we plan to set up a development team by the end of 2014. We currently plan that once established, our Canada and Singapore development teams will primarily focus on the development of mobile games. They will also cooperate with the development team in China and participate in the development of most of the new games currently in our pipeline.

In addition, we believe our ability to successfully implement an effective global operational strategy depends, in large part, on how quickly we can localize our popular games to sustain their popularity in the global marketplace and increase our market share. For example, the mobile game

## **BUSINESS**

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versions of Texas HoldEm Poker Deluxe and the browser version of Galaxy Online II have been localized into ten and 15 different language versions, respectively. Localizing games for different markets and operating them over multiple platforms generally require significant technical infrastructure, human resources and marketing expenditure. By leveraging our cost-efficient development center in Fuzhou, China, we are capable of supporting a multi-language and multi-platform strategy for our popular games, which distinguish us from our international and PRC competitors, some of whom do not have the capability to operate their games in multiple platforms or in various regions. Once we identify that a product has the potential to become a popular game based on initial customer feedback we receive from the game’s open beta testing as described below in “—Our Operations”, we quickly devote resources to localize the game into multiple languages and platforms. We intend to capitalize on our ability to localize popular games to enhance our game development capabilities.

### **Enhance our corporate image and effectively promote our games on a variety of platforms**

We target potential players by utilizing a multi-channel marketing strategy and we cooperate with leading Internet platforms to expand our brand reach. Currently, Apple App Store and Google Play are our primary platforms for providing players with easy access to our mobile games. We also advertise our browser games on Facebook, which we believe would allow us to achieve significant growth and create additional distribution opportunities. In addition, in order to expand the reach of our games to a wider group of players and to create additional channels to disseminate information about our products, we cooperate with more than 40 other online promotional game platforms, including informational and operational game websites. We intend to increase our advertising and promotional spending on these online platforms to enhance our corporate image and promote our games.

### **Pursue potential outsourcing or acquisition opportunities**

In addition to organic growth, we intend to pursue potential outsourcing or strategic acquisition opportunities (including teams of developing personnel) that will (i) complement our existing business and growth; (ii) improve our development capabilities and product portfolio; and (iii) expand our customer base. We believe that pursuing such opportunities will help us sustain our competitive edge and enhance our reputation in the global online game industry. In 2013, we intend to outsource some of our development capabilities to a team of developers in Canada, which will be engaged to develop mobile games. As of the Latest Practical Date, we have not identified specific acquisition plans or targets, and have not entered into any definitive agreements with any potential targets.



## BUSINESS

### OUR GAMES

We offer browser games, client-based games and mobile games to our customers. To play client-based games, players must first download the client base from our servers to their own computers. Players then log-on to their game accounts through the game client base and begin playing. For browser games, players can connect to our server through Internet browsers. Mobile games are games that players can play on mobile devices. Further details regarding to different types of games are set out in “Industry Overview” of this document.

As at the Latest Practicable Date, we offered a total of 30 games, among which, 13 were browser games, eight were client-based games and nine were mobile games. Of these 30 games, 25 were developed in-house and five were licensed from third parties. In addition, 17 of these games were MMORPGs, one was a card game, two were tower defense games, four were casino games and six were strategy games.

### Our significant current games

Our most popular games during the Track Record Period, in terms of revenue and revenue growth, include Godswar, Galaxy Online II, Wings of Destiny and Texas HoldEm Poker Deluxe. The following table sets forth the detailed information of these games:

	<b>Godswar</b>		<b>Texas HoldEm Poker Deluxe</b>			<b>Galaxy Online II</b>			<b>Wing of Destiny</b>			
<b>Game type . . . . .</b>	MMORPG		Casino			Strategy			MMORPG			
<b>Platform . . . . .</b>	Browser and client-based		Browser and mobile			Browser and mobile			Browser			
	As at 31 December		As at 31 May		As at 31 December		As at 31 May		As at 31 December		As at 31 May	
	2011	2012	2013	2011	2012	2013	2011	2012	2013	2011	2012	2013
<b>Total revenue</b>												
<b>(US\$'000) . . . . .</b>	6,358	6,728	2,424	1,432	4,727	4,387	14,108	21,319	8,180	—	1,487	4,199
<b>MAU<sup>(1)</sup> . . . . .</b>	434,321	146,858	127,550	520,600	1,904,071	2,280,313	675,363	494,225	359,677	—	1,258,394	803,460
<b>Total number of language versions . . . . .</b>	4	7	6	4	10	10	10	15	15	—	4	8

Note:

(1) MAU is the number of individuals who login to a particular game during a 30-day period ending at the measured date.

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## BUSINESS

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### Godswar



We launched Godswar, our first in-house developed client-based MMORPG, in November 2008 in the United States. We subsequently launched this game in eight other countries and regions. As at 31 May 2013, the game was available in six different languages, including Chinese, English, Spanish, Portuguese, Japanese and Bahasa Indonesian. Godswar is a 3D MMORPG set in ancient Greece. It contains quests that take players on adventures across the land, provides a massive 3D environment to explore, and integrates individual gamers into a larger gaming community in which they can communicate and interact with each other. In the game, players can visit majestic temples, meet mythological and historical figures, and challenge fierce and powerful monsters and beasts. Players can choose from different character roles, each of which has different skill sets that can be honed and improved upon by completing the different tasks of the game. While Godswar was initially designed as a client-based game, we successfully converted it into a browser game, which was launched on Facebook in December 2010, and became a widely-accepted MMORPG browser game with 3D effect on Facebook as that time.

As at 31 May 2013, we offered 231 virtual items to our players with prices ranging from US\$0.02 to US\$138.89. The virtual items include forgeable materials, pets, skill books, clothing and equipment.

## BUSINESS

### *Texas HoldEm Poker Deluxe*



We have both browser and mobile versions of Texas HoldEm Poker Deluxe. The browser version was launched on Facebook in December 2010, and the mobile version, our first in-house developed mobile game, was launched on Apple App Store in October 2011 and on Google Play in January 2012. The game is currently offered in English, German, French, Spanish, Thai, Portuguese, Japanese, Turkish, Russian, and Chinese. Players have the option to play at any table, either electing to meet and play with new people from around the world or join friends in a personalized setting. Players interact with each other by chatting and sending and receiving virtual gifts, including poker chips. Texas HoldEm Poker Deluxe offers players a virtual casino, where players worldwide can join their friends to play with. Texas HoldEm Poker Deluxe received a high player rating of 4.7 out of 5 on Google Play, among the highest scores awarded to any Texas hold'em poker mobile games in the United States. According to Appannie.com, a third party independent provider of mobile application analytics, which tracks the popularity of mobile games, Texas HoldEm Poker Deluxe was the four most popular Texas hold'em poker game on Google Play platform. We did not commission Appannie.com for any of its mobile application analytics. We offer chips and gold as virtual items to our players, within a predetermined price range.

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## BUSINESS

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### *Galaxy Online II*



Galaxy Online II, a sequel to our first in-house developed strategy game, Galaxy, was first launched in February 2011 on Facebook. As at 31 May 2013, we offer this game in 15 different languages versions, including Chinese, English, French, Italian, German, Spanish, Turkish, Portuguese, Thai, Russian, Indonesian, Arabic, Korean, Japanese and Vietnamese. Galaxy Online II is a strategy game available in both mobile and browser versions, in which galaxies have become battlegrounds for interstellar warlords. Each player assumes the role of a warlord and is initially assigned to a home galaxy in which they establish a ground base, explore resources, build galactic fleets, recruit commanders and engage in battles in space. From there, they can attempt to expand out into space and conquer other galaxies.

As at 31 May 2013, we offered 1,524 virtual items to our players with prices ranging from US\$0.03 to US\$13.79. The virtual items include commander cards, gems, chips and blueprints.

### *Wings of Destiny*



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**BUSINESS**

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Wings of Destiny was first launched in May 2012 in Taiwan and in September 2012 in the United States. Wings of Destiny is a browser game which merges Western magic elements with Eastern fantasy elements. The game is set in a world ravaged by various catastrophic natural disasters and the players have the opportunity to build a new world by fighting with and triumphing over various monsters. As at 31 May 2013, we offered this game in eight languages, including Chinese, English, Spanish, Thai, Vietnamese, German, French and Portuguese.

As at 31 May 2013, we offered 149 virtual items to our players with prices ranging from US\$0.06 to US\$24.24. The virtual items include gems, pets and mounts, potion and equipment.

**Our pipeline**

We prepare our annual game development plan at the beginning of each year and as at the Latest Practicable Date, we offered 13 browser games, eight client-based games and nine mobile games. We have an additional six mobile games in development which we expect to launch by the end of 2013.

The following table sets out a list of our games launched, or to be launched, in 2013 as at the Latest Practicable Date:

<u>Games</u>	<u>Game Type by Different Platform</u>	<u>Game Type by Playing Rules</u>	<u>Actual or Estimated Date</u>
<i>Launched</i>			
Dawn of Darkness . . . . .	Mobile	MMORPG	February 2013
KaChing Slot . . . . .	Mobile	Casino	March 2013
Freesky Online 2 . . . . .	Browser	Strategy	April 2013
Heroes Social . . . . .	Browser	MMORPG	April 2013
Heroes & Monsters . . . . .	Mobile	Card	April 2013
Slot Machines by IGG . . . . .	Mobile	Casino	May 2013
Clash of Lords . . . . .	Mobile	Tower Defense	July 2013
Galaxy Online II (Mobile version) . . . . .	Mobile	Strategy	July 2013
Castle Clash . . . . .	Mobile	Tower Defense	July 2013
<i>To be launched</i>			
ZERG . . . . .	Mobile	Card	Fourth quarter, 2013
Magic Card Deluxe . . . . .	Mobile	Card	Fourth quarter, 2013
DV OL . . . . .	Mobile	MMORPG	Fourth quarter, 2013
Freesky Online 2 . . . . .	Mobile	Strategy	Fourth quarter, 2013
BINGO . . . . .	Mobile	Casino	Fourth quarter, 2013
RTD . . . . .	Mobile	Card	Fourth quarter, 2013

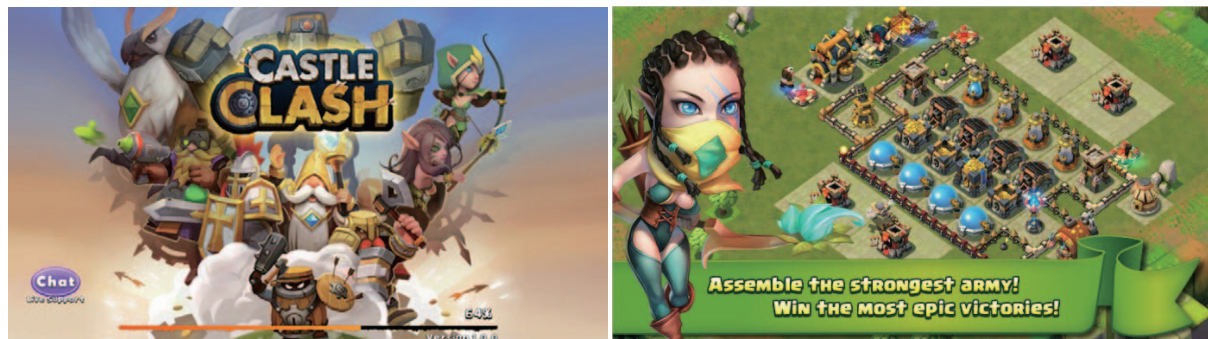
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## BUSINESS

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Our major games in 2013 are as follows:

### Castle Clash



Castle Clash is a mobile tower defense game that was launched in July 2013, featuring a lively game layout with a mix of fast-paced strategy and combat features. Players can hire legions of powerful heroes in their quest to become the world’s greatest warlords and arm their towns and cities and summon heroes, such as elves, dwarves, beasts and robots to form a formidable mercenary armies. The mercenary armies must be mobilized and utilise resources to fight against evil forces. Players can also select certain heroes to help them guard their towns and territories. As at 31 August 2013, this game was available in five different languages, including Chinese, English, German, French and Japanese. According to Appannie.com, as at 31 August 2013, Castle Clash ranked in the top ten most popular games in nine countries, including Singapore, the United Kingdom, Canada and the Netherlands, and in the top five games in seven countries and regions, including Singapore, Hong Kong, the Philippines, Canada and the Netherlands in terms of revenue generated. As at the Latest Practicable Date, we offered a virtual item, gems, to our players with a base price of US\$0.0087.

### Heroes & Monsters



In April 2013, we launched Heroes & Monsters, a mobile card game that offers attractive graphics and a user-friendly interface. The game is set against a fictional background, where historical figures and mythical spirits, demons and monsters can be summoned, controlled and cultivated by the players. Heroes & Monsters also allows players to collect and cultivate pets. Players must capture and

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## BUSINESS

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cultivate pets, gain friends in the game to help each other and form teams for adventures according to the nature and skills of players’ pets. As at the Latest Practicable Date, Heroes & Monsters achieved a rating of 4.8 out of 5 on Google Play. As at the Latest Practicable Date, we offered a virtual item, jewels, to our players with a base price of US\$0.167.

### Clash of Lords



Clash of Lords is a fantasy mobile tower defense game that was launched in July 2013. It is set against a medieval background in which ancestors of various tribes and clans around the world defend against the attacks carried out by the certain evil forces in order to protect their own ancient magic crystal stones. Each player can learn to collect, distribute and use the magic crystal stones, and lead his own tribe to defeat the evil forces. As at the Latest Practicable Date, Clash of Lords achieved a rating of 4.8 out of 5 on Google Play. As at the Latest Practicable Date, we offered a virtual item, jewels, to our players with a base price of US\$0.0087.

### Slot Machines by IGG

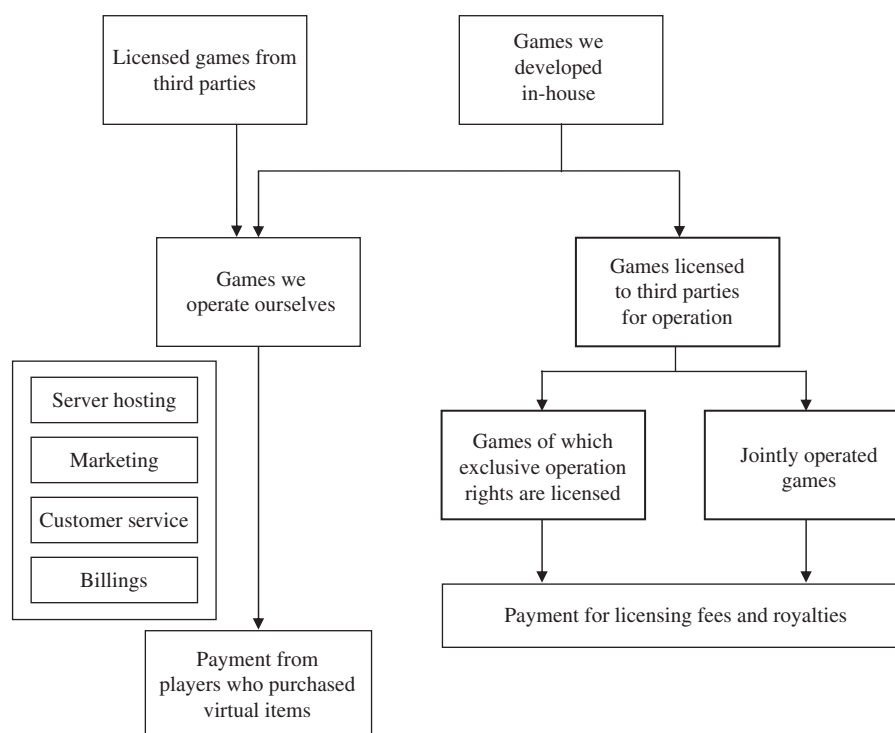


Slot Machines by IGG is a mobile game that was launched on Google Play and Apple App Store in May and July 2013, respectively. The players can select from various types of slot machines to play individually or against other players around the world. As at the Latest Practicable Date, this game received a high rating of 4.9 out of 5 on Google Play. As at the Latest Practicable Date, we offered a virtual item, coins, to our players with a base price of US\$0.0013.

## BUSINESS

### OUR OPERATIONS

We develop games in-house and operate the games we develop and games we license from third party licensors. For the five months ended 31 May 2013, 95.1% of our total revenue was generated from games operated by us. In addition, we license some of our games to third party licensees to operate in certain designated countries and regions, and we jointly operate several of the games we developed in-house with third party game operators. As at 31 May 2013, three of the games we developed were licensed to certain third party licensees located in the PRC and overseas, who paid us upfront licensing fees and royalties. Another six of the games we developed were jointly operated by us and other third party game operators. We generally obtained royalties in the amount between 50% to 70% of the revenue generated through this arrangements. The payment we received from players who purchased virtual items accounted for 95.1% of our total revenue for the five months ended 31 May 2013 and the license fees and royalties accounted for 4.9% of our total revenue for the same year. The following chart illustrates our business operations:



For the years ended 31 December 2011 and 2012 and the five months ended 31 May 2013, most of the revenue we earned from various games was collected and held by a number of payment channels. At the end of each month, we settle with these payment channels after deducting applicable services fees and directly record revenue generated from our operation of these games in the account of the relevant subsidiary that owns the IP right of that game. Payment is generally made upfront by our players directly to the payment channels when purchasing virtual currency and we do not provide users with any right of refund once payment is made. Our user agreements also stipulate that we have no obligation to continue hosting games although we agree to provide one-month concessionary service period after payment is made by the players. Because IGG Singapore owns most of the intellectual property rights for the games we operate, 91.0%, 94.5% and 94.2% of our revenue was



## **BUSINESS**

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recorded by IGG Singapore in the years ended 31 December 2011 and 2012 and the five months ended 31 May 2013, respectively. If we decide to invest directly in value-added telecommunications services in the PRC or forced to hold equity interests in Fuzhou Tianmeng in the PRC, we would be subject to the Qualification Requirement. We believe we have extensive overseas operating experience in satisfying the Qualification Requirement. Please see “Business — Our Competitive Strengths” in this document. However, as confirmed by the Company’s PRC legal advisers, as of the Latest Practicable Date, there is no applicable PRC laws, regulations or rules providing clear guidance or interpretation of the qualification Requirement. As such, no assurance can be given that the relevant PRC authorities would agree with us. Please see “Risk Factors — Risks Relating to Our Contractual Agreements — There is no assurance that the Contractual arrangements between Fuzhou Tianji and Fuzhou Tianmeng are 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” in this document.

### **Business model**

We operate our online games under the F2P model, also known as the Game as a Service (or GAAS) model. We either offer players free downloads of our games or the ability to otherwise play such games for free on PC, web and mobile devices. Our revenue is generated by selling virtual items that enhance players’ game experience. Players can register a game account through one of our game servers and play it completely free of charge, without the need to ever buy any virtual items. However, if they do wish to further enhance their playing experience, players are able to purchase the virtual items we offer. Such purchases are typically made using virtual currency, which players can credit to their accounts using one of the several payment channels that we offer. Further information of our payment channels is set out in “— Payment” in this document. The F2P model has proven to be very successful in attracting new players quickly. Moreover, the model allows us to continue to add more features and content to our games in a controlled manner, allowing our players to purchase new virtual items to enhance their in-game experience over time and thereafter, to extend the life cycles of our games. Popular virtual items include hero and commander cards for our strategy games, gems for our tower defense games, equipment, pets and mounts for our MMORPG games and chips and coins for our casino games.

### **Game development and operation**

Our primary game development center is located in Fuzhou, Fujian Province, China. We have core product developers located there who are responsible for developing new games. As at 31 May 2013, we had 291 product development personnel, among whom, 243 are focusing on the development of mobile games and 38 on browser games, and ten on client-based games. These teams also develop game enhancement and expansion packs for our existing games following their launch, which reflect the feedback collected from our players. In the case of games that we license from third parties, the licensors will normally be responsible for creating expansion material and providing technical support. We believe that such enhancements improve our games’ appeal and extend their life cycle. We will continue to expand our product offerings by developing additional online games in-house.

We enter into agreements to outsource certain aspects of game development to third party development companies, including, among others, art/graphic design, audio production and

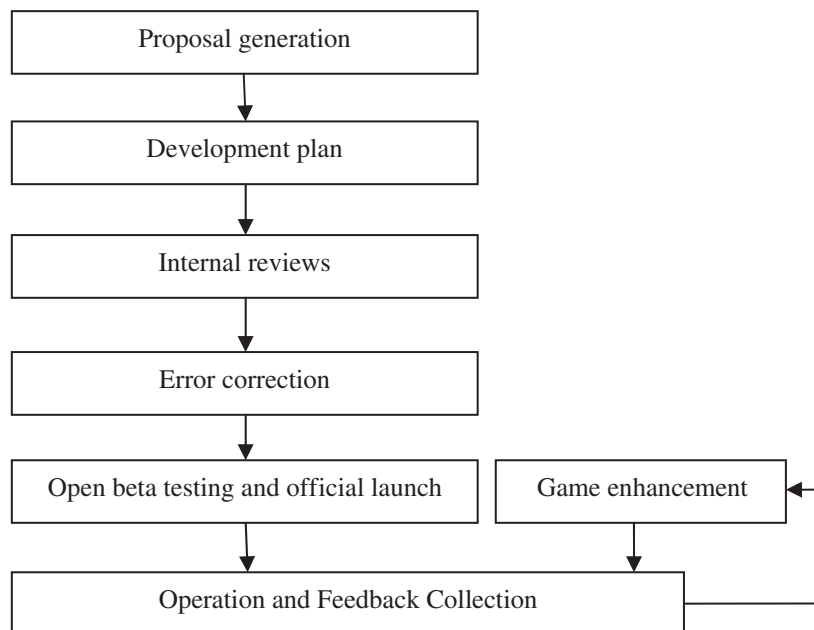
## **BUSINESS**

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translation. We outsource game development projects on a case-by-case basis based solely on our needs, third party developers’ qualification, past collaborative experience, competitive pricing and timeliness of delivery. Once the products and/or services are delivered, we inspect their quality in accordance with the applicable quality assurance criteria as set forth in the relevant agreements we enter into with them. We only make payments to these third party developers when we are satisfied with the quality of the products and/or services they provided.

As at 31 May 2013, we also had 198 personnel who were responsible for our daily operation. Our operation team includes game managers, game localization personnel and customer service staff. While most of our operation team personnel are based in Fuzhou, Fujian Province, China, we also established an operation team in Singapore and the United States and a dedicated customer service team in the Phillipines.

Our game development and operation process generally includes the following key steps:



### ***Game development and enhancement***

We have in-house capabilities that allow us to develop games and respond to changes in market demands and trends. Our game development cycle from initial proposal generation to open beta testing typically takes six to 18 months depending on the type of game.

*Proposal generation.* Mr. Zongjian Cai, our chief executive officer and executive Director, and Mr. Yuan Chi, our senior vice president and executive Director, lead our design team in formulating initial proposals that set out preliminary storylines and game structures based on their understanding of current trends in game player preferences and market opportunities. The process of formulating a general proposal is a collaborative one. Our development and management teams design the content of such proposals as well as to set milestones for the number of products to be launched each year.

## **BUSINESS**

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*Development plan.* After a proposal is accepted, a team of our developers will prepare a detailed development plan, including the story background, graphic style, specific game functions, virtual items for which we will be able to charge, allocation of personnel and estimated development costs. They will then commence the developing and programming work. One of their most important tasks is to develop the server source code for our games. A game’s sever source code is our Group’s core technology because (i) the game’s design, eco-system, architecture, algorithms, implementation and all other related technical know-how are reflected in the source code; (ii) server side source code, which is known as game server engine, usually takes our development team substantial amount of time to design, debug and enhance; and (iii) a successful game engine plays a critical role in the eventual success and popularity of a game we develop.

*Internal reviews.* Periodic management reviews take place every month to troubleshoot and adjust game design according to the preliminary feedback received from employees with regard to their gaming experience and performance.

*Error correction.* For the games they developed, our developers are responsible for fixing game errors detected during internal reviews. Normally it will take seven to 30 days to correct such errors. A new version of the game will again be internal reviewed.

*Open beta testing and official launch.* Before the official launch, as a means to conducting open beta testing, we will invite external players to play the game. By doing this, we have opportunities to test the operations of new games under open market conditions as well as introduce new games to players. We typically begin selling virtual items to players during open beta testing, thereby generating revenue. If we experience no significant technical issues, the game will be considered officially launched.

Normally the same team of developers that developed a particular game is responsible for on-going enhancements of that game. For our major games, we typically provide regular game updates once a week. We usually provide more significant enhancements once a month through expansion packs. We believe that these updates and enhancements, which reflect the feedback we collected from our daily operation, help us to maintain game players’ interest in our games and extend their customer lifespans.

### ***Game operation***

After the official launch, our operation team is responsible for the daily operation of our games. Our localization team will be responsible for our game localization, including creation of different language versions, which are normally outsourced to [●], and organizing various in-game activities to cater to our players from different countries and regions. Our localized game versions are designed to satisfy the different preferences and requirements related to different ethnic groups, religions, cultures and purchasing patterns of our game players.

We also designate game managers to manage specific games. They monitor the game operations and communicate with our players in game forums and collect feedback directly from them. In addition, we have also developed an automatic data-collection system in-house to collect relevant game operational data. Our development team enhances games based on the feedback collected from direct communication with game players and through our data-collection system.

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**BUSINESS**

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**Licensed games**

During the Track Record Period, we have also operated certain games we licenced from [●]. Of the 23, 24 and 29 games we operated in the years ended 31 December 2011 and 2012 and the five months ended 31 May 2013, and we licensed seven, six and five games, respectively, from [●] developers. Such games accounted for 20.6%, 13.2% and 9.5% of total revenue for the years ended 31 December 2011 and 2012 and the five months ended 31 May 2013, respectively.

The following table sets out the games we currently licensed from third parties as at 31 May 2013:

<b>Current Games</b>	<b>The Date of contract</b>	<b>Expiry Date</b>	<b>Subject to conditionally automatic renew or not</b>	<b>Launch Date</b>
Voyage Century	September 2006	30 January 2014	Yes	January 2007
Tales of Pirates	February 2007	28 February 2014	Yes	March 2007
Angels Online .	October 2007	31 December 2013	Yes	December 2007
WonderLand Online . . . . .	September 2007	31 December 2013	Yes	March 2008
Myth War2 . . .	June 2006	31 May 2014	Yes	June 2010

All of the games we licensed from [●] were client-based games. We sourced most of these licensed games from third party game developers in the PRC and Taiwan. We consider two major factors when selecting games to be licensed from them: (i) whether the games contained any western elements in their graphic styles, music and storylines primarily because North America and Europe are two key regions where our players are based and (ii) whether the games had good performance track record. Considering client-based games usually have longer life cycles than browser and mobile games, the initial terms of the relevant license agreements were generally two to five years, subject to conditional automatic renewals.

Under our existing licensing arrangements, we have the exclusive right to operate the underlying licensed games in specific regions. We pay an upfront flat licensing fee and additional royalties based on the revenue we received from the games. The royalty fee we paid to our licensors were US\$1.3 million, US\$1.4 million and US\$0.5 million for the years ended 31 December 2011 and 2012 and the five months ended 31 May 2013, respectively.

## **BUSINESS**

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### **Pricing**

We use the F2P model for our existing games and currently plan to use the same model for our games in development and games we develop in the future. Under the F2P model, game players can play the basic functions of the game free of charge for as long as they want. We generate revenue through the sale of virtual items for use in our games. Our popular virtual items include hero and commander cards, gems, equipment, pets, mounts, chips and coins.

Our pricing strategy focuses on maintaining the attractiveness of each game product, stimulating player’s spending on our virtual items and maximizing our revenue. Our pricing team maintains a database that tracks the sales and the price of each virtual item. The database also tracks user behavior after each of our virtual items issued. We use this data-tracking to help us determine the appropriate price for each item. As at 31 May 2013, we had thousands of virtual items available for sale across our game portfolio with base prices, ranging from US\$0.0013 to hundreds of dollars, to suit the varying tastes and preferences of our diverse player base. We may change the pricing of certain virtual items based on our players’ consumption patterns.

### **Marketing**

Our marketing and promotional strategy focuses primarily on the use of third party platforms to both promote and deliver our games. These platforms include mobile application platforms, social network platforms and other online game promotional platforms. In addition to helping us deliver content to players, these platforms provide us extensive market visibility for our games and numerous opportunities to attract new game players.

We use mobile application platforms, such as the Apple App Store and Google Play, to dispense and showcase our mobile games to a wide audience as well as to advertise the positive customer feedback which our products have received. Players can download most of our games from one or both of these platforms for free. Players are also able to review and rate our games through these platforms. Based on player ratings and/or rankings, the Apple App Store and Google Play use proprietary algorithms to select and publicly display certain games as “Top Games” to further increase the market visibility of these games. Our Texas Holdem Poker Deluxe has been ranked as a “Top Game” in several countries on both Apple App Store and Google Play, according to Appannie.com. We believe significant numbers of new players were attracted to our games as a result of the high rankings and positive reviews we received on the Apple App Store and Google Play.

We have also leveraged the influence of leading social network platforms, such as Facebook, to target potential players. We supply Facebook with details of demographic groups we are trying to target. Facebook will then post our game advertisements, which we have supplied on the Facebook homepages of potential players meeting the demographic criteria. When using Facebook pages, interested players can click on our advertisements and connect directly to our games. This marketing strategy allows us to expand our customer base by locating and targeting potential clients, and increases the exposure of our game.

In addition to Internet application platforms and social network platforms, we also cooperate with more than 40 other online game promotional platforms, including online game informational

## **BUSINESS**

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websites and online game operational websites, to disseminate information about our games. We also embed advertisements for our products into applications and games published by other companies, so that players will be exposed to our games while they are using these applications and playing games on their devices.

We promote our games through performance-based advertisement on third-party platforms. Advertising fees are charged with reference to the number of actions, such as download and registration, (known as cost per action, or CPA), or number of times a user clicks on our advertisement, (known as cost per click, or CPC). We typically place our advertisements on third-party platforms in the form of CPA, except for certain platforms that do not accept CPA. Normally, the settlement period with the advertising and promotional platforms is 30 days and we can choose to terminate the advertisement, either in real time through self-service portals or with 24 to 72 hours notice. In the advertising contract, advertising platforms normally will stipulate that they will not be responsible for any content in the advertisements provided by us and we are solely responsible for determining whether or not the content of the advertisement is appropriate or acceptable. The advertiser will also reserve the right to access, read, preserve and disclose any information in the advertisement it reasonably believes is necessary to (i) satisfy any applicable law, regulation, legal process or governmental request; (ii) enforce the advertisement contract; (iii) detect, prevent or otherwise address fraud, security or technical issues; (iv) respond to user support requests; or (v) protect the rights, property or safety of the advertiser, its users and the public.

Since advertising fees are charged based on a CPA or CPC basis, unusual click/conversion behavior from advertising platforms may cause us to incur unnecessary financial loss. To monitor such unusual behavior, we have developed an in-house analytical system that records and tracks players' clicking or downloading behavior made through advertising and promotion platforms. We also use third-party independent tracking systems to track and compare the performance of our campaigns on various advertising platforms. With the help of these tools, we can analyse various aspects of users behavior, such as which advertisement they respond to, whether they return to the games and which countries they come from. This allows us to determine user acquisition cost and adjust our marketing strategy to be more cost-efficient.

Advertising and promotion fees for the years ended 31 December 2011, 2012 and the five months ended 31 May 2013 were US\$9.7 million, US\$12.1 million and US\$5.6 million, respectively, representing 31.2%, 28.0% and 23.0%, respectively, of our total revenue for the respective periods.

### **Payment**

For most of our games, game players are able to purchase the virtual items we sell in our games by using virtual currency. Once they have purchased such virtual currency, they are able to charge items directly to their accounts. For one of our games, Texas HoldEm Poker Deluxe, players can buy our chips directly without purchasing virtual currency first. As at 31 December 2011 and 2012 and 31 May 2013, our channel cost were US\$2.9 million, US\$5.6 million and US\$3.4 million, respectively, accounting for 9.3%, 13.0% and 14.0% of our revenue for the same periods, respectively.

Generally, our game players can purchase virtual currency for our browser games, client-based games and mobile games, electronic pre-paid cards for certain of our client-based games and virtual

## **BUSINESS**

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items, such as chips and coins, for Texas HoldEm Poker Deluxe and Slot Machines by IGG, through various payment platforms. Once purchased, players cannot return such virtual currency or virtual items in exchange for cash and we do not provide players with the right of refund of any kind. As at 31 May 2013, we had entered into payment channel contracts with 36 online payment platforms, including certain leading global payment platforms, such as PayPal, Facebook Payments, Skrill, MOL, Amazon Payments and Google Checkout, among others.

These payment channels act as a gateway between our players and us in that our players would first make payments to them for the purchase of virtual currency. According to the agreements with our payment channel partners, we pay them service fees at agreed rates based on the proceeds we received from game players who purchase virtual currency through these payment platforms, ranging from 1.9% to 30.0% plus a fixed charge per transaction. After deducting services fees, charge-backs or refunds, as applicable, these payment service providers remit to us payouts within a predetermined settlement period as stipulated in the relevant agreements. The settlement period with payment platform partners is usually within 30 days after month-end. Settlement periods of certain platforms can be up to 90 days because for certain mobile payment channel providers, to settle payment with us they must first receive payment from the players’ mobile carriers, which are usually large telecommunication operators who generally settle payment with our payment channel providers within 30 to 60 days after the transaction. Some payment channel partners also provide platforms for us to operate our game, such as Facebook and Google. These contracts do not contain preset termination dates and are subject to automatic renewals unless terminated by both parties. For a discussion about the risks related to our direct sales, please see “Risk Factors — Risks Related to Our Business — Any material change of policies from our payment channel partners may adversely affect our business” of this document.

### **Licensing**

As at 31 May 2013, we licensed three of the games we developed in-house to [●] in China and overseas, including Taiwan, Thailand, Indonesia, South Korea and Japan, among others. During the Track Record Period, we entered into license agreements with [●] when we found them to be conducive and beneficial to our business. When we select certain games to be licensed to third party licensees, we consider the following factors:

- *marketing capability* — we generally license a game to a third party licensee in a particular region if we do not have or have limited marketing capability in such region; and
- *localization and operation capability* — we would license a game to a licensee in a particular market if we do not have or have limited capability to localize or operate the game in that particular market.

For certain markets where we have limited marketing, operation or localization capabilities, we rely on local third party operators who have unique access to certain marketing segments that can help us expand the reach of our games. In these scenarios, we generally adopt the “co-operating” model where we and the third party operator jointly operate our games. As at 31 May 2013, we co-operated six games with third parties.

## **BUSINESS**

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The license agreements we use typically have terms of three to five years. For the license agreements which grant exclusive operation rights in specific jurisdictions to third party licensees, we are typically required to provide technological support to fix any game-related bugs as well as updates or expansion packs for the licensed games. Licensees pay us upfront licensing fees and royalties based on the revenue generated from their operation of the licensed games. We typically receive royalties at certain percentage of the total revenue generated on a monthly basis, less financial charges, taxes, charge-backs, if any. For jointly-operated games, our co-operators are usually responsible for user acquisition, while we are usually responsible for technical support, game updates, game operation, customer support and server hosting. For a particular jointly-operated game, either we or our co-operator would be responsible for payment collection. Depending on the responsibilities of the parties, we usually obtain royalties in the amount between 50% to 70% of the revenue generated through this arrangement. These license fees and royalties and shared revenue accounted for 1.5%, 3.1% and 4.9% of our total revenue for the years ended 31 December 2011 and 2012 and the five months ended 31 May 2013, respectively. Going forward, as we continue to focus on operating our in-house developed mobile games, we do not expect to devote substantial resources to expand our licensed game segment. However, we may continue to license games to [●] on a case-by-case basis.

### **Technology Infrastructure**

We have built an extensive service-providing platform to support our global operations. As at 31 May 2013, we had 1,474 production servers, of which, 1,061 were owned by our Company and 413 were leased from third parties. In order to enhance our game players’ experience and minimize any technical difficulties arising due to our cross-country connections, our servers are located in various countries and regions globally.

The table below sets out the numbers and locations of our production servers as at 31 May 2013:

Location of servers:	China	Hong Kong	United States	Singapore	Netherlands	Taiwan
Number of servers owned:	176	—	794	—	—	91
Number of servers leased:	204	1	5	156	47	—

We have exclusive access to the data and software on the servers. We monitor the operation of our server network 24 hours a day, seven days a week. We can access our server network in real time to track our online players, and to discover and fix problems in the operation of hardware and software on a timely basis. We lease datacenter space in the PRC, the United States and Taiwan to connect our self-owned servers to the Internet (“co-location service”), and we also lease servers in the PRC, the United States, Singapore, the Netherlands and Hong Kong from Internet hosting service providers on a server-by-server basis (“managed hosting service”). All of our data centers have security control protocols, including government ID-based security check, key or biometrics access and 24x7 on-site surveillance monitoring, among others, to ensure only authorized personnel can gain physical access to the servers. Additionally, we have automatic server monitoring system that detects and sends alerts regarding the health of our servers, including power, system status and resource utilization. We also have manual inventory check procedures that routinely inspect the servers in our co-location data



## **BUSINESS**

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centers for any possible abnormality. We routinely (i) audit all login attempts, (ii) scan our servers for security breaches and (iii) evaluate and apply security patches. For remote access to the servers by our systems administrators for maintenance purposes, we enforce security by applying multiple level access control to limit access to the servers. The servers will only listen to a limited number of ports from a restricted list of IP addresses. Our administrators can only obtain the access to the servers they manage using a private token, via a central control system. All maintenance activities on the servers are logged automatically, and subject to routine audit. Changes to databases can only be performed on our central control system and such changes are also subject to routine audit.

Our server network is linked to our centralised billing system which acts as a meter to deduct virtual currency from plays’ accounts as they purchase virtual items. Our server network is also linked to our data backup system, which backs up data from all login system servers and game servers on a real-time basis.

Our existing security control protocols, access control policies and monitoring instrumentation, together with our routine security check, play a critical role in mitigating risks posed to our technology infrastructure. As a result, we have not encountered any security breach caused by hacking, virus or cyber attack during the Track Record Period. However, as an online game company, we are constantly exposed to such risks, please see “Risk Factors — Our technology infrastructure may experience unexpected network interruption or inadequacy or security breaches” in this document. As at 31 May 2013, we also had an IT support team of 45 employees to maintain our current technology infrastructure, to ensure the stability of our operations and to monitor our servers fixing any technical problems as they arise while avoiding interruption of servers.

The co-location service providers supply us with rack space, power/electricity and cooling and inter-connection services for our servers. We pay a monthly co-location service fee, which is negotiated and determined based on, among others, the area of leased space and the number of racks and power usage for our servers. The lease agreements for co-location services usually have multi-year terms with an automatic renewal option, whereas the managed hosting service contracts are generally month-to-month. Our main co-location service provider hosted approximately 53.9% of our worldwide owned and leased servers as at 31 May 2013. The lease expires on 31 March 2015, and is subject to automatic one-year renewal. We also have a major managed hosting service provider, from which we leased approximately 14.1% of our worldwide servers as at 31 May 2013. The month-to-month hosting leases provide us flexibility to increase or reduce the number of servers we need due to fluctuations in our business operations. In addition, as at 31 May 2013, we had (i) a co-location service provider located in Taiwan that hosted 6.2% of our servers, whose term expires on 4 June 2014 with a one-year automatic renewal option; (ii) a telecomm operator in the PRC that hosted 11.9% of our servers, whose term expires on 30 April 2014 with a one-year automatic renewal option; (iii) a PRC co-operator of our games that hosted 13.8% of our servers, whose term remains in effect until we terminate the services; and (iv) a Hong Kong managed hosting service provider that hosted 0.1% of our servers, whose terms expires on 28 June 2014 with one-year renewal option. Upon the expiry of the co-location and managed hosting lease terms, we expect to renew those terms in accordance with the relevant lease agreements except with respect to the secondary US co-location service provider as described above. In case we have to relocate our servers to different providers, we expect to incur a relocation cost up to approximately US\$300 per server. We do not expect such cost to have a material impact on our business operations and financial condition.

## **BUSINESS**

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We rely on Internet bandwidth suppliers to provide us with inter-connectivity from our servers to the Internet. We usually commit to a monthly minimum usage and pay additional fees when our usage exceeds the prescribed monthly limit. Our agreements with Internet bandwidth providers usually have multi-year terms with an automatic renewal option.

### **Customer Service**

We provide customer service for each of our games to cater to the needs of our players. Players can access our customer service via live chat, online service or email 24 hours a day, seven days a week. As at 31 May 2013, we had 67 dedicated customer service representatives located in Fuzhou, China. On 11 January 2013, we established our regional office in the Philippines, which had 33 dedicated customer service personnel as at the Latest Practicable Date. These customer service representatives can provide assistance to our customers in 15 different languages. We intend to expand our customer service team overseas and build up the team in the Philippines in the near future.

During our operation, we receive customer inquiries and the vast majority of them were common inquiries or game-related questions. Our standard operating procedures for common game-related inquiries are as follows:

- our customer service representative records on our internal IT platform the details of the inquiry that came from the player via email, live-chat or online ticket;
- our IT platform automatically circulates the record to the relevant operation department or team to investigate;
- our customer service representative then liaises with the relevant operation department or team, if necessary, to provide an appropriate solution to player; and
- if the player is satisfied with the solution, the common inquiry or game-related question is then deemed resolved and closed, typically within two working days.

For those players who are dissatisfied with the solutions we offered, we will escalate the issue and apply complaint handling procedures to ensure players receive special attention, which involve:

- our customer service team holding a special meeting with the relevant operation department or team to devise an appropriate solution and agreeing to possible compensation for the player;
- submitting the proposed solution to a vice president level officer for approval; and
- our customer service team subsequently notifying the player of the solution and compensation, if applicable.

## **BUSINESS**

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Our customer service team holds meetings with our operation department on a monthly basis to discuss the complaints and inquiries submitted by our players in the previous month. In cases where player complaints and inquiries occur frequently, an action plan would be devised to prevent any future recurrence.

During the Track Record Period, we received 33 complaints from our customers, which were complaints that were not resolved within three working days after submission and that needed to be escalated and resolved by our vice operation director. Among these complaints, one was related to hacking, where a player shared his/her account details with another player and subsequently found that his/her virtual items were lost without his/her knowledge; 11 were related to events and rewards, which are complaints about our promotions and the rewards the players thought they should be entitled to receive; eight were related to lost virtual item; five were related to disputes among game players as a result of their in-game interactions; five were related to in-game bugs; one was related to payment issues; and two were related to the merger of game servers. After due inquiry, we generally provide compensation in the form of virtual items with an aggregate marketing value of approximately US\$350 per complaint on average and we do not provide any actual monetary compensation to our customers who lodged complaints with us.

With respect to eight complaints relating to the loss of virtual items, (i) six were caused by voluntary sharing of account by a game player with another or transferring of virtual items by a game player to another account; (ii) one related to a loss of chips caused by the player’s unstable Internet connection during the game playing; and (iii) one related to a loss of virtual items due to Internet connection lag, which were subsequently found in the game player’s account after he restarted the game. These complaints were not serious in nature and were customary in our industry and we do not believe they indicated any internal control deficiency.

## **SUPPLIERS**

Our primary suppliers include advertising service providers, payment service providers, licensors of games, and server, data center and bandwidth providers.

Our largest supplier for each of the two years ended 31 December 2011 and 2012 and the five months ended 31 May 2013 was Facebook, which provided us both advertisement services and payment channel services. Further details of our marketing and payment are set out in “— Our Operations — Marketing” and “— Our Operations — Payment” of this document.

For each of the two years ended 31 December 2011 and 2012 and the five months ended 31 May 2013, our largest supplier, Facebook, accounted for 47.7%, 44.0% and 20.0%, respectively, of our total purchases during those periods. Purchases from our five largest suppliers for each of the two years ended 31 December 2011 and 2012 and the five months ended 31 May 2013 accounted for 56.2%, 52.6% and 41.5%, respectively, of our total purchases during those periods. For the years ended 31 December 2011 and 2012, revenue generated from users on Facebook, our largest advertising and promotion platform for browser games, accounted for 34.4%, 35.6% and 23.7% of our total revenue, respectively. Revenue generated by users we paid to acquire from our five largest advertising and promotion platforms for browser games for the years ended 31 December 2011 and 2012 and the five months ended 31 May 2013 accounted for 36.4%, 37.8% and 30.6% of our total revenue, respectively.

## **BUSINESS**

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As at the Latest Practicable Date, none of the Directors, their associates or any shareholders of our Company (which to the knowledge of our Directors owned more than 5% of the Company’s issued share capital) had any interest in any of our five largest suppliers.

### **CUSTOMERS**

Our customers consist of individual players and licensees of our games. Our largest customer for each of the two years ended 31 December 2011 and 2012 and the five months ended 31 May 2013 accounted for 0.3%, 1.5% and 2.5% of our revenue during those periods, respectively. Our five largest customers for each of the two years ended 31 December 2011 and 2012 and the five months ended 31 May 2013 accounted for 1.1%, 2.8% and 4.7% of our revenue during those periods.

As at the Latest Practicable Date, none of the Directors, their associates or any shareholders of our Company (which to the knowledge of our Directors owned more than 5% of the Company’s issued share capital) had any interest in any of our five largest customers.

### **COMPETITION**

The global online game industry is extremely competitive. Currently, we compete with companies both in China and overseas.

We consider overseas competitors to be our fiercest competition. Online game companies whose products rank among the top 30 on Google Play comprise our major competitors in the global market. We compete with them in terms of quality of games, efficiency of development periods and marketing capabilities.

Competitors in China include Boyaa Limited, Kunlun Online and Perfect World. We compete to promote our products and gain players, to attract and hire management personnel with overseas operational experience, and to secure diversified marketing channels.

Some of our existing or potential competitors have significantly greater financial and marketing resources than we do. For a discussion of risks related to competition, please see the “Risk Factors — Risks Related to the Industry in Which We Operate — Our business may not succeed in a highly competitive market” in this document.

### **INSURANCE**

As at the Latest Practicable Date, we were in compliance with the applicable laws and regulations with respect to required insurances for our employees in the PRC and Singapore. During the Track Record Period, we did not make any claims under our insurance policies that had a material adverse effect on our business, financial condition or results of operations.

We maintain property insurance, workers’ compensation insurance and liability insurance in the United States, and public liability insurance and workers’ injury compensation insurance in Singapore.

## **BUSINESS**

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Consistent with what we believe to be customary practice for online game industry in China, we do not maintain any fire, earthquake, liability or other property insurance with respect to our properties and equipment in China.

During the Track Record Period, we did not experience any business interruptions or losses or damages to our facilities that had a material adverse effect on our business, financial condition, or results of operations. Our Directors and senior management will closely review the risks relating to our operations and adjust our insurance coverage as we continue our business expansion. For a discussion of risks related to insurance, please see the “Risk Factors — Risks Related to Our Business and Our Industry — We do not have business interruption insurance coverage” of this document.

### **INTELLECTUAL PROPERTY AND PROPRIETARY RIGHTS**

We regard our proprietary software, domain names, copyrights, trademarks and other intellectual property as critical to our success. We rely on trademark and copyright law, trade secret protection, non-competition and confidentiality and/or license agreements with our employees, customers, partners and others to protect our intellectual property rights. Our employees are generally required to enter into agreements under which they undertake to keep confidential all information related to our methods, business and trade secrets during and for a reasonable time after their employment with us. However, we cannot guarantee that our measures to protect our intellectual property will be sufficient. For a discussion of risks related to the protection of our intellectual property, please see “Risk Factors — Risks Related to Our Business — Unauthorised use of our intellectual property may adversely affect our business and reputation” of this document.

As of 31 May 2013, we were the registered owner of 29 software copyrights in China, each of which was registered with the State Copyright Bureau of China. As at 31 May 2013, we also owned 29 software copyrights in Singapore, where software copyright does not need to be registered pursuant to the law and regulation thereof. We have registered the software copyrights for our major games Godswar, Galaxy Online II, Wings of Destiny and Texas HoldEm Poker Deluxe in the PRC. We also owned the software copyrights for these games in Singapore.

As at 31 May 2013, we owned the rights to 29 domain names that we use in connection with the operation of our business, including our official website, <http://www.igg.com>.

As at 31 May 2013, we also owned 156 trademarks in the China and other countries and regions, including the United States, Canada, Australia, European Union, Singapore, India and Taiwan. As at the Latest Practicable Date, we also had an additional 25 trademark applications pending in China, the United States, Taiwan, Macao and Hong Kong. However, we cannot assure you that we will be able to obtain the trademarks we have applied for. We have registered “IGG” as our trademark in the PRC, Canada, European Union, Singapore, Australia and the United States.

Details of our intellectual property rights are set out in the section headed “Further information about the business — Intellectual property” in Appendix IV of this document.

## **BUSINESS**

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### **PROPERTIES**

As at 31 May 2013, we leased eight properties in the PRC, Singapore, the United States and the Philippines, with an aggregate gross floor area of 4,481.2 sq.m. Our leased properties are primarily used for business and office purposes.

Our regional office in Fuzhou, Fujian Province, China, is leased by Fuzhou Tianmeng, and has a gross floor area of approximately 3,756.7 sq.m. The lease will expire on 18 July 2015 (the “Tianmeng Lease”). The landlord of the Tianmeng Lease has not obtained proper building ownership certificate. Fuzhou Tianmeng also entered into a lease for another office in Fuzhou with a gross floor area of approximately 23 sq.m., which will expire on 16 May 2014. In addition, Fuzhou Tianji leases an office in Fuzhou with a gross floor area of approximately 27 sq.m. This lease will expire on 13 December 2013. Fuzhou Tianjie leases an office in Fuzhou with a gross floor area of approximately 27 sq.m. This lease will expire on 16 May 2014.

We have been advised by our PRC legal advisers that, after the landlord obtain the relevant building ownership certificate, we will be entitled to legally lease such premises. If the landlord fails to obtain the proper building ownership certificate, the lease agreement may be deemed void, and Fuzhou Tianmeng, as applicable, will not be able to continue to lease the relevant property, and may claim for breach of contract against the relevant landlord. In addition, the landlord of the Tianmeng Lease had not agreed to indemnify us for any potential liabilities we may incur as a result of the title defects. Please see “Risk Factors — Risks Related to Our Business — Our landlord does not possess or has not provided us with the relevant building ownership certificate for a property we lease” of this document.

Our Directors are of the view that the property we lease where landlord has not obtained proper ownership certificate is not material to our business operations and that the property we occupy can, if necessary, be replaced by comparable alternative premises. We believe that if we are compelled to relocate our operations due to these title defects, such relocation is expected to take approximately 90 days to make plan and prepare, and cost approximately US\$650,000, which is not expected to have any material adverse effect on our business or financial condition.

As at 31 May 2013, our headquarters in Singapore was located in District D03 Queenstown, and had a gross floor area of approximately 235 sq.m. We currently lease the fifth and seventh floors of the building located at 16 Jalan Kilang Timor, Redhill Forum. These leases have expired on 30 September 2013 and 31 July 2013, respectively. On 1 August 2013, our headquarters in Singapore was moved to SIME Darby Enterprise Centre located at 10 Jalan Kilang Singapore, and had a gross floor area of approximately 307.2 sq.m. The lease will expire on 31 July 2015.

As at 31 May 2013, our regional office in the United States was located in Fremont, California, and had a gross floor area of approximately 269.7 sq.m.. This lease will expire at 30 June 2016.

As at 31 May 2013, our regional office in the Philippines was located in Pasig City, and was approximately 142.8 sq.m. Our current lease will expire on 30 November 2013. However, the signing person on the premise lease contract is not consistent with the name of the lessor. As advised by our

## **BUSINESS**

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Philippines advisors, that the premise lease contract is valid under the Philippines law because the signatory, being the true owner of said premise and by means of his signature on the premise lease contract, has ratified the act of lessor in acting as lessor of the premise without proper representative or attorney-in-fact issued by the owner of the premise.

We believe that our existing facilities are adequate for our current requirements and alternative facilities can be obtained on commercially reasonable terms in case of non-renewal of the existing leases or if our work force expands.

According to section 6(1) of the Companies Ordinance (Exemption of Companies and [●] from Compliance with Provisions) Notice, this [●] is exempted from compliance with the requirements of section 38(1) of the Companies Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies Ordinance, which require a valuation report with respect to all our Company’s interests in land or buildings, since no single property interest that forms part of our property activities has a carrying amount of 1% or more of our total assets, and no single property interest that forms part of our non-property activities has a carrying amount of 15% or more of our total assets.

## **EMPLOYEES**

As at 31 May 2013, we had 567 employees. The majority of our employees were based in Fuzhou, Fujian Province, China. The table below sets forth the number of our employees in each functional area as at 31 May 2013.

<b>Function</b>	<b>Number of Employees</b>	<b>% of total</b>
Management . . . . .	12	2.1%
Development team . . . . .	291	51.3%
IT Support team . . . . .	45	7.9%
Game Operation and Customer service . . . . .	78	13.8%
Finance and accounting . . . . .	18	3.2%
Administration . . . . .	15	2.6%
Global Support . . . . .	<u>108</u>	<u>19.1%</u>
Total . . . . .	<u>567</u>	<u>100.0%</u>

## BUSINESS

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The table below sets forth the number of our employees located by geographic location as at 31 May 2013.

Location	Employees	% of total
China.....	504	88.9%
US.....	16	2.8%
Singapore.....	25	4.4%
Philippines.....	22	3.9%
Total.....	567	100%

We have entered into standard employment agreements with these employees, other than executive officers. Under these agreements, we may terminate employment without prior notice or remuneration for cause, such as a material breach of our rules and regulations, failure to perform agreed duties, embezzlement that causes material damage to us, or a conviction of a crime. An employee may terminate his or her employment with us at any time by giving a 30-day prior written notice. An employee is entitled to certain benefits upon termination, including a severance payment based on the number of years served at the rate of one month’s salary for each full year of service, if such employee resigns for certain good reasons specified in the agreement or in the Employment Contract Law of the PRC or if we terminate such employee’s employment without any of the above causes.

In addition, we have entered into standard employment agreements with our employees other than executive officers, in each of the United States, Singapore and the Philippines. Our employees other than executive officers have also entered into standard confidentiality agreements and standard non-competition agreements with us. Under the confidentiality agreements, employees agree not to disclose or otherwise use our confidential information while employed by us and thereafter. Under the non-competition agreements, an employee typically agrees not to compete with us during and up to 12 months after the termination of his or her employment with us. The non-competition agreements also state that the employee’s work product will be assigned to us.

We believe that the dedication and talent of our employees is critical for our business, and retention of employees and recruitment of new employees are among our top priorities. As part of our retention strategy, we are committed to offering employees salaries and performance-based bonus. In addition, we have established [●] Share Option Scheme to allow key staff to share in the profits from our operation.

We plan to expand our workforce by the end of 2013 to approximately 680 and to continue to devote significant resources to our recruitment efforts. We focus on recruiting and training new college graduates and on attracting and recruiting experienced game development personnel from the industry. We have established a training program specifically to train entry-level hires.



## BUSINESS

### LEGAL PROCEEDINGS AND NON-COMPLIANCE

We set out below the non-compliances and irregularities relating to our Group during the Track Record Period:

#### Non-compliance regarding PRC employee social insurance payment

Non-compliance incidents	Legal consequences and potential maximum penalties and other financial losses	Cause of the non-compliance	Latest status	Measures taken/to be taken to prevent any future breaches and ensure on-going compliance
<p>We did not fully comply with the relevant requirements for making contributions to the social insurance scheme for all relevant employees of Fuzhou Tianmeng, Fuzhou Tianji and Fuzhou Tianjie during the Track Record Period. As at 31 May 2013, we made provision in the amount of US\$0.7 million of the social insurance underpayment for the past two years for all of our current employees as at 31 May 2013.</p>	<p>As advised by Jingtian &amp; Gongcheng, our PRC legal adviser, 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. According to the Company's legal adviser's consultation with Fuzhou Social and Labor Insurance Management Center (福州市社會勞動保險管理中心) (the "Fuzhou Social Security Center"), the Fuzhou Social Security Center confirmed that pursuant to the Regulation on Labor Security Supervision (勞動保障監察條例), social security unpaid two years ago is outside the statute of limitation and will not be penalized by the Fuzhou Social Security Center. In addition, with respect to ex-employees, Fuzhou Social Security Center confirmed that companies are not permitted to pay the outstanding social insurance contributions of their ex-employees and would not be penalized for any outstanding social insurance contributions. The official interviewed was the deputy director of Fuzhou Social Security Center. The Fuzhou Social Security Center is a government authority under the Fuzhou Human Resource and Social Security Bureau (福州市人力資源和社會保障局); it is the administrative authority at the Fuzhou city level with respect to social security issues. Fuzhou city is the appropriated level. Although government authority at the provincial level, i.e., Fujian Province Human Resources and Social Security Bureau has the right to supervise its city counterparts, including Fuzhou Human Resources and Social Security Bureau; in practice, rules and policies with respect to social security are implemented and social security contributions, payment, surcharges and penalties are collected through authorities at the city level.</p>	<p>We were unfamiliar with the social insurance contribution regulations in the PRC and we did not engage a professional compliance adviser to oversee and monitor our compliance status with regard to the payment of social insurance contributions.</p>	<p>On 30 September 2013, we have fully settled the outstanding social insurance contributions with Fuzhou Human Resource and Social Security Bureau for our current employees in the amount of RMB 4,023,339.02 (approximately US\$ 0.66 million) for the period from September 2011 to May 2013. Such payment includes outstanding social insurance contributions for the period from September 2011 to May 2013 and their respective surcharges. No penalties were imposed for any overdue social insurance contributions. As such, we have fully settled the payment of outstanding social insurance contributions with the relevant competent government authority for our current employees as of the date of this document. For the social insurance contributions for the period of June to August 2013, we will be paying the required amount once we completed the quarterly review for the period ended 30 September 2013. We have communicated with and obtained confirmation from the relevant government authority regarding this arrangement.</p>	<p>Going forward, we have established procedures for calculation the social insurance contribution for our employees according to the PRC laws and regulation. In addition, we will have a finance manager to review the calculation of monthly social security insurance contributions made by our HR manager to ensure that the contributions are correctly calculated. To the extent there are any discrepancies discovered by our financial manager, he will communicate to and coordinate with the HR manager with regard to the discrepancies to make sure the calculation is correct. The financial manager will also keep a proper record of the contributions we have paid. Furthermore, we have established an internal legal department in August 2013 to supervise our operations and to bolster our internal control system to reduce the occurrence of non-compliance incidents.</p>

## BUSINESS

### Non-compliance with Section 122 of the Companies Ordinance

Pursuant to Section 122 of the Companies Ordinance, the directors of a company incorporated in Hong Kong are required to cause the profit and loss account to be made up and laid before our Company at its annual general meeting and such account shall be made up to a date falling not more than six months, or in the case of a private company not more than nine months, before the date of the meeting.

It was discovered that our Hong Kong incorporated subsidiary, IGG HK, was not fully in compliance with the requirements under section 122 of the Companies Ordinance to lay the annual audited accounts before its shareholders in its annual general meeting. We set out below a summary of the non-compliance incidents:

Details of non-compliance	Reasons of non-compliance	Legal consequence and financial impact including potential maximum penalty and other financial loss or saving	Whether provision has been made in financial statements for the non-compliance	Identity and position of the Directors/senior management involved in the non-compliance	Rectification action taken and latest status	Measures to prevent future breach and ensure on-going compliance
IGG HK fails to lay the annual audited accounts before its shareholders at its annual general meetings in 2007, 2008 and 2009.	Due to the facts that (i) the then directors of IGG HK were not aware of the legal requirements under the Companies Ordinance that annual audited accounts must be laid before the annual general meeting of IGG HK; (ii) no auditor was engaged from the incorporation of IGG HK until July 2010 and the annual audited accounts for the year ended 31 December 2006, 2007, 2008 were not available for presentation at the time of each relevant annual general meeting of IGG HK; (iii) IGG HK has retained secretarial companies to assist with on-going compliance obligations and the directors of IGG HK at the material times have trusted the services of these secretarial companies; and (iv) the then directors had not been properly advised of the requirements under sections 122 of the Companies Ordinance and believed that they were in compliance with such rules and regulations, by means of subsequent adoption and presentation of the audited accounts of IGG HK for the four years ended 31 December 2009 at its 2010 annual general meeting.	Pursuant to section 122 of the Companies Ordinance, if a director of a company fails to take all reasonable steps to comply with the requirements under the section, such person is liable to a maximum fine of HK\$300,000.  Further, if it is proven that the breach was willfully committed, such director could be sentenced to imprisonment for up to 12 months.	No provision has been made in the consolidated financial statements of our Group as the non-compliance with the Companies Ordinance will be rectified prior to the LPD date.	IGG HK's Directors:  • 20 February 2006 (date of incorporation) - 9 November 2007: Zongjian Cai and Yuan Chi  • 9 November 2007 - 28 December 2007: IGG Inc  • 28 December 2007 - 13 February 2009: Zongjian Cai, Yuan Chi and Xiaojun Li  • 13 February 2009 - present: Zongjian Cai, Yuan Chi, Xiaojun Li and Kee Lock Chua	We have engaged Messrs. Fairbairn Catley Low & Kong to apply to High Court of Hong Kong for an order to rectify such non-compliance.  On 29 July 2013, High Court of Hong Kong granted court orders that (i) the requirement to lay the annual audited accounts of IGG HK for the periods ended 31 December 2006, 2007 and 2008 before the respective annual general meetings of IGG HK for the years 2007, 2008 and 2009 be substituted with a requirement to lay such audited accounts before IGG HK at its 2010 annual general meeting which was convened on 20 August 2010; and (ii) such audited accounts which were made up to a date falling not more than 9 months before the date of the respective annual general meeting of IGG HK be extended to and including 20 August 2010.	• We have established an internal legal department of our Group in August 2013 led by Ms. Qin Yin and assisted by Ms. Xiujuan Zhou. Ms. Qin Yin graduated from North China University of Technology* (北方工業大學) with a bachelor degree in law. She has passed the PRC bar examination and has 5.5 years of experience as an in-house legal counsel before joining us. Mrs. Xiujuan Zhou joined our Group in December 2006 and has been responsible for coordinating legal related matters of our Group. Mrs. Yin and Xiujuan Zhou are primarily responsible for, among others, monitoring and assessing general corporate matters and projects, to ensure due compliance of laws, rule and regulations applicable to our Group.

## BUSINESS

Legal consequence and financial impact including potential maximum penalty and other financial loss or saving	Whether provision has been made in financial statements for the non-compliance	Identity and position of the Directors/senior management involved in the non-compliance	Rectification action taken and latest status	Measures to prevent future breach and ensure on-going compliance
Reasons of non-compliance	Details of non-compliance	<ul style="list-style-type: none"> <li>We have also established an internal audit department, of which the functions include, among other things, reviewing the implementation and effectiveness of our Group's internal control. The internal audit department is led by Mr. Deyang Zheng, our internal auditing manager who received a master degree in applied economics in international economics and business from Xiamen University* (廈門大學) and passed the exam of a certified public accountant in the PRC, the examination of which covers economic laws and tax laws. Mr. Deyang Zheng has five years of experience in corporate internal auditing and internal control, to among other responsibilities, assess and manage the risks associated with our operation from time to time. In addition, Mr. Deyang Zheng will work closely with our internal legal department to endeavor to work on the due compliance with applicable laws, rules and regulations.</li> </ul>		

## **BUSINESS**

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### **Views of our Directors**

With regard to the above-mentioned non-compliance incidents, our internal control consultant has made recommendations to prevent any further breaches and ensure on-going compliance. The follow-up review was conducted by the internal control consultant in May 2013, including, among other things, reviewing the newly issued policies, randomly selecting transaction samples and performing testing to verify the effectiveness of the internal control. Two issues are in the process of remediation, which pertain to (i) the establishment of a nomination committee and the reformation of audit committee and remuneration committee within the existing board to comply with the requirements of the [●]; and (ii) being in compliance with the relevant requirements for making contributions to the social insurance scheme for all relevant employees of Fuzhou Tianmeng, Fuzhou Tianji and Fuzhou Tianjie. We intend to complete the remediation of these issues upon the [●]. Except for aforesaid issues, all recommendations made by the internal control consultant have been strictly implemented by us as at May 2013.

### **Lawsuits and the administrative penalty against Fuzhou Online Game**

During the Track Record Period, Fuzhou Online Game, our former subsidiaries we disposed of in April 2012, was subject to 16 lawsuits and an administrative penalty from Fuzhou Culture, Press and Publication Bureau (福州市文化新聞出版局).

## BUSINESS

The details of these lawsuits and the administrative penalty during the Track Record Period are set forth below:

Administration authority/ plaintiff	Penalized party/defendant	Cause of action and claims	Administrative decision/judgment	Latest status/preventive measure
Fuzhou Culture, Press and Publication Bureau (福州市文化新聞出版局)	Fuzhou Online Game	Due to our unfamiliarity with the PRC laws in the area of Internet cultural activities and their application in practice, we did not obtain prior approval/authorization from the relevant government authorities with respect to the operation of Internet games by Fuzhou Online Game on 766.com.	On 11 May 2012, Fuzhou Culture, Press and Publication Bureau issued Administrative Penalty Decision ((Rong) Wen Zhi Fa (2012) No. 20) (《行政處罰決定書》((榕)文執罰(2012)第20號)) to Fuzhou Online Game, and decided to impose a fine of RMB 100,000, and requested Fuzhou Online Game to close the website www.766.com.	The fine has been fully paid. We have disposed Fuzhou Online Game in 2012. In addition, we have established an internal legal department in August 2013 to supervise our operations and further enhance our internal control system. The internal legal department will take the following measures to reduce the occurrence of non-compliance incidents in the future: (i) working closely with our development teams and business operation teams, to better understand the timing and nature of products being launched and potential business expansion plans, and thus better monitor and ensure licenses and/or authorizations are obtained in a timely manner; (ii) monitoring legal development in our Company’s key markets by conducting preliminary in-house legal research of local laws and regulations, and coordinating with local counsel if necessary to help our Company follow relevant laws and regulations; and (iii) checking documentation for applications, renewing and maintaining of licenses and permissions needed for our daily business in current and future jurisdictions.

BUSINESS

Administration authority/ plaintiff	Penalized party/defendant	Cause of action and claims	Administrative decision/judgment	Latest status/preventive measure
Guangdong Creative Power Entertaining Co., Ltd (廣東原創動力文化傳播有限公司)	Fuzhou Online Game	Plaintiff, who owns the copyrights of the images in animation “Pleasant Goat and Big Wolf”, claimed that defendant operated unauthorized Flash game “Pleasant Goat and Big Wolf” on defendant’s website www.766.com.	On 19 December 2011, Fuzhou Intermediate People’s Court issued the Civil Mediation Letter ((2011) Rong Min Chu Zi No.383) (民事調解書 (2011) 榕民初字第383號), requested defendant to indemnify RMB 38,050 to plaintiff before 10 January 2012.	The settlement has been fully paid.
Bei Jing You Peng Pu Le Technology Co., Ltd (北京優朋普樂科技有限公司)	Fuzhou Online Game	Plaintiff, who have exclusive dissemination right of the movies “My Wife is a Gambling Maestro”, “Infernal Affairs” and “Future Cops”, claimed that defendant disseminated these movies on defendant’s website www.766.com without authorization. <sup>(1)</sup>	On 30 November 2011, plaintiff and defendant entered into a settlement agreement, pursuant to which defendant agreed to stop disseminating the relevant movies and indemnify plaintiff RMB 24,000.	The settlement has been fully paid.
Softstar Technology (Beijing) Co., Ltd (軟星科技(北京)有限公司)	Fuzhou Online Game	Plaintiff, who owns the copyrights of the games “Richman 6”, “Richman 8” and “XuanYuan Sword: Faraway of Clouds”, claimed that defendant disseminated these games on defendant’s website www.766.com without authorization. <sup>(2)</sup>	On 30 November 2011, plaintiff and defendant entered into a settlement agreement pursuant to which defendant agreed to stop disseminating the relevant games and indemnify plaintiff RMB 25,000.	The settlement has been fully paid.
		Plaintiff asked defendant to stop the infringing activities and indemnify plaintiff for relevant financial loss of RMB 120,000.		

## BUSINESS

Administration authority/ plaintiff	Penalized party/defendant	Cause of action and claims	Administrative decision/judgment	Latest status/preventive measure
Games Paradise Electronic Technology (Beijing) Co., Ltd (游 戲天堂電子科技(北 京)有限公司)	Fuzhou Online Game	Plaintiff, who have exclusive dissemination right on Internet of the games “Sango”, “Sango 2”, “Sango 3”, “Sango 4”, “Sango 5”, “Sango 6”, “Sango 7”, “Adventure Generation Online 4” and “Adventure Generation Online XX”, claimed that defendant disseminated these movies on defendant’s website www.766.com without authorization. <sup>(3)</sup>	On 30 November 2011, plaintiff and defendant entered into a settlement agreement pursuant to which defendant agreed to stop disseminating the relevant games and indemnify plaintiff RMB75,000.	The settlement has been fully paid.

Plaintiff asked defendant to stop the infringing activities and indemnify plaintiff for relevant financial loss of RMB360,000.

*Note:*

- (1) These were three separate lawsuits involving the alleged infringement of “My Wife is a Gambling Maestro”, “Infernal Affairs”, “Future Cops”, and “Adventure Generation Online XX”, respectively. We consolidate the descriptions of these three lawsuits together for the purpose of disclosure because both plaintiff and defendant involved in, and the cause of action for these three lawsuits, were the same.
- (2) These were three separate lawsuits involving the alleged infringement of “Richman 6”, “Richman 8” and “XuanYuan Sword: Faraway of Clouds”, respectively. We consolidate the descriptions of these three lawsuits together for the purpose of disclosure because both plaintiff and defendant involved in, and the cause of action for, these three lawsuits were the same.
- (3) These were nine separate lawsuits involving the alleged infringement of “Sango”, “Sango 2”, “Sango 3”, “Sango 4”, “Sango 5”, “Sango 6”, “Sango 7”, “Adventure Generation Online 4” and “Adventure Generation Online XX”, respectively. We consolidate the descriptions of these nine lawsuits together for the purpose of disclosure because both plaintiff and defendant involved in, and the cause of action for, these nine lawsuits were the same.

## **BUSINESS**

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Other than the lawsuits disclosed above, to the best knowledge of our Directors, they are not aware of any other material incident of infringement of third party intellectual property rights by us during the Track Record Period.

As a strategic investment decision, on 5 August 2009, Fuzhou Online Game became controlled by Fuzhou Tianji through a series of structured contracts. Subsequently, on 24 April 2012, Fuzhou Online Game became directly owned by Fuzhou Tianmeng and the structured contract arrangement with Fuzhou Tianji was terminated. During the period when Fuzhou Online Game was controlled by our Company, either through structured contract arrangement or through direct ownership, for the purposes of protecting our Company’s stake as an investor and enhancing Fuzhou Online Game’s corporate governance, Mr. Yuan Chi was appointed as an executive director, and Mr. Zongjian Cai as a supervisor, of Fuzhou Online Game. However, there was an understanding between our Company and Mr. Yuqing Wu (吳宇清), the key founder and the actual operator of Fuzhou Online Game, that the day-to-day management of Fuzhou Online Game would remain unchanged notwithstanding the respective appointments of Mr. Chi and Mr. Cai, and that Mr. Wu would continue to serve as the legal representative and general manager of Fuzhou Online Game and be responsible for its day-to-day operations. The website, *www.766.com*, was operated by Fuzhou Online Game and was a free communication platform for game players where they can upload certain information, including information that may infringe third party intellectual property rights.

In light of the fact that (i) Fuzhou Online Game had established and implemented internal control procedures to prevent potential infringement of third parties’ intellectual property rights, and Mr. Yuan Chi and Mr. Zongjian Cai had assessed the implementation and effectiveness of such internal control procedures on a regular basis based on reports from management of Fuzhou Online Game during the period they served as an executive director and a supervisor of Fuzhou Online Game, respectively; (ii) after becoming aware of the infringements and ensuing legal proceedings in April 2011, Mr. Yuan Chi and Mr. Zongjian Cai instructed the then management of Fuzhou Online Game to take rectifying measures promptly, including filtering and removing the contents involving or suspected of infringement in the above-mentioned website; and (iii) the related business department and webpages were closed in November 2011 considering the potential lawsuits which might result from such webpages, our Directors are of the view that Mr. Zongjian Cai and Mr. Yuan Chi fulfilled their fiduciary duties and discharged their respective responsibilities as an executive director and a supervisor, respectively, by overseeing and monitoring the operations and legal compliance of Fuzhou Online Game.

Based on the foregoing and the independent due diligence conducted by the [●], and in view of the fact that (i) save as the proceedings against Fuzhou Online Game, which has been disposed of and ceased to be a subsidiary of our Group, there was no legal proceeding in respect of claims against our Group relating to infringement of third party intellectual property rights, which demonstrates our proven track record in preventing above-mentioned infringements or other non-compliance incidents; and (ii) under the management of Mr. Zongjian Cai and Mr. Yuan Chi, written policies were adopted to provide further guidance on the internal control of our Group with respect to laws and regulations governing infringement of intellectual property rights, and quarterly internal reviews of our Group’s internal control measures have been arranged to ensure its effectiveness.



## **BUSINESS**

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Furthermore, our Company has engaged in legal advisers to facilitate our compliance with relevant laws and regulations, in particular those relating to intellectual property.

For online games we license from [●], we require licensors to guarantee in the relevant license agreements that the online games they licensed to us do not infringe the intellectual property rights of any other person and that they will indemnify us for all damages, if any, incurred by us in relation to any such infringement as a result of our operation of the licensed games. Our operation team also monitors the infringement of intellectual property rights of our games and inform our licensors of any infringement detected.

For online games we license to [●], licensees agree that in no event, whether as a result of a breach of contract, warranty, tort (including, without limitation, negligence) or any other claim or cause of action, will our liabilities exceed, in the aggregate, the total amount of license fees actually received by us from the licensee under the relevant license agreement in the three (3) calendar months prior to the occurrence of such claim or cause of action.

We have established a risk management committee (our “Risk Management Committee”) in May 2013. Our Risk Management Committee is responsible for, among other things, the implementation of our internal control policies and procedures, including the internal control procedures that were updated in accordance with the recommendations suggested by our internal control consultant, and the assessment and management of the risks associated with our operations from time to time to ensure due compliance of laws, rules and regulations that are applicable to our Group.

Our Risk Management Committee comprises Mr. Zongjian Cai and Mr. Yuan Chi, our executive Directors, Mr. Yuan Xu, our chief operating officer, Mr. Hong Zhang, our chief technology officer and senior vice president of global operations, Mr. Zhixiang Chen, our senior vice president, Ms. Jessie Shen, our joint company secretary and senior vice president of finance, Mrs. Qin Yin, our [●] and Mr. Deyang Zheng. Ms. Qin Yin graduated from North China University of Technology with bachelor degree in law and also passed the PRC bar examination. Ms. Qin Yin had five and a half years of experience as an in-house legal counsel before she joined us. Mr. Deyang Zheng joined us in May 2013 as the head of our internal audit department responsible for conducting regular internal control reviews of our Group’s operations and overseeing the overall functions of our Risk Management Committee. Mr. Deyang Zheng received a Masters Degree in Applied Economics in International Economics and Business from Xiamen University and passed the exam of certified public accountant in the PRC. He has previously worked for an international audit firm and a company that provides telecommunications equipment and network solutions, and possesses five years of experience in audit and internal control. Please also refer to the section headed “Directors, Senior Management and Employees” of this document for detailed biographies of Mr. Zongjian Cai, Mr. Yuan Chi, Mr. Yuan Xu, Mr. Hong Zhang, Mr. Zhixiang Chen and Ms. Jessie Shen.

Within our Risk Management Committee, each member leads a different departments and is responsible for their respective compliance with applicable laws, rules and regulations. Specifically,

- Mr. Zongjian Cai, our executive Director, is responsible for our CEO’s office, our senior management team and our HR and corporate administration department;

## **BUSINESS**

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- Mr. Yuan Xu, our chief operating officer, with the assistance of Mr. Hong Zhang and Mr. Zhixiang Chen, heads our operating department;
- Mr. Yuan Chi, our executive Director, is in charge of our R&D departments; and
- Ms. Jessie Shen, our joint company secretary and senior vice president of finance, supervises our internal legal department.

To prevent potential infringement of intellectual property rights of third parties, and based on the recommendations made by our internal control consultant, we have also implemented the following internal control policies:

- our HR and corporate administration department licenses or purchases intellectual property rights from the owners of the game engines we need;
- our CEO’s office and legal department perform copyright and/or trademark research to ensure our game titles do not infringe any existing copyright or trademark, and our legal department promptly applies for trademark protection with the relevant authorities once a game is developed;
- our R&D departments and operating department implement quality control throughout the development life cycle of our games to monitor game content, including graphics and audio assets. It pays special attention to game content outsourced to third parties. If any infringement of intellectual property is detected by any member of our development teams, who have five years of experience in the online game industry on average, project managers or our management team, game development will be halted until such infringement is eradicated;
- our operating department conducts thorough, pre-launch check of game content to limit the potential risk of infringing any third party intellectual property right;
- (A) for self-promoting games, all of our marketing materials are created by in-house graphic design team, kept in designated folders and submitted to the head of marketing, Mr. Hong Zhang, for approval before dissemination; (B) for games we license to, or co-operate with, [●], we provide marketing materials to licensees or our co-operators, as applicable, who are required to submit a marketing plan and samples of advertising materials for our approval before the launch of the marketing activities; and (C) with respect to the games we license from third parties, marketing materials are generally provided to us by our licensors, and we are required to submit our marketing proposal to them for approval prior to initiating any marketing activities;

## **BUSINESS**

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- our HR and corporate administration department requires all of our employees to report any infringement issue to our senior vice president of global operations, Mr. Hong Zhang, within 24 hours of detecting or receiving reports of such infringement. Upon receiving any such report regarding potential infringement, Mr. Hong Zhang will commence an investigation which will include reviewing the report, identifying the relevant issues, collecting all relevant facts in relation to these issues, discussing the matter with our operation department and other related teams, obtaining advice from our internal legal department, seeking legal assistance from our outside legal counsel if necessary, and communicating and negotiating with the third parties as needed until the issue is resolved; and
- our HR and corporate administration department offers semi-annual training sessions to our employees that are conducted by our external legal advisers, which generally focus on avoiding infringement of third party intellectual property rights and protecting our own intellectual property rights.

To comply with the applicable laws and regulations in major jurisdictions where we operate our games, we have implemented the following internal control measures:

- our operating department carries out market surveys during project research and conceptualization phases to ensure game types, themes and game play are widely accepted in our target countries or regions;
- our senior management team holds routine management meetings to discuss and review potential risks, disputes and non-compliance incidents involving game content in our target countries or regions;
- our operating department conducts pre-launch checks to ensure our game content and marketing materials comply with the rules and regulations in target countries and regions, including, but not limit to, ensuring that no pornographic, hate or racist content exists in our games or marketing materials;
- our operating department makes available to all of our players the terms and conditions to play our games, containing, among other things, governing law and choice of law and venue clauses in the event any dispute arises;
- our operating department assists our game distribution platforms, such as Facebook, Google Play, Apple App Store, and marketing platforms, such as Google and Facebook, in their evaluation, advertisement approval and monitoring of our games in terms of legal and regulatory compliance;
- our senior management team designates a senior vice president-level executive to handle all intellectual property complaints we receive from our distribution and marketing platforms, partners or any other third parties; and
- our Risk Management Committee proactively seeks advice from outside legal advisers with respect to the intellectual property-related issues we face in our operations.

## **BUSINESS**

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In addition, our Singapore legal advisers, TSMP Law Corporation, advised us that because (i) most of the IGG Singapore’s assets are located in Singapore (i.e., most of the material intellectual property rights are held by IGG Singapore), (ii) the Company recorded over 90% of its revenue on the account of IGG Singapore in each year/period during the Track Record Period and (iii) the user agreement is governed by Singapore law and is enforceable therein, the risk of a reasonable customer suing IGG Singapore in a reputable foreign jurisdiction would be mitigated because of the potential difficulty in enforcing such a judgment in Singapore. Accordingly, our Directors believe that, after taking into account of the foregoing, our internal control measures with regard to infringement of third party intellectual property rights and our compliance with the applicable laws and regulations in major jurisdictions where we operate our games are adequate and effective. However, we have established an internal legal department in August 2013 to further enhance our internal control mechanism to reduce any risk of infringement. Currently, our internal legal department is made up of Ms. Qin Yin, as [●], and Ms. Xiujuan Zhou, as an assistant. For the qualifications of Qin Yin, please see relevant disclosure on page [●]. Mrs. Xiujuan Zhou has been responsible for coordinating legal issues for the Company and liaising with and providing necessary support to our outside legal counsel for the past seven years. The major functions of our internal legal department is to supervise the implementation of our internal control measures include, among others: (i) drafting, reviewing and providing comments on all contracts and legal documents needed for our daily operation; (ii) filing applications for trademarks, patents and copyrights and providing proactive advises regarding protection of our intellectual property rights; (iii) providing legal advice with regard to any change of our company structure in line with our business expansion plan; (iv) handling any notices from regulators and disputes and litigation, if any, emerging from our daily operation; (v) conducting preliminary research and analysis of relevant laws and regulations, assessing legal risk and providing internal legal advice to our management when significant business decision needs to be made, such as expanding our operations into new jurisdictions, or developing new types of online games; (vi) monitoring legal development in our Company’s key markets through conducting preliminary in-house legal research of local laws and regulations, and coordinating with local counsel when needed; and (vii) checking documentation for applications, renewing and maintaining of licenses and permissions needed for our daily business in current and future jurisdictions. We intend to expand our internal legal department by recruiting another legal counsel by early next year. We may recruit more legal staff if it is necessary for our business expansion and operations. Notwithstanding these efforts, we will continue to be exposed to certain risks relating to intellectual property rights.

In view of the fact that, save as the proceedings against Fuzhou Online Game, there is no legal proceedings in respect of claims against our Group relating to infringement of third party intellectual property rights or for non-compliance with applicable laws and regulations in all major jurisdictions where our Group operates and/or disseminates both in-house developed games and games licensed from third party developers, which can demonstrate our proven track record in preventing above-mentioned infringements or other non-compliances and based on (i) the above-mentioned measures and the due diligence works of the [●]; (ii) the legal opinions sought from our legal advisers; (iii) the confirmation from our Directors that (a) our Group has established and implemented a internal control system which is effective and fit for our current operation environment; (b) we have and will further enhance our internal control measures based on the recommendation made by our internal control consultant; and (c) we intend to recruit more qualified staff responsible for the implementation of the recommendations, including an internal legal department which has been established in August 2013, to, among other things, review the content of the games it operates in the relevant jurisdictions

## **BUSINESS**

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before launching such games therein to assess the relevant legal risks and consider appropriate advice to mitigate these risks, the legal advisers concurs our Directors’ view that we have adequate and effective internal control measures with regard to infringement of third parties’ intellectual property rights and compliance with applicable laws and regulations in major jurisdictions where we operates our games.

We may be subject to legal proceedings, investigations, administrative penalties and claims incidental to the conduct of our business from time to time in the future. As at the Latest Practicable Date, we were not engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on our results of operations or financial condition.

Save as disclosed above, as advised by our PRC legal advisers, according to confirmation from the relevant authorities, to the best of their knowledge, our subsidiaries in the PRC have obtained all requisite certificates, permits and licences which are necessary for their operation from the relevant regulatory authorities in the PRC in relation to their establishment and business operations, and complied with the relevant laws and regulations in all material respects in relation to their operations during the Track Record Period.

In addition, our Singapore legal advisers, TSMP Law Corporation, is of the opinion that up to the Latest Practicable Date, we have complied with all relevant laws and regulations in all material aspects and obtained all relevant approvals and certificates which are necessary for its operations in Singapore.