
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2015

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 001-34271

CHANGYOU.COM LIMITED

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

Cayman Islands

(Jurisdiction of incorporation or organization)

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(Name, Telephone, E-mail and/or Facsimile Number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

<u>(Title of each class)</u>	<u>(Name of each exchange on which registered)</u>
American Depositary Shares, each representing two Class A ordinary shares, par value US\$0.01 per share	The Nasdaq Global Select Market

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 34,089,420 Class A ordinary shares, par value \$0.01 per share, and 70,250,000 Class B ordinary shares, par value \$0.01 per share, as of December 31, 2015.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing.

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

TABLE OF CONTENTS

<u>INTRODUCTION</u>	1
<u>PART I</u>	2
Item 1. <u>Identity of Directors, Senior Management and Advisers</u>	2
Item 2. <u>Offer Statistics and Expected Timetable</u>	2
Item 3. <u>Key Information</u>	2
Item 4. <u>Information on the Company</u>	39
Item 4A. <u>Unresolved Staff Comments</u>	62
Item 5. <u>Operating and Financial Review and Prospects</u>	62
Item 6. <u>Directors, Senior Management and Employees</u>	81
Item 7. <u>Major Shareholders and Related Party Transactions</u>	87
Item 8. <u>Financial Information</u>	92
Item 9. <u>The Offer and Listing</u>	92
Item 10. <u>Additional Information</u>	93
Item 11. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	103
Item 12. <u>Description of Securities Other than Equity Securities</u>	104
<u>PART II</u>	105
Item 13. <u>Defaults, Dividend Arrearages and Delinquencies</u>	105
Item 14. <u>Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	105
Item 15. <u>Controls and Procedures</u>	105
Item 16A. <u>Audit Committee Financial Expert</u>	106
Item 16B. <u>Code of Ethics</u>	106
Item 16C. <u>Principal Accountant Fees and Services</u>	106
Item 16D. <u>Exemptions from the Listing Standards for Audit Committees</u>	107
Item 16E. <u>Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>	107
Item 16F. <u>Change in Registrants' Certifying Accountants</u>	107
Item 16G. <u>Corporate Governance</u>	107
Item 16H. <u>Mine Safety Disclosure</u>	108
<u>PART III</u>	108
Item 17. <u>Financial Statements</u>	108
Item 18. <u>Financial Statements</u>	108
Item 19. <u>Exhibits</u>	108

Introduction

In this annual report, except where the context otherwise requires and for purposes of this annual report only:

- “we,” “us,” “our company,” “Changyou” and “our” refer to Changyou.com Limited, and unless the context requires otherwise, include its subsidiaries and variable interest entities.
- “Sohu.com Inc.” refers to our ultimate parent and controlling shareholder, whose shares of common stock are listed on the Nasdaq Global Select Market under the symbol “SOHU”;
- “Sohu” or “Sohu Group” refers to Sohu.com Inc. and its subsidiaries and consolidated variable interest entities and, unless the context requires otherwise, excludes Changyou.com Limited and its subsidiaries and variable interest entities;
- “PC games” refers to interactive online games that may be accessed and played simultaneously by hundreds of thousands of game players through personal computers with local game client-end access software installation requirements. In previous annual reports, we have sometimes used the terms “MMOGs” and “MMORPGs” when referring to these client-end installed games played through personal computers;
- “MMOGs” refers to massively multiplayer online games, which may be played through personal computers or on mobile devices;
- “MMORPGs” refers to massively multiplayer online role-playing games. MMORPGs are a subset of MMOGs;
- “Web games” are online games that are played through a Web browser with no local game software installation requirements;
- “Mobile games” are online games that are played on mobile devices and require an Internet connection.
- “Tian Long Ba Bu” refers to the popular novel of that name by the famous Chinese writer Louis Cha, from whom we have obtained an exclusive license to develop and operate PC games and mobile games based on the title and characters of that novel;
- “TLBB” refers to the PC game developed based on the title and characters of Tian Long Ba Bu;
- “TLBB 3D” refers to the mobile game developed based on the title and characters of Tian Long Ba Bu;
- “IVAS” refers to our Internet value-added services.
- “U.S. GAAP” refers to generally accepted accounting principles in the United States;
- “PRC GAAP” refers to generally accepted accounting principles of the PRC;
- “ADSs” refers to our American depositary shares, each of which represents two Class A ordinary shares, par value \$0.01 per share; and
- “China” or “PRC” refers to the People’s Republic of China, and for the purpose of this annual report, excludes Hong Kong, Macau and Taiwan.

All references to “RMB” or “Renminbi” refer to the legal currency of China; all references to “US\$,” “dollars,” “U.S. dollars” and “\$” refer to the legal currency of the United States.

This annual report on Form 20-F includes our audited consolidated statements of comprehensive income for the years ended December 31, 2013, 2014 and 2015 and audited consolidated balance sheets as of December 31, 2014 and 2015.

We completed an initial public offering of our ADSs on April 7, 2009. Our ADSs are traded on the Nasdaq Global Select Market under the symbol “CYOU.”

FORWARD-LOOKING INFORMATION

This annual report on Form 20-F contains “forward looking statements.” These statements are made under the “safe harbor” provisions of the U.S. Private Securities Litigation Reform Act of 1995. You can identify these forward-looking statements by terms such as “may,” “will,” “expects,” “anticipates,” “future,” “intend,” “plan,” “believe,” “estimate,” “is/are likely to” and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements. The forward-looking statements made in this annual report relate only to events as of the date on which the statements are made. We undertake no obligation, beyond any than as required by law, to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made, even though our situation will change in the future.

These forward-looking statements include, but are not limited to, the following:

- our ability to maintain and strengthen our position as a leading provider of products and services to online game players in China;
- our expected development, launch and market acceptance of additional PC games, mobile games and Web games;
- our ability to maintain and strengthen our 17173.com Website as a leading game information portal in China;
- our various initiatives to implement our business strategies to expand our business through organic growth and strategic acquisitions;
- our future business development, results of operations and financial condition;
- the expected growth of and change in the online game industry in China; and
- the PRC government policies relating to the Internet and Internet content providers, including online game developers and operators.

We operate in an emerging and evolving environment. New risk factors emerge from time to time and it is impossible for our management to predict all risk factors, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement.

We would like to caution you not to place undue reliance on forward-looking statements and you should read these statements in conjunction with all other parts of this annual report, including the risk factors set forth in Item 3. See “Key Information—Risk Factors”

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

ITEM 3. KEY INFORMATION

Selected Consolidated Financial Data

The following table presents the selected consolidated financial information for our company. The selected consolidated statements of comprehensive income data for the three years ended December 31, 2013, 2014 and 2015 and the consolidated balance sheets data as of December 31, 2014 and 2015 have been derived from our audited consolidated financial statements included in this annual report beginning on page F-1. The selected consolidated statements of comprehensive income data for the years ended December 31, 2011 and 2012 and our consolidated balance sheets data as of December 31, 2011, 2012 and 2013 have been derived from audited consolidated financial statements that are not included in this report. The selected consolidated financial data should be read in conjunction with, and are qualified in their entirety by reference to, our audited consolidated financial statements and related notes and “Item 5. Operating and Financial Review and Prospects” below. Our consolidated financial statements are prepared and presented in accordance with U.S. GAAP. Our historical results do not necessarily indicate results expected for any future periods.

As the 17173.com Website and Changyou were under common control by Sohu both before and after our acquisition of the 17173.com Website on December 15, 2011, the consolidated financial data as of and for the year ended December 31, 2011 and presented below have been prepared as if we had owned the assets of and operated the 17173.com Website throughout the year ended December 31, 2011. The consolidated financial data set forth below as of and for the year ended December 31, 2011 may not necessarily reflect the results of operations, financial position and cash flows we would have experienced with respect to the 17173.com Website if we had owned and operated it throughout that year.

	For the Year Ended December 31,				
	2011	2012	2013	2014	2015
(\$ in thousands, except for share, per share and per ADS data)					
Consolidated Statement of Comprehensive Income Data:					
Revenues:					
Online game	435,512	570,346	669,168	652,008	636,846
Online advertising	36,349	42,525	49,998	58,963	57,832
IVAS	1,862	4,307	5,402	22,357	24,385
Others	10,853	6,251	13,307	21,938	42,573
Total revenues	484,576	623,429	737,875	755,266	761,636
Cost of revenues: ⁽¹⁾					
Online game	49,837	76,432	93,306	142,549	156,318
Online advertising	3,892	6,535	13,827	14,838	11,565
IVAS	—	1,509	1,786	22,985	19,647
Others	13,783	20,046	17,518	21,490	29,231
Total cost of revenues	67,512	104,522	126,437	201,862	216,761
Gross profit	417,064	518,907	611,438	553,404	544,875
Operating expenses:					
Product development ⁽¹⁾	52,238	73,755	119,909	194,113	170,605
Sales and marketing ⁽¹⁾	49,893	60,639	128,830	241,307	92,355
General and administrative ⁽¹⁾	29,684	33,514	57,191	107,451	80,269
Goodwill impairment and impairment of intangible assets acquired as part of acquisition of a business	5,420	2,906	—	52,282	40,324
Total operating expenses	137,235	170,814	305,930	595,153	383,553
Operating profit/(loss)	279,829	348,093	305,508	(41,749)	161,322
Interest income	11,933	15,882	28,455	26,091	23,777
Foreign currency exchange gain/(loss)	(618)	(558)	(5,936)	(668)	2,954
Interest expense	(7)	(2,243)	(8,835)	(6,452)	(8,333)
Other income/(expense)	457	(173)	3,613	4,112	64,962
Income/(loss) before income tax expense	291,594	361,001	322,805	(18,666)	244,682
Income tax expense	43,580	67,405	36,383	2,493	54,055
Net income/(loss)	248,014	293,596	286,422	(21,159)	190,627
Less: Net income attributable to the mezzanine classified non-controlling interest shareholders	2,558	11,196	17,780	—	—
Less: Net loss attributable to the non-controlling interest shareholders	—	—	—	(17,778)	(22,157)
Net income/(loss) attributable to Changyou.com Limited	245,456	282,400	268,642	(3,381)	212,784
Net income/(loss)	248,014	293,596	286,422	(21,159)	190,627
Other comprehensive income/(loss):	21,867	3,385	33,600	(2,931)	(74,922)
Comprehensive income/(loss)	269,881	296,981	320,022	(24,090)	115,705
Comprehensive income attributable to the mezzanine classified non-controlling interest shareholders	2,558	11,196	17,780	—	—
Comprehensive loss attributable to the non-controlling interest shareholders	—	—	—	(17,778)	(22,176)
Comprehensive income/(loss) attributable to Changyou.com Limited	267,323	285,785	302,242	(6,312)	137,881
Cash dividend per share	—	1.90	—	—	—
Basic net income/(loss) per share	2.34	2.67	2.53	(0.03)	2.03
Diluted net income/(loss) per share	2.30	2.64	2.52	(0.03)	2.01
Basic net income/(loss) per ADS	4.68	5.35	5.06	(0.06)	4.06

	For the Year Ended December 31,				
	2011	2012	2013	2014	2015
	(\$ in thousands, except for share, per share and per ADS data)				
Diluted net income/(loss) per ADS	4.61	5.29	5.04	(0.06)	4.02
Weighted average number of ordinary shares outstanding, basic	104,854	105,656	106,252	105,722	104,924
Weighted average number of ordinary shares outstanding, diluted	106,600	106,792	106,676	105,722	105,762
Weighted average number of ADS outstanding, basic	52,427	52,828	53,126	52,861	52,462
Weighted average number of ADS outstanding, diluted	53,300	53,396	53,338	52,861	52,881

(1) Share-based compensation expenses are included in the following financial statements line items:

	For the Year Ended December 31,					
	2011	2012	2013	2014	2015	
	(\$ in thousands)					
Cost of revenues		230	306	101	152	35
Product development		2,399	1,854	475	1,069	5,475
Sales and marketing		960	326	74	105	1,017
General and administrative		2,528	1,183	624	2,788	8,497

Selected Consolidated Balance Sheet Data

	As of December 31,				
	2011	2012	2013	2014	2015
	(\$ in thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	330,411	366,639	548,484	220,794	569,917
Restricted time deposits	—	246,599	424,674	417,442	354,739
Accounts receivable, net	11,326	23,364	35,996	77,969	67,959
Short-term investments	17,560	51,720	2,827	191,577	174,515
Fixed assets, net	68,394	64,828	246,674	243,837	214,306
Total assets	753,073	1,114,513	1,585,212	1,547,965	1,779,506
Receipts in advance and deferred revenue	51,900	43,659	43,842	39,178	42,166
Short-term bank loans	—	113,000	410,331	25,500	344,500
Long-term bank loans	—	126,353	—	344,500	—
Total liabilities	180,958	444,818	671,696	605,267	720,257
Mezzanine equity	57,254	61,810	—	—	—
Non-controlling interests	—	—	17,178	52,310	29,770
Total shareholders' equity	514,861	607,885	913,516	942,698	1,059,249
Total liabilities, mezzanine equity and shareholders' equity	753,073	1,114,513	1,585,212	1,547,965	1,779,506

Risk Factors

Risks Related to Our Business and Our Industry

Overall Risks

The markets for our products and services are evolving rapidly and significantly, which makes evaluating our business and prospects difficult.

Our business and the industry in which we operate are evolving rapidly. We were incorporated on August 6, 2007 in the Cayman Islands and began our online game business as an indirect wholly-owned subsidiary of Sohu.com Inc. In 2007 Sohu transferred all of its PC game business to us. In 2011 we acquired 7Road and began generating Web game revenues. In 2012, we began to develop and operate mobile games, but did not begin to generate any significant revenues from mobile games until late in 2014 when we launched TLBB 3D. In August 2015, as revenues from our Web games, Wartune and DDTank, had begun to decline, we sold 7Road's operating company Shenzhen 7Road Technology Co., Ltd., or Shenzhen 7Road, and as a result we have no remaining significant Web games in operation. In 2011, we began to expand into the platform channel business with our acquisition of the 17173.com Website, which operates our online advertising business, from Sohu and acquired the entities operating our cinema advertising business. In December 2013, we acquired RaidCall, which operates free social communication software; and in July 2014 we acquired a majority interest in MoboTap, which operates the Dolphin Browser. However, our acquisitions of RaidCall and MoboTap were not successful, as expected synergies did not materialize. Our revenues from platform channel services other than from online advertising on the 17173.com Website have been relatively insignificant.

Our past successes in our online games business with PC games may not provide a meaningful basis for you to evaluate our current business and prospects, as game players increasingly migrate from personal computers to mobile devices to access online games and the relative popularity of PC games continues to decline.

In response to such rapid migration, we have devoted and we expect to continue to devote substantial resources to the development of our mobile games as a critical component of our business strategy. However, our mobile games strategy has not been proven, and presents very different challenges from those presented in the past by our operation of PC games and Web games. We cannot be certain that we will be successful in our efforts to continue to expand into mobile games. Despite the success of our mobile game TLBB 3D, the popularity of, and the revenues generated from, the game declined through 2015, and we have not been able to generate comparable revenues from new mobile games to sustain or grow our mobile game business.

You should also consider additional risks and uncertainties that may be experienced by companies operating in a rapidly developing and evolving industry. Some of these risks and uncertainties relate to our ability to:

- raise our brand recognition and game player loyalty;
- develop, license or operate new games that are appealing to game players; adapt to new trends and game player tastes; and meet our expected timetable for launches of new games, and that, if they are successful, have acceptably long lifespans and result in an acceptable level of profit for us.;
- successfully adapt to evolving business models, industry trends and market environments by developing and investing in new business strategies, products, services and technologies, including new games;
- arrange for our mobile games to be distributed through popular mobile application stores with commercial terms, including revenue-sharing arrangements, that are favorable enough to us and allow us to achieve an acceptable level of profit from the games;
- integrate new technologies, businesses and personnel of acquired entities, and generate sufficient revenues to offset the costs and expenses of such acquisitions;
- maintain or expand our marketing efforts to attract more game players to our games and to the game information portal of the 17173.com Website in a rapidly changing and increasingly competitive business environment, and generate sufficient revenues to offset the costs and expenses of such marketing efforts; and
- maintain and strengthen the 17173.com Website and its leading position among game information portals in China, particularly in view of the rapid emergence of mobile games and the decline in the relative popularity of PC games and Web games as users increasingly switch to mobile devices.

If we do not adapt our business to address these risks and uncertainties, our ability to continue our past success or to expand our business in the future is likely to be impeded.

Our business may not succeed in a highly competitive market.

Competition in the online game market in China is becoming increasingly intense. We compete principally with the following three groups of competitors in China:

- online game developers and/or operators in China that are publicly traded in the United States and in Hong Kong, including Tencent Holdings Limited, NetEase.com, Inc., Kingsoft Corporation Limited, IGG Inc. and NetDragon Websoft Inc.;
- other companies in China devoted to game development and/or operation that are publicly traded in China, such as Kalends Inc., Ourpalm Corporate limited, Century Cruises (formerly known as Giant Interactive Group Inc.), or privately-held companies, usually backed by venture capital or private equity, including Da Xing (formerly known as Perfect World Co., Ltd.) and Shulong Technologies (formerly known as Shanda Games Limited); and
- international competitors.

In addition, there are many venture-backed private companies focusing on online game development and operation, further intensifying the competition. Many of our competitors aggressively hire talent for game development, and have been increasing spending on marketing for games, bidding for licenses of games, penetrating into the mobile game market, and releasing new software for mobile devices to attract a growing number of game players that access Internet products and services through mobile devices. Increased competition may make it difficult for us to retain our existing employees and attract new employees, and to sustain our growth.

The 17173.com Website derives revenue primarily from providing online advertising services to advertisers that develop, operate and distribute PC games. As the market demand for PC games continues to decline, the 17173.com Website faces intense competition, particularly from mobile application stores and other Internet platforms through which game players access mobile games, for advertising business targeting online players of mobile games. We compete with other game information portals, such as duowan.com, operated by YY Inc., and game.qq.com, operated by Tencent Holdings Limited, and other Internet portals which have, or may over time be able to build, competitive advantages over us in terms of:

- greater brand recognition among game players and advertising clients;
- larger user and customer bases;
- more extensive and well developed marketing and sales networks;
- more attractive mobile versions of their game information portals and more extensive mobile game-related products and services in response to the rapid migration of users of Internet services from PCs to mobile devices, such as tablets and mobile phones; and
- substantially greater financial and technical resources.

If we are unable to sustain and enhance our brand recognition, provide quality products and services, provide extensive and high-quality mobile game-related products and services to meet game players' needs, and meet other difficult technological and business challenges, then our users and advertising clients may become dissatisfied and move to a competitor's portal for products and services, our user base may decrease and our ability to generate advertising revenues on our 17173.com Website may decline as a result.

In order to compete effectively in the PRC, as well as in the worldwide market, we must continue to invest in research and development, to enhance our technology and our existing games, advertising and other services, and to introduce new game products and services in order for us to adapt to industry trends and shifting demands of game players and advertising clients and to remain competitive. If our products and services are not responsive to the needs of our game players and advertisers, are not appropriately timed with market opportunities, or are not effectively brought to market, or if our competitors are more successful than we are in developing compelling products or in attracting and retaining game players and advertisers, we may not be able to recoup such expenditures.

Our business could suffer if we do not successfully manage any future growth.

We experienced a period of rapid growth and expansion through 2013 that placed strain on our management personnel, systems and resources. In addition, to accommodate any future growth, we anticipate that we will need to implement a variety of new and upgraded operational and financial systems, including procedures and controls, improvement of our accounting and other internal management systems and security systems related to the foregoing, all of which require substantial management efforts and financial resources. We will also need to continue to train, manage and motivate our workforce, and manage our relationships with our third-party operators, distributors and service providers and our game player base. All of these endeavors will require substantial management effort and skills and the incurrence of additional expenditures. We may not be able to efficiently or effectively implement our growth strategies and manage the growth of our operations, and any failure to do so may limit our future growth and hamper our business strategy.

We may not be able to avoid future slowing of our revenue growth or future losses.

Our revenues grew significantly in a relatively short period of time prior to 2014, but our revenue growth stalled in 2014 and 2015. Primarily due to the commercial success of TLBB, our revenues grew from \$623.4 million for the year ended December 31, 2012 to \$737.9 million for the year ended December 31, 2013. However, our revenues increased only slightly to \$755.3 million and to \$761.6 million, respectively, for the years ended December 31, 2014 and 2015. Our net income attributable to Changyou.com Limited decreased from \$282.4 million for the year ended December 31, 2012 to \$268.6 million for the year ended December 31, 2013, we suffered a net loss attributable to Changyou.com Limited of \$3.4 million for the year ended December 31, 2014 and sustained operating losses for each quarter of 2014. Although our net income attributable to Changyou.com Limited was \$212.8 million for the year ended December 31, 2015, primarily due to the commercial success of our mobile game TLBB 3D, a decrease in our sales and marketing expenses, and a decrease in our salary and benefit expenses as a result of a reduction in our workforce, we are not likely to experience rates of revenue growth in the future similar to those that we experienced prior to 2014. We also may experience declines in our revenues or net losses in the future due to a number of factors, including, among other things, the continued decline in TLBB's and TLBB 3D's revenues and profitability, the uncertain level of popularity of our future games (particularly our future mobile games as users increasingly switch to mobile devices), uncertainty as to our ability to develop and launch mobile high-quality games that are commercially successful and the relatively higher game development and distribution costs generally associated with such games; the need to expend greater amounts in order to develop or acquire new games, technologies, assets, and businesses, and uncertainty as to our ability to integrate such newly acquired games, technologies, assets and businesses. Accordingly, you should not rely on the results of any prior period as an indication of our future financial and operating performance.

Our previous and any future acquisitions and/or strategic alliances may have an adverse effect on our ability to manage our business and may also result in impairment charges.

We have made acquisitions of, and may potentially acquire in the future, technologies, businesses or assets that are complementary to our business and/or enter into strategic alliances in order to leverage our position in the Chinese online game market and expand our business domestically and internationally. Such acquisitions or strategic alliances may expose us to potential risks, including risks associated with the integration of new technologies, businesses and personnel including our continued reliance on the management teams of the acquisition targets to operate the acquired businesses, unforeseen or hidden liabilities, the diversion of management attention and resources from our existing business, and the inability to generate sufficient revenues to offset the costs and expenses of acquisitions or strategic alliances. Any difficulties encountered in the acquisition and strategic alliance process may have an adverse effect on our ability to manage our business. In addition, acquired businesses may not perform to our expectations for various reasons, including the loss of key personnel or key clients, and our strategic focus may change. As a result, we may not realize the benefits we anticipated. If we fail to integrate acquired technologies, businesses and assets or realize the expected benefits, we may not receive a return on our investment and our transaction costs for such acquisitions. The benefits of an acquisition or investment may also take considerable time to develop, and we cannot be certain that any particular acquisition or investment will produce the intended benefits, which could adversely affect our business and operating results. Acquisitions could result in contingent liabilities or amortization expenses related to intangible assets or write-offs of goodwill and/or intangible assets, which could adversely affect our results of operations. For example, in December 2013, we acquired RaidCall with the expectation of generating benefits from synergies with our online game business; in November 2013 we acquired Beijing Doyo Internet Technology Co., Ltd., or Doyo, with the expectation of generating benefits from synergies with our online advertising business, and in July 2014 we acquired MoboTap, which operates the Dolphin Browser, with the expectation of generating benefits from synergies with our platform channel business. In 2014 we recognized a \$33.8 million impairment loss for goodwill and a \$15.3 million impairment loss for acquired intangible assets related to RaidCall, in 2015 we recognized a \$29.6 million impairment loss for goodwill and an \$8.9 million impairment loss for acquired intangible assets relating to the Dolphin Browser, and in 2015 we sold Doyo and recognized a \$1.9 million impairment loss for goodwill, as a result of our management's conclusion that the expected synergies would not materialize.

We are dependent upon our management and upon our key development and technical personnel; our business may be severely disrupted if we lose the services of any of them.

Our future success depends substantially on the services of the members of our management and our key development and technical personnel, such as our Co-Chief Executive Officers Carol Yu and Dwen Chen. If one or more of the members of our management or key development or technical personnel were unable or unwilling to continue in their present positions, we might not be able to replace them easily or at all. If any of the members of our management or our key employees joins a competitor or forms a competing company, we may lose know-how, key professionals, staff members and suppliers. These members of our management and key employees could develop and operate games or platforms that could compete with and take game players and users away from our existing and future games and platforms. Although each of these members of our management and key personnel has entered into an employment agreement with non-competition provisions, these non-competition provisions may not be enforceable in China.

Risk Related to Online Games

There are uncertainties regarding the future growth of the online game industry in China.

The online game industry, from which we derive most of our revenues, is a relatively new and rapidly evolving industry. The growth of the online game industry and the level of demand and market acceptance of our games are subject to a high degree of uncertainty. Our future operating results will depend on numerous factors affecting the online game industry, many of which are beyond our control, including:

- whether the online game industry, particularly in China and the rest of the Asia-Pacific region, continues to grow and the rate of any such growth;
- the availability and popularity of other forms of entertainment, particularly games on console systems, which are already popular in developed countries and may gain popularity in China;
- growth in users of Internet and broadband and penetration in China and other markets in which we offer our games, and the rate of any such growth;
- whether recent declines in the use of personal computers and growth in users of mobile devices (such as smart phones and tablets) in general, and for purposes of accessing online games in particular, continue or accelerate in China and other markets in which we offer our games;
- changes in consumer demographics and public tastes and preferences; and
- general economic conditions in China, particularly economic conditions adversely affecting discretionary consumer spending, such as the slowdown in China's economic growth that occurred between the first quarter of 2010 and the third quarter of 2012 and during 2014 and 2015.

There is no assurance that online games in general will continue to be popular in China or elsewhere. If the current decline in the popularity of PC games continues or accelerates as users increasingly switch to mobile devices, our revenues from our PC games may decrease significantly; and if the PC games that we have launched, or expect to launch in the future, are not successful, we may not be able to recoup the investments in our development and marketing of those games. A decline in the popularity of our online games in general, and of the PC games that we operate in particular, would adversely affect our business and prospects.

We currently depend on TLBB for a substantial portion of our revenues, and any continued decrease in the popularity of TLBB or interruption in its operation would adversely affect our results of operations.

We currently rely on TLBB for a substantial portion of our revenues. We launched TLBB in May 2007 and TLBB is unlikely to sustain its current level of popularity over time. Despite our efforts to improve TLBB, our game players have nevertheless lost interest in it over time as the relative popularity of PC games that are accessed through personal computers continues to decline and its popularity, revenues and profitability have continued to decline. See “We may not be successful in operating and improving our games to satisfy the changing demands of game players.”

To prolong TLBB's lifespan and slow down the pace of its decline, we need to continually improve and update it on a timely basis with new features that appeal to existing game players and attract new game players. If we fail to improve and update TLBB on a timely basis, or if our competitors introduce more popular games, including mobile games, catering to our game player base, the decline in TLBB's popularity can be expected to accelerate, which would cause our revenues to decrease at a faster pace. Furthermore, if there are any interruptions in TLBB's operation due to unexpected server interruptions, network failures or other factors, game players may be prevented or deterred from making purchases of virtual items, which could also cause significant decreases in our revenues.

Our new games may attract game players away from our existing games.

Our new games may attract game players away from our existing games. For example, with our increasingly diversified game portfolio, we cannot assure you that our TLBB game players will not be attracted to play other newly launched games, including our new mobile games, instead of TLBB. If this occurs, it will decrease our existing games' player bases, which could in turn make these games less attractive to other game players, resulting in decreased revenues from our existing games. Game players who switch from playing our existing games to our new games may also spend less money to purchase virtual items in our new games than they would have spent if they had continued playing our existing games, resulting in an adverse effect on our overall revenues. In addition game players' switching from playing our existing PC games to our new mobile games could cause our online games income to be relatively lower, as our mobile games tend to enjoy relatively lower profits as a result of revenue-sharing arrangements.

If the market demand for PC games in general, and for the PC games that we operate in particular, continues to decline and the number of game players of PC games continues to decrease, our online game business and prospects may be adversely affected.

A substantial portion of our online game revenues is generated from our TLBB. However, the popularity of PC games continues to decline and an increasing number of online game developers are delaying or suspending their plans to develop and launch new PC games, as game players increasingly switch to mobile devices to access online games. It has become increasingly difficult for PC game developers and operators to retain existing players of their games and the number of game players who are willing to spend time and money to play new PC games continues to decrease. If this downward trend continues or accelerates, it may make it increasingly difficult for our existing PC games in general, and TLBB in particular, to maintain their popularity and for our new PC games to ever become commercially successful; the game player base of our PC games in general, and of TLBB in particular, may continue to shrink, which would increase our costs to acquire and retain players of our PC games and would have a negative impact on our online game revenues.

As mobile devices such as tablets, mobile phones and other devices other than personal computers are increasingly used to access online games, we must continue to acquire or develop increasing numbers of mobile games that work on such devices.

Devices other than personal computers, such as mobile phones and tablets, are used increasingly in China and in overseas markets. We believe that, for our business to be successful, we will need to continue to develop versions of our existing games and any future games that work well with such devices. The games that we develop for such devices may not function as smoothly as our existing games, and may not be attractive to game players in other ways. In addition, manufacturers of such devices may establish restrictive conditions for developers of applications to be used on such devices, and as a result our games may not work well, or at all, on such devices. As new devices are released or updated, we may encounter problems in developing versions of our games for use on such devices and we may need to devote significant resources to the development, support, and maintenance of games for such devices. Since 2014 we have been investing, and we expect to continue to invest, significant amounts in the acquisition, development, promotion and operation of games for mobile devices. If we are unable to successfully expand the types of devices on which our existing and future games are available, or if mobile versions of games that we develop for such devices do not function well or are not attractive to users and game players, or if the mobile games that we have launched, or expect to launch in the future, are not successful, we may not be able to maintain or increase our revenues and recoup our investments in the mobile market.

Our business will suffer if we are unable to develop successful games, particularly high-quality games, for mobile devices, successfully monetize mobile games we develop or acquire and maintain for a reasonable period the popularity and revenue levels of any mobile games that are successful.

Developing games, particularly high-quality games, for mobile devices is an important component of our strategy. China's mobile games market has been dominated by a small number of high-quality games, which collectively generate a substantial majority of the total revenues and profits of all mobile games in the market and are likely to maintain their popularity and revenue levels for relatively longer lifespans. We have devoted and we expect to continue to devote substantial resources to the development of our mobile games, particularly those that have the potential to become high-quality games. We cannot guarantee that we will be able to develop games, and particularly high-quality games, that appeal to players. In addition, we may encounter difficulty in integrating features on games developed for mobile devices that a sufficient number of players will pay for or otherwise sufficiently monetizing mobile games. If we are unable to develop successful high-quality games, or implement successful monetization strategies for our mobile games in general, our ability to grow revenue and our financial performance will be negatively affected.

Our ability to successfully develop games for mobile devices will depend on our ability to:

- expand the portfolio of mobile games, and particularly high-quality games, that we develop in-house and license from third-party developers;
- effectively develop new mobile games for multiple mobile operating systems and mobile devices;
- effectively cross-market mobile games to players of our current PC games and mobile games;
- anticipate and effectively respond to the growing number of players switching to mobile games, the changing mobile landscape and the interests of players;
- attract, retain and motivate talented game designers, product managers and engineers with experience in developing games for mobile devices;
- minimize launch delays and cost overruns on the development of new games;
- effectively monetize mobile games without degrading the social game experience for our players;
- develop games that provide for a compelling and optimal user experience through existing and developing third-party technologies, including third-party software and middleware utilized by our players; and
- acquire and successfully integrate high-quality mobile game assets, personnel or companies.

Further, even if we develop or acquire license rights to a mobile game that is successful, the game's lifespan may be short, as even successful mobile games tend to have less sustained user loyalty than do successful PC games and Web games. For example, the revenues generated from our mobile game, TLBB 3D, which was launched in October 2014, declined sequentially through 2015 after its debut, which is typical for a mobile game. In view of the uncertain lifespans of mobile games, it is necessary for us to invest considerable sums in order to have a number of mobile games, and particularly mobile games that have the potential to become high-quality, hit games, in our pipeline.

If we are unable to succeed in developing or acquiring new mobile games in general, and high-quality games in particular, that are successful and maintaining for a reasonable period the popularity and revenue levels of any mobile games that we develop or acquire that are successful, we may not be able to recoup our development and acquisition costs and our ability to expand our business in the future is likely to be impeded.

We may not be able to distribute our mobile games through our desired Internet platforms, our profits from any successful mobile games can be expected to be relatively lower than the profits we have enjoyed historically from PC games and our mobile game revenues are subject to additional risks as we rely on mobile application stores to collect payments from players of our mobile games.

We may not be able to arrange for our mobile games to be distributed through our desired popular third-party mobile application stores with commercial terms, including revenue-sharing arrangements that are favorable enough to us to allow us to achieve an acceptable level of profit from the games. Our profits from mobile games, even if the games are successful, are likely to be relatively lower than the profits we generate from PC games, because, in order to gain access for our games on mobile application stores, we must enter into revenue-sharing arrangements that generally result in lower profit margins than those generated from our PC games. We rely on mobile application stores to collect payments from game players for their purchases of our virtual items and to pay to us pre-agreed revenue-sharing amounts; if mobile application stores cease to offer our games over their platforms, change their user payment policies, such as return policies, or fail to make revenue-sharing payments that are due to us, our revenues will be adversely affected. In addition, the iOS-based mobile application store allows game players to use foreign currency to purchase virtual items or game points in our games, and the store pays to us pre-agreed revenue-sharing amounts after converting the foreign-currency denominated revenues from such purchases into RMB using an exchange rate effective at the time of the payment. Since there is usually a delay between the time of a game player's purchase and the time when the store pays us, if the foreign currency used has depreciated against the RMB during the delay we will receive lower share-sharing amounts at the time of the payment than we would have received if the payment had been made at the time of the game player's purchase.

There are risks associated with our licensing of rights to use the titles, characters, themes and story lines of popular works or stories in order to adapt them for our online games.

We frequently obtain license rights to the titles, characters, themes and story lines of popular works in order to adapt online games from such works. It can be difficult to identify a sufficient number of popular works that are suitable for adaptation for use in online games, and we face significant competition for the rights to such works from other online game companies that also adapt their online games from popular Chinese works. For example, under our existing license agreements with Louis Cha, a famous author of Chinese martial arts novels, we have the exclusive right to adapt certain of his novels into online games, such as TLBB and our mobile game TLBB 3D, and to operate the games in the China market. We also have a non-exclusive license to operate, and to sublicense the right to operate, such games outside of China. After the expiration of the terms of our existing license agreements with Mr. Cha or other holders of copyrights, we may not be able to renew the agreements with commercial terms that are favorable to us, if at all. Also see "Contract drafting, interpretation and enforcement in China involve significant uncertainty." In addition, obtaining license rights to suitable works can involve significant expenses, and if games that we adapt from particular works are not popular and commercial successes, we will be unable to recoup such expenses. Obtaining such rights and adapting such works for mobile games present additional risks, because of the possibly relatively short lifespans of mobile games.

We rely on recorded data for game revenue recognition and tracking of game players' consumption patterns of virtual items. If our data systems fail to operate effectively, such failure will not only affect the completeness and accuracy of our revenue recognition, but also our ability to design and improve virtual items that appeal to game players.

Our game operation revenues are generated through the direct online sale of game points and sale of our prepaid game cards, and our recognition of those revenues depends on such factors as whether the virtual items purchased by game players are considered consumable or perpetual. We rely on our data systems to record and monitor the purchase and consumption of virtual items by our game players and the types of virtual items purchased. If our data systems fail to accurately record the purchase and consumption information of the virtual items, we may not be able to accurately recognize our revenues. In addition, various factors affect the estimated lives of perpetual virtual items, such as the average period that game players typically play our games and other game player behavior patterns, the acceptance and popularity of expansion packs, promotional events launched and market conditions, and we rely on our billing systems to capture such historical game player behavior patterns and other information. If such information is not accurately recorded, or if we do not have sufficient information due to the short operating history of any of our games, we will not be able to accurately estimate the lives of, or the estimated average period the game players play our games with respect to, the perpetual virtual items, which will also affect our ability to accurately recognize our revenues from such perpetual virtual items. If our data systems were damaged by system failure, network interruption, or virus infection, or attacked by a hacker, the integrity of data would be compromised, which could adversely affect our revenue recognition and the completeness and accuracy of our recognized revenues.

In addition, we rely on our data systems to record game player purchase and consumption patterns, based on which we improve our existing virtual items and design new virtual items. For example, we intend to increase development efforts on the number and variety of virtual items that our game players like to purchase, and we may also adjust prices accordingly. If our data systems fail to record data accurately, our ability to improve existing virtual items or design new virtual items that are appealing to our game players may be adversely affected, which could in turn adversely affect our revenues.

We could be liable for breaches in the security of our online payment platforms and those of third parties with whom we transact business, and any such breaches could cause our customers to lose confidence in the integrity of the payment systems that we use.

Currently, we sell a substantial portion of our virtual game points and prepaid game cards to our game players through third-party online payment platforms. In these online transactions, secure transmission of confidential information, such as customers' credit card numbers and expiration dates, personal information and billing addresses, over public networks is essential if we are to maintain our consumers' confidence in us. In addition, we expect that an increasing amount of our sales will be conducted over the Internet as a result of the growing use of online payment systems. As a result, the risk of associated online crime will increase. Our current security measures and those of the third-party online payment platforms with whom we transact business may not be adequate. We must be prepared to increase our security measures and efforts so that our game players have confidence in the reliability of the online payment systems that we use, which will require us to incur additional expense. Such increased security measures may still not make our online payment systems completely safe. In addition, we do not have control over the security measures of our third-party online payment vendors. Breaches in the security of online payment systems that we use could expose us to litigation and liability for failing to secure confidential customer information, and could harm our reputation, ability to attract customers and ability to encourage customers to purchase virtual items.

We derive an increasing portion of our revenues from online games that we license from or jointly develop with third-party developers; any failure of third-party developers to fulfill their obligations under our license or joint operation agreements with them could have an adverse effect on our operation of and revenues from those games and our revenue-sharing arrangements with those third-party developers reduce our profits from the operation of those games.

We derive an increasing portion of our revenues from PC games and mobile games that we license from, or jointly develop with, third-party developers. Under our license and joint development agreements for these games, we rely on the third-party developers to provide game updates, enhancements and new versions, provide materials and other assistance in promoting the games and resolving game programming errors and issues with "bots" and other intrusions. Any failure of third-party developers to provide game updates, enhancements and new versions in a timely manner and that are appealing to game players, and provide assistance that enables us to effectively promote the games could adversely affect the game-playing experience of our game players, damage our reputation, or shorten the life-spans of those games, any of which could result in the loss of game players, acceleration of our amortization of the license fees we have paid for those games, or a decrease in or elimination of our revenues from those games.

In addition, our revenue-sharing arrangements for games that we license from or jointly develop with third-party developers provide us with relatively less profit than games that we develop in-house, and in some cases we may not be able to recoup our investments in such games. Moreover, to secure the rights to games from third-party developers, we often must pay up-front fees and also commit to pay additional fees in the future. Similarly, we also have invested in mobile game development studios in order to assure access to an extensive pipeline of mobile games. We often must make such commitments and investments without knowing whether the games we are licensing or jointly developing will be successful and generate sufficient revenues to enable us to recoup our costs or for the games to be profitable.

Furthermore, for games that we license from or jointly develop with third parties, we may not have access to the game source codes during the initial period of the license or at all. Without the source codes, we have to rely on the licensors to provide updates and enhancements during the initial period, giving us less control over the quality and timeliness of updates and enhancements. If our game players are not satisfied with the level of services they receive, they may choose to not play the games, leading to a decrease in our revenues.

We face significant risks and incur additional costs when we license to, or jointly operate with, third-party operators our games. If we fail to manage these risks, our growth and business prospects could be adversely affected.

We currently, and expect to continue to, exclusively license to, or jointly operate with, third-party operators some of our games, including an increasing number of our mobile games. Negotiating with potential third-party operators and joint operators and managing our relationships with the third-party operators and joint operators all require substantial management effort and skill and the incurrence of significant expenses. There are additional risks associated with the licensing, direct or joint operation of our games, including:

- difficulties in identifying appropriate markets;
- difficulties in identifying and maintaining good relationships with licensees or joint operators who are knowledgeable about, and can effectively operate our games in markets;
- difficulties in maintaining our reputation and the reputation of our games when our games are operated by licensees or joint operators in markets pursuant to their own standards;
- changes in the political, regulatory or economic conditions in a foreign country or region, or public policies toward online games; and
- difficulties in protecting our intellectual property.

Additional risks associated with the licensing or direct or joint operation of our games overseas include:

- Significant costs for translation of our games into the local languages of, or customization of our games for, the overseas markets in which we plan to license or jointly operate our games;
- difficulties relating to compliance with the different legal requirements and commercial terms, such as game export regulatory procedures, taxes and other restrictions and expenses, in the overseas markets in which we license or directly or jointly operate our games;
- exposure to different regulatory systems governing the protection of intellectual property and the regulation of online games, the Internet and the export of technology;
- costs for compliance with different legal requirements and commercial terms in overseas markets;
- difficulties in verifying revenues generated from our games by our licensees for purposes of determining royalties payable to us;
- difficulties and delays in contract enforcement and collection of receivables through the use of foreign legal systems;
- the risk that regulatory authorities in foreign countries or administrative regions may impose withholding taxes, or place restrictions on repatriation of our profits; and
- fluctuations in currency exchange rates.

If we are unable to manage these risks and control these costs effectively, our ability to license or operate our games in China or in regions and countries outside of Mainland China, either directly or jointly with third-party joint operators, may be impaired.

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

We depend on purchases and continual consumption of virtual items by our game players to generate revenues, which in turn depend on the continued attractiveness of our games to the game players and their satisfactory game-playing experience. Various issues could arise that would cause our games to be less attractive to our game players or could limit the continued attractiveness of our games. For example:

- we may fail to provide game updates, expansion packs and other enhancements in a timely manner due to technologies, resources or other factors;
- our game updates, expansion packs and new versions may contain program errors, and their installation may create other unforeseen issues that adversely affect the game-playing experience;
- we may fail to timely respond and/or resolve complaints from our game players;
- we may fail to eliminate computer “bots” which can disrupt our games’ smooth operation and reduce the attractiveness of our games; and
- our game updates, expansion packs and other enhancements may change rules or other aspects of our games that our game players do not welcome, resulting in a reduction in the active accounts or active paying accounts of our online games.

Our failure to address the above-mentioned issues could adversely affect the game-playing experience of our game players, damage the reputation of our games, shorten the lifespans of our games, and result in the loss of game players and a decrease in our revenues.

We generate all of our game revenues under the item-based revenue model, which presents risks related to consumer preferences and regulatory restrictions.

All of our games, including PC games, mobile games and Web games, are operated under the item-based revenue model. Under this revenue model, our game players are able to play the games for free if they so choose, but are charged for the purchase of virtual items in the games. We currently expect that all of our game revenues, including revenues from any future games, will continue to be generated under the item-based revenue model. The item-based revenue model requires us to design games that not only attract game players to spend more time playing, but also encourage them to purchase virtual items. The sale of virtual items requires us to track closely consumer tastes and preferences, especially as to in-game consumption patterns. If we fail to design and price virtual items so as to incentivize game players to purchase them, we may not be able to effectively translate our game player base and their playing time into revenues. In addition, the item-based revenue model may cause additional concerns with PRC regulators who have been implementing regulations designed to reduce the amount of time that Chinese youths spend on online games and intended to limit the total amount of virtual currency issued by online game operators and the amount purchased by individual game players. A revenue model that does not charge for time played may be viewed by the PRC regulators as inconsistent with these goals. The item-based revenue model may not continue to be commercially successful and in the future we may need to change our revenue model to a time-based or other revenue model. Any change in revenue model could result in disruption of our game operations, a decrease in the number of our game players and a decline in our revenues.

Undetected programming errors or defects in our games could harm our reputation and adversely affect our results of operations.

Our games are subject to frequent improvement and updates, and may contain bugs or flaws that may become apparent only after the updated applications are accessed by users, particularly as we launch new updates under tight time constraints. From time to time, our users may inform us of programming bugs affecting their experience, and we are generally able to resolve such flaws promptly. However, if for any reason, programming bugs or flaws are not resolved in a timely fashion, we may lose some of our users and our revenues will be affected negatively, and our reputation and the market acceptance of our games may also be harmed.

We may fail to launch new games according to our timetable, and our new games may not be commercially successful.

All online games have limited lifespans. We must launch new games that can generate additional revenue and diversify our revenue sources in order to remain competitive. We will not generate any meaningful revenue from a game in development until it is commercially launched after open beta testing, and we cannot assure you that we will be able to meet our timetable for new game launches or that our new games will be successful. A number of factors, including technical difficulties, lack of sufficient game development personnel and other resources, failure to obtain or delays in obtaining relevant governmental authorities' approvals and adverse developments in our relationships with the licensors or third-party operators of our new games could result in delayed launching of our new games. In addition, we cannot assure you that our new games will be as well received in the market as TLBB and TLBB 3D have been, and you should not view our historical game revenues or the success of TLBB and TLBB 3D as indications of the commercial success of any of our new or future games. We may fail to anticipate and adapt to future technical trends, new business models and changed game player preferences and requirements, fail to effectively plan and organize marketing and promotion activities, or fail to differentiate our new games from our existing games. If the new games we introduce are not commercially successful, we may not be able to generate sufficient revenues from new games to sustain or grow our revenues or to recover our product development costs and sales and marketing expenses, which can be significant.

Rapid technological changes may increase our game development costs.

Technological development in online game industry is evolving rapidly, so we need to anticipate new technologies and evaluate their possible market acceptance. For example, the use of virtual reality technology has improved, and can be expected to continue to improve, game players' in-game experience and level of participation. In addition, government authorities or industry organizations may adopt new standards that apply to game development. Any new technologies and new standards may require increases in expenditures for PC game and mobile game development and operations, and we will need to adapt our business to cope with the changes and support these new services to be successful. If we fall behind in adopting new technologies or standards, our existing games may lose popularity, and our newly developed games may not be well received in the marketplace.

The proliferation of "cheating" programs and scam offers that seek to exploit our games and players harms the game-playing experience and may lead players to stop playing our games.

Third parties have developed, and may continue to develop, "cheating" programs that enable players to exploit our games, play the games in an automated way or obtain unfair advantages over other players who play fairly. These programs harm the experience of players who play fairly and may disrupt the economics of our games. In addition, unrelated third parties may attempt to scam our players with fake offers for virtual items. We need to devote significant resources to discover, disable and prevent such programs and activities, and if we are unable to do so quickly our operations may be disrupted, our reputation may be damaged and players may stop playing our games. This may lead to lost revenue and increased costs for us to develop technological measures to combat such programs and activities.

Our business may be harmed if our games are not featured in a sufficient number of Internet cafés in China

A certain number of game players access our games through Internet cafés in China. Due to limited hardware capacity, Internet cafés generally feature a limited number of games on their computers. We thus compete with a growing number of other online game operators to ensure that our games are featured on these computers. It is necessary for us to maintain good relationships with Internet café operators, to ensure that our games are featured in a sufficient number of Internet cafés. If we fail to maintain good relationships with Internet café operators, or if we and/or our third-party operators fail to successfully persuade Internet cafés to feature our games, our revenues may be affected.

Game players' spending on our games may be adversely affected by slower growth in the Chinese economy and adverse conditions in the global economy.

We rely on the spending of our game players for our revenues, which in turn depends on the players' level of disposable income, perceived future earnings capabilities and willingness to spend. The real estate market in the PRC and the level of exports from the PRC have both experienced significant declines recently and, according to the National Bureau of Statistics of China, the growth rate of China's gross domestic product, compared to that of the previous year, slowed from 9.2% in 2011 to 7.5% in 2012 and 7.7% in 2013 and 7.4% in 2014 and 6.9% in 2015. Such growth may also slow in the future, which could in turn result in a reduction in spending by our game players.

In addition, the global economy has experienced significant instability and there has been volatility in global financial and credit markets in recent years, recent growth in the United States economy may not be sustainable and some analysts are concerned that the European Community may experience a sustained downturn. It is unclear how long such instability and volatility will continue, whether it will increase, whether it will lead to a renewed worldwide economic downturn such as the one that began in 2008, and how much adverse impact such instability and volatility or any such downturn might have on the economies of China and other jurisdictions where we operate our games. Any such instability, volatility or adverse impact in China or in overseas markets could cause our game players to reduce their spending on our games in China or overseas and reduce our revenues.

Risks Related to the Platform Channel Business

We have not been able to successfully monetize our platform channel business beyond the operation of our 17173.com Website or to recoup our significant investment in such business.

During 2013 and 2014 we made significant investments in acquiring assets and marketing, including both domestic and overseas marketing, and spent considerable sums to increase our staffing levels, with the goal of expanding and promoting our platform channel business beyond the operation of the 17173.com Website. However, we have not generated meaningful revenues from such additions to our platform channel business. Our continuing efforts to monetize those products and services have not been successful, and we believe that it is unlikely we will be able to make our platform channel business apart from the 17173.com Website profitable or that we will be able to recoup the investments we made in assets, marketing and staffing for the platform channel business. For example, after our acquisition of a majority interest in MoboTap, our management concluded that the Dolphin Browser operated by MoboTap would not be able to provide expected synergies with our platform channel business, and we recognized substantial impairment charges as a result. Also see "Our previous and any future acquisitions and/or strategic alliances may have an adverse effect on our ability to manage our business and may also result in impairment charges."

Online advertising revenues from the 17173.com Website could fail to grow or could decline as a result of uncertainties in the game market and the online advertising market.

Our online advertising revenues of \$57.8 million for the year ended December 31, 2015, which were mainly derived from the operation of the 17173.com Website, represented 7.6% of our total revenues for the year. Our ability to maintain or grow online advertising revenues may be adversely affected by any of the following risk factors:

- Changes in government policy could restrict or curtail our online advertising services;
- The decline in the demand for online advertising services from developers and operators of PC games, as the relative popularity of such games continues to decline;
- Advertising clients may adopt new methods and strategies other than online advertising to promote their brands, which would have an adverse impact on our advertising revenues; and
- The acceptance of the Internet as a medium for advertising depends on the development of a measurement standard. No standards for the measurement of the effectiveness of online advertising have been widely accepted. Industry-wide standards may not develop sufficiently to support the Internet as an effective advertising medium. If these standards do not develop, advertisers may choose not to advertise on the Internet in general, or through our Websites.

In addition, our ability to generate and maintain significant online advertising revenues will also depend upon:

- the development of a large base of users possessing demographic characteristics attractive to advertising clients;
- the development of successful mobile versions of the 17173.com Website and the provision of extensive mobile game-related products and services in response to the rapid migration of users of Internet services from PCs to mobile devices, such as tablets and mobile phones;
- the acceptance of online advertisements, either through PCs or mobile devices, as an effective method of business marketing;
- the effectiveness of our advertising delivery, tracking and reporting systems;
- the extent of resistance from existing or potential customers to online advertising prices; and
- the development of new formats for online advertising, such as streaming video.

The expansion of Internet advertisement blocking software may result in a decrease in advertising revenues.

The development of Web software that blocks Internet advertisements before they appear on a user's screen may hinder the growth of online advertising. The expansion of advertisement blocking on the Internet may decrease our revenues from the 17173.com Website because, when an advertisement is blocked, it is not downloaded from the server, which means that it will not be tracked as a delivered advertisement. In addition, advertisers may choose not to advertise on the Internet or on our 17173.com Website because of the use by third parties of Internet advertisement blocking software.

We rely on advertising agencies to sell online advertising services on the 17173.com Website. If current trends of consolidation of advertising agencies in the Chinese market continue, the bargaining power of the large advertising agencies resulting from such consolidation may permit them to require that we pay higher sales rebates, which would adversely affect our gross margin.

Most of the online advertising services of the 17173.com Website are distributed by, and most of the online advertising revenues of the 17173.com Website are derived from, advertising agencies. For example, in 2015 we engaged four advertising agencies, which contributed approximately 95% of the online advertising revenues of the 17173.com Website. In consideration for these agencies' services, we are required to pay certain percentages of revenues as sales rebates. If the online advertising market is consolidated and effectively controlled by a small number of large advertising agencies, such advertising agencies may be in a position to demand higher sales rebates based on increased bargaining power, which could negatively affect our online advertising growth, as we book our online advertising revenue net of our sales rebates to advertising agencies.

Risks of Others Business

We may not be able to maintain or expand the revenues that we receive from cinema advertising services.

Our cinema advertising business generates revenues through contracts that we enter into with advertisers to place their advertisements in pre-film advertising slots in movie theatres. We acquire the cinema advertising rights for such pre-film advertising slots under long-term contracts, typically with three-year terms, with various theatres. If we are unable to sell to advertisers all of the pre-film advertising slots that we purchase we may not be able to recoup our upfront payments and committed payments under the contracts. Further, we cannot assure you that we will be able to develop, maintain or expand the types of cooperative relationships with movie theatres that will permit us to maintain our existing rights or to obtain any additional rights to pre-movie advertisement slots at reasonable prices. Any failure by us to develop, maintain or expand such cooperative relationships could prevent us from increasing our cinema advertising revenues, could cause such revenues to decrease or could result in our cinema advertising business generating losses.

General Business Risks

Our prospects for growth may be adversely affected if we cannot successfully manage and make timely adjustments to our hiring needs to support our business strategies.

The Internet industry in China is characterized by high demand and intense competition for talent, particularly for game developers and related technical personnel, and our success in the implementation of our growth strategies depends on our ability to successfully manage, and make timely adjustments to, our hiring needs. The number of our employees increased 35.3% between the end of 2012 and the end of 2013 as we expanded our business into mobile games, the platform channel business and international markets, but decreased 11.0% between the end of 2013 and the end of 2014 and decreased 41.9% between the end of 2014 and the end of 2015, as we emphasized the development of mobile games and laid off a number of employees who had been focused primarily on international markets and the platform channel business other than the 17173.com Website. These layoffs could have an adverse effect on our remaining employees' morale and their loyalty to us, and cause us to lose employees whose talents and experience are important for our business, and could also have a negative impact on our reputation as an employer and our ability to attract qualified employees in the future. Laid-off employees could also make claims against us for additional compensation, causing us to incur additional expense.

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

Our success depends largely on our ability to use and develop our technology and know-how without infringing the intellectual property rights of third parties. We cannot assure you that third parties will not assert intellectual property claims against us. We are subject to additional risks if entities licensing to us intellectual property, including, for example, game source codes, do not have adequate rights in any such licensed materials. The validity and scope of claims relating to the intellectual property of game development and technology involve complex scientific, legal and factual questions and analyses and, therefore, tend to be uncertain. If third parties assert copyright or patent infringement or violation of other intellectual property rights against us, we will have to defend ourselves in litigation or administrative proceedings, which can be both costly and time consuming and may significantly divert the efforts and resources of our technical and management personnel. An adverse determination or settlement in any such litigation or proceedings to which we may become a party could subject us to significant liability to third parties, or require us to seek licenses from third parties, pay ongoing royalties, or redesign our games or subject us to injunctions prohibiting the development and operation of our games.

We may need to incur significant expenses to enforce our proprietary rights, and if we are unable to protect such rights, our competitive position and financial performance could be harmed.

We regard our intellectual property and proprietary rights as critical to our success. In particular, we have spent a significant amount of time and resources in developing our current games and possible future games. Our ability to protect our proprietary rights in connection with our games is critical for their success and our overall financial performance. While we have registered software in China for copyright protection and have taken various measures to protect our source codes, such measures may not be sufficient to protect our proprietary information and intellectual property. Intellectual property rights and confidentiality protection in China may not be as effective as they are in the United States and other developed countries. Policing unauthorized use of proprietary technology is difficult and expensive. In addition, while we have registered some trademarks relating to our games in the PRC and other jurisdictions, and have applied for additional registrations of trademarks, in some instances we may not succeed in obtaining registration of trademarks that we have applied for in different languages, such as English. We cannot assure that these pending or future trademark applications will be approved. Any failure to register trademarks in any country or region may limit our ability to protect our rights in such country or region under relevant trademark laws, and we may need to change the name of the relevant trademark in certain cases, which may adversely affect our branding and marketing efforts.

Despite our efforts to protect our intellectual property, online game developers may copy our ideas and designs, and other third parties may infringe our intellectual property rights. For example, certain third parties have misappropriated the source codes of previous versions of TLBB and have set up unauthorized servers in China and elsewhere to operate TLBB to compete with us. Although in response we have taken measures to enforce our intellectual property rights, such measures may not be successful in eliminating these unauthorized servers. The existence of unauthorized servers may attract game players away from our games and may result in decreases in our revenues. Litigation relating to intellectual property rights may result in substantial costs to us and diversion of resources and management attention away from our business, and may not be successful. In addition, our ideas and certain of our designs, if not fixed in a tangible form of expression or registered with the appropriate PRC authorities, may not be protected by patents or other intellectual property rights. As a result, we may be limited in our ability to assert intellectual property rights against online game developers who independently develop ideas and designs that compete with us.

We may not have exclusive rights to trademarks, designs and technologies that are crucial to our business.

We have applied for initial registrations in the PRC and overseas, and/or changes in registrations relating to transfers of our key trademarks in the PRC, including ChangYou.com, cyou.com, TLBB, TL logos, New Blade Online, 17173, TLBB 3D and the corresponding Chinese versions of the marks, so as to establish and protect our exclusive rights to these trademarks. We have succeeded in registering the trademarks ChangYou.com, cyou.com, TLBB, TL logos, 17173 and Dolphin Browser in the PRC under certain classes. The applications for initial registration, and/or changes in registrations relating to transfers, of other marks and/or of some of these marks under other classes are still under examination by the Trademark Office of the State Administration for Industry & Commerce of the PRC, or the SAIC, and relevant authorities overseas. We have applied for patents relating to the design of our games and to technology intended to enhance the functionalities of our games. We have various patent applications under examination by the State Intellectual Property Office of the PRC. Approvals of our initial trademark registration applications, and/or of changes in registrations relating to such transfers, or of our patent applications, are subject to determinations by the Trademark Office of the SAIC, the State Intellectual Property Office of the PRC and relevant authorities overseas that there are no prior rights in the applicable territory. We cannot assure that these applications will be approved. Any rejection of these applications could adversely affect our rights to the affected marks, designs and technologies. In addition, even if these applications are approved, we cannot assure you that any registered trademark or issued patent will be sufficient in scope to provide adequate protection of our rights.

Breaches in the security of our server network could cause disruptions in our service, facilitate piracy of our intellectual property, or compromise confidential information of our game players.

We store on our servers and transmit over the Internet considerable and continually increasing amounts of data, much of which is essential to the operation of our business or is highly confidential information concerning our business and our game players. In addition, the expansion of our business to include mobile games and our need to comply with PRC regulations requiring real-name registration of our game players are likely to cause the amount of personal data concerning our game players that is transmitted over our networks to increase over time. Any breaches of our network by hackers could cause severe disruptions in our service, allow piracy of the source code used in the operation of our games and allow pirated versions of our games to enter the marketplace, or result in the release of confidential personal or financial information of our game players, any of which could have an adverse impact on our business, our revenues, and our reputation among game players. In order to minimize the likelihood of such breaches as our business expands and the amount of confidential and sensitive data increases, we expect that we will need to expend considerable resources to maintain and enhance the effectiveness of our security systems.

The successful operation of our business and implementation of our growth strategies, including our ability to accommodate additional game players and advertising clients in the future, depend upon the performance and reliability of the Internet infrastructure and fixed telecommunications networks in China.

Almost all access to the Internet in China is maintained through state-owned telecommunications operators under the administrative control and regulatory supervision of the Ministry of Industry and Information Technology, or MIIT. We rely on this infrastructure to provide data communications capacity, primarily through local telecommunications lines. Although the PRC government has announced plans to develop the national information infrastructure, this infrastructure may not be developed as planned or at all. In addition, we will have no access to alternative networks and services, on a timely basis if at all, in the event of any infrastructure disruption or failure. The Internet infrastructure in China may not support the demands necessary for continued growth in Internet usage.

We may be subject to, and may expend significant resources in defending against, claims regarding the content and services we provide over our Websites.

As our services may be used to download and distribute information to others, there is a risk that claims may be made against us for defamation, negligence, copyright or trademark infringement or based on the nature and content of such information. Furthermore, we could be subject to claims related to the online activities of our visitors and incur significant costs in our defense. In the past, claims regarding the nature and content of information that was posted online by visitors have been made in the United States against companies that provide online services. We could be exposed to liability for the selection of listings that may be accessible through our Websites or through content and materials that our visitors may post in classifieds, message boards, chat rooms or other interactive services. If any information provided through our services contains errors, third parties may make claims against us for losses incurred in reliance on the information.

We do not carry any liability insurance against of the foregoing risks.

We do not have business insurance coverage.

The insurance industry in China is still at an early stage of development. Insurance companies in China offer limited business insurance products, or offer them at a high price. As a result, we do not have any business liability, loss of data or disruption insurance coverage for our operations in China or the operations of our joint operators in China and overseas. Any business disruption, litigation or natural disaster might result in our incurring substantial costs and the diversion of our resources.

The limited use of personal computers in China and the relatively high cost of Internet access in relation to per capita gross domestic product may limit the development of the Internet in China and impede our growth.

The penetration rate for personal computers in China is significantly lower than it is in the United States and other developed countries. Furthermore, the cost of Internet access in China is still relatively high as compared to other developed countries. The limited use of personal computers in China and the relatively high cost of Internet access may limit the growth of our business. In addition, there may be increases in Internet access fees or telecommunication fees in China. If that happens, the number of our game players may decrease or the growth of our game player base may be adversely impacted. Slow growth of, or a decrease in, the traffic on the 17173.com Website may also cause our advertising clients to reduce their use of our online advertising services, reducing our online advertising revenues.

We face risks related to health epidemics and other natural disasters.

Our business could be adversely affected by the effects of H1N1 influenza, H7N9 influenza, avian influenza or other epidemics or outbreaks. In recent years, there have been reports of occurrences of H1N1 influenza, H7N9 influenza and of avian influenza in various parts of China, including a few confirmed human cases and deaths. Any prolonged recurrence of H1N1 influenza, H7N9 influenza, avian influenza or other adverse public health developments in China may have an adverse effect on our business operations. Adverse effects could include illness and loss of our management and key employees, as well as temporary closure of our offices and related other businesses, such as server operations, upon which we rely, and a decrease in the number of our game players. Such loss of management and key employees or closures would severely disrupt our business operations. We have not adopted any written preventive measures or contingency plans to combat any future outbreak of H1N1 influenza, H7N9 influenza, avian influenza, or any other epidemics. In addition, other major natural disasters may also adversely affect our business by, for example, causing disruptions of the Internet network or otherwise affecting access to our games.

We may not be able to generate sufficient cash flow in U.S. dollars in the future to service our debt obligations, which would cause us to default under our U.S. dollar bank loan facilities.

Our ability to make scheduled payments on, or to refinance our obligations with respect to, our indebtedness to banks for borrowed money will depend on our financial and operating performance, which in turn will be affected by general economic conditions and by financial, competitive, regulatory and other factors beyond our control. It is possible that we will be unable in the future to generate sufficient cash flow from our operations to cover indebtedness under our existing or future bank loan facilities. Further, most of our business operations are conducted in Mainland China and most of our revenues are denominated in RMB, while our existing loans were primarily advanced to us offshore in U.S. dollars, and are repayable in U.S. dollars. Our conversion of RMB into U.S. dollars generally must be made via our onshore subsidiaries' payment of dividends to our offshore subsidiaries, which can be time-consuming, due to China's strict foreign exchange controls, which could potentially prevent us from making timely repayment of our offshore loans and cause a default under the loans.

Risks Related to Our Corporate Structure and PRC Law and Regulations

If the PRC government determines that the VIE structure for operating our business does not comply with applicable PRC government restrictions on foreign investment in telecommunication industry, we could face severe penalties.

Various regulations in China currently restrict foreign-invested entities from engaging in value-added telecommunication services, which are defined by PRC authorities to include operating online games and providing platform channel services. Because of these restrictions, we operate certain aspects of our game business and platform channel business in the PRC through our principal variable interest entities, or VIEs, which are not owned of record by us, and include Beijing Gamease Age Digital Technology Co., Ltd., or Gamease, Beijing Guanyou Gamespace Digital Technology Co., Ltd., or Guanyou Gamespace, and Shanghai ICE Information Technology Co., Ltd., or Shanghai ICE, which is a wholly-owned subsidiary of Gamease, Baina (Wuhan) Information Technology Co., Ltd., or Wuhan Baina Information, or subsidiaries of these VIEs. Each of the nominee shareholders of Gamease, Guanyou Gamespace and Wuhan Baina Information is either a PRC citizen or a PRC company. Through a series of contractual arrangements, our VIEs are effectively controlled by our wholly-owned subsidiaries in China. For details of these contractual arrangements, see "Related Party Transactions" in Item 7 of this annual report.

The MIIT issued a circular in 2006 that emphasizes restrictions on foreign investment in value-added telecommunications businesses. In addition, a notice jointly issued in 2009 by the State Administration of Press, Publication, Radio, Film and Television, or the SAPPRFT, the National Copyright Administration, and the National Office of Combating Pornography and Illegal Publications states that foreign investors are not permitted to invest in online game operating businesses in China or to exercise control over or participate in the operation of such businesses through indirect means. Due to a lack of interpretative materials from the relevant PRC authorities, there are uncertainties regarding whether PRC authorities would consider our corporate structure and contractual arrangements to be a kind of foreign investment in value-added telecommunications services or online game operation businesses. While we are not aware of any online game companies which use the same or similar contractual arrangements as ours having been penalized or ordered to terminate operations by PRC authorities claiming that the arrangements constituted foreign investment in value-added telecommunication services or a kind of control over or participation in the operation of online game operating businesses through indirect means, it is unclear whether and how the various regulations of the PRC authorities might be interpreted or implemented in the future.

Further, on January 19, 2015, the Ministry of Commerce, or the MOFCOM, released on its Website for public comment a draft foreign investment law of the PRC, or the Draft FIL, that appears to include VIEs within the scope of entities that could be considered to be foreign invested enterprises, or FIEs, that would be subject to restrictions under existing PRC law on foreign investment in certain categories of industry. Specifically, the Draft FIL introduces the concept of “actual control” for determining whether an entity is considered to be an FIE. In addition to control through direct or indirect ownership or equity, the Draft FIL includes control through contractual arrangements within the definition of “actual control.” If the Draft FIL is passed by the People’s Congress of the PRC and goes into effect in its current form, these provisions regarding control through contractual arrangements could be construed to reach our VIE arrangements, and as a result our VIEs could become explicitly subject to the current restrictions on foreign investment in certain categories of industry. The Draft FIL includes provisions that would exempt from the definition of foreign invested enterprises entities where the ultimate controlling shareholders are either entities organized under PRC law or individuals who are PRC citizens. The Draft FIL does not make clear how “control” would be determined for such purpose, and is silent as to what type of enforcement action might be taken against existing VIEs, such as ours, that operate in restricted industries and are not controlled by entities organized under PRC law or individuals who are PRC citizens.

In addition, under the *Notice of the General Office of the State Council on Establishing the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors*, or Circular No. 6, promulgated by the State Council of the PRC, or the State Council, on February 3, 2011 and the *Rules of Ministry of Commerce on Implementation of Security Review System of Mergers and Acquisitions of Domestic Enterprises by Foreign Investors*, or the MOFCOM Security Review Rules, promulgated by the MOFCOM in August, 2011 to implement Circular No. 6, a security review is required for mergers and acquisitions by foreign investors having “national defense and security” concerns and mergers and acquisitions by which foreign investors may acquire “de facto control” of domestic enterprises with “national security” concerns and prohibit foreign investors from bypassing the security review requirement by structuring transactions through proxies, trusts, indirect investments, leases, loans, control through contractual arrangements or offshore transactions. As there is no explicit provision or official interpretation stating that the business of MoboTap falls into the scope subject to security review, we did not submit for security review our acquisition of a majority interest in MoboTap. However, these national security review-related regulations are relatively new and there is a lack of clear statutory interpretation regarding the implementation of the rules, and PRC authorities may interpret these regulations to mean that such transactions should have been submitted for review. For a discussion of these PRC national security review requirements and media reports, see “PRC Regulation—M&A Regulations and Overseas Listings” in Item 4 of this annual report.

If we were found to be in violation of any existing or future PRC law or regulations relating to foreign ownership of value-added telecommunications businesses, including the Draft FIL if it becomes effective, and security reviews of foreign investments in such businesses, including online games businesses, regulatory authorities with jurisdiction over the operation of our business would have broad discretion in dealing with such a violation, including levying fines, confiscating our income, revoking the business or operating licenses of PRC subsidiaries and/or VIEs, requiring us to restructure our ownership structure or operations, requiring us to discontinue or divest ourselves of all or any portion of our operations or assets, restricting our right to collect revenues, blocking our Websites, or imposing additional conditions or requirements with which we may not be able to comply. Any of these actions could cause significant disruption to our business operations and have an adverse impact on our business, financial condition and results of operations. Further, if changes were required to be made to our ownership structure, our ability to consolidate our VIEs could be adversely affected.

For a detailed discussion of PRC regulations, notices and circulars with respect to such restrictions, see “PRC Regulation—Regulation of Value-Added Telecommunication Services in general”, “PRC Regulation—Restrictions on Foreign Ownership of Value-Added Telecommunication Services” and “PRC Regulation—Online Games and Cultural Products” in Item 4 of this annual report.

Our contractual arrangements with our VIEs and their shareholders may not be as effective in providing control over our VIEs as direct ownership of the VIEs and the shareholders of our VIEs may have conflicts of interest with us or with each other.

We have no ownership interest in our principal VIEs Gamease, Guanyou Gamespace, Shanghai ICE (which is a wholly-owned subsidiary of Gamease), and Wuhan Baina Information and we conduct most of our operations and generate substantially all of our revenues through contractual arrangements that our indirect subsidiaries Beijing AmazGame Age Internet Technology Co., Ltd., or AmazGame, Beijing Changyou Gamespace Software Technology Co., Ltd., or Gamespace, and Baina Zhiyuan (Beijing) Technology Co., Ltd., or Beijing Baina Technology, entered into with Gamease, Guanyou Gamespace, and Wuhan Baina Information, respectively, and their shareholders. Such contractual arrangements are designed to provide us with effective control over Gamease, Guanyou Gamespace, Shanghai ICE and Wuhan Baina Information. See “Related Party Transactions” in Item 7 of this annual report for a description of these contractual arrangements. We depend on Gamease, Guanyou Gamespace, Shanghai ICE and Wuhan Baina Information, directly or through their subsidiaries, to hold and maintain certain licenses and permits necessary and material for our online game business and for our operation of the 17173.com Website and the Dolphin Browser. Gamease, Guanyou Gamespace, Shanghai ICE, and Wuhan Baina Information, directly or through their subsidiaries, collectively own all of the key necessary intellectual property, facilities and other assets relating to the operation of our online games, the 17173.com Website and the Dolphin Browser that are not owned directly by our subsidiaries, and employ personnel for the operation and distribution of our online games, the 17173.com Website and the Dolphin Browser that are not employed directly by our subsidiaries.

These contractual arrangements may not be as effective in providing us with control over Gamease, Guanyou Gamespace, Shanghai ICE and Wuhan Baina Information as direct ownership. For example, if we had direct ownership of Gamease, Guanyou Gamespace, Shanghai ICE and Wuhan Baina Information, we would be able to exercise our rights as a shareholder to effect changes in their boards of directors, which in turn could effect changes at the management level. Due to our VIE structure, we have to rely on contractual rights to effect control and management of Gamease, Guanyou Gamespace, Shanghai ICE and Wuhan Baina Information, which exposes us to the risk of potential breach of contract by the shareholders of Gamease, Guanyou Gamespace and Wuhan Baina Information. In addition, as each of Gamease, Guanyou Gamespace and Wuhan Baina Information is owned by its respective shareholders, it may be difficult for us to change our corporate structure if such shareholders refuse to cooperate with us. Furthermore, if the shareholders of any of our principal VIEs were involved in proceedings that had an adverse impact on their shareholder interests in such VIE or on our ability to enforce relevant contracts related to the VIE structure, our business would be adversely affected.

The shareholders of Gamease, Guanyou Gamespace and Wuhan Baina Information may breach, or cause Gamease, Guanyou Gamespace or Wuhan Baina Information to breach, the VIE contracts for a number of reasons. For example, their interests as shareholders of these companies and the interests of our company may conflict and we may fail to resolve such conflicts; the shareholders may believe that breaching the contracts will lead to greater economic benefit for them; or the shareholders may otherwise act in bad faith. If any of the foregoing were to happen, we might have to rely on legal or arbitral proceedings to enforce our contractual rights. In addition, disputes may arise among the shareholders of any of our principal VIEs with respect to their ownership of such VIE which could lead them to breach their agreements with us. Such arbitral and legal proceedings and disputes may cost us substantial financial and other resources, and result in disruption of our business, and the outcome might not be in our favor. For example, a PRC court or arbitration panel could conclude that our VIE contracts violate PRC law or are otherwise unenforceable. If the contractual arrangements with any of our principal VIEs were found by PRC authorities with appropriate jurisdiction to be unenforceable, we could lose our ability to consolidate such VIE's results of operations, assets and liabilities in our consolidated financial statements and/or to transfer the revenues of such VIE to our corresponding PRC subsidiary. In addition, such a finding of unenforceability by PRC authorities could cause more than 75% of our gross income or more than 50% of our assets to be passive in the year that this finding was made or in subsequent years, which could cause us to be classified as a passive foreign investment company, or PFIC. See "We might be classified as a passive foreign investment company, which could result in adverse U.S. federal income tax consequences to U.S. holders of our ADSs or Class A ordinary shares."

Under the contractual arrangements with our principal VIEs and their shareholders, no shareholder or group of shareholders of any of our principal VIEs has the ability to unilaterally terminate any of the agreements between the VIEs in which they hold shares and our corresponding PRC subsidiary. However, (i) the shareholders of Gamease and Guanyou Gamespace have a termination right under the loan agreements if our corresponding PRC subsidiary engages in gross negligence, fraud or other material illegal actions or if our corresponding PRC subsidiary's existence is terminated as a result of bankruptcy, dissolution, or legal process by government authorities and (ii) the shareholders of our principal VIEs, other than Wuhan Baina Information, have a termination right under the equity purchase right agreements if the corresponding VIE's existence is terminated as a result of bankruptcy, dissolution, or legal process by government authorities.

In addition, as all of these contractual arrangements are governed by PRC law and provide for the resolution of disputes through either arbitration or litigation in the PRC, they would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. We would have to rely for enforcement on legal remedies under PRC law, including specific performance, injunctive relief or damages, which might not be effective. For example, if we sought to enforce the equity interest purchase right agreements for the transfer of equity interests in any of our principal VIEs, if the transferee was a foreign company the transfer would be subject to approval by governmental authorities such as the MIIT and the MOFCOM, and the transferee would be required to comply with various requirements, including qualification and maximum foreign shareholding percentage requirements. As these governmental authorities have wide discretion in granting such approvals, we could fail to obtain such approval. In addition, our VIE contracts might not be enforceable in China if PRC governmental authorities or courts or arbitral tribunals took the view that such contracts contravened PRC law or were otherwise not enforceable for public policy reasons.

Furthermore, the legal environment in the PRC is not as developed as in other jurisdictions, such as the United States. As a result, uncertainties in the PRC legal system could further limit our ability to enforce these contractual arrangements. In the event we were unable to enforce these contractual arrangements, we would not be able to exert effective control over Gamease, Guanyou Gamespace, Shanghai ICE and Wuhan Baina Information, and our ability to conduct our business, and our financial condition and results of operations, would be severely adversely affected.

Our contractual arrangements with our principal VIEs may result in adverse tax consequences to us.

Under PRC law and regulations, arrangements and transactions among related parties may be subject to audit or challenge by PRC tax authorities. We could face adverse tax consequences if PRC tax authorities determined that our contractual arrangements with any of Gamease, Guanyou Gamespace, Shanghai ICE or Wuhan Baina Information were not made on an arm's length basis and adjusted our income and expenses for PRC tax purposes in the form of a transfer pricing adjustment. A transfer pricing adjustment could result in a reduction, for PRC tax purposes, of adjustments recorded by any of our principal VIEs, which could adversely affect us by (i) increasing the tax liability of such VIE without reducing the tax liability of our corresponding PRC subsidiary, which could further result in interest and penalties being levied on us for underpaid taxes or (ii) limiting such VIE's ability to maintain preferential tax treatments and other financial incentives. In addition, if for any reason we needed to cause the transfer of any of the shareholders' shares in any of our VIEs to a different nominee shareholder (such as if, for example, one of such shareholders is no longer employed by us), we might be required to pay individual income tax, on behalf of the transferring shareholder, on any gain deemed to have been realized by such shareholder on such transfer.

We may lose the ability to use and enjoy assets held by any of our principal VIEs that are important to the operation of our business if such VIE declares bankruptcy or becomes subject to a dissolution or liquidation proceeding.

Each of our VIEs holds assets that are critical to our business operations, such as our core intellectual property, licenses and permits, and/or joint operation agreements relating to our games and game operations. Although the equity interest purchase right agreements among our wholly foreign-owned entities, or WFOEs, our VIEs and the shareholders of our VIEs contain terms that specifically obligate the shareholders of our VIEs to ensure the valid existence of our VIEs, in the event the shareholders breached this obligation and voluntarily liquidated our VIEs, or if any of our VIEs declared bankruptcy and all or part of its assets became subject to liens or rights of third-party creditors, we might be unable to continue some or all of our business operations. Furthermore, if any of our VIEs were to undergo a voluntary or involuntary liquidation proceeding, its shareholders or unrelated third-party creditors might claim rights to some or all of such VIE's assets and their rights could be senior to our rights under the VIE contracts, thereby hindering our ability to operate our business.

Nearly all of our revenues are generated through our principal VIEs Gamease, Guanyou Gamespace, Shanghai ICE and Wuhan Baina Information, and we rely on payments made by these entities to our subsidiaries AmazGame, Gamespace and Beijing Baina Technology, respectively, pursuant to contractual arrangements requiring the transfer of any such revenues to these subsidiaries. Any restriction on such payments and any increase in the amount of PRC taxes applicable to such payments may adversely affect our business and our ability to pay dividends to our shareholders and ADS holders.

We conduct nearly all of our operations through our principal VIEs Gamease, Guanyou Gamespace, Shanghai ICE and Wuhan Baina Information, which generate nearly all of our revenues. As our VIEs are not owned by our subsidiaries, they are not able to make dividend payments to our subsidiaries. Instead, our China subsidiaries AmazGame, Gamespace and Beijing Baina Technology are parties to a number of contracts with their corresponding VIEs, pursuant to which the VIE pays the PRC subsidiary for certain services that the PRC subsidiary provides to the VIE. However, depending on the nature of services provided, certain of these payments are subject to PRC taxes, including business taxes and value-added tax, or VAT, which effectively reduce the amount that we receive from the VIEs. The PRC government might impose restrictions on such payments or change the tax rates applicable to such payments. Any such restrictions on such payment or increases in the applicable tax rates could limit our ability to receive payments from the VIEs or limit the amount of such payments, and could in turn adversely affect our business, our net income and our ability to pay dividends to our shareholders and ADS holders.

We operate some of our existing games, and plan to operate certain of our future games, with Internet authorization codes that we obtained through third-party electronic publishing entities. If the SAPPRFT challenges the commercial operation of any of our games that are operated with Internet authorization codes obtained through third-party publishing entities, we may be subject to various penalties, including restrictions on our operations.

Under regulations issued by the SAPPRFT and the MIIT, online game operators are required to have an Internet publishing license, and an authorization code obtained under such a license is required for each game in operation and publicly available in the PRC. We publish certain of our existing games with authorization codes obtained under Internet publishing licenses held by third parties. For example, Wuhan Baina Information publishes a mobile online game with authorization codes obtained through a third-party. See "PRC Regulation—Online Games and Cultural Products" in Item 4 of this annual report. Current PRC regulations are not clear as to the consequence of obtaining authorization codes through the licenses of third-party entities. Our past and expected future practices might be challenged by the SAPPRFT, which could subject us to various penalties, including fines, confiscation of publishing equipment and the revenues generated from the publishing activities, the revocation of our business license, or the forced discontinuation of or restrictions on our operations.

If we are found to be in violation of current or future PRC law and regulations regarding Internet-related services and telecom-related activities, we could be subject to severe penalties.

The PRC government has enacted regulations that apply to Internet-related services and telecom-related activities, and purport to limit and require licensing of various aspects of the provision of Internet information and content, online games, and online advertising services.

Under regulations issued by the MOC, commercial entities are required to apply to a local branch of the MOC for an Online Culture Operating Permit if they engage in the production, duplication, importation, release or broadcasting of Internet cultural products; the dissemination of online cultural products on the Internet or the transmission of such products via Internet or mobile phone networks to user terminals, such as computers, phones, television sets and gaming consoles; the provision of Internet surfing service sites such as Internet cafés; or the holding or exhibition of contests related to Internet cultural products.

Many aspects of the existing regulations remain unclear. In addition, the PRC government may promulgate new laws or regulations at any time. If current or future laws or regulations regarding Internet-related activities are interpreted to be inconsistent with our ownership structure and/or our business operations, our business could be severely impaired and we could be subject to severe penalties.

Regulation and censorship of information disseminated over the Internet in China may adversely affect our business, and we may be liable for information displayed on, retrieved from or linked to our Websites.

The PRC government has adopted regulations governing Internet access and the distribution of news and other information over the Internet. Under these regulations, Internet content providers and Internet publishers are prohibited from posting or displaying over the Internet any content that, among other things, violates PRC law and regulations, impairs the national dignity of China, or is obscene, superstitious, fraudulent or defamatory. When Internet content providers and Internet publishers, including online game operators, find that information falling within the above scope is transmitted on their Websites or is stored in their electronic bulletin service systems, they are required to terminate the transmission of such information or delete such information immediately, keep records, and report to relevant authorities. Failure to comply with these requirements could result in the revocation of our ICP license and other required licenses and the closure of our Websites. Internet content providers may also be held liable for prohibited information displayed on, retrieved from or linked to their Websites.

In addition, the MIIT has published regulations that subject Internet content providers to potential liability for the actions of game players and others using their Websites, including liability for violations of PRC law prohibiting the dissemination of content deemed to be socially destabilizing. As these regulations are subject to interpretation by the relevant authorities, it is not possible for us to determine in all cases the type of content that could result in liability for us as a developer and operator of online games, and as an operator of the 17173.com Website and the Dolphin Browser. In addition, we may not be able to control or restrict the content of other Internet content providers linked to or accessible through our Websites, or content generated or placed on our Websites by our game players, despite our attempt to monitor such content. To the extent that regulatory authorities find any portion of our content objectionable, they may require us to curtail our games, which may reduce our game player base, the amount of time our games are played or the purchases of virtual items.

We may be subject to the PRC government's ongoing crackdown on Internet pornographic content.

The PRC government has stringent restrictions on online pornographic information and has launched several crackdowns on Internet pornography. Regulations jointly issued by the MIIT and three other government authorities jointly provide for rewards of up to RMB10,000 to Internet users who report Websites that feature pornography, and the MIIT established a committee to review such reports to determine an appropriate award. We have not, to date, received any penalty from the PRC government in this regard. However, it is possible that content considered pornographic or vulgar by PRC government agencies will appear in the future on Websites or games that we operate. In the event that we are accused by the PRC government of hosting pornographic or vulgar content, our business and reputation could be adversely affected.

There are currently no laws or regulations in the PRC governing property rights of virtual assets and therefore it is not clear what liabilities, if any, we may have relating to the loss of virtual assets by our game players.

In the course of playing our games, game players can acquire and accumulate virtual assets, such as game player experience, skills and weaponry. Such virtual assets can be highly valued by game players and in some cases are traded among game players for real money or assets. In practice, virtual assets can be lost for various reasons, such as data loss caused by delay of network service by a network crash, or by hacking activities. There are currently no PRC law and regulations governing property rights of virtual assets. As a result, it is unclear who the legal owner of virtual assets is and whether the ownership of virtual assets is protected by law. In addition, it is unclear under PRC law and regulations whether an operator of online games such as us would have any liability (whether in contract, tort or otherwise) for loss of such virtual assets by game players. Based on several judgments regarding the liabilities of online game operators for loss of virtual assets by game players, the courts have generally required the online game operators to provide well-developed security systems to protect such virtual assets owned by game players. In the event of a loss of virtual assets, we may be sued by game players and may be held liable for damages.

Our online game operations may be adversely affected by implementation of anti-fatigue-related regulations.

The PRC government may decide to adopt more stringent policies to monitor the online game industry as a result of adverse public reaction to perceived addiction to online games, particularly by minors. Eight PRC government authorities, including the SAPPRFT, the Ministry of Education and the MIIT, jointly issued regulations, or the Anti-Fatigue Notice, requiring all Chinese online game operators to adopt an “anti-fatigue system” in an effort to curb addiction to online games by minors. Under the anti-fatigue system, three hours or less of continuous play is defined to be “healthy,” three to five hours is defined to be “fatiguing,” and five hours or more is defined to be “unhealthy.” Game operators are required to reduce the value of game benefits for minor game players by half when those game players reach the “fatiguing” level, and to zero when they reach the “unhealthy” level. In addition, online game players in China are now required to register their identity card numbers before they can play an online game. This system allows game operators to identify which game players are minors. These restrictions could limit our ability to increase our business among minors. If these restrictions were expanded to apply to adult game players in the future, our revenues could be adversely affected.

These eight PRC government authorities subsequently promulgated additional regulations, including a *Notice on Initializing the verification of Real-name Registration for Anti-Fatigue System on Internet Games*, or the Real-name Registration Notice, to strengthen the implementation of the anti-fatigue system and real-name registration. The Real-name Registration Notice’s main focus is to prevent minors from using an adult’s identity to play Internet games and, accordingly, provides stringent punishment for online game operators for not implementing the anti-fatigue and real name registration measures properly and effectively. The most severe punishment contemplated by the Real-name Registration Notice is termination of the operation of the online game if it is found to be in violation of the Anti-Fatigue Notice, the Real-name Registration Notice or the circular entitled *Implementation of Online Game Monitor System of the Guardians of Minors*, or the Monitor System Circular. The Real-name Registration Notice increases our operating risks, as we will be required to spend more resources on the real-name verification and anti-fatigue system, which will lead to an increase in our operating costs. In addition, the amount of time that minors will be able to spend playing online games such as ours will be further limited, which can be expected to lead to a reduction in our revenues. Furthermore, if we are found to be violating these regulations, we may be required to suspend or discontinue our online game operations.

In February 2013, 15 PRC government authorities, including the SAPPRFT, the Ministry of Education, the MOC and the MIIT, jointly issued *the Work Plan for the Integrated Prevention of Minors Online Game Addiction*, or the Work Plan, implementing integrated measures by different authorities to prevent minors from being addicted to online games. Under the Work Plan, the current relevant regulations will be further clarified and additional implementation rules will be issued by relevant authorities. As a result, we may have to impose more stringent limits for minor game players, which may lead to an increase in our operating expenses and a reduction in our revenues from minor game players.

In July 2014, the SAPPRFT issued the *Notice on Further Launch Verification of Real-name Registration for Anti-Fatigue System on Internet Games*, stating that, in view of some of the hardware and functionality limitations inherent in mobile devices, anti-fatigue system requirements applicable to Internet games do not currently apply to mobile games. If the SAPPRFT in the future decides to expand the anti-fatigue system requirements to mobile games, our operating expenses would be likely to increase.

Restrictions on virtual currency may adversely affect our online game revenues.

Our online game revenues are collected through the online sale of game points and sale of our prepaid cards. The *Notice on the Reinforcement of the Administration of Internet Cafés and Online Games*, or the Internet Cafés Notice, issued by the MOC in 2007, directs the People’s Bank of China, or the PBOC, to strengthen the administration of virtual currency in online games to avoid any adverse impact on the PRC economy and financial system. The Internet Cafés Notice places strict limits on the total amount of virtual currency issued by online game operators in the PRC and the amount purchased by individual users in the PRC, and requires a clear division between virtual transactions and real transactions carried out by way of electronic commerce. The Internet Cafés Notice also provides that virtual currency should only be used to purchase virtual items. In 2009, the MOC and the MOFCOM jointly issued the *Notice on Strengthening the Administration of Online Game Virtual Currency*, or the Virtual Currency Notice. In the Virtual Currency Notice, the MOC and the MOFCOM for the first time defined “virtual currency” as a type of virtual exchange instrument issued by online game operators, purchased directly or indirectly by the game user by exchanging legal currency at a certain exchange rate, saved outside the game programs, stored in servers provided by online game operators in electronic record format and represented by specific numeric units. In addition, the Virtual Currency Notice categorizes companies involved with virtual currency in the PRC as either issuers or trading platforms and prohibits companies from simultaneously operating both as issuers and as trading platforms. One of the Virtual Currency Notice’s stated intended objectives is to limit the circulation of virtual currency and thereby reduce concerns that it may impact real world inflation. Specifically, the Virtual Currency Notice requires online game operators to report the total amount of their issued virtual currency on a quarterly basis, and game operators are prohibited from issuing disproportionate amounts of virtual currency in order to generate revenues. In addition, the Virtual Currency Notice reiterates that virtual currency can only be provided to users in exchange for an RMB payment and can only be used to pay for virtual goods and services of the issuers. Online game operators are prohibited from providing lucky draws or lotteries which are conducted on the condition that participants contribute cash or virtual currencies in exchange for game props or virtual currencies, and from providing virtual currency trading services to minors. The Virtual Currency Notice places additional potentially burdensome obligations on online game operators, including a requirement that operators keep transaction data records for no less than 180 days, which means that we must design and operate our databases so that we can maintain users’ information for the minimum required period, resulting in higher costs for our online game operations. We must tailor our business model carefully in order to comply with the overall requirements of the Virtual Currency Notice, in a manner which can be expected to result in relatively lower sales of our game coins and an adverse impact on our online game revenues.

Our business may be adversely affected by public opinion and governmental policies in China as well as in other jurisdictions where we operate our online games or license our online games to third parties.

Currently, most of our game players in China are young males, many of whom are students. Due to relatively easy access to personal computers and Internet cafés, the increasing use and popularity of mobile devices such as smart phones and tablets connected to the Internet, and the lack of other appealing forms of entertainment in China, many teenagers in China frequently play online games. This may result in these teenagers spending less time on or refraining from other activities, including education, vocational training, sports, and resting, which could result in adverse public reaction and stricter government regulation. For example, the PRC government has promulgated anti-fatigue-related regulations to limit the amount of time minors can play online games.

Adverse public opinion could discourage game players from playing our games, and could result in government regulations that impose additional limitations on the operations of online games as well as game players’ access to online games. For example, under the Monitor System Circular online game operators are required to adopt various measures to maintain a system to communicate with the parents of minors playing online games and are required to monitor the activities of minors and suspend the accounts of minors if so requested by their parents. We believe that stricter government regulations, such as regulations imposing stricter age and hour limits, limiting the issuance of virtual currency by online game operators or the amount of virtual currency that can be purchased by an individual game player, and extending anti-fatigue-related regulations to adults, could be implemented in the future. Any such adverse public opinion or tightened government regulations could adversely affect our ability to maintain or increase our revenues.

In addition, the PRC State Administration of Taxation, or the SAT, has announced that it will tax game players on the income derived from the trading of virtual currencies at the rate of 20%. It is currently unclear how the tax will be collected or if there will be any effect on our game players or our business, but collection of such a tax might discourage players who are interested in trading virtual currencies from playing our games, which could reduce our revenues.

Moreover, similar adverse public reaction may arise, and similar government policies may be adopted, in other jurisdictions where we license or operate our games, which could similarly adversely affect our revenues.

PRC law and regulations governing the online game industry in China are evolving and subject to future changes. We may fail to obtain or maintain all applicable permits, approvals, registrations and filings.

The online game industry in China is highly regulated by the PRC government. Various regulatory authorities of the PRC central government, such as the State Council, the MIIT, the SAPPRFT, the MOC and the Ministry of Public Security, are empowered to issue and implement regulations governing various aspects of the online game industry.

We are required to obtain applicable permits, approvals and registrations from, or make necessary filings with, different regulatory authorities in order to operate our online games. For example, as an online game operator in China, we must obtain an ICP license from the MIIT, an Online Cultural Operating Permit from the MOC and an Internet publishing license from the SAPPRFT in order to distribute games through the Internet. Any online game we operate needs to be approved by the SAPPRFT prior to its launch and filed with the MOC within 30 days after its launch. Once a new online game or any upgrade, expansion pack or new version of any existing game is launched, such new game or such upgrade, expansion pack or new version of such existing game must be filed with the MOC and approval must be obtained from the SAPPRFT for online publication. If we fail to maintain any of our permits, approvals or registrations, to make any necessary filings, or to apply for and obtain any new permits, approvals or registrations or make any new filings on a timely basis, we may be subject to various penalties, including fines and a requirement that we discontinue or limit our operations.

As the online game industry is at an early stage of development in China, new law and regulations may be adopted from time to time to require additional licenses and permits other than those we currently have, and address new issues that arise. In addition, substantial uncertainties exist regarding the interpretation and implementation of current and any future PRC law and regulations applicable to the online game industry. For example, there is ambiguity as to the division of authority and responsibilities between the SAPPRFT and the MOC with respect to regulating online games and, as a result, there may be overlapping approval requirements with respect to some aspects of our games or our game operations. On February 4, 2016, the SAPPRFT and the MIIT issued the *Measures of Internet Publication Service Administration*, or the New Internet Publication Measures, which will become effective on March 10, 2016. The New Internet Publication Measures strengthen the supervision of Internet publishing businesses and require that entities in the Internet publishing business apply for a new online publication license and obtain approval from the SAPPRFT prior to the publication of new online games. In addition, under the New Internet Publication Measures Sino-foreign joint ventures and foreign-invested entities are not permitted to engage in Internet publication services, and the legal representative of an entity providing Internet publication services may not be a foreigner. As the New Internet Publication Measures are new and have not yet become effective, the actual implications and reach of the New Internet Publication Measures are still uncertain. Furthermore, as mobile games are a new type of online game, there are uncertainties relating to whether a game developer, such as us, which provides mobile games to mobile device users, needs to obtain a separate operating license in addition to the ICP license that it has already obtained. For any mobile games we launch, we may be required to apply for a separate operating license for the mobile applications. Therefore, we may not be able to obtain timely, or at all, required licenses or any other new license required in the future, and we may be found to be in violation of current or future PRC law and regulations, which could impede our ability to conduct business.

Further strengthened supervision of the online game industry may adversely affect our online game operations.

In September 2009, the SAPPRFT together with the National Copyright Administration, and the National Office of Combating Pornography and Illegal Publications jointly issued a *Notice on Further Strengthening on the Administration of Pre-examination and Approval of Online Game and the Examination and Approval of Imported Online Game*, or the SAPPRFT Online Game Notice. In the SAPPRFT Online Game Notice, the SAPPRFT states that it is the only governmental department with authority for examination and pre-approval of online games, and that all online game operators must obtain an Internet publishing license to provide online game services. Under the SAPPRFT Online Game Notice, additional approvals from the SAPPRFT are required when game operators release new versions or expansion packs, or make any changes to the originally approved online game. In addition, on July 1, 2009, the SAPPRFT issued a *Notice on Strengthening the Approval and Administration of Imported Online Games*, in which the SAPPRFT stated that it is the only governmental department authorized by the State Council to approve the importation of online games from offshore copyright owners. In the event of any failure to meet the above-mentioned requirements, an operator may face heavy penalties, such as being ordered to stop operation, or having its business license revoked. Our online game business may be adversely affected by these two SAPPRFT notices. The launch of expansion packs and imported games might be delayed because of the extra approval required. Such delay in releasing expansion packs or imported games may result in higher costs for our online game operation and have an adverse effect on our game revenue.

On June 3, 2010, the MOC issued the *Interim Measures for Online Games Administration*, or the Online Game Measures, which became effective on August 1, 2010, aiming to further strengthen the MOC's supervision of the online game industry. Specifically, the Online Game Measures reiterate that the MOC has the power to review the content of all online games except online game publications that have been pre-approved by the SAPPRFT. However, the Online Game Measures do not clearly specify what constitutes "online game publication." Furthermore, the Online Game Measures provide that all domestic online games must be filed with the MOC, while all imported online games are subject to a content review prior to their launch. If a substantial change (for example, any significant modification to a game's storyline, language, tasks, or trading system) is made to an existing imported or domestic online game, it will be subject to a new content review.

Our online game business may be adversely affected by the Online Game Measures. The Online Game Measures do not set forth any specific procedure for the required filing and content review procedures for online games and therefore may cause delay when we try to file or apply for content review with the MOC. In addition, for our imported licensed games, the requirement for prior approval of any substantial change may cause delay in releasing expansion packs, which may result in higher costs of our online game operation and have an adverse effect on our game revenue. In addition, the Online Game Measures do not resolve certain inconsistencies and ambiguities resulting from pronouncements included in previous notices issued by the SAPPRFT and the MOC. Because there is ambiguity in the scope of the authority and the roles and responsibilities of governmental departments, such as the SAPPRFT and the MOC, with oversight of the online game industry, we may face stricter scrutiny of the day-to-day operations of our online game business. If any of our online game operating entities cannot comply with any of the stipulations of any PRC governmental department regarding the online game industry, we may be subject to various penalties and our online game business may be adversely affected.

Risks Related to Our Continuing Relationship with Sohu

We are party to an agreement with Sohu that limits our ability to enter certain businesses.

We are a party to an Amended and Restated Non-Competition Agreement with Sohu which prohibits us, during the non-competition period (which commenced on January 1, 2009 and ends after Sohu no longer owns in the aggregate at least 10% of the voting power of our then outstanding voting securities), from engaging in online portal, search, mobile value-added services and other businesses that Sohu conducted or contemplated conducting as of April 1, 2009, not including the client-end installed MMORPG business and the business associated with the 17173.com Website. See "Major Shareholders and Related Party Transactions" in Item 7 of this annual report. As a result, during such non-competition period, we will not be able to diversify our business into such businesses, other than the client-end installed MMORPG business and the business associated with the 17173.com Website, that Sohu was conducting, or contemplated conducting, as of that date, even if such businesses present growth opportunities for us. In addition, the Amended and Restated Non-Competition Agreement does not prohibit Sohu from engaging in the development and operation of online games other than client-end installed MMORPGs, even during the non-competition period. Any online games (other than client-end installed MMORPGs) that we develop and operate that are not prohibited under the Amended and Restated Non-Competition Agreement may face competition from other online games, including those developed and/or operated by Sohu.

We may not be able to continue to receive the same level of support from Sohu as we have in the past and may not be successful in establishing our brand identity.

Sohu has been a leading Internet portal in China, and our business has benefited significantly from Sohu's strong Internet market position in China. For example, we have benefited from marketing and advertising across Sohu's domains (such as Sohu.com, the Sohu portal), and using Sohu's email system and the Sohu Group's single-user ID system, which provide Sohu's large number of registered users easy access to our games. Since our acquisition from Sohu in December 2011 of the assets associated with the 17173.com Website, Sohu has continued to provide links and advertising space on Sohu's Websites and related technical support to us in connection with our operation of the 17173.com Website. We also benefit from the strong brand recognition of Sohu in China, which has provided us a broad marketing reach. We cannot assure you we will continue to receive adequate support from Sohu for our business.

Sohu controls the outcome of shareholder actions in our company.

Our ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares are entitled to one vote per share, while holders of Class B ordinary shares are entitled to 10 votes per share. We issued Class A ordinary shares represented by our ADSs in our initial public offering and Sohu holds Class B ordinary shares. As of the date of this report, Sohu holds approximately 68.7% of the combined total of Changyou's outstanding Class A and Class B ordinary shares and controlled approximately 95.6% of the total voting power in Changyou due to the additional voting power of the Class B ordinary shares it holds. Sohu's voting power gives it the power to control actions that require shareholder approval under Cayman Islands law, our memorandum and articles of association and Nasdaq requirements, including the election and removal of any member of our board of directors, significant mergers and acquisitions and other business combinations, changes to our memorandum and articles of association, the number of shares available for issuance under share incentive plans, and the issuance of significant amounts of our ordinary shares in private placements. Due to the disparate voting powers attached to the two classes of our ordinary shares, Sohu has sufficient voting power to determine the outcome of all matters requiring shareholder approval even if it should, at some point in the future, hold considerably less than a majority of the combined total of our outstanding Class A and Class B ordinary shares.

Sohu's voting control may cause transactions to occur that might not be beneficial to the holders of ADSs, and may prevent transactions that would be beneficial to them. For example, Sohu's voting control may prevent a transaction involving a change of control of us, including transactions in which a holder of our ADSs might otherwise receive a premium for such securities over the then-current market price. In addition, Sohu is not prohibited from selling a controlling interest in us to a third party and may do so without approval of the holders of our ADSs and without providing for a purchase of outstanding ADSs. If Sohu is acquired or otherwise undergoes a change of control, or sells a controlling interest in us, any acquirer or successor will be entitled to exercise the voting control and contractual rights of Sohu, and may do so in a manner that could vary significantly from that of Sohu.

We may have conflicts of interest with Sohu and, because of Sohu's controlling ownership interest in our company, may not be able to resolve such conflicts on favorable terms for us.

Conflicts of interest may arise between Sohu and us in a number of areas relating to our past and ongoing relationships. Potential conflicts of interest that we have identified include the following:

- **Indemnification arrangements with Sohu.** We have agreed to indemnify Sohu with respect to lawsuits and other matters relating to our client-end installed MMORPG business, including operations of that business when it was a business unit of Sohu prior to the carve-out transactions. These indemnification arrangements could result in our having interests that are adverse to those of Sohu; for example, we might have different interests with respect to settlement arrangements in a litigation matter. In addition, under these arrangements, we agreed to reimburse Sohu for liabilities incurred (including legal defense costs) in connection with litigation, while Sohu will be the party prosecuting or defending the litigation.
- **Non-competition arrangements with Sohu.** We and Sohu have each agreed not to compete with the core business of each other. Sohu has agreed not to compete with us anywhere in the world in the client-end installed MMORPG business during the non-competition period (which commenced on January 1, 2009 and ends on the later of three years after Sohu no longer owns in the aggregate at least 10% of the voting power of our then outstanding voting securities and March 17, 2014) and in the business associated with the 17173.com Website until December 15, 2016. We have agreed not to compete with Sohu in the Internet portal, search, mobile value-added services and any other businesses conducted or contemplated to be conducted by Sohu as of the date of the prospectus for our initial public offering, except for the business associated with the 17173.com Website after we acquired it from Sohu on December 15, 2011. Sohu's continued operation of a Website through the domain name "game.sohu.com," however, including providing links through that Web site to PC games, mobile games and Web games, even if they are operated by our competitors, will not constitute a violation by Sohu of its agreement not to compete with us in the business associated with the 17173.com Website, as long as content for and maintenance of such site is primarily provided by our staff.
- **Employee recruiting and retention.** Because both Sohu and we operate primarily in Beijing and, after our acquisition of the assets associated with the 17173.com Website, both Sohu and we are engaged in the development and operation of online portals and Web games, we may compete with Sohu in the hiring of new employees, in particular with respect to software development. We have a non-solicitation arrangement with Sohu that restricts Sohu and us from hiring any of the other's employees.
- **Our board members or executive officers may have conflicts of interest.** Dr. Charles Zhang, our Chairman of the Board, is currently also serving as Sohu.com Inc.'s Chairman and Chief Executive Officer and Carol Yu, our Co-Chief Executive Officer, is currently also serving as Sohu.com Inc.'s President and Chief Financial Officer. Some of our board members and executive officers also own shares, restricted share units and/or options in Sohu. Sohu may grant incentive share compensation to our board members and executive officers from time to time. These relationships could create, or appear to create, conflicts of interest when these persons are faced with decisions with potentially different implications for Sohu and us.
- **Use of our cash.** Sohu is our controlling shareholder and has significant influence over our company's actions, including decisions of our board of directors. Sohu may from time to time influence our board of directors to make decisions to use our cash, such as authorizing share repurchase programs, declaring and distributing dividends to our shareholders or refraining from declaring and distributing dividends, which may benefit Sohu but may not be in the best interest of our business or coincide with the interests of our other shareholders.
- **Sale of shares in our company.** Sohu may decide to sell all or a portion of our shares that it holds to a third party, including to one of our competitors, thereby giving that third-party substantial influence over our business and our affairs. Such a sale could be contrary to the interests of certain of our shareholders, including our employees or our public shareholders.
- **Allocation of business opportunities.** Business opportunities may arise that both we and Sohu find attractive, and which would complement our respective businesses. Sohu may decide to take the opportunities itself, which would prevent us from taking advantage of the opportunity ourselves.

- **Developing business relationships with Sohu's competitors.** So long as Sohu remains as our controlling shareholder, we may be limited in our ability to do business with its competitors, such as other Internet portals in China. This may limit the effectiveness of our online advertisement for the best interest of our company and our other shareholders.
- **Strategic decisions by Sohu may not coincide with our interests.** Although our company is a separate, stand-alone entity, we expect to operate, for as long as Sohu is our controlling shareholder, as a part of the Sohu Group. Sohu may from time to time make strategic decisions that it believes are in the best interests of its business as a whole, including our company. These decisions may be different from the decisions that we would have made on our own. Sohu's decisions with respect to us or our business may be resolved in ways that favor Sohu and therefore Sohu's own shareholders, which may not coincide with the interests of our other shareholders.

We may not be able to resolve any potential conflicts, and even if we do so, the resolution may be less favorable to us than if we were dealing with an unaffiliated shareholder. Even if both parties seek to transact business on terms intended to approximate those that could have been achieved among unaffiliated parties, this may not succeed in practice.

Risks Related to Doing Business in China

Adverse changes in political and economic policies of the PRC government could have a material and adverse effect on the overall economic growth of China, which could reduce the demand for our products.

Most of our business operations are conducted in China and most of our revenues are generated in China. Accordingly, our business, financial condition, results of operations and prospects are affected significantly by economic, political and legal developments in China. The Chinese economy differs from the economies of most developed countries in many respects, including the amount of government involvement, the level of development, the growth rate, the control of foreign exchange, and the allocation of resources.

While the Chinese economy has grown significantly in the past 35 years, the growth has been uneven geographically among various sectors of the economy, and during different periods. The Chinese economy may not continue to grow, and if there is growth, such growth may not be steady and uniform; if there is a slowdown, such a slowdown may have a negative effect on our business. The Chinese economy experienced high inflation in 2010 and 2011, and to curb the accelerating inflation the PBOC, China's central bank, raised benchmark interest rates three times in 2011. Partly as a result of these measures, the real estate market in the PRC experienced significant declines in those years. The level of exports from the PRC also declined significantly recently. According to the National Bureau of Statistics of China, the growth rate of China's gross domestic product, compared to that of the same period in the previous year, slowed from 7.5% in 2012, 7.7% in 2013 and 7.4% in 2014 and 6.9% in 2015. Various macroeconomic measures and monetary policies adopted by the PRC government to guide economic growth and manage inflation and the allocation of resources may not be effective in sustaining the growth rate of the Chinese economy. In addition, such measures, even if they benefit the overall Chinese economy in the long run, may have an adverse effect on us if they reduce the disposable income of our game players or if they cause our advertising clients to reduce their spending for our online advertising services on the 17173.com Website.

Uncertainties with respect to the Chinese legal system could have a material adverse effect on us.

We conduct most of our operations in China through our principal PRC WFOEs AmazGame, Gamespace and Beijing Baina Technology, and our principal VIEs Gamease, Guanyou Gamespace, Shanghai ICE and Wuhan Baina Information. Our PRC subsidiaries are generally subject to laws and regulations applicable to foreign investment in China and, in particular, laws applicable to WFOEs. Our VIEs are generally subject to laws applicable to domestic companies in China. The PRC legal system is based on written statutes and regulations. Prior court decisions may be cited for reference but have limited precedential value. The PRC legal system continues to rapidly evolve, the interpretations of laws and regulations are not always uniform and enforcement of these laws and regulations involves uncertainties. We cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, the preemption of local regulations by national laws, or the overturning of a local government's decisions by a higher level of government. These uncertainties may limit legal protections available to us. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

Contract drafting, interpretation and enforcement in China involve significant uncertainty.

We have entered into numerous contracts governed by PRC law, many of which are material to our business. As compared with contracts in the United States, contracts governed by PRC law tend to contain less detail and are not as comprehensive in defining contracting parties' rights and obligations. As a result, contracts in China are more vulnerable to disputes and legal challenges. In addition, contract interpretation and enforcement in China is not as developed as in the United States, and the result of any contract dispute is subject to significant uncertainties. Therefore, we may be subject to disputes under our material contracts, and if such disputes arise, we may not prevail. Due to the materiality of certain contracts to our business, such as our license agreements with Louis Cha regarding our rights to develop and operate TLBB, any dispute involving such contracts, even without merit, may materially and adversely affect our reputation and our business operations, and may cause the price of our ADSs to decline.

PRC law establishes complex procedures for some acquisitions of Chinese companies by foreign investors, which could make it more difficult for us to make acquisitions in China.

Applicable PRC law and regulations, such as the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rules, which became effective on September 8, 2006 and were amended on June 22, 2009, the Anti-Monopoly Law, which became effective on August 1, 2008, the Notice on Establishing the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors promulgated by the General Office of the State Council and the MOFCOM Security Review Rules, mandate procedures and requirements, including requirements in some instances that the MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise, or that approval from the MOFCOM be obtained in circumstances where overseas companies established or controlled by PRC enterprises or residents acquire affiliated domestic companies, that can be expected to make merger and acquisition activities in China by foreign investors time-consuming and complex. PRC law also requires certain merger and acquisition transactions to be subject to a security review. The MOFCOM Security Review Rules, which became effective September 1, 2011, provide that, when deciding whether a specific merger or acquisition of a domestic enterprise by foreign investors is subject to a security review by the MOFCOM, the principle of substance over form should be applied, and foreign investors are prohibited from bypassing the security review requirement by structuring transactions through proxies, trusts, indirect investments, leases, loans, or control through contractual arrangements. Factors that the MOFCOM considers in its review are whether (i) an important industry is concerned, (ii) such transaction involves factors that have had or may have an impact on national economic security and (iii) such transaction will lead to a change in control of a domestic enterprise that holds a well-known PRC trademark or a time-honored PRC brand. If the business of any target company that we plan to acquire falls into the ambit of security review, we may not be able to successfully acquire such company. Complying with the requirements of the relevant regulations to complete such transactions could be time-consuming, and any required approval process, including approval from the MOFCOM, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business.

There are significant uncertainties under the Corporate Income Tax Law of the PRC, or the CIT Law, regarding our PRC enterprise income tax liabilities, such as tax on dividends paid to us by our PRC subsidiaries. The CIT Law also contains uncertainties regarding possible PRC withholding tax on any dividends we pay to our overseas corporate shareholders and gains realized from the transfer of our shares by our overseas corporate shareholders.

We are a holding company incorporated in the Cayman Islands which indirectly holds, through our Hong Kong subsidiaries, our equity interests in our subsidiaries in the PRC. Our business operations are principally conducted by our principal PRC subsidiaries and our principal VIEs. The CIT Law and its implementation rules provide that China-sourced income of foreign enterprises, such as dividends paid by a PRC subsidiary to its overseas parent, will normally be subject to PRC withholding tax at a rate of 10%, unless there are applicable tax treaties that reduce such rate. Under the *Arrangement Between the PRC and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital*, or the China-HK Tax Arrangement, the dividend withholding tax rate may be reduced to 5%, if a Hong Kong resident enterprise is considered a non-PRC tax resident enterprise and holds at least 25% of the equity interests in the PRC enterprise distributing the dividends, subject to approval of the PRC local tax authority. However, if the Hong Kong resident enterprise is not considered to be the beneficial owner of such dividends under applicable PRC tax regulations, such dividends may remain subject to withholding tax at a rate of 10%. On October 27, 2009, the SAT, issued a *Notice on How to Understand and Determine the Beneficial Owners in Tax Agreement*, or Circular 601, which provides guidance on determining whether an enterprise is a “beneficial owner” under China’s tax treaties and tax arrangements. Circular 601 provides that, in order to be a beneficial owner, an entity generally must be engaged in substantive business activities, and that a company that is set up for the purpose of avoiding or reducing taxes or transferring or accumulating profits, will not be regarded as a beneficial owner and will not qualify for treaty benefits such as preferential dividend withholding tax rates. If any of our Hong Kong subsidiaries is, in the light of Circular 601, determined by the SAT to be a non-beneficial owner for purposes of the China-HK Tax Arrangement, any dividends paid to it by any of our PRC subsidiaries would not qualify for the preferential dividend withholding tax rate of 5%, but rather would be subject to the usual CIT Law rate of 10%.

We believe we are not a PRC tax resident enterprise, but it is not clear whether we or any of our Hong Kong subsidiaries will be deemed to be PRC tax residents under the CIT Law. The tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term “de facto management body”. Under the CIT Law and its implementation rules, an enterprise established outside of the PRC with a “de facto management body” within the PRC is considered a resident enterprise and will be subject to the enterprise income tax on its global income at the rate of 25%. The implementation rules define the term “de facto management body” as the body that exercises full and substantial control and overall management over the business, productions, personnel, accounts and properties of an enterprise. On April 22, 2009, the SAT issued a circular, known as Circular 82, which provides certain specific criteria for determining whether the “de facto management body” of a PRC-controlled enterprise that is incorporated offshore is located in China. Although this circular only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreigners, the criteria set forth in the circular may reflect the SAT’s general position on how the “de facto management body” text should be applied in determining the tax resident status of all offshore enterprises. Under Circular 82, an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident by virtue of having its “de facto management body” in China and will be subject to PRC enterprise income tax on its global income only if all of the following conditions are met: (i) the primary location of the day-to-day operational management is in the PRC; (ii) decisions relating to the enterprise’s financial and human resource matters are made or are subject to approval by organizations or personnel in the PRC; (iii) the enterprise’s primary assets, accounting books and records, company seals, and board and shareholder resolutions, are located or maintained in the PRC; and (iv) at least 50% of voting board members or senior executives habitually reside in the PRC. If we are considered as a PRC tax resident under the CIT law by the PRC tax authorities, our global income will be subject to corporate income tax at a rate of 25%.

Although we intend to take the position that any dividends we pay to our overseas corporate shareholders or ADS holders will not be subject to a withholding tax in the PRC, if we or any of our Hong Kong subsidiaries are considered to be PRC tax resident enterprises for tax purposes, any dividends we pay to our overseas corporate shareholders or ADS holders as well as gains realized by such shareholders or ADS holders from the transfer of our shares or ADSs may be regarded as China-sourced income and as a result be subject to PRC withholding tax at a rate up to 10%. The implementation rules of the CIT Law provide that, if an enterprise that distributes dividends is domiciled in the PRC or if gains are realized from transferring equity interests of an enterprise domiciled in the PRC, then such dividends or gains are treated as “China-sourced income.” However, it is not clear how “domicile” might be interpreted under the CIT Law, and it is possible that domicile could be interpreted to mean the jurisdiction where the enterprise is a tax resident.

Due to the lack of interpretation of the CIT Law, it is difficult to ascertain how it will be implemented by the relevant PRC tax authorities. If dividend payments from our wholly-owned subsidiary Changyou.com (HK) Limited, or Changyou HK, or other overseas subsidiaries to us are subject to PRC withholding tax, our financial condition, results of operations and the amount of dividends available to pay our shareholders may be adversely affected. If dividends we pay to our overseas shareholders or ADS holders or gains realized by such shareholders or ADS holders from the transfer of our shares or ADSs are subject to PRC withholding tax, the withholding tax will generally be at a rate of 10% and reduce their investment return and the value of their investments in us.

Heightened scrutiny of acquisition transactions by PRC tax authorities may have a negative impact on our business operations and our acquisition strategy.

Pursuant to the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises, or SAT Circular 698, effective on January 1, 2008, and the Announcement on Several Issues Related to Enterprise Income Tax for Indirect Asset Transfer by Non-PRC Resident Enterprises, or SAT Announcement 7, effective on February 3, 2015, issued by the SAT, if a non-resident enterprise transfers the equity interests of or similar rights or interests in overseas companies which directly or indirectly own PRC taxable assets through an arrangement without a reasonable commercial purpose, but rather to avoid PRC corporate income tax, the transaction will be re-characterized and treated as a direct transfer of PRC taxable assets subject to PRC corporate income tax. SAT Announcement 7 specifies certain factors that should be considered in determining whether an indirect transfer has a reasonable commercial purpose. However, as SAT Announcement 7 is newly issued, there is uncertainty as to the application of SAT Announcement 7 and the interpretation of the term “reasonable commercial purpose.”

Under SAT Announcement 7, the entity which has the obligation to pay the consideration for the transfer to the transferring shareholders has the obligation to withhold any PRC corporate income tax that is due. If the transferring shareholders do not pay corporate income tax that is due for a transfer and the entity which has the obligation to pay the consideration does not withhold the tax due, the PRC tax authorities may impose a penalty on the entity that so fails to withhold, which may be relieved or exempted from the withholding obligation and any resulting penalty under certain circumstances if it reports such transfer to the PRC tax authorities.

Although SAT Announcement 7 is generally effective as of February 3, 2015, it also applies to cases where the PRC tax treatment of a transaction that took place prior to its effectiveness has not yet been finally settled. As a result, SAT Announcement 7 could be determined by PRC tax authorities to be applicable to the historical reorganization of 7Road and our acquisitions of the equity interests of 7Road and MoboTap, and it is possible that these transactions could be determined by PRC tax authorities to lack a reasonable commercial purpose. As a result, the transfer of 7Road's or MoboTap's shares to other parties could be subject to corporate income tax of up to 10% on capital gains generated from such transfers, and PRC tax authorities could impose tax obligations on the transferring shareholders or subject us to penalty if the transferring shareholders do not pay such obligations and we do not withhold such tax.

SAT Announcement 7 and its interpretation by relevant PRC authorities clarify that an exemption provided by SAT Circular 698 for transfers of shares in a publicly-traded entity that is listed overseas is available if the purchase of the shares and the sale of the shares both take place in open-market transactions. However, if a shareholder of an entity that is listed overseas purchases shares in the open market and sells them in a private transaction, or vice-versa, PRC tax authorities might deem such a transfer to be subject to SAT Circular 698 and SAT Announcement 7, which could subject such shareholder to additional reporting obligations or tax burdens. Accordingly, if a holder of our ADSs or ordinary shares purchases our ADSs or ordinary shares in the open market and sells them in a private transaction, or vice-versa, and fails to comply with SAT Circular 698 or SAT Announcement 7, the PRC tax authorities may take actions, including requesting us to provide assistance for their investigation or impose a penalty on us, which could have a negative impact on our business operations. In addition, since we may pursue acquisitions as one of our growth strategies, and may conduct acquisitions involving complex corporate structures, PRC tax authorities might impose taxes on capital gains or request that we submit additional documentation for their review in connection with any potential acquisitions, which may cause us to incur additional acquisition costs or delay our acquisition timetable.

As the special tax statuses of certain of our PRC subsidiaries and VIEs as "High and New Technology Enterprises," "software enterprises" or "Key National Software Enterprises" expire, or if they are revoked, we will have to pay additional taxes to make up any previously unpaid tax and will be subject to a higher tax rate.

The CIT Law imposes a unified income tax rate of 25% for both domestic and foreign invested enterprises. High and New Technology Enterprises ("HNTEs") will enjoy a favorable tax rate of 15% for three years, but need to re-apply after the end of the three-year period. "Key National Software Enterprises" can enjoy a further reduced preferential income tax rate of 10% for two years, but need to re-apply after the end of the two-year period. Certain of our PRC Subsidiaries and VIEs qualified as HNTEs and enjoyed reduced tax rates in 2013, 2014 and/or 2015. In addition, one of our PRC subsidiaries qualified as a Key National Software Enterprise ("KNSE") in 2013 and 2014. However, as a result of a restructuring of the approval process, the State Council recently suspended the acceptance of applications for KNSE status, and it is not clear when, if ever, the acceptance of applications for KNSE status will resume.

In addition, the CIT Law and its implementing regulations provide that "Software Enterprises" can enjoy an income tax exemption for two years beginning with their first profitable year and a 50% reduction to a rate of 12.5% for the subsequent three years. A number of our PRC Subsidiaries and VIEs qualified for exemptions or rate reductions in 2013, 2014 and/or 2015.

There are uncertainties regarding future interpretation and implementation of the CIT Law and its implementing regulations. It is possible that the HNTE, Software Enterprise, and KNSE qualifications of our operating entities currently qualified as such, or their entitlement to an income tax exemption or refund of their VAT, will be challenged by higher level tax authorities and be repealed, or that there will be future implementing regulations that are inconsistent with current interpretation of the CIT Law. Therefore, it is possible that the qualifications of one or more of our PRC Subsidiaries or VIEs will be challenged in the future or that such companies will not be able to take any further actions, such as re-application for qualification, to enjoy such preferential tax treatments. If those operating entities cannot qualify for such income tax or VAT reductions, our effective income tax rate or VAT rate, as the case may be, will be increased significantly and we may have to pay additional income tax to make up the previously unpaid tax, which would reduce our net income.

To fund any cash requirements we may have, we may need to rely on dividends, loans or advances made by our principal PRC subsidiaries AmazGame, Gamespace and Beijing Baina Technology, which are subject to limitations and possible taxation under applicable PRC law.

We may need to rely on dividends and other distributions on equity, or loans and advances made by our PRC subsidiaries AmazGame, Gamespace and Beijing Baina Technology to fund any cash requirements we may have, including the funds necessary to pay dividends and other cash distributions, if any, to our shareholders or ADS holders, and to service any debt we may incur. The distribution of dividends and the making of loans and advances by entities organized in China are subject to limitations. Regulations in the PRC currently permit payment of dividends only out of accumulated profits as determined in accordance with accounting standards and regulations in China. AmazGame, Gamespace and Beijing Baina Technology are also required to set aside at least 10% of their after-tax profit based on PRC accounting standards each year to their general reserves until the cumulative amount of such reserves reaches 50% of the entities' registered capital. These reserves are not distributable as cash dividends, loans or advances. AmazGame, Gamespace and Beijing Baina Technology may also allocate a portion of their after-tax profits, as determined by their boards of directors, to their staff welfare and bonus funds, which may not be distributed to us. In addition, if AmazGame, Gamespace or Beijing Baina Technology incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. Furthermore, under regulations of the State Administration of Foreign Exchange, or the SAFE, the RMB is not convertible into foreign currencies for capital account items, such as loans, repatriation of investments and investments outside of China, unless prior approval of the SAFE is obtained and prior registration with the SAFE is made, which could delay or prevent any transfers of funds from our PRC subsidiaries to us.

In addition, there are uncertainties under the CIT Law with regard to the PRC withholding tax on dividends paid by AmazGame, Gamespace and Beijing Baina Technology to our Hong Kong subsidiaries. See "Risk Factors—Risks related to Doing Business in China—There are significant uncertainties under the Corporate Income Tax Law of the PRC, or the CIT Law, regarding our PRC enterprise income tax liabilities, such as tax on dividends paid to us by our PRC subsidiaries. The CIT Law also contains uncertainties regarding possible PRC withholding tax on any dividends we pay to our overseas corporate shareholders and gains realized from the transfer of our shares by our overseas corporate shareholders." Should such dividends be subject to PRC withholding tax or be subject to the usual CIT Law withholding tax rate of 10% rather than the preferential dividend withholding tax rate of 5% provided under the China-HK Tax Arrangement, the amount of cash available to us for our cash needs, including for the payment of dividends to our shareholders or ADS holders, would be reduced.

Furthermore, we control our principal VIEs Gamease, Guanyou Gamespace and Wuhan Baina Information through contractual arrangements rather than equity ownership. See Item 7 "Major Shareholders and Related Party Transactions—Related Party Transactions." To the extent that there is any distributable profit in Gamease, Guanyou Gamespace or Wuhan Baina Information, it may be difficult for these entities to distribute such profit to AmazGame, Gamespace or Beijing Baina Technology, which may further limit the amount that these PRC subsidiaries can distribute to us.

We have suffered currency exchange losses, and we may continue to suffer currency exchange losses if the RMB continues to depreciate relative to the U.S. dollar, and fluctuations in the value of the RMB may have an adverse effect on our shareholders' investment.

Our reporting currency is the U.S. dollar. However, substantially all of our revenues are denominated in RMB. In July 2005, China reformed its exchange rate regime by establishing a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. The RMB is no longer pegged to the U.S. dollar and the exchange rate will have some flexibility. If the RMB depreciates relative to the U.S. dollar, our revenues as expressed in our U.S. dollar financial statements will decline in value. Also, we currently have outstanding loans from overseas banks that are denominated in U.S. dollars. To repay these loans, we will need to first convert our cash denominated in RMB into U.S. dollars. If the RMB depreciates relative to the U.S. dollar, we will have to use a larger amount of cash in RMB for any such loan repayment. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert RMB into U.S. dollars. On the other hand, our proceeds from overseas financings and from overseas game operations will decrease in value if we choose not to or are unable to convert the proceeds into RMB and the RMB appreciates against the U.S. dollar, which may reduce the value of a shareholder's investment in our ADSs.

On May 19, 2007, the PBOC announced a policy to expand the maximum daily floating range of RMB trading prices against the U.S. dollar in the inter-bank spot foreign exchange market from 0.3% to 0.5%. While the international reactions to the RMB revaluation and widening of the RMB's daily trading band have generally been positive, with the increased floating range of the RMB's value against foreign currencies, the RMB may appreciate or depreciate significantly in value against the U.S. dollar or other foreign currencies in the long term, depending on the fluctuation of the basket of currencies against which it is currently valued. On June 19, 2010, the PBOC announced that it has decided to proceed further with the reform of the RMB exchange rate regime to enhance the flexibility of the RMB exchange rate, and that emphasis would be placed on reflecting market supply and demand with reference to a basket of currencies. While so indicating its intention to make the RMB's exchange rate more flexible, the PBOC ruled out any sharp fluctuations in the currency or a one-off adjustment. On April 16, 2012, the PBOC enlarged the floating band of RMB's trading prices against the U.S. dollar in the inter-bank spot foreign exchange market from 0.5% to 1% around the middle rate released by the China Foreign Exchange Trade System each day. In February 2014, the center point of the currency's official trading band hit 6.1146, representing appreciation of more than 11.7% since June 19, 2010. On March 17, 2014, the PBOC announced a policy to further expand the maximum daily floating range of RMB trading prices against the U.S. dollar in the inter-bank spot foreign exchange market to 2%. In the long term, the RMB may depreciate more significantly in value against the U.S. dollar or other foreign currencies, depending on the market supply and demand with reference to a basket of currencies.

SAFE Rules and regulations may limit our ability to transfer funds we hold overseas to our subsidiaries and VIEs in the PRC, which may adversely affect our business.

On March 30, 2015, SAFE promulgated the *Notice of the State Administration of Foreign Exchange on Reforming the Administration of Foreign Exchange Settlement of Registered Capital of Foreign-invested Enterprises*, or Circular 19, which allows foreign-invested enterprises generally to decide when to exchange into RMB their foreign exchange denominated paid-in capital, but only up to a maximum percentage specified by SAFE. The maximum percentage specified by SAFE is currently 100%, but SAFE may choose to adjust the permitted level at any time. The use of any such RMB funds by foreign-invested enterprises is also subject to review and approval by SAFE or local SAFE branches or designated banks. Circular 19 further provides that any such RMB funds of a foreign-invested enterprise may not be used for any purpose outside of the entity's business scope or if such use would violate the laws and regulations of the PRC. For example, such RMB funds may not be used for the making of RMB-denominated entrusted loans that are not within the enterprise's business scope, for the repayment of inter-enterprise loans (including third party advances), or for the purpose of relending to third parties RMB-denominated bank loans made to the enterprise. Circular 19 may limit our ability to transfer foreign exchange-denominated funds that we hold overseas to our subsidiaries and VIEs in the PRC, which may adversely affect our business.

Regulations relating to offshore investment activities by PRC residents may limit our ability to acquire PRC companies and could adversely affect our business.

In July 2014, SAFE promulgated the *Circular on Issues Concerning Foreign Exchange Administration Over the Overseas Investment and Financing and Roundtrip Investment by Domestic Residents Via Special Purpose Vehicles*, or Circular 37, which replaced *Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Corporate Financing and Roundtrip Investment through Offshore Special Purpose Vehicles*, or Circular 75. Circular 37 requires PRC residents to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, referred to in Circular 37 as a "special purpose vehicle" for the purpose of holding domestic or offshore assets or interests. Circular 37 further requires amendment to a PRC resident's registration in the event of any significant changes with respect to the special purpose vehicle, such as an increase or decrease in the capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. Under these regulations, PRC residents' failure to comply with specified registration procedures may result in restrictions being imposed on the foreign exchange activities of the relevant PRC entity, including the payment of dividends and other distributions to its offshore parent, as well as restrictions on capital inflows from the offshore entity to the PRC entity, including restrictions on its ability to contribute additional capital to its PRC subsidiaries. Further, failure to comply with the SAFE registration requirements could result in penalties under PRC law for evasion of foreign exchange regulations.

As Circular 37 is newly-issued, it is unclear how these regulations will be interpreted and implemented. In addition, different local SAFE branches may have different views and procedures as to the interpretation and implementation of the SAFE regulations, and it may be difficult for our ultimate shareholders or beneficial owners who are PRC residents to provide sufficient supporting documents required by the SAFE or to complete the required registration with the SAFE in a timely manner, or at all. Any failure by any of our shareholders who is a PRC resident, or is controlled by a PRC resident, to comply with relevant requirements under these regulations could subject us to fines or sanctions imposed by the PRC government, including restrictions on the ability of AmazGame, Gamespace and Beijing Baina Technology to pay dividends or make distributions to us and on our ability to increase our investment in AmazGame, Gamespace, Beijing Baina Technology, or in our VIEs.

Under Circular 37, if a non-listed special purpose vehicle uses its own equity or share option to grant equity incentive awards to directors, supervisors, members of senior management or employees directly employed by a domestic enterprise that is directly or indirectly controlled by such special purpose vehicle, or with which such employee has established an employment relationship, any of such directors, supervisors, members of senior management or employees who is a PRC resident should, prior to exercising their rights, file an application with the SAFE for foreign exchange registration with respect to such special purpose vehicle. However, in practice, different local SAFE branches may have different views and procedures as to the interpretation and implementation of the SAFE regulations and, since Circular 37 was the first regulation to regulate the foreign exchange registration of a non-listed special purpose vehicle's equity incentive granted to PRC residents, there remains uncertainty with respect to its implementation.

We may be subject to fines and legal sanctions if we or our employees who are PRC citizens fail to comply with PRC regulations relating to employee share incentives granted by overseas listed companies to PRC citizens.

Under the *Administration Measures on Individual Foreign Exchange Control* issued by the PBOC and related implementation rules issued by the SAFE, all foreign exchange transactions involving an employee share incentive plan, share option plan or similar plan participated in by PRC citizens may be conducted only with the approval of the SAFE. Under the *Notice of Issues Related to the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Listed Company*, or the Offshore Share Incentives Rules, issued by the SAFE on February 15, 2012, PRC citizens who are granted share options, restricted share units or restricted shares by an overseas publicly listed company are required to register with the SAFE or its authorized branch and to comply with a series of other requirements. The Offshore Share Incentives Rule also provides procedures for registration of incentive plans, the opening and use of special accounts for the purpose of participation in incentive plans, and the remittance of funds for exercising share options and gains realized from such exercises and sales of such options or the underlying shares, both outside and inside the PRC. We, and any of our PRC employees or members of our board of directors who have been granted share options, restricted share units or restricted shares, are subject to the Administration Measures on Individual Foreign Exchange Control, the related implementation rules issued by the SAFE, and the Offshore Share Incentives Rule. If we, or any of our PRC employees or members of our board of directors who receive or hold share options, restricted share units or restricted shares, fail to comply with these registration and other procedural requirements, we may be subject to fines and other legal or administrative sanctions.

The enforcement of the PRC Labor Contract Law and other labor-related regulations in the PRC may adversely affect our business.

The Standing Committee of the National People's Congress of the PRC enacted the *Labor Contract Law*, or the Labor Contract Law. The Labor Contract Law introduced specific provisions related to fixed-term employment contracts, part-time employment, probationary periods, consultation with labor unions and employee assemblies, employment without a written contract, dismissal of employees, severance, and collective bargaining to enhance previous PRC labor law. Under the Labor Contract Law, an employer is obligated to sign an unlimited-term labor contract with any employee who has worked for the employer for ten consecutive years. Further, if an employee requests or agrees to renew a fixed-term labor contract that has already been entered into twice consecutively, the resulting contract, with certain exceptions, must have an unlimited term, subject to certain exceptions. With certain exceptions, an employer must pay severance to an employee where a labor contract is terminated or expires. In addition, the PRC governmental authorities have continued to introduce various new labor-related regulations since the effectiveness of the Labor Contract Law in 2008. For example, there are regulations which require that annual leave ranging from five to 15 days be made available to employees and that employees be compensated for any unused annual leave days at a rate of three times their daily salary, subject to certain exceptions.

Under the *PRC Social Insurance Law* and the *Administrative Measures on Housing Fund*, employees are required to participate in pension insurance, work-related injury insurance, medical insurance, unemployment insurance, maternity insurance and housing funds and employers are required, together with their employees or separately, to pay the social insurance premiums and housing funds for their employees.

These laws designed to enhance labor protection tend to increase our labor costs. In addition, as the interpretation and implementation of these regulations are still evolving, our employment practices may not be at all times be deemed in compliance with the regulations. As a result, we could be subject to penalties or incur significant liabilities in connection with labor disputes or investigations.

Risks Related to Our Class A Ordinary Shares and ADSs

We are a Cayman Islands company and, because judicial precedent regarding the rights of shareholders is more limited under Cayman Islands law than that under U.S. law, our shareholders may have less protection for their shareholder rights than they would under U.S. law.

Our corporate affairs are governed by our memorandum and articles of association, the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and the common law of the Cayman Islands. The rights of shareholders to take action against our directors, actions by minority shareholders and the fiduciary responsibilities of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent in some jurisdictions in the United States. In particular, the Cayman Islands has a less developed body of securities laws than the United States.

Holders of our ADSs may have difficulty enforcing judgments obtained against us.

We are a Cayman Islands company and all of our assets are located outside the United States. A substantial portion of our current operations are conducted in the PRC. In addition, all of our directors and executive officers are nationals and residents of countries other than the United States. A substantial portion of the assets of these persons are located outside the United States. As a result, it may be difficult for holders of our ADSs to effect service of process within the United States upon these persons. It may also be difficult for holders of our ADSs to enforce in Cayman Islands courts or PRC courts judgments obtained in U.S. courts based on the civil liability provisions of the U.S. federal securities laws against us and our officers and directors, most of whom are not residents in the United States and the substantial majority of whose assets are located outside of the United States. In addition, there is uncertainty as to whether the courts of the Cayman Islands or the PRC would recognize or enforce judgments.

Our operating results for a particular period could fall below our expectations or the expectations of investors or research analysts, resulting in a decrease in the price of our ADSs.

Our operating results may vary significantly from period to period as a result of factors beyond our control, such as the slowdown in China's economic growth that occurred between the first quarter of 2010 and third quarter of 2012 and during 2014, caused in part by measures adopted by the Chinese government intended to slow such growth and to temper real estate prices and inflation, and the significant instability recently experienced in the worldwide economy, and the European Community facing disruptions as a result of crises in the economies of Greece and Spain, among other countries, and such factors may be difficult to predict for any given period. Other factors also could cause significant fluctuations in our operating results, including the timing and success of our new game launches, our costs of developing and launching new games and software, and the level of user activity of our games and software in China during particular fiscal quarters. If our operating results for any period fall below our expectations or the expectations of investors or research analysts, the price of our ADSs is likely to decrease.

Press reports in 2011 concerning possible increased scrutiny by Chinese authorities of the VIE structure used by us and various other Chinese companies publicly-traded in the United States appear to have created concern at the time among investors and to have caused the price of the ADSs of various Chinese companies, including us, that are publicly traded in the United States to drop, and similar reports in the future could have a similar adverse effect on the price of our ADSs

In 2011 various prominent western news outlets reported that the MOFCOM and the CSRC, among other Chinese regulatory authorities, might be considering increased scrutiny or enhanced regulation of Chinese companies that use VIE structures, such as we do, as a means of complying with Chinese laws restricting foreign ownership of certain businesses in China, including online game businesses such as ours. Some of such news reports also sought to draw a connection between accounting issues at certain Chinese companies, which were widely reported at the time, and the use of VIE structures. Such news reports appear to have had the effect of causing significant drops at the time in the market prices of the shares of many Chinese companies, including us. It is possible that in the future there will be increased scrutiny or enhanced regulation by Chinese regulatory authorities of Chinese companies, including us, that use VIE structures. See "If the PRC government determines that the VIE structure for operating our business does not comply with applicable PRC government restrictions on foreign investment in telecommunication industry, we could face severe penalties." In addition, while we are not aware of any causal connection between the reported accounting scandals and the use of VIE structures, it is possible that holders or potential purchasers of our ADSs will believe that such a connection exists. Any of such circumstances could lead to further loss of investor confidence in Chinese companies and cause fluctuations in the market prices of our ADSs and, if such prices were to drop sharply, could subject us to shareholder litigation, which could cause the price for our shares to drop further.

Registered public accounting firms in China, including our independent registered public accounting firm, are not inspected by the U.S. Public Company Accounting Oversight Board, which deprives us and our investors of the benefits of such inspection.

Auditors of companies whose shares are registered with the U.S. Securities and Exchange Commission and traded publicly in the United States, including our independent registered public accounting firm, must be registered with the U.S. Public Company Accounting Oversight Board (the “PCAOB”) and are required by the laws of the United States to undergo regular inspections by the PCAOB to assess their compliance with the laws of the United States and professional standards applicable to auditors. Our independent registered public accounting firm is located in, and organized under the laws of, the PRC, which is a jurisdiction where the PCAOB, notwithstanding the requirements of U.S. law, is currently unable to conduct inspections without the approval of the Chinese authorities. In May 2013, PCAOB announced that it had entered into a Memorandum of Understanding on Enforcement Cooperation with the CSRC and the PRC Ministry of Finance, which establishes a cooperative framework between the parties for the production and exchange of audit documents relevant to investigations undertaken by PCAOB, the CSRC or the PRC Ministry of Finance in the United States and the PRC, respectively. PCAOB continues to be in discussions with the CSRC and the PRC Ministry of Finance to permit joint inspections in the PRC of audit firms that are registered with PCAOB and audit Chinese companies that trade on U.S. exchanges.

This lack of PCAOB inspections in China prevents the PCAOB from fully evaluating audits and quality control procedures of our independent registered public accounting firm. As a result, we and investors in our common stock are deprived of the benefits of such PCAOB inspections. The inability of the PCAOB to conduct inspections of auditors in China makes it more difficult to evaluate the effectiveness of our independent registered public accounting firm’s audit procedures or quality control procedures as compared to auditors outside of China that are subject to PCAOB inspections, which could cause investors and potential investors in our stock to lose confidence in our audit procedures and reported financial information and the quality of our financial statements.

If additional remedial measures are imposed on the Big Four PRC-based accounting firms, including our independent registered public accounting firm, in administrative proceedings brought by the SEC alleging the firms’ failure to meet specific criteria set by the SEC, we could be unable to timely file future financial statements in compliance with the requirements of the Securities Exchange Act of 1934.

In December 2012, the SEC instituted administrative proceedings against the Big Four PRC-based accounting firms, including our independent registered public accounting firm, alleging that these firms had violated U.S. securities laws and the SEC’s rules and regulations thereunder by failing to provide to the SEC the firms’ audit work papers with respect to certain PRC-based companies that are publicly traded in the United States. On January 22, 2014, the ALJ presiding over the matter rendered an initial decision that each of the firms had violated the SEC’s rules of practice by failing to produce audit workpapers to the SEC. The initial decision censured each of the firms and barred them from practicing before the SEC for a period of six months. The Big Four PRC-based accounting firms appealed the ALJ’s initial decision to the SEC. The ALJ’s decision does not take effect unless and until it is endorsed by the SEC. On February 6, 2015, the four China-based accounting firms each agreed to a censure and to pay a fine to the SEC to settle the dispute and avoid suspension of their ability to practice before the SEC and audit U.S.-listed companies. The settlement required the firms to follow detailed procedures and to seek to provide the SEC with access to Chinese firms’ audit documents via the China Securities Regulatory Commission, or the CSRC. If future document productions fail to meet specified criteria, the SEC retains authority to impose a variety of additional remedial measures on the firms depending on the nature of the failure. While we cannot predict if the SEC will further review the four China-based accounting firms’ compliance with specified criteria or if the results of such a review would result in the SEC imposing penalties such as suspensions or restarting the administrative proceedings, if the accounting firms are subject to additional remedial measures, our ability to file our financial statements in compliance with SEC requirements could be impacted. A determination that we have not timely filed financial statements in compliance with SEC requirements could ultimately lead to the delisting of our ADSs from Nasdaq or the termination of the registration of our ADSs and Class A ordinary shares under the Securities Exchange Act of 1934, or both, which would substantially reduce or effectively terminate the trading of our ADSs in the United States.

We are a “controlled company” within the meaning of the Nasdaq Listing Rules and as a result we are entitled to, and do, rely on exemptions from certain corporate governance requirements that provide protection to shareholders of other companies. We also have invoked one of the “home country practice” exceptions to the corporate governance requirements of the Nasdaq Listing Rules that are available to foreign private issuers such as us, and we may invoke additional such exceptions in the future.

Because Sohu owns more than 50% of the total voting power of our ordinary shares, we are a “controlled company” under the Nasdaq Listing Rules. We rely on certain exemptions that are available to controlled companies from Nasdaq corporate governance requirements, including the following, which we do not intend to meet voluntarily:

- that we have a corporate governance and nominating committee that is composed entirely of independent directors with a written charter addressing the committee’s purpose and responsibilities;
- that we have a compensation committee that is composed entirely of independent directors with a written charter addressing the committee’s purpose and responsibilities; and
- for an annual performance evaluation of the nominating and governance committee and compensation committee.

In November 2014 our board of directors approved and we implemented an increase in the number of Class A ordinary shares reserved for issuance under our 2014 Share Incentive Plan without shareholder approval, which would otherwise have been required by the corporate governance requirements of the Nasdaq Listing Rules, by invoking one of the “home country” exceptions from certain of the Nasdaq Listing Rules that are available to foreign private issuers such as us, and in the future we may invoke additional home country exceptions from the Nasdaq Listing Rules’ corporate governance requirements.

As a result of our use of the “controlled company” exemptions and of a “home country” exception to these requirements of the Nasdaq Listing Rules, holders of our ADSs do not have the same protection afforded to shareholders of companies that are subject to all of Nasdaq’s corporate governance requirements.

The market price for our ADSs has been and may continue to be volatile.

The trading price of our ADSs has been and may continue to be subject to wide fluctuations. During the period from April 2, 2009, the first day of trading of our ADSs on the Nasdaq Global Select Market, until December 31, 2015, the trading price of our ADSs ranged from \$17.00 to \$52.00 per ADS, and the closing sale price on December 31, 2015 was \$24.82 per ADS. The market price for our ADSs may continue to be volatile and subject to wide fluctuations in response to factors including the following:

- announcements of competitive developments, including new games by our competitors;
- regulatory developments in our target markets affecting us, our customers or our competitors;
- actual or anticipated fluctuations in our quarterly operating results;
- failure of our quarterly financial and operating results to meet market expectations or failure to meet our previously announced guidance;
- changes in financial estimates by securities research analysts;
- changes in the economic performance or market valuations of other Internet or online game companies;
- additions or departures of our executive officers and other key personnel;
- announcements regarding intellectual property litigation (or potential litigation) involving us or any of our directors and officers;
- fluctuations in the exchange rates between the U.S. dollar and the RMB;
- release or expiration of transfer restrictions on our outstanding ordinary shares and ADSs; and
- sales or perceived sales of additional shares or ADSs.

In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are not related to the operating performance of particular industries or companies. Such market fluctuations may have a material adverse effect on the market price of our ADSs.

Holders of our ADSs may be subject to limitations on transfer of their ADSs.

Our ADSs are transferable on the books of the depository. However, the depository may close its transfer books at any time or from time to time when it deems it expedient in connection with the performance of its duties. In addition, the depository may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depository are closed, or at any time if we or the depository deem it advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the Deposit Agreement, or for any other reason.

Holders of ADSs have limited voting rights and may not receive voting materials in time to be able to exercise their right to vote.

Except as described in this annual report and in the Deposit Agreement, holders of our ADSs will not be able to exercise voting rights attaching to the shares represented by our ADSs on an individual basis. Holders of our ADSs may instruct the depository how to exercise the voting rights attaching to the shares represented by the ADSs. Holders may not receive voting materials in time to instruct the depository to vote, and it is possible that direct holders of ADSs, or persons who hold their ADSs through brokers, dealers or other third parties, will not have the opportunity to exercise a right to vote. In addition, due to the different voting powers attached to the two classes of our ordinary shares, our controlling shareholder, Sohu, which holds our Class B ordinary shares, controls 95.6% of the total voting power of our ordinary shares as the date of this report. As a result, the ability of holders of our ADSs to affect the outcome of any matter subject to shareholder vote is very limited.

ADS holders' right to participate in any future rights offerings may be limited, which may cause dilution to their holdings and ADS holders may not receive cash dividends if it is impractical to make them available to such holders.

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. However, we cannot make rights available to ADS holders in the United States unless we register the securities to which the rights relate under the Securities Act of 1933, or the Securities Act, or an exemption from registration requirements is available. Also, under the Deposit Agreement, the depository bank will not make rights available to ADS holders unless the distribution to ADS holders of both the rights and any related securities are either registered under the Securities Act or exempted from registration under the Securities Act. We are under no obligation to file a registration statement with respect to any such rights or securities or to endeavor to cause such a registration statement to be declared effective. Moreover, we may not be able to establish an exemption from registration under the Securities Act. Accordingly, holders of our ADSs may be unable to participate in our rights offerings and may experience dilution in their holdings.

In addition, the depository of our ADSs has agreed to pay to ADS holders the cash dividends or other distributions it or the custodian receives on our ordinary shares or other deposited securities after deducting its fees and expenses. ADS holders will receive these distributions in proportion to the number of ordinary shares such holders' ADSs represent. However, the depository may, at its discretion, decide that it is inequitable or impractical to make a distribution available to any holders of ADSs. For example, the depository may determine that it is not practicable to distribute certain property through the mail, or that the value of certain distributions may be less than the cost of mailing them, or that the distribution requires certain governmental approval, such as requirement for registration or approval for currency conversion. In these cases, the depository may decide not to distribute that property and ADSs holders will not receive that distribution.

Holders of our ADSs and holders of our Class A ordinary shares will experience dilution when additional Class A ordinary shares are issued in settlement of restricted share units or upon exercise of options.

Holders of our ADSs and holders of our Class A ordinary shares will experience dilution to the extent that additional Class A ordinary shares are issued upon settlement of restricted share units or exercise of outstanding options that we may grant from time to time. As of the date of this report, there were outstanding 44,986 Class A restricted share units, with each such restricted share unit settleable upon vesting by the issuance of one Class A ordinary share, and outstanding options for the purchase of 3,270,000 Class A ordinary shares at a nominal price.

We may need additional capital and may sell additional ADSs or other equity securities or incur indebtedness, which could result in additional dilution to our shareholders or increase our debt service obligations.

We may require additional cash resources due to changed business conditions or other future developments, including any investments or acquisitions we may decide to pursue. If our cash resources are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities or obtain a credit facility. The sale of additional equity securities or equity-linked debt securities could result in additional dilution to our shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations. We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all.

Substantial future sales of our ADSs or ordinary shares in the public market, or the perception that these sales could occur, could cause the price of our ADSs to decline.

Additional sales of our ADSs or ordinary shares in the public market, or the perception that these sales could occur, could cause the market price of our ADSs to decline. As of the date of this report, there were 34,239,420 of our Class A ordinary shares and 70,250,000 of our Class B ordinary shares outstanding. As of the date of this report, there were outstanding 44,986 Class A restricted share units, with each such restricted share unit settleable upon vesting by the issuance of one Class A ordinary share, and outstanding options for the purchase of 3,270,000 Class A ordinary shares at a nominal price. In addition, we may grant or sell additional options, restricted shares or other share-based awards in the future under our share incentive plan to our management, employees and other persons, the settlement and sale of which may further dilute our shares and drive down the price of our ADSs.

We might be classified as a passive foreign investment company, which could result in adverse U.S. federal income tax consequences to U.S. holders of our ADSs or Class A ordinary shares.

A non-U.S. corporation will be considered a passive foreign investment company, or PFIC, for any taxable year if either (i) at least 75% of its gross income is passive income or (ii) at least 50% of the value of its assets (based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income. We expect that we will not be treated as a PFIC for U.S. federal income tax purposes for our 2015 taxable year ending November 30, 2015. Our expectation is based on our operations and the composition of our earnings and assets (including goodwill) for the 2015 taxable year, including the valuation of our assets based on the market price of our ADSs. However, we currently hold, and expect to continue to hold following this annual report, a substantial amount of cash and cash equivalents, and the value of our other assets may be based in part on the market price of our ADSs, which is likely to fluctuate in the future (and may fluctuate considerably given that market prices of Internet and online game companies historically have been especially volatile). A drop in the market price of our ADSs and an associated decrease in the value of our goodwill would cause a reduction in the value of our non-passive assets for purposes of the asset test. Accordingly, we could become a PFIC if our market capitalization were to decrease significantly while we hold substantial cash and cash equivalents. Furthermore, it is not entirely clear how the contractual arrangements between us and our consolidated variable interest entities will be treated for purposes of the PFIC rules. In addition, our actual PFIC status for any taxable year will not be determinable until the close of such taxable year. Accordingly, there is no guarantee that we will not be a PFIC for any taxable year. PFIC status depends on the composition of our assets and income and the value of our assets (including, among others, a pro rata portion of the income and assets of each regarded subsidiary in which we own, directly or indirectly, at least 25% (by value) of the equity interest) from time to time. If we were treated as a PFIC for any taxable year during which a U.S. holder held an ADS or a Class A ordinary share, certain adverse United States federal income tax consequences could apply to the U.S. holder. See “Taxation—United States Federal Income Taxation—Passive Foreign Investment Company” in Item 10 of this annual report.

ITEM 4. INFORMATION ON THE COMPANY

History and Development of the Company

We began operations as the online games business unit within the Sohu Group in 2003. In May 2007, the Sohu Group launched TLBB, its first in-house developed PC game.

In 2007, the Sohu Group reorganized its online games business. As part of the reorganization, Changyou.com Limited was incorporated in the Cayman Islands on August 6, 2007 as an indirect wholly-owned subsidiary of Sohu.com Inc., to hold the PC games business of the Sohu Group. Sohu transferred to us, effective December 1, 2007, all of its assets and operations relating to its PC games business unit, and we assumed all the liabilities associated with Sohu’s PC games business unit. On April 2, 2009, ADSs offered in our initial public offering commenced trading on the Nasdaq Global Select Market. Our principal executive offices are located at Changyou Building, Raycom Creative Industrial Park, No. 65 Bajiao East Road, Shijingshan District, Beijing 100043, People’s Republic of China. Our telephone number at this address is (8610) 6192-0800. Our registered office in the Cayman Islands is located at 4th Floor, Willow House, Cricket Square, P O Box 2804, Grand Cayman KY1-1112, Cayman Islands. Our agent for service of process in the United States is CT Corporation System, 111 Eighth Avenue, New York, New York 10011.

Our business operations are primarily conducted in China through our subsidiaries AmazGame; Shanghai Jingmao Culture Communication Co., Ltd., or Shanghai Jingmao; Gamespace; Beijing Changyou Jingmao Film & Culture Communication Co., Ltd., or Beijing Jingmao; Beijing Baina Technology and our significant VIEs and their subsidiaries Gamease, Guanyou Gamespace, Wuhan Baina Information and Shanghai ICE. Our online games business has been the main driver for our revenue growth since Sohu transferred its PC games business to us. In 2010 we began engaging in the cinema advertising business, which has benefitted from strong growth in China’s cinema and movie industry in recent years. In 2011, we began offering online advertising services on 17173.com Website, which is one of the leading game information portals in China, as a main part of our platform channel business. From 2011 to 2015, we also generated revenues from Web games operated and developed by 7Road, the operating company of which we fully divested in 2015. Online games, platform channels and other services (including our cinema advertising business) constitute our three business segments.

The following is a summary of our significant acquisitions and divestments since our initial public offering:

In May 2010, Changyou HK acquired from ICE Entertainment Limited 100% of the equity interests in ICE Entertainment (HK) Limited, or ICE HK. ICE HK holds 100% of the registered capital of our PRC subsidiary ICE Information.

In May 2010, AmazGame, through its wholly-owned subsidiary Beijing Yang Fan Jing He Information Consulting Co., Ltd, or Yang Fan Jing He, acquired 50% of the equity interests in Shanghai Jingmao, which primarily engages in the cinema advertising business. In January 2011, Yang Fan Jing He acquired the remaining 50% of the equity interests in Shanghai Jingmao. In April 2012, in connection with an internal reorganization, Yang Fan Jing He acquired 100% of the equity interests in Beijing Jingmao, from Shanghai Jingmao.

In May 2011, we, through our VIE Gamease, acquired 68.258% of the equity interests in Shenzhen 7Road, which was primarily engaged in the development and operation of Web games, for fixed cash consideration of approximately \$68.26 million, plus additional variable cash consideration of up to a maximum of \$32.76 million that was contingent upon Shenzhen 7Road's achievement of specified performance milestones through December 31, 2012. On June 26, 2012, we completed the reorganization of Shenzhen 7Road, or the 7Road Reorganization, into a Cayman Islands holding company structure. Upon completion of the 7Road Reorganization, we held 71.926% of the equity interests in 7Road. Also as part of the 7Road Reorganization, 7Road's indirect PRC wholly-owned subsidiary Shenzhen 7Road Network Technologies Co., Ltd., or 7Road Technology, Shenzhen 7Road and the then shareholders of Shenzhen 7Road, which were our VIE Gamease and the then minority shareholders of 7Road, entered into variable interest entity contractual arrangements, with respect to the ownership, disposition of ownership and control of Shenzhen 7Road.

On June 5, 2013, we acquired all of the ordinary shares of 7Road held by the non-controlling shareholders and, through our VIE Gamease, all of the equity interests in Shenzhen 7Road held by shareholders other than Gamease, for aggregate cash consideration of approximately \$78 million. As a result of the acquisition, 7Road became our indirect wholly-owned subsidiary and our VIE Gamease became the sole shareholder of our VIE Shenzhen 7Road. See "Major Shareholders and Related Party Transactions" in Item 7 of this annual report.

On August 17, 2015, (i) our VIE Gamease completed the sale to Shanghai Yong Chong Investment Center LP, or Shanghai Yong Chong, a PRC limited partnership, of all of the equity interests in Shenzhen 7Road and (ii) our subsidiary Changyou HK completed the sale to Supermax Holdings Group Limited, a British Virgin Islands company, of all of the equity capital of Changyou My Sdn. Bhd, a Malaysia company, and Changyou.com (UK) Company Limited, a United Kingdom company, which are engaged in the online game business in Malaysia and the United Kingdom, respectively. The dispositions included our Web game business and certain other assets. The aggregate consideration for these transactions was \$205 million in cash.

On December 15, 2011, we completed the acquisition from Sohu of certain assets and business operations associated with the 17173.com Website, which is one of the leading game information portals in China, for fixed cash consideration of \$162.5 million. See "Major Shareholders and Related Party Transactions" in Item 7 of this annual report. After the acquisition, our PRC subsidiary Gamespace and our VIE Guanyou Gamespace, respectively, began to operate the 17173.com Website.

On November 19, 2013, we, through a wholly-owned subsidiary, Heroic Vision Holdings Limited, or Heroic, entered into an investment agreement with Beijing Kunlun Tech Co., Ltd. and certain of its affiliates (collectively, the "Kalends Group"), pursuant to which TalkTalk limited, or TalkTalk, was incorporated in the British Virgin Islands and initially wholly-owned by the Kalends Group, RaidCall (HK) Limited, or RaidCall HK, was incorporated in Hong Kong as a wholly-owned subsidiary of TalkTalk, and Beijing Changyou RaidCall Internet Technology Co., Ltd., or Changyou RaidCall, was incorporated in the PRC as a wholly-owned subsidiary of RaidCall HK. The Kalends Group then transferred to RaidCall HK and Changyou RaidCall all of the assets associated with RaidCall.

On December 24, 2013, pursuant to the investment agreement, we acquired 62.5% of the equity interests, on a fully-diluted basis, in TalkTalk for cash consideration of \$47.6 million. Of the total consideration, we paid \$27.6 million to purchase from the Kalends Group a portion of the ordinary shares of TalkTalk held by the Kalends Group, and we invested \$20 million in newly-issued ordinary shares of TalkTalk. In March 2015, the Kalends Group transferred additional ordinary shares of TalkTalk held by it to us and TalkTalk issued additional ordinary shares to us pursuant to the investment agreement because RaidCall had failed to achieve certain average daily active account milestones specified in the agreement. As a result, our equity interests in TalkTalk increased to 70% on a fully-diluted basis.

On July 31, 2014, pursuant to an investment agreement among one of our wholly-owned subsidiaries; MoboTap, which is the mobile technology developer behind the Dolphin Browser; MoboTap's subsidiaries and variable interest entities; and MoboTap's shareholders, we purchased from existing shareholders of MoboTap shares of MoboTap representing 51% of the equity interests in MoboTap on a fully-diluted basis for approximately \$91 million in cash. In addition, we have the right to purchase up to 10% of the equity interests in MoboTap from the noncontrolling shareholders, at a price of 20% below the IPO price, before a qualified IPO of MoboTap. If MoboTap achieves specified performance milestones for 2016 and certain specified key employees continue their employment with MoboTap at the time the milestones are achieved, but there has not been an IPO by MoboTap, the noncontrolling shareholders of MoboTap will have a one-time right to put to Changyou shares of MoboTap held by them, representing up to 15% of the equity interests in MoboTap, for an aggregate price of up to \$53 million. We also acquired from MoboTap for \$30 million a zero-coupon convertible bond issued by MoboTap, due in 2019. In January 2016, we reached an agreement with MoboTap pursuant to which MoboTap redeemed \$24 million of the convertible bond and we have the option, exercisable at any time when the bond is outstanding, to convert the remainder of the bond at a rate that would increase our interest in MoboTap to 53.1% on a fully-diluted basis if the option is exercised in full.

BUSINESS OVERVIEW

Our three primary businesses are the online game business; the platform channel business, which consists of online advertising and software offerings; and the others business. The online game business and the platform channel business are our core businesses.

We are a leading online game developer and operator in China as measured by the popularity of TLBB and our mobile game TLBB 3D. We engage in the development, operation and licensing of online games for PCs and mobile devices. This includes PC games, which are interactive online games that are accessed and played simultaneously by hundreds of thousands of game players through personal computers and require that local client-end game access software be installed on the computers used; mobile games, which are played on mobile devices and require an Internet connection; and Web games, which are online games that are played through a Web browser with no local game software installation requirements.

Our platform channel business mainly consists of the operation of the 17173.com Website, one of the leading information portals in China, which provides news, electronic forums, online videos and other information services on online games to game players.

Our other services offerings include the sale, to advertisers, of pre-film cinema advertising slots, which are advertisements shown before the screening of a movie in a cinema theatre.

Our revenues grew from \$737.9 million for the year ended December 31, 2013 to \$755.3 million for the year ended December 31, 2014, and to \$761.6 million for the year ended December 31, 2015. Our net income attributable to Changyou.com Limited decreased from \$268.6 million for the year ended December 31, 2013 to a net loss attributable to Changyou.com Limited of \$3.4 million for the year ended December 31, 2014, and increased to net income attributable to Changyou.com Limited of \$212.8 million for the year ended December 31, 2015.

Online Games

Business model

Our game players typically access our games through personal computers and mobile devices, such as mobile phones and tablets, connected to the Internet. In order to access our PC games, our game access software must be installed in the computer being used. Game players using PCs can typically download our game access software, interim updates and expansion packs directly from our official game Website. Game players access our mobile games by downloading our mobile game applications mostly from third-party mobile application stores or, to a lesser extent, from our official game Website. Prior to the sale of Shenzhen 7Road in August 2015, our online games also included Web games, which became a relatively insignificant part of our online games business following the sale.

Our online games include a variety of genres, including MMOGs, RPGs, MMORPGs, ARPGs, TPSs and CCGs. MMOGs are massive multiplayer online games that allow a large number of players to interact with one another within a virtual world. RPGs are role playing games that allow users to take on the role of a character that can interact within a game's imaginary world. MMORPGs and ARPGs are subsets of RPGs, with MMORPGs emphasizing the interaction of a large number of players and ARPGs emphasizing real-time action where a player has direct control over characters and enjoys various forms of combat systems. TPSs are third person shooter games that are structured around shooting, where a player can see and control an avatar on-screen in a third-person view. CCGs are collectible card games in which players collect cards and compete to win by using card sets with different functions.

Our games are operated under the item-based revenue model, meaning game players can play our games for free, but may choose to pay for virtual items, which are non-physical items that game players can purchase and use within a game, such as gems, pets, fashion items, magic medicine, riding animals, hierograms, skill books and fireworks. Through virtual items, players are able to enhance or personalize their game environments or game characters, accelerate their progress in our games and share and trade with friends.

For players who choose to purchase virtual goods, we deliver enhanced gameplay experiences and benefits, such as:

Accelerated Progress. Many of our games offer players the option to purchase items that can accelerate their progress in the game and increase their capabilities, so that they level up more quickly and compete more effectively against others in the game. While we sell many items that accelerate progress in our games, we monitor and carefully balance the disparity in capabilities between paying and non-paying game players to avoid discouraging non-paying game players and to keep the game challenging and interesting for paying game players.

Enhanced Social Interaction. We use a variety of virtual items to promote interaction and to facilitate relationship-building among game players in our games.

Personalized and Customized Appearance. Many of our games offer players the option to purchase decorative and functional items to customize the appearance of their characters, pets, vehicles, houses and other in-game possessions to express their individuality.

Gifts. Many of our games offer players the option to purchase gift items to send to their friends. Examples of gift items include decorative items and time-limited items for special holiday events and festivals, such as Valentine's Day, Spring Festival (Chinese New Year) and Christmas.

Our online game business model includes games that we self-operate and games that we license out to third-party operators.

Self-operated Games

For self-operated games, we determine the price of virtual items based on the demand or expected demand for such virtual items. We may change the pricing of certain virtual items based on their consumption patterns. We host the games on our own servers and are responsible for sales and marketing of the games as well as customer service. Our self-operated games include PC games and mobile games developed in house as well as PC games and mobile games that we license from or jointly develop with third party developers.

Sales of Game Points and Revenue Collection

For self-operated PC games, we collect proceeds through the sale of game points. We sell game points directly to our game players. Game players can purchase game points and charge them to their accounts directly. After logging in to their accounts, game players can choose to pay either from their bank accounts or through other payment methods, including third-party online payment platforms. We also sell prepaid game cards for our PC games to a range of regional third-party distributors and our game players in China. Regional distributors sub-distribute prepaid game cards to retail outlets, including Internet cafés and various Websites, as well as through various online channels, and telecommunications service providers. We typically collect payment from our distributors upon delivery of our prepaid game cards.

For self-operated mobile games, we sell game points to our game players via third-party mobile application stores. Game players purchase game points and charge them to their accounts through the mobile application stores. The mobile application stores in turn pay us proceeds after deducting their pre-agreed revenue-sharing amounts.

For self-operated games that are licensed from or jointly developed with third-party developers, we pay the developers license fees for the exclusive right to operate the games domestically or globally, as well as revenue-sharing payments over the duration of the licenses.

Marketing

For self-operated games, we employ a variety of innovative online marketing methods, including online advertising and in-game marketing, social media, and online-to-offline promotions. We use different methods to target different demographic groups of game players.

For online marketing, we are able to leverage our game information portal, the 17173.com Website, as well as other game Websites to promote our games. We are able to leverage our affiliation with Sohu, and aggregate Sohu's large user base to our games by advertising on Sohu's various Websites, which typically provide a direct link to our games. In addition, we use in-game promotional events 24 hours a day, seven days a week. We also create events to rally current and new game players through event-related features, such as offering special holiday-edition virtual items to enhance game player participation at holiday time.

We access online social media by advertising in online videos and marketing our games through various social networking Websites, mobile applications and online forums, to create a vital effect among game players.

For online-to-offline promotion, we employ outdoor multimedia that target our game player base and combine our offline marketing efforts with online social media campaigns to encourage the spread of our games through word-of-mouth.

For mobile games in particular, we work closely with third-party Android mobile application stores in a joint effort to market our games. We use a targeted marketing approach by working with performance-based online advertising platforms such as Guang Dian Tong, where we can target different user groups by gender, demographics, age groups, and other categories. In addition, for games with a specific user group, we advertise on mobile applications, websites and other media outlets that cater to the same user group.

Customer Service

For self-operated and jointly-operated games, we aim to provide quality customer service and be responsive to our game players' needs. Our game players can seek our customer service support 24 hours a day, seven days a week, either via phone or by submitting their feedback online. In addition, we have physical service centers in Beijing and Tianjin, which are open to walk-in game players during normal business hours. We currently have around 170 dedicated customer service representatives.

Feedback collected by our customer service team and by third-party operators is important to the integration of our product development and game operations teams. The information collected forms the basis of our feedback database, which helps us to design change and upgrade expansion packs for our games. See “—Our Games”

Licensed-out Games

We also authorize third parties to operate our online games. We currently license TLBB and Steel Ocean to third-party operators, including operators in Hong Kong, Malaysia, Vietnam, and Taiwan. We license our mobile games, including TLBB 3D, Qin Shi Min Yue 2, Dashfire and Feng Yun to third-party operators, including operators in Hong Kong, Korea, Macau, Malaysia, Vietnam, Singapore, Taiwan, and Thailand. We also license some of our games, including Feng Yun, to third-party operators in China.

The licensed-out games include PC games and mobile games developed in house as well as mobile games licensed from and jointly developed with third-party developers. Under our licensing arrangements with third-party operators, the operators pay us upfront license fees and we have revenue sharing rights over the terms of the licenses. The licenses are typically for a term of one to three years. We provide updates and expansion packs for the licensed games, typically after we launch the updates and expansion packs in China.

For licensed-out games, the third-party operators are responsible for all operations and costs, including marketing and customer service, as well as the leasing and maintenance of servers.

Our Games

Our online games include games that are developed in-house and games that are licensed from or jointly developed with third-party developers. Each of our games is tested against all the criteria set by our Product Appraisal Committee, irrespective of whether the games are in-house developed or licensed from or jointly developed with third-party developers, and only those games that have successfully passed the tests can move on to the next stage.

In-house Developed Games:

We have adopted an Integrated Product Development procedure where a rigorous set of testing standards set by our Product Appraisal Committee are applied to all in-house developed games at each stage of development. Our game development process generally includes the following key steps, which apply to the development of PC games and mobile games:

- *Identification and Discovery:* Identify new opportunities for innovation based on the current needs and demands of target game players. We conduct focus group sessions with our target game players to pitch our ideas and understand their thoughts. The feedback we receive from our game players helps us to generate and develop new concepts for innovative games.
- *Concept Development and Testing:* Once a concept has been selected, the design team will formulate a complete plan for the new game, which will include the choice of game titles and characters, core gameplays, and artistic styles. We share the plan with a group of users to test its appeal to game players and the feedback will be reviewed by the Product Appraisal Committee.
- *Prototype and Demo Testing:* Once a new game plan passes the review of the Product Appraisal Committee, the design department creates a demo laying out preliminary artistic features and gameplay, which will be further reviewed by game players and the Product Appraisal Committee.
- *Development and Consumer Engagement:* If the demo passes a critical review process by the Product Appraisal Committee, the project enters its official development phase. A demo that allows players to play for thirty minutes will be created. The artistic appeal, product quality and user behavior, among other things, will be tested with our game players. The Product Appraisal Committee will then evaluate the game based on the thirty minutes of play and the users' feedback.

- *Configuration Beta Testing, Close Beta Testing and Open Beta Testing:* If the game’s thirty-minute version passes review, it will then be developed to fuller versions that can be played for a consecutive number of days. We then start configuration beta testing with initial marketing to bring a larger group of game players under simulated open market conditions to test and optimize the user experience. We evaluate user conversion rates, user retention, user satisfaction and the game’s payment system, among other things, based on the feedback of game players and mobile platform operators. Lastly, if the game passes all of our testing standards, our Product Appraisal Committee will make the final decision to conduct open beta testing to test the operation of the new game under open market conditions and introduce the new game to players.

Our games are developed through coordination among teams of program developers, game designers and graphic artists. We try to design each of our games to cater to different audiences to grow our overall player base rather than merely shifting players from one game to another. At each stage of a new game’s development, we rely on our quality control department to ensure the game’s quality and playability.

As of December 31, 2015, we had 1,242 product development personnel responsible for developing new games, as well as game enhancements and expansion packs.

Games Licensed from or Jointly developed with Third-Party developers

We have obtained exclusive licenses to operate and further develop some of our online games from third-party developers in China. For a summary of the primary PC games and mobile games that we currently operate that are licensed from or jointly developed with third parties, see “—Tables—Games Licensed from or Jointly developed with Third-Party developers ”

Existing Game Enhancement

We derive many of our game development and enhancement ideas from our game players by maintaining multiple channels whereby we obtain our game players’ ideas and feedback. These include online surveys, online discussion forums, in-game instant messaging, online customer service and a link to a form for feedback within our games. We use this information not only to create new games with the same quality of design, content and programming, but also to enhance existing games that we have either developed in-house or licensed from third parties.


We typically release game updates for our games once or twice a week and more significant enhancements in the form of expansion packs every few months or as regularly as necessary based on game players’ feedback, market demand and other factors. Our expansion packs typically include features such as new territories, themes, tasks, characters, virtual items and other enhanced features. After testing, the game updates and expansion packs are typically distributed electronically through a game Website hosted by us or by third parties. We have found that expansion packs effectively increase game players’ interest in the game and enhance the game-playing experience by keeping the game-playing experience fresh even for long-time game players. We believe that the expansion packs help us to maintain game player loyalty, and in turn extend the lifespans of our games.

Rights from Third Parties to Game Titles and Characters




We have obtained exclusive rights from third parties to develop and operate PC games and mobile games based on their titles and characters. For a summary of the license agreements, see “—Tables—Rights from Third Parties to Game Titles and Characters”

Tables

Key Games in Operation

	Name	Type	Genre	Initial Launch Date	In-house developed, licensed or jointly developed	Description
	TLBB	PC game	3D martial arts RPG	May 2007	In-house developed	The game features a combination of martial arts-style-fighting and community-building among its game players, with a variety of interesting and interactive gameplay.
	Blade Online series	PC game	2.5D martial-arts RPG	Blade Online (BO) in October 2004; Blade Hero II (Blade Hero 2) in September 2009	In-house developed	Consists of two PC games, Blade Online and its sequel Blade Hero 2. Both games are martial arts-style fighting games set to the backdrop of a Chinese myth.
	Warframe	PC game	3D TPS	Sep 2015	Licensed	A Sci-fi themed shooter game licensed from Canada. Players fight in a galactic environment, while exploring unlimited worlds and battle scenes.
	Duke of Mount Deer	PC game	3D martial arts RPG	July 2011	In-house developed	An in-house developed 3D martial arts MMORPG adapted from Louis Cha's final novel, which combines four different types of combat: Magic, Taoism, Martial arts and Firearms.
	Da Hua Shui Hu	PC game	2D Q-style RPG	March 2010	Licensed	Based on a story from one of the four great classical novels of Chinese literature "Outlaws of the Marsh," which is about the adventures of 108 heroes in the Northern Song dynasty. Changyou has permanent rights to operate this game.
	Steel Ocean	PC game	3D TPS	May 2015	In-house developed	Developed using the Unreal 3 engine, the game features realistic graphics based around a vivid ocean landscape, and allows players to experience fierce battles from airplanes, ships and submarines.
	TLBB 3D	Mobile game	3D martial arts RPG	October 2014	In-house developed	Adapted from Louis Cha's novel of the same name, the game re-enacts the story of the original novel and blends in some of the elements of the PC version of the game.
	Feng Yun	Mobile game	3D martial arts RPG	November 2015	In-house developed	A martial-art themed MMO game based on a popular Hong Kong comic that was adapted for movies and a TV series.
	Legend of Sword and Fairy 5	Mobile game	3D CCG	December 2015	In-house developed	A real-time card combat game, based on a successful offline PC game.

Games Licensed from or Jointly developed with Third-Party developers

	<u>Year</u>	<u>Games</u>	<u>Genre</u>	<u>Licensed/Jointly developed</u>	<u>Developer</u>
	2003	Blade Online*	PC game	Licensed	A Beijing game studio
	2010	Da Hua Shui Hu	PC game	Licensed	A China game studio
	2015	Warframe	PC game	Licensed	A Canadian game studio

* In 2007, we obtained the rights to the source code of Blade Online. We own the rights to all improvements we make to Blade Online.

Rights from Third Parties to Game Titles and Characters

<u>IP</u>	<u>Game Genre</u>	<u>Authorized Rights</u>	<u>Licensed from</u>
Blade Hero	PC game	Exclusive right to adapt and operate in mainland China	Pixel Game
TLBB	PC game	Exclusive right to adapt and operate in mainland China, Hong Kong, Macau and Taiwan	Louis Cha
Duke of Mount Deer	PC game	Exclusive right to adapt and operate in mainland China, Hong Kong, Macau and Taiwan	Louis Cha
Legend of Sword and Fairy	PC game	Exclusive worldwide right to adapt and operate	Softstar Technology
Qin Shi Ming Yue	Mobile game	Exclusive worldwide right to adapt and operate	Xuanji Technology.
Ten of Louis Cha's martial arts novels including TLBB	Mobile game	Exclusive right to adapt and operate in mainland China	Louis Cha
Feng Yun	Mobile game	Exclusive worldwide right to adapt and operate	Jonesky (HK) Limited
Six of Huangyi's martial arts novels including Twin of Brothers	Mobile game	Exclusive right to adapt and operate in mainland China, Hong Kong, Macau and Taiwan	Chinese Gamer
Xuan Yuan Jian	Mobile game	Exclusive worldwide right to adapt and operate	Softstar Technology
Kiseki Series and Ys Seven	Mobile game	Exclusive right to adapt and operate in mainland China, Hong Kong, Macau, Taiwan, Singapore and Malaysia	Nihon Falco

Platform Channel Business

17173.com Website

The 17173.com Website was launched in 2000 as the first online game information portal in China. With over 800 game zones and tens of millions of monthly unique visitors, the 17173.com Website is one of the largest game information and community Websites in China. With its high brand awareness, credibility, and strong relationships with advertisers, the 17173.com Website has become one of the preferred marketing platforms for domestic game companies, including our own. In addition, we work with users on the 17173.com Website to evaluate and improve the play quality of our games. We generate online advertising revenues from providing advertising services to third-party advertisers on the 17173.com Website.

Services and Products Offered to Online Advertisers

Our offerings enable advertisers to post their advertisements in different forms, including text, rich media and video advertisements. Our online advertising products include banners, links, logos, buttons and stream advertisements placed on our Websites and sponsorships that typically focus on a particular event or a particular Website area. We charge most advertisers a fixed fee based on the length of time an advertising campaign runs, and fees vary based on whether advertisements run on PCs or mobile devices. We also adopted the Cost Per Impressions pricing model to cater to different advertisers, and particularly small-sized advertisers. Our standard advertising charges vary depending on the terms of the contract and the advertisement's location within the 17173.com Website. Discounts from standard rates are typically provided for higher volume, longer-term advertising contracts, and may be provided for promotional purposes.

Services and Products Offered to Individual Users

We are focused on providing players with game-related media services such as news, online communities, and video for PC games, mobile games and Web games. To cater to different viewing habits, we have also launched a variety of products on mobile applications and on HTML5. We have also built a specialized and integrated online media portal that works seamlessly across devices.

During the year ended December 31, 2015, there were a total of 194 companies advertising on the 17173.com Website and applications. Our end customers include leading online game companies in China, as well as independent game studios.

Other Platform Channel Products

We offer a number of software applications for PCs and mobile devices, such as the Dolphin Browser and RaidCall. RaidCall provides online music and entertainment services, primarily in Taiwan, and the Dolphin Browser is a gateway to a host of user activities on mobile devices, with the majority of its users based in Europe, Russia and Japan.

Other Service Offerings

We sell pre-film cinema advertising slots, which are advertisements shown before the screening of a movie in a cinema theatre, to advertisers. Most of the advertisements are in the form of video advertisements. We sign contracts with individual cinema theatres for the rights to sell their pre-film cinema advertising slots. These contracts are for an average period of two to three years. As of December 31, 2015, we had the right to sell pre-film cinema advertising slots at approximately 700 cinema theatres in China.

We charge most advertisers on a per-advertising slot basis or on a pre-determined period basis with fixed fees. Our standard prices for advertising slots vary depending on the location of the cinema theatre. Discounts from standard rates are typically provided for longer-term advertising contracts, and may be provided for promotional purposes.

Intellectual Property and Proprietary Rights

We regard our intellectual property and proprietary rights as critical to our success. We rely on trademark law, copyright law, patent law and trade secret protection to protect our intellectual property rights. We enter into 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. In addition, we fragment our source codes so that no one employee, other than certain of our executive officers, has access to our entire source codes for a game. Product development personnel are only given access to the specific portions of the source codes that they need to work with at a particular time. In addition, all of the computers used by our game development personnel are closed circuit and do not have access to the Internet, so that we can protect our source codes and other proprietary information from being emailed out of our closed circuit system and misappropriated. However, we cannot guarantee that our measures to protect our intellectual property are sufficient. See "Risk Factors—Risks Related to Our Business and Our Industry—We may need to incur significant expenses to enforce our proprietary rights, and if we are unable to protect such rights, our competitive position and financial performance could be harmed" in Item 3.

We are the registered owner of 259 software copyrights and 421 fine arts work copyrights in China, each of which we have registered with the National Copyright Administration of the PRC or Guangdong Copyright Administration.

We are the registered owner of 218 domain names that we use in connection with the operation of our business, including our official Changyou Website, changyou.com and 17173.com. We also license the right to use certain of Sohu's domain names, which we will continue until Changyou develops independent brand recognition, at which time we plan to phase out our use and licenses of certain of Sohu's domain names.

We are the registered owner of 2,336 registered trademarks and have applied for the registration of another 569 trademarks in the PRC, including those related to our company name and our online games and other businesses. We are the registered owner of 266 registered trademarks and have also applied for 332 trademarks in countries and regions such as Taiwan, Hong Kong, the United States, Europe, Japan, Malaysia, South Korea, Indonesia and Brazil relating to our company name, and our online games and other businesses. We have registered four trademarks in Taiwan and six trademarks in the European Union and six trademarks in the South Korea relating to TLBB. However, we cannot assure you that we will be able to obtain the trademarks we have applied for. See “Risk Factors—Risks Related to Our Business and Our Industry—We may need to incur significant expenses to enforce our proprietary rights, and if we are unable to protect such rights, our competitive position and financial performance could be harmed” in Item 3.

We have registered 182 patents and have 116 patent applications pending which are related to the design of our games and technology intended to enhance the functionality of our games, but these patent applications may not be approved. See “Risk Factors” for discussions of various risks relating to intellectual property.

Technology Infrastructure

We support our operations with a network of reliable and secure physical and cloud-based servers that have fully supported our operations for many years. As of December 31, 2015, we maintained for our online game business approximately 7,634 physical servers that are located in Internet data centers in 18 major cities in China, and 1,778 cloud-based servers that are spread across mainland China, Hong Kong and North America. Together, these servers have a sufficient amount of bandwidth and capacity to accommodate up to 6.5 million concurrent game players

In order to enhance our game players’ experience and to improve connectivity, we have located our physical game servers in a number of regions throughout China. This allows our players to connect to the nearest servers that are located in their region without exchanging data across the national backbone network. Furthermore, to ensure high-quality services for our game players, we work with leading domestic cloud technology firms to provide efficient and stable game services using cloud-based resources.

We have a professional technical support team that specializes in maintaining our quality technology infrastructure and online operating platform. We monitor the operation of our server network 24 hours a day, seven days a week. Our remote control system allows us to track our concurrent online users in real time, and discover and fix hardware or software problems on our server network in a timely fashion.

Competition

In the online games industry, we compete principally with the following three groups of competitors in China:

- online game developers and/or operators in China that are publicly traded in the United States and in Hong Kong, including Tencent Holdings Limited, NetEase.com, Inc., Kingsoft Corporation Limited, IGG Inc. and NetDragon Websoft Inc.;
- other companies in China devoted to game development and/or operation that are publicly traded in China, such as Kalends Inc., Ourpalm Corporate limited, Century Cruises (formerly known as Giant Interactive Group Inc.), or privately-held companies, usually backed by venture capital or private equity, including Da Xing (formerly known as Perfect World Co., Ltd.) and Shulong Technologies (formerly known as Shanda Games Limited); and
- international competitors.

In the online advertising industry, our game information portal operated through the 17173.com Website currently competes in China with, among others, the following game information portals:

- Duowan.com, operated by YY Inc.; and
- game.sina.com.cn, operated by Sina Corporation.

Our existing and potential competitors in the online games industry compete with us for talent, game player spending, time spent on game playing, marketing activities, quality of games, and distribution network. Our existing and potential competitors in the online advertising industry compete with us for talent, advertiser spending, number of unique visitors, number of page views, visitors’ time spent on Website, and quality of service.

Facilities

Our principal offices are located in several office buildings in Beijing, Fuzhou and Wuhan in China, which comprise an aggregate of approximately 95,266 square meters, including 23,767 square meters of leased properties. Our leases for those leased properties expire between March 2016 and September 2019.

In August 2009, we purchased an office building of approximately 14,950 square meters in Beijing, for consideration of approximately \$33.4 million. In August 2010, we entered into a contract for the purchase and development of an office building of approximately 56,549 square meters in Beijing to serve as our headquarters, for consideration of approximately \$171 million. We occupied the office building in December 2013. As of December 31, 2015, we leased additional office space in Beijing of approximately 6,308 square meters. We also leased office space of approximately 17,459 square meters in other cities in the PRC and in other countries.

Legal Proceedings

We may be subject to legal proceedings, investigations and claims incidental to the conduct of our business from time to time. We are not currently a party to, nor are we aware of, any legal proceeding, investigation or claim which, in the opinion of our management, is likely to have a material adverse effect on our business, financial condition or results of operations.

PRC Regulation

The following description of PRC regulation is based upon the opinion of Haiwen & Partners, our PRC counsel. For a description of legal risks relating to our ownership structure and business, see “Risk Factors.”

Regulatory Authorities

PRC law, including regulations and interpretations issued by various PRC governmental authorities, covers extensively areas related to the Internet, such as telecommunications, Internet information services, international connections to computer information networks, information security and censorship, that affect our business. PRC governmental authorities which have issued such regulations and interpretations include:

- the State Council;
- the State Administration of Press, Publication, Radio, Film and Television, or SAPPRFT, which resulted from the merger of the former General Administration of Press and Publication, or GAPP, with the former State Administration of Radio, Film and Television, or SARFT, in March 2013. The “SAPPRFT” as used in this report refers to the governmental authority that resulted from the merger, as well as to the GAPP and the SARFT separately for periods prior to the merger;
- the Ministry of Culture, or MOC;
- the Ministry of Industry and Information Technology, or MIIT;
- the Ministry of Commerce, or MOFCOM;
- the Ministry of Public Security, or MPS;
- the State Administration of Foreign Exchange, or SAFE;
- the State Administration for Industry and Commerce, or SAIC;
- the State Council Information Office, or SCIO.

Regulation of Value-Added Telecommunication Services in General

The *Telecommunications Regulations of the People’s Republic of China*, or the Telecom Regulations, implemented in September 2000 and amended in July 2014, are the primary PRC regulation governing telecommunications, and set forth the general framework for the provision of telecommunication services by domestic PRC companies. The Telecom Regulations include a requirement that telecommunications service providers procure operating licenses prior to commencing operations. The Telecom Regulations draw a distinction between “basic telecommunications services” and “value-added telecommunications services.” Value-added telecommunications services are defined as telecommunications and information services provided through public networks. The *Catalog of Telecommunications Business*, or the Catalog, was originally issued as an attachment to the Telecom Regulations and updated in 2001 and 2003. The Catalog as updated categorized online data and transaction processing, domestic Internet virtual private networks, Internet data centers, and Internet access search as value-added telecommunications services. Key aspects of our business fall within the definition of value-added telecommunications services under the Telecom Regulations and the Catalog.

The MIIT promulgated the *Administration Measures for Telecommunications Business Operation*, or the Telecom License Measures, in April 2009. The Telecom License Measures include requirements and procedures for obtaining licenses for value-added telecommunications services and provide for a distinction between such a license granted solely for operations within a particular province and such a license granted for “trans-regional” (or multiple-province) activities. Operations under a value-added telecommunications services license must be conducted in accordance with the specific terms of the license. In September 2000, the State Council promulgated the Administrative Measures on Internet Information Services, or the Internet Measures, and amended in January 2011. Under the Internet Measures, providers of Internet content services, or ICPs, must obtain a value-added telecommunications license, or ICP license, from governmental authorities before engaging in any commercial ICP operations within the PRC. Each of Gamease, Guanyou Gamespace, Shanghai ICE and Wuhan Baina Information has obtained an ICP license.

In 2000, the MIIT promulgated the Internet Electronic Bulletin Service Administrative Measures, or the BBS Measures. The BBS Measures required ICPs to obtain specific approvals before they provided BBS services, which included electronic bulletin boards, electronic forums, message boards and chat rooms. In September 2014, the MIIT revoked the BBS Measures by the *Decision on Revocation and Amendment Certain Regulations and Rules*. However, in practice certain local authorities still require operating companies to obtain approvals or make filings for the operation of BBS services. The ICP licenses held by Gamease and Guanyou Gamespace include such specific approval of the BBS services that they provide.

Restrictions on Foreign Ownership of Value-Added Telecommunication Services

Various PRC regulations currently restrict foreign-invested entities from engaging in value-added telecommunication services, including operating online games and providing Internet information services. Foreign direct investment in telecommunication companies in China is regulated by the *Regulations for the Administration of Foreign-Invested Telecommunications Enterprises*, or the FITE Regulations, issued by the State Council, which became effective in January 2002 and were amended in September 2008. The FITE Regulations stipulate that telecommunications enterprises in the PRC with foreign investors, or FITEs, must be established as Sino-foreign equity joint ventures. Under the FITE Regulations and in accordance with WTO-related agreements, FITEs may provide value-added telecommunications services, but the foreign party to a FITE engaging in such services may hold no more than 50% of the equity of the FITE. The FITE Regulations do not impose geographical restrictions on the operations of a FITE. The PRC government has not made any commitment to liberalize its regulation of the operations of FITEs' providing value-added telecommunications services.

For a FITE to acquire any equity interest in a value-added telecommunications business in China, it must satisfy a number of stringent performance and operational experience requirements, including demonstrating a track record and experience in operating a value-added telecommunications business overseas. Moreover, FITEs that meet these requirements must obtain approvals from the MIIT and the MOFCOM or their authorized local counterparts, which retain considerable discretion in granting approvals.

In July 2006, the MIIT released a *Notice on Strengthening the Administration of Foreign Investment in Operating Value-added Telecommunications Business*, or the MIIT Notice, which reiterates certain provisions under the FITE Regulations. Under the MIIT Notice, if a FITE intends to invest in a PRC value-added telecommunications business, the FITE must be established and must apply for telecommunications business license applicable to its business. Under the MIIT Notice, a domestic company that holds a license for the provision of Internet content services, or an ICP license, as a type of value-added telecommunications business in China, is prohibited from leasing, transferring or selling the license to foreign investors in any form, and from providing any assistance, including providing resources, sites or facilities, to foreign investors to conduct value-added telecommunications businesses illegally in China. Trademarks and domain names that are used in the provision of Internet content services must be owned by the ICP license holder. The MIIT Notice requires each ICP license holder to have appropriate facilities for its approved business operations and to maintain such facilities in the regions covered by its license. In addition, all value-added telecommunications service providers are required to maintain network and information security in accordance with the standards set forth under relevant PRC regulations. Our VIEs, rather than our subsidiaries hold ICP licenses, own our domain names, and hold or have applied for registration in the PRC of trademarks related to our games and our 17173.com Website and own and maintain facilities that we believe are appropriate for our business operations.

In view of the restrictions on foreign direct investment in the telecommunications sector, we established or acquired our principal VIEs Gamease, Guanyou Gamespace, Shanghai ICE and Wuhan Baina Information to engage in value-added telecommunications services. For a detailed discussion of our VIEs, please refer to "Organizational Structure" in Item 4. Due to a lack of interpretative materials from the relevant PRC authorities, there are uncertainties regarding whether PRC authorities would consider our corporate structure and contractual arrangements to be a kind of foreign ownership of value-added telecommunications services. See "Risk Factors—Risks Related to Our Corporate Structure and PRC Law and Regulations—If the PRC government determines that the VIE structure for operating our business does not comply with applicable PRC government restrictions on foreign investment in telecommunication industry, we could face severe penalties."

On October 1, 2004, the *Administrative Rules on the Filing of Commercial Websites*, or the Websites Rules, were promulgated by the Beijing Administration of Industry and Commerce, or the Beijing AIC, to replace the *Detailed Implementing Rules for the Measures for the Administration of Commercial Website Filings for the Record* promulgated by the Beijing AIC on September 1, 2000. The Websites Rules state that operators of Websites must comply with the following requirements:

- file with the Beijing AIC and obtain electronic registration marks for the Websites;
- place the registration marks on the Websites' homepages; and
- register the Website names with the Beijing AIC.

We have registered our Websites www.changyou.com and www.cy.com with the Beijing AIC and an electronic registration mark for the Website is prominently placed on the homepage of the Websites.

Internet Privacy

The PRC Constitution states that PRC law protects the freedom and privacy of the communications of citizens and prohibits infringement of such rights. In recent years, PRC government authorities have issued various regulations on the use of the Internet that are designed to protect personal information from unauthorized disclosure. For example, the Internet Measures prohibit an Internet information services provider from insulting or slandering a third party or infringing upon the lawful rights and interests of a third party. In addition, PRC regulations authorize PRC telecommunication authorities to demand rectification of unauthorized disclosure by ICPs.

PRC law does not prohibit ICPs from collecting and analyzing personal information from their users. The PRC government, however, has the power and authority to order ICPs to submit personal information of an Internet user if such user posts any prohibited content or engages in illegal activities on the Internet. In addition, the MIIT promulgated the *Several Provisions on Regulating the Market Order of Internet Information Services*, which became effective as of March 15, 2012. This regulation stipulates that ICPs must not, without users' consent, collect information on users that can be used, alone or in combination with other information, to identify the user, or User Personal Information, and may not provide any User Personal Information to third parties without prior user consent. ICPs may only collect User Personal Information necessary to provide their services and must expressly inform the users of the method, content and purpose of the collection and processing of such User Personal Information. In addition, an ICP may use User Personal Information only for the stated purposes under the ICP's scope of services. ICPs are also required to ensure the proper security of User Personal Information, and take immediate remedial measures if User Personal Information is suspected to have been disclosed. If the consequences of any such disclosure are expected to be serious, the ICP must immediately report the incident to the telecommunications regulatory authorities and cooperate with the authorities in their investigations. In addition, the PRC government has the power and authority to order ICPs to submit personal information of an Internet user if such user posts any prohibited content or engages in any illegal activity on the Internet. We require our users to accept a user agreement whereby they agree to provide certain personal information to us. If we violate these regulations, the MIIT or its local bureaus may impose penalties and we may be liable for damages caused to our users.

On December 28, 2012, the Standing Committee of the National People's Congress enacted the *Decision to Enhance the Protection of Network Information*, or the Information Protection Decision, to further enhance the protection of User Personal Information in electronic form. The Information Protection Decision provides that ICPs must expressly inform their users of the purpose, manner and scope of the ICPs' collection and use of User Personal Information, publish the ICPs' standards for their collection and use of User Personal Information, and collect and use User Personal Information only with the consent of the users and only within the scope of such consent. The Information Protection Decision also mandates that ICPs and their employees must keep strictly confidential User Personal Information that they collect, and that ICPs must take such technical and other measures as are necessary to safeguard the information against disclosure.

On August 21, 2014, the MIIT issued the *Order for the Protection of Telecommunication and Internet User Personal Information* or the Order. Most requirements under the Order that are relevant to ICP operators are consistent with the requirements already established under the MIIT provisions as discussed elsewhere in this annual report. Under the Order, these requirements are often stricter and have a wider scope. If an ICP operator wishes to collect or use personal information, it may do so only if such collection is necessary for the services it provides. Further, the operator must disclose to its users the purpose, method and scope of any such collection or use, and must obtain consent from its users whose information is being collected or used. ICP operators are also required to establish and publish their rules relating to personal information collection or use, keep any collected information strictly confidential, and take technological and other measures to maintain the security of such information. ICP operators are required to cease any collection or use of the user personal information, and de-register the relevant user account, when a given user stops using the relevant Internet service. ICP operators are further prohibited from divulging, distorting or destroying any such personal information, or selling or providing such information unlawfully to other parties. In addition, if an ICP operator appoints an agent to undertake any marketing or technical services that involve the collection or use of personal information, the ICP operator is still required to supervise and manage the protection of the information. The Order states that violators may face penalties that include warnings, fines, and disclosure to the public and, in severe cases, criminal liability.

On August 21, 2014, the Supreme People's Court promulgated the *Provisions of the Supreme People's Court on Several Issues Concerning the Application of Law to Trial of Civil Dispute Cases over Infringement Upon Personal Rights and Interests by Using Information Networks*, pursuant to which if an ICP operator discloses online genetic information, medical records, health examination data, criminal records, home addresses, private events or other private personal information of a natural person, and such disclosure causes damage to a natural person, the aggrieved person will be entitled to hold the ICP operator liable. It also specifies that an ICP operator will not be liable for the disclosure of such personal information if: (i) the information is made public with the written consent of the person; (ii) the information is made public for the purpose of promoting the public interest and the information disclosed is limited to the scope necessary for such purpose; (iii) the information is made public by schools or scientific research institutions; (iv) the information has been made public by the person himself; or (v) the personal information was obtained through legal channels.

The *Measures on Punishment for Infringement of Consumer Rights* promulgated by SAIC, which became effective in March, 2015, stipulate that business operators collecting and using personal information of consumers must comply with the principles of legitimacy, propriety and necessity, specify the purpose, method and scope of collection and usage of information, and obtain the consent of consumers. Business operators may not: (i) collect or use personal information of consumers without their consent; (ii) illegally divulge, sell or provide personal information of consumers to others; or (iii) send commercial information to consumers without their consent or request, or when a consumer has explicitly declined to receive such information.

The Standing Committee of the National People's Congress issued the *Amendment (IX) to the Criminal Law of the People's Republic of China*, which came into effect in November 2015, to strengthen the protection of personal information and Internet security. Under certain circumstances, network service providers who do not perform their duties of safety management on information networks as required by laws and administrative regulations, and who do not correct their conduct after regulatory authorities order them to correct their non-compliance, may be subject to imprisonment for up to three years, criminal detention or public surveillance in addition to fines.

Our current security measures and those of the third parties with whom we transact business may not be adequate for the protection of User Personal Information. In addition, we do not have control over the security measures of our third-party online payment vendors. Security breaches of our system and the online payment systems that we use could expose us to litigation and liability for failing to secure confidential customer information and could harm our reputation, ability to attract customers and ability to encourage customers to purchase virtual items.

Online Games and Cultural Products

In September 2009, the SAPPRFT, together with the National Copyright Administration, and the National Office of Combating Pornography and Illegal Publications jointly issued a *Notice on Further Strengthening on the Administration of Pre-examination and Approval of Online Game and the Examination and Approval of Imported Online Game*, or the SAPPRFT Online Game Notice. The SAPPRFT Online Game Notice states that foreign investors are not permitted to invest in online game operating businesses in China via wholly foreign-owned entities, China-foreign equity joint ventures or cooperative joint ventures or to exercise control over or participate in the operation of domestic online game businesses through indirect means, such as other joint venture companies or contractual or technical arrangements. If our VIE structure were deemed under the SAPPRFT Online Game Notice to be an "indirect means" for foreign investors to exercise control over or participate in the operation of a domestic online game business, our VIE structure might be challenged by the SAPPRFT. We are not aware of any online game companies which use the same or similar VIE contractual arrangements as those we use having been challenged by the SAPPRFT as using those VIE arrangements as an "indirect means" for foreign investors to exercise control over or participate in the operation of a domestic online game business or having been penalized or ordered to terminate operations since the SAPPRFT Online Game Notice first became effective, but it is unclear whether and how the SAPPRFT Online Game Notice might be interpreted or implemented in the future.

On February 21, 2008, the SAPPRFT issued the Rules for the Administration of Electronic Publications, or the Electronic Publication Rules, which were amended on August 28, 2015. The Electronic Publication Rules regulate the production, publishing and importation of electronic publications in the PRC and outline a licensing system for business operations involving electronic publishing. Under the Electronic Publication Rules and other related regulations issued by the SAPPRFT, online games are classified as a type of electronic publication or Internet publication that may only be provided by a licensed electronic publishing entity with a standard publication code, and the establishment of an electronic publishing entity must be approved by the SAPPRFT. Electronic publishing entities are responsible for assuring that the content of electronic publications comply with relevant PRC law and regulations, and must obtain the approval of the SAPPRFT before publishing foreign electronic publications. The Tentative Measures for Internet Publication Administration, or the Internet Publication Measures, which were jointly promulgated by the SAPPRFT and the MIIT and became effective in 2002, impose a license requirement for any company that intends to engage in Internet publishing, which is defined as any act by an ICP to select, edit and process content or programs and to make such content or programs publicly available on the Internet. As the provision of online games is deemed to be an Internet publication activity, an online game operator must obtain an Internet publishing license and an authorization codes for each of its games in operation in order to directly make those games publicly available in the PRC. Although the Internet Publication Measures do not specifically authorize such a practice, an online game operator is generally able to publish its games and obtain authorization codes for those games through third-party licensed electronic publishing entities and register the games with the SAPPRFT as electronic publications. The New Internet Publication Measures issued by the SAPPRFT and the MIIT, which will become effective on March 10, 2016 and will replace the Internet Publication Measures, require that entities in the Internet publishing business apply for a new online publication license and obtain approval from the SAPPRFT prior to the publication of new online games. In addition, under the New Internet Publication Measures Sino-foreign joint ventures and foreign-invested entities are not permitted to engage in Internet publication services, and the legal representative of an entity providing Internet publication services may not be a foreigner. As the New Internet Publication Measures are new and have not yet become effective, the actual implications and reach of the New Internet Publication Measures are still uncertain.

Gamease, which is the operator of TLBB, BO, BH2 and certain other licensed PC games, Guanyou Gamespace, which provides online game services, obtained Internet publishing licenses on December 10, 2010 and October 13, 2011, respectively. TLBB, BO, BH2 and some of our other games were historically published through third parties that were licensed electronic publishing entities, because Gamease had not obtained an Internet publishing license at the time those online games were made publicly available. TLBB, BO and BH2 and certain of our other existing games are currently published under an Internet publishing license held by Gamease. Current PRC regulations are not clear as to the consequences of obtaining authorization codes through third-party electronic publishing entities. While we believe that arrangements like ours are acknowledged by the SAPPRFT, in view of the lack of formal interpretation regarding this issue, the SAPPRFT might challenge our current and past practices and could subject us to various penalties, including fines, confiscation of publishing equipment and the revenues generated from the publishing activities, the revocation of our business license, or the forced discontinuation of or restrictions on our operations.

The MOC issued the *New Provisional Regulations for the Administration of Online Culture*, or the Online Culture Regulations, which took effect on April 1, 2011 and replaced the *Provisional Regulations for the Administration of Online Culture*. The Online Culture Regulations apply to entities engaging in activities related to “Internet cultural products,” which include cultural products that are produced specifically for Internet use, such as online music and entertainment, online games, online plays, online performances, online works of art and Web animation, and other online cultural products that through technical means, produce or reproduce music, entertainment, games, plays and other art works for Internet dissemination. Under the New Online Culture Regulations, commercial entities are required to apply to the relevant local branch of the MOC for an Online Culture Operating Permit if they engage in the production, duplication, importation, release or broadcasting of Internet cultural products; the dissemination of online cultural products on the Internet or the transmission of such products via Internet or mobile phone networks to user terminals, such as computers, phones, television sets and gaming consoles, or Internet surfing service sites such as Internet cafés; or the holding or exhibition of contests related to Internet cultural products. Gamease obtained an Online Culture Operating Permit in January 2008, which was re-certified in October 2015; Guanyou Gamespace obtained an Online Culture Operating Permit in June 2011, which was re-certified in November 2014; and Shanghai ICE obtained an Online Culture Operating Permit in December 2010, which was re-certified in January 2014.

The *Interim Measures for the Administration of Online Games*, or the Online Game Measures, issued by the MOC, which took effect on August 1, 2010, regulate a broad range of activities related to the online games business, including the development, production and operation of online games, the issuance of virtual currencies used for online games, and the provision of virtual currency trading services. The Online Game Measures provide that any entity that is engaged in online game operations must obtain an Online Culture Operating Permit, and require the content of an imported online game to be examined and approved by the MOC prior to the game’s launch and a domestic online game to be filed with the MOC within 30 days after its launch. The *Notice of the Ministry of Culture on the Implementation of the Interim Measures for the Administration of Online Games*, which was issued by the MOC on July 29, 2010 to implement the Online Game Measures (i) requires online game operators to protect the interests of online game users and specify certain terms that must be included in service agreements between online game operators and the users of their online games, (ii) specifies content review of imported online games and filing procedures for domestic online games, (iii) emphasizes the protection of minors playing online games and (iv) requests online game operators to promote real-name registration by their game users. We filed our games TLBB, BO, BH2, and certain of our other existing games with the MOC. If we fail to maintain any of our permits, approvals or registrations, to make any necessary filings, or to apply for and obtain any required new permits, approvals or registrations or make any new filings on a timely basis, we may be subject to various penalties, including fines and a requirement that we discontinue or limit our operations.

The *Notice on Strengthening the Approval and Administration of Imported Online Games*, or the SAPPRFT Imported Online Game Notice, which was issued by the SAPPRFT and took effect in July 2009, states that the SAPPRFT is the only governmental department authorized by the State Council to approve the importation of online games from offshore copyright owners, and that any enterprise which engages in online game publication and operation services within China must have the game examined and approved by the SAPPRFT and receive from the SAPPRFT an Internet publishing license. Our VIEs Gamease and Guanyou Gamespace have obtained Internet publishing licenses from the SAPPRFT. In addition, the SAPPRFT Imported Online Game Notice states that activities which involve the showing, exhibition, trading and promotion of offshore online games in China also must be examined and approved by the SAPPRFT.

The *Notice Regarding Improving and Strengthening the Administration of Online Game Content*, or the Online Game Content Notice, issued by the MOC in November 2009, calls for online game operators to improve and adapt their game models by (i) mitigating the predominance of the “upgrade by monster fighting” model, (ii) limiting the use of the “player kill” model (where one player’s character attempts to kill another player’s character), (iii) limiting in-game marriages among game players, and (iv) improving their compliance with legal requirements for the registration of minors and game time-limits.

The *Administrative Measures for Content Self-review by Internet Culture Business Entities*, or the Content Self-review Administrative Measure, which took effect in December 2013, require Internet culture business entities to review the content of products and services to be provided prior to providing such content and services to the public. The content management system of an Internet culture business entity is required to specify the responsibilities, standards and processes for content review as well as accountability measures, and is required be filed with the local provincial branch of the MOC.

In January 2014 the SAIC promulgated the *Administrative Measures for Online Trading*, or the Online Trading Measures, which took effect on March 15, 2014, and replaced the Interim Measures for the *Administration of Online Commodities Trading and Relevant Services*, issued by the SAIC, which had taken effect on July 1, 2010. The Online Trading Measures regulate online commodity trading and related activities. The Online Trading Measures require that commodities or services transacted online comply with the provisions of all applicable laws, regulations and rules. When selling commodities or providing services to consumers, online operators must comply with all applicable laws with respect to the protection of consumer rights/interests, intellectual property rights of others and the prevention of unfair competition. Information provided with respect to commodities and services provided by online commodity operators or related service operators must be authentic and accurate, and no false statements may be made. If we fail to comply with all requirements of the Online Trading Measures, the local branch of the SAIC or another governmental authority with jurisdiction might impose penalties on us, such as fines.

Regulation of Copyright Protection

The *PRC Copyright Law*, which was adopted by the Standing Committee of the National People's Congress in 1990 and subsequently amended in 2001 and 2010, extends copyright protection to Internet activities, products disseminated over the Internet and software products. In addition, there is a voluntary registration system administered by the China Copyright Protection Center.

The Rules of Protection on Information Network Dissemination Rights, promulgated by the State Council in May 2006 and amended in January 2013, address copyright issues relating to the Internet. In addition, on December 17, 2012, the Supreme People's Court promulgated *the Provisions on Several Issues Concerning the Application of Law for Trial of Civil Dispute Cases Involving Infringement of the Right to Network Dissemination of Information*, which stipulate that the dissemination by network users or network service providers of works, performance or audio or video recordings without the permission of the holder of the rights to such dissemination will constitute infringement of such rights, and that network service providers that aid or abet any network user's infringement of the rights of another to network dissemination of any works or recordings may be liable for such network user's infringing activities.

Registration of Software Products

The *Measures Concerning Software Products Administration*, or the Software Measures, issued by the MIIT, which became effective in April 2009 and replaced measures which had been in effect since 2000, permit software developers and producers to sell or license their software products independently or through agents, and software products developed in the PRC can be registered with the local provincial government authorities in charge of the information industry and filed with the MIIT. Upon registration, the software products are granted registration certificates which are valid for five years and may be renewed upon expiration. Under policies promulgated by the State Council, software products developed in the PRC which satisfy the requirements of the Software Measures and have been registered and filed in accordance with the Software Measures may enjoy certain types of preferential treatment. State Council policies provide that the MIIT and other relevant departments may supervise and inspect the development, production, sale, import and export of software products in the PRC. We have registered software copyrights covering all of our significant copyrightable products and enhancements.

Regulation of Internet Content

The PRC government has promulgated measures relating to Internet content through a number of government authorities, including but not limited to the MIIT, the MOC, the SAPPRFT and the MPS. These measures specifically prohibit certain Internet activities, including the operation of online games that result in the publication of any content which is found to, among other things, propagate obscenity, gambling or violence, instigate crimes, undermine public morality or the cultural traditions of the PRC, or compromise State security or secrets. If an ICP license holder violates these measures, the PRC government may revoke its ICP license and shut down its Websites.

In addition, the PRC governmental authorities have issued several regulations requiring the installation of software to filter out unhealthy and vulgar content from the Internet. In April 2009, the Ministry of Education, the MIIT and other ministries and agencies issued a notice requiring that, by the end of May 2009, all computer terminals connected with the Internet at all elementary and secondary schools be able to include and operate Green Dam-Youth Escort, which is a software aimed at filtering out unhealthy and vulgar content in text and graphics from the Internet and which, according to the Website for the software, may be used to control time spent on the Internet, prohibit access to computer games, and filter out unhealthy Websites. The MIIT further expanded the scope of required use of this filter software by issuing a notice in May 2009 requiring that, effective as of July 1, 2009, all computers manufactured and sold in China have the latest available version of Green Dam-Youth Escort preinstalled when they leave the factory and that all imported computers have the latest available version of Green Dam-Youth Escort preinstalled before being sold in China. Green-Dam Youth Escort is to be preinstalled on the hard drive of the computer or in the form of a CD accompanying the computer and is also to be included in the backup partition and system restore CD. However, in June 2009, the MIIT announced that it was postponing the implementation of this requirement regarding pre-installation of Green Dam-Youth Escort.

Protection of Minors

On April 15, 2007, the SAPPRFT and several other governmental authorities issued a circular requiring the implementation of an “anti-fatigue system” and a real-name registration system by all PRC online game operators, in an effort to curb addictive online game play behaviors of minors. Under the anti-fatigue system, three hours or less of continuous play by minors is considered to be “healthy,” three to five hours to be “fatiguing,” and five hours or more to be “unhealthy.” Game operators are required to reduce the value of in-game benefits to a game player by half if the game player has reached “fatiguing” level, and to zero in the case of “unhealthy” level.

To identify whether a game player is a minor and thus subject to the anti-fatigue system, there was adopted a real-name registration system, which requires online game players to register their real identity information before they play online games and requires us to submit the identity information of game players to the public security authorities for verification. On July 1, 2011, the SAPPRFT, the MIIT, the Ministry of Education and five other governmental authorities issued a *Notice on Initializing the verification of Real-name Registration for Anti-Fatigue System on Internet Games*, or the Real-name Registration Notice, to strengthen the implementation of the anti-fatigue system and real-name registration, which took effect on October 1, 2011. The Real-name Registration Notice’s main focus is to prevent minors from using an adult’s ID to play Internet games and, accordingly, the notice imposes stringent punishments on online game operators that do not implement the required anti-fatigue and real-name registration measures properly and effectively. The most severe punishment contemplated by the Real-name Registration Notice is to require termination of the operation of the online game if it is found to be in violation of the Anti-Fatigue Notice, the Monitor System Circular or the Real-name Registration Notice. We developed our own anti-fatigue and real-name registration systems for our games, and implemented them beginning in 2007. Under our system, game players must use real identification in order to create accounts, and in this way, we are able to tell which of our game players are minors and thus subject to these regulations. For game players who do not register, we assume that they are minors. In order to comply with the anti-fatigue rules, game players under 18 years of age only receive half of the experience time they actually earn after three hours of play. And, after five hours of play, minors receive no experience points. We use this system to disincentivize minors from playing in excess of five hours at a time.

On January 15, 2011, the MOC, the MIIT and six other central government authorities jointly issued a circular entitled *Implementation of Online Game Monitor System of the Guardians of Minors*, or the Monitor System Circular, aiming to provide specific protection measures to monitor the online game activities of minors and curb addictive online game playing behaviors of minors. Under the Monitor System Circular, online game operators are required to adopt various measures to maintain a system to communicate with the parents or other guardians of minors playing online games and online game operators are required to monitor the online game activities of minors, and must suspend the account of a minor if so requested by the minor’s parents or guardians. The monitor system was formally implemented commencing March 1, 2011.

In February 2013, 15 PRC government authorities, including the SAPPRFT, the Ministry of Education, the MOC and the MIIT, jointly issued *the Work Plan for the Integrated Prevention of Minors Online Game Addiction*, or the Work Plan, implementing integrated measures by different authorities to prevent minors from being addicted to online games. Under the Work Plan, the current relevant regulations regarding online games will be further clarified and additional implementation rules will be issued; and as a result, online game operators will be required to implement measures to protect minors.

On July 25, 2014, the SAPPRFT promulgated a *Notice on Further Carrying out the Verification of Real-name Registration for Anti-Fatigue System on Internet Games*, or the Verification of Real-name Registration Notice, which took effect on October 1, 2014. The Verification of Real-name Registration Notice requires local press and publication administrative departments to strengthen their administration over enterprises engaged in online game publication and operations, and requires such enterprises to strictly abide by anti-fatigue and real-name registration requirements when developing and promoting online games, excluding, at present, mobile games.

Information Security and Censorship

Internet content in China is also regulated and restricted from a State security standpoint. The Standing Committee of the National People's Congress enacted the *Decision on Internet Security Protection* in 2000, and amended it in August, 2009. The decision makes it unlawful to: (i) gain improper entry into a computer or system of strategic importance; (ii) disseminate politically disruptive information; (iii) leak State secrets; (iv) spread false commercial information; or (v) infringe intellectual property rights. The Ministry of Public Security has promulgated measures that prohibit the use of the Internet in ways which, among other things, result in a leakage of State secrets or distribution of socially destabilizing content. The Ministry of Public Security has supervision and inspection rights in this regard, and we may be subject to the jurisdiction of local security bureaus. If an ICP license holder violates these measures, the PRC government may revoke its ICP license and shut down its Websites. The Standing Committee of the National People's Congress released a draft Internet Security Law and began to solicit public opinion in July, 2015. The draft Internet Security Law, if enacted, will impose strict Internet security legal requirements particularly on network operators, and will call for strengthened protection of user information and privacy information.

In 2004, the MOC issued a *Notice Regarding the Strengthening of Online Game Censorship*. This notice mandates the establishment of a new committee under the MOC that will screen the content of imported online games. In addition, all imported and domestic online games are required to be filed with the MOC. We have submitted the relevant filing documents to the MOC for the filing of all of our online games in operation.

In 2005, the MOC and the MIIT promulgated the *Opinions on the Development and Administration of Online Games* emphasizing the PRC government's intent to foster and control the development of the online game industry in China and providing that the MOC will censor online games that "threaten state security," "disturb the social order," or contain "obscenity" or "violence."

In April, 2009, the MOC issued a *Public Announcement on Regulating Applications for the Examination of the Content of Imported Online Games*, or the Announcement. The Announcement emphasizes that enterprises operating imported online games must have the content of those games examined and approved by the MOC.

Internet Café Regulation

Internet cafés are required to obtain an Online Culture Operating Permit from the MOC and file the permit with the SAIC, and are subject to requirements and regulations with respect to location, size, number of computers, ages of customers and hours of operation. In 2004, the MOC, the SAIC and some other governmental authorities jointly issued a notice to suspend issuance of new Internet café licenses. Though this nationwide suspension was generally lifted in 2005, local authorities have the authority in their discretion to control the number of new licenses and determine the recipients of new licenses. In addition, local and higher-level governmental authorities may from time to time strictly enforce customer age limits and other requirements relating to Internet cafés, as a result of the occurrence of, and media attention on, gang fights, arson or other incidents in or related to Internet cafés. On February 15, 2007, the MOC and other relevant government authorities jointly issued a *Notice on the Reinforcement of the Administration of Internet Cafés and Online Games*, or the Internet Cafés Notice, which suspended nationwide approval for the establishment of new Internet cafés in 2007 and imposed tougher penalties for Internet cafés admitting minors. In 2008, 2009 and 2010, the MOC, the SAIC and other relevant government authorities, individually or jointly, issued several notices which provide various ways to strengthen the regulation of Internet cafés, including investigating and punishing Internet cafés which accept minors, cracking down on Internet cafés without sufficient and valid licenses, limiting the total number of Internet cafés, screening unlawful games and Websites, and improving the coordination of regulation of Internet cafés and online games. As many of our customers access our games from Internet cafés, any reduction in the number, or any slowdown in the growth, of Internet cafés in China as a result of stricter Internet café regulation will limit our ability to maintain or increase our revenues and expand our customer base. In September 2015, the MOC and MPS issued a *Notice on Further Strengthening the Supervision of Games and Entertainment Places to Promote the Healthy Development of the Industry*, which specifies that regulatory authorities must examine the validity of the business license of a games and entertainment enterprise and inspect its place of operation before approving the enterprise's application for the issuance of a license for operation of an entertainment business.

Online Audiovisual Transmission

The SAPPRFT issued the *Measures for the Administration of the Transmission of Audiovisual Programs over Internet and other Information Networks*, which were effective in October, 2004, and amended on August 28, 2015. Under these measures, Websites engaging in the business of network audiovisual program dissemination are required to obtain a permit for the network transmission of audiovisual programs from the SAPPRFT.

The SAPPRFT and the MIIT jointly issued the *Rules for the Administration of Internet Audiovisual Program Services*, or Document 56, which went into effect in January 2008. Under Document 56, all online audio and video service providers must be either state-owned or state-controlled. However, at a press conference held on February 3, 2008, the SAPPRFT and the MIIT clarified that online audio-visual service providers that had been lawfully conducting the business prior to the issuance of Document 56 may re-register and continue to operate without becoming state-owned or controlled, provided that such providers do not engage in any unlawful activities. This exemption will not be granted to service providers set up after the issuance of Document 56. We provide online audio and video services primarily through the 17173.com Website, which was conducting business prior to the issuance of Document 56.

Advertisings Services

Under the *Administrative Regulations for Advertising Licenses* and the *Implementation Rules for the Administrative Regulations for Advertising*, issued by the State AIC and effective in January, 2005, broadcast stations, television stations, newspapers and magazines, non-corporate entities and other specified entities are required to obtain a license that is specifically for their advertising services. Other enterprises are only required to include advertising services within their overall business licenses. Both of Guanyou Gamespace, which is the operator of our online advertisement business, and Shanghai Jingmao, which primarily engages in the cinema advertising business, have business licenses that include advertising services. The *Advertising Law of the People's Republic of China*, or the New Advertising Law, issued by the Standing Committee of the National People's Congress and effective on September 1, 2015, which was a major overhaul of an advertising law issued in 1994, increased the potential legal liability of providers of advertising services, and includes provisions intended to strengthen identification of false advertising and the power of regulatory authorities. The New Advertising Law provides that advertisements posted or published through the Internet may not affect users' normal usage of a network, and advertisements published in the form of pop-up windows on the Internet must display the "close" sign prominently and ensure one-key closing of the pop-up windows.

Employment Contracts

On June 29, 2007, the National People's Congress promulgated the *Employment Contract Law of PRC*, or ECL, which became effective as of January 1, 2008, and was amended on December 28, 2012. The ECL requires employers to provide written contracts to their employees, restricts the use of temporary workers and aims to give employees long-term job security.

Pursuant to the ECL, employment contracts lawfully concluded prior to the implementation of the ECL and continuing as of the date of its implementation shall continue to be performed. Where an employment relationship was established prior to the implementation of the ECL but no written employment contract was concluded, a contract must be concluded within one month after its implementation.

Our standard employment contract complies with the requirements of the ECL and its implementing regulations.

Regulation of Foreign Currency Exchange and Dividend Distribution

Foreign Currency Exchange. The principal regulations governing foreign currency exchange in China are the Foreign Exchange Administration Regulations, as amended in August 2008. Under the *Foreign Exchange Administration Regulations*, the RMB is freely convertible for current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions, but not for capital account items, such as direct investments, loans, repatriation of investments and investments in securities outside of China, unless the prior approval of the SAFE is obtained and prior registration with the SAFE is made.

Dividends paid by a subsidiary to its overseas shareholder are deemed income of the shareholder and are taxable in China. Pursuant to the *Administration Rules of the Settlement, Sale and Payment of Foreign Exchange* (1996), foreign-invested enterprises in China may purchase or remit foreign currency, subject to a cap approved by the SAFE, for settlement of current account transactions without the approval of the SAFE. Foreign currency transactions under the capital account are still subject to limitations and require approvals from, or registration with, the SAFE and other relevant PRC governmental authorities.

Circular 37. In July 2014, SAFE promulgated the *Circular on Issues Concerning Foreign Exchange Administration Over the Overseas Investment and Financing and Roundtrip Investment by Domestic Residents Via Special Purpose Vehicles*, or (together with its appendices) Circular 37, which replaced *Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Corporate Financing and Roundtrip Investment through Offshore Special Purpose Vehicles*, or Circular 75, which had been promulgated by SAFE in October 2005. Circular 37 requires PRC residents to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, referred to in Circular 37 as a "special purpose vehicle," for the purpose of holding domestic or offshore assets or interests. Circular 37 further requires amendment to a PRC resident's registration in the event of any significant changes with respect to the special purpose vehicle, such as an increase or decrease in the capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital to its PRC subsidiary. Moreover, failure to comply with these SAFE registration requirements could result in liability under PRC law for evasion of foreign exchange controls. PRC residents who control our company from time to time are required to register with the SAFE in connection with their investments in us. See "Risk Factors—Regulations relating to offshore investment activities by PRC residents may limit our ability to acquire PRC companies and could adversely affect our business."

Share Option Rules. On December 25, 2006, the PBOC issued the *Administration Measures on Individual Foreign Exchange Control*, and its Implementation Rules was issued by SAFE on January 5, 2007, both of which became effective on February 1, 2007. Under these regulations, all foreign exchange transactions involving in an employee share incentive plan, share option plan or similar plan participated in by onshore individuals may be conducted only with the approval from the SAFE or its authorized branch. Under the Offshore Share Incentives Rules, PRC citizens who are granted share options, restricted share units or restricted shares by an overseas publicly listed company are required to register with the SAFE or its authorized branch and to comply with a series of other requirements. On February 21, 2012, the SAFE approved our application to designate our PRC subsidiary AmazGame to handle registrations and other procedures required by the Offshore Share Incentives Rules. If we and our PRC employees who hold options, restricted share units or restricted shares fail to comply with these registration or other procedural requirements, we and such employees may be subject to fines and other legal sanctions.

Under Circular 37, if a non-listed special purpose vehicle uses its own equity or share option to grant equity incentive awards to directors, supervisors, members of senior management or employees directly employed by a domestic enterprise that is directly or indirectly controlled by such special purpose vehicle, or with which such employee has established an employment relationship, any of such directors, supervisors, members of senior management or employees who are PRC residents should, prior to exercising their rights, file an application with the SAFE for the foreign exchange registration for such special purpose vehicle. If PRC residents fail to make such registration before exercising their rights, the special purpose vehicle could be subject to fines and legal penalties, and the SAFE could restrict cross-border investment and foreign exchange activities of the special purpose vehicle or related companies, including limiting other special purpose vehicle's or related companies' ability to distribute dividends to, or obtain loans denominated in foreign currencies from, offshore companies, or preventing the special purpose vehicle or related companies from paying dividends. As a result, our business operations and our ability to make distributions to our shareholders could be adversely affected.

Distribution of Dividends. The principal regulations governing distribution of dividends of foreign holding companies include the *Foreign Investment Enterprise Law* (1986), as amended in October 2000, and the *Administrative Rules under the Foreign Investment Enterprise Law* (1990), as amended in April 2001 and February 2014.

Under these regulations, foreign investment enterprises in China may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, foreign investment enterprises in China are required to allocate at least 10% of their respective accumulated profits each year, if any, to fund certain reserve funds unless these reserves have reached 50% of the registered capital of the enterprises. These reserves are not distributable as cash dividends. Under the CIT Law, effective January 1, 2008, the maximum tax rate for the withholding tax imposed on dividend payments from PRC foreign invested companies to their overseas investors that are not regarded as "resident" for tax purposes is 10%. The rate is reduced to 5% under tax treaties and arrangements between the PRC and certain other countries and administrative regions.

M&A Regulations and Overseas Listings

On August 8, 2006, six PRC regulatory agencies, consisting of the MOC, the State Assets Supervision and Administration Commission, the SAT, the SAIC, the CSRC, and the SAFE, jointly issued the M&A Rules, which became effective on September 8, 2006 and were amended on June 22, 2009. The M&A Rules, among other things, includes provisions that purport to require that an offshore special purpose vehicle formed for purposes of overseas listing of equity interests in PRC companies and controlled directly or indirectly by PRC companies or individuals obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange.

On September 21, 2006, the CSRC published on its official Website procedures regarding its approval of overseas listings by special purpose vehicles. The CSRC approval procedures require the filing of a number of documents with the CSRC. The application of this new PRC regulation remains unclear, with no consensus currently existing among leading PRC law firms regarding the scope of the applicability of the CSRC approval requirement.

The M&A Rules also establish procedures and requirements that could make some acquisitions of Chinese companies by foreign investors more time-consuming and complex, including requirements in some instances that the MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a Chinese domestic enterprise.

In February 2011, the General Office of the State Council promulgated a *Notice on Establishing the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors*, or Circular 6, which established a security review system for mergers and acquisitions of domestic enterprises by foreign investors. Under Circular 6, a security review is required for mergers and acquisitions by foreign investors having “national defense and security” concerns and mergers and acquisitions by which foreign investors may acquire the “de facto control” of domestic enterprises with “national security” concerns. In August 2011, the MOFCOM promulgated the *Rules on Implementation of Security Review System*, or the MOFCOM Security Review Rules, to replace the *Interim Provisions of the Ministry of Commerce on Matters Relating to the Implementation of the Security Review System Mergers and Acquisitions of Domestic Enterprises by Foreign Investors* promulgated by the MOFCOM in March 2011. The MOFCOM Security Review Rules, which came into effect on September 1, 2011, provide that the MOFCOM will look into the substance and actual impact of a transaction and prohibit foreign investors from bypassing the security review requirement by structuring transactions through proxies, trusts, indirect investments, leases, loans, control through contractual arrangements or offshore transactions.

Virtual Currency

On February 15, 2007, the MOC, the PBOC and other relevant government authorities jointly issued the Internet Cafés Notice. Under the Internet Cafés Notice, the PBOC is directed to strengthen the administration of virtual currency in online games to avoid any adverse impact on the economy and financial system. The Internet Cafés Notice limits the total amount of virtual currency that may be issued by online game operators and the amount that may be purchased by individual game players, and includes a clear division between virtual transactions and real transactions carried out by way of electronic commerce. The Internet Cafés Notice also provides that virtual currency may only be used to purchase virtual items.

On June 4, 2009, the MOC and the MOFCOM jointly issued the *Notice on Strengthening the Administration of Online Game Virtual Currency*, or the Virtual Currency Notice, to regulate the trading of online game virtual currencies. The Virtual Currency Notice defines the meaning of virtual currency and places a set of restrictions on the trading and issuance of virtual currency. The Virtual Currency Notice also states that online game operators are not allowed to give out virtual items or virtual currency through lottery-based activities, such as lucky draws, betting or random computer sampling, in exchange for user’s cash or virtual money. The Virtual Currency Notice is mainly targeted at lottery-based activities relating to the “treasure boxes” found in some online games.

On July 20, 2009, the MOC promulgated the *Filing Guidelines on Online Game Virtual Currency Issuing Enterprise and Online Game Virtual Currency Trading Enterprise*, which defines the terms “issuing enterprise” and “trading enterprise” and stipulates that the same enterprise may not be both an issuing enterprise and a trading enterprise.

Import and Export of Software Technology

China imposes controls on the import and export of technology and software products. Under the *Regulations on Administration of Import and Export of Technologies* promulgated by the State Council, the term “technology import and export” is defined to include, among other things, the transfer or licensing of patents and know-how, and the provision of services related to technology. Depending on the nature of the relevant technology, the import and export of technology require either approval by or registration with the relevant PRC governmental authorities. Under the *Software Export Management and Statistics Measures* promulgated in October 2001, if a company is classified as a software enterprise and has a minimum of RMB1 million in registered capital, it may engage in an export business after being registered with the relevant PRC governmental authorities. All contracts which relate to the export of software products, transfer of technology and provision of related services must be filed with the relevant PRC governmental authorities. The *Measures for the Administration of Registration of Technology Import and Export Contracts*, issued by the MOFCOM in February 2009, specify registration requirements related to the import and export of technology.

We have entered into license agreements with third parties outside of China to license our games, which may be deemed to constitute the export of technology under the regulations. As a result, such licenses are required to be registered with applicable PRC governmental authorities. Although there are no explicit penalties set forth in these regulations for lack of such registration, failure to register an agreement where such registration is required may result in restrictions concerning foreign exchange, banking and taxation matters relating to such agreements. We have not registered all of the game license agreements under which we authorize overseas third-party online game operators to operate our online games, and so far we have not encountered any problems with respect to foreign exchange, banking and taxation matters relating to our license agreements, nor have we received any notice from any governmental authority requiring us to complete the registration of our game license agreements.

Organizational Structure

Changyou.com Limited is an indirect subsidiary of Sohu.com Inc. As of the date of this report, Sohu held through subsidiaries approximately 68.7% of the combined total of our outstanding Class A and Class B ordinary shares and controlled approximately 95.6% of the total voting power in us.

As of the date of this annual report, the following are our principal wholly-owned subsidiaries:

- Changyou.com (HK) Limited, or Changyou HK, incorporated in Hong Kong on August 13, 2007 as a direct wholly-owned subsidiary of Changyou. Changyou HK is our intermediate offshore holding company for our operations in China and overseas.
- Beijing AmazGame Age Internet Technology Co., Ltd., or AmazGame, incorporated in the PRC on September 26, 2007 as a WFOE and a direct wholly-owned subsidiary of Changyou HK.
- Shanghai Jingmao Culture Communication Co., Ltd, or Shanghai Jingmao, incorporated in the PRC on April 30, 2009 and acquired by us in January 2011 as a direct wholly-owned subsidiary of Yang Fan Jing He.
- Beijing Changyou Gamespace Software Technology Co., Ltd., or Gamespace, incorporated in the PRC on October 29, 2009 as a WFOE and a direct wholly-owned subsidiary of Changyou HK.
- Beijing Yang Fan Jing He Information Consulting Co., Ltd, or Yang Fan Jing He, incorporated in the PRC on April 22, 2010 as a direct wholly-owned subsidiary of AmazGame. In June 2015 AmazGame transferred to Shenzhen Brilliant Imagination Technologies Co., Ltd, which is an indirect wholly-owned subsidiary of Changyou HK Webgames, 100% of the equity interests in Yang Fan Jing He.
- Beijing Changyou Jingmao Film & Culture Communication Co., Ltd., or Beijing Jingmao, incorporated in the PRC on November 16, 2010 and a direct wholly-owned subsidiary of Yang Fan Jing He.
- Changyou.com Webgames (HK) Limited, or Changyou HK Webgames, incorporated in Hong Kong on September 21, 2011 and a direct wholly-owned subsidiary of Changyou HK.
- 7Road.com Limited, or 7Road, incorporated in the Cayman Islands on June 15, 2011 and a direct wholly-owned subsidiary of Changyou HK Webgames.
- 7Road.com HK Limited, or 7Road HK, incorporated in Hong Kong in July 2011 as a direct wholly-owned subsidiary of 7Road.
- Shenzhen Brilliant Imagination Technologies Co., Ltd., or Brilliant Imagination, incorporated in the PRC on April 18, 2014, as an indirect wholly-owned subsidiary of Changyou HK Webgames.
- Glory Loop Limited, or Glory Loop, incorporated in British Virgin Islands on June 23, 2014 as a direct wholly-owned subsidiary of Changyou HK.

As of the date of this annual report, we also have the following principal majority-owned subsidiaries:

- MoboTap Inc., or MoboTap, a Cayman Islands company, 51% of which Glory Loop acquired on July 31, 2014.
- MoboTap Inc. Limited, or MoboTap HK, a Hong Kong company which is a wholly-owned subsidiary of MoboTap.
- Baina Zhiyuan (Beijing) Technology Co., Ltd., or Beijing Baina Technology, a PRC company which is a wholly-owned subsidiary of MoboTap HK.

In order to comply with PRC law restricting foreign ownership in the online game business and platform channel business in China, we conduct the operations of our online game business and our platform channel business in China through our principal VIEs.

The following is a summary of our principal VIEs as of the date of this report:

- Gamease

Gamease was incorporated in 2007. In the second quarter of 2015, we completed the transfer of the equity interests in Gamease held by Tao Wang, our former Chief Executive Officer, and Dewen Chen, our Co-Chief Executive Officer, to Beijing Century High Tech Investment Co., Ltd., or High Century, which is a PRC company and a VIE of Sohu.com Inc. that is held 80% by Charles Zhang, our Chairman of the Board, and 20% Wei Li, an employee of Sohu. As a result of these transfers, High Century holds a 100% interest in Gamease.

Shanghai ICE, which is a wholly-owned subsidiary of Gamease, was acquired by Changyou in 2010. In October 2015, Runa Pi and Rong Qi, who are our employees and who each held a 50% equity interest in Shanghai ICE, transferred all of their equity interests in Shanghai ICE to Gamease. As a result of these transfers, Gamease holds a 100% interest in Shanghai ICE.

- Guanyou Gamespace

Guanyou Gamespace was incorporated in 2010. In July 2015, Tao Wang and Dewen Chen transferred their equity interests in Guanyou Gamespace to Gamease, and in the same month Gamease transferred its equity interests in Guanyou Gamespace to Beijing Changyou Star Digital Technology Co., Ltd., or Changyou Star, which was incorporated in 2015 and is owned 50% by Dewen Chen and 50% by Jie Liu, a Changyou employee. As a result of these transfers, Changyou Star holds a 100% interest in Guanyou Gamespace.

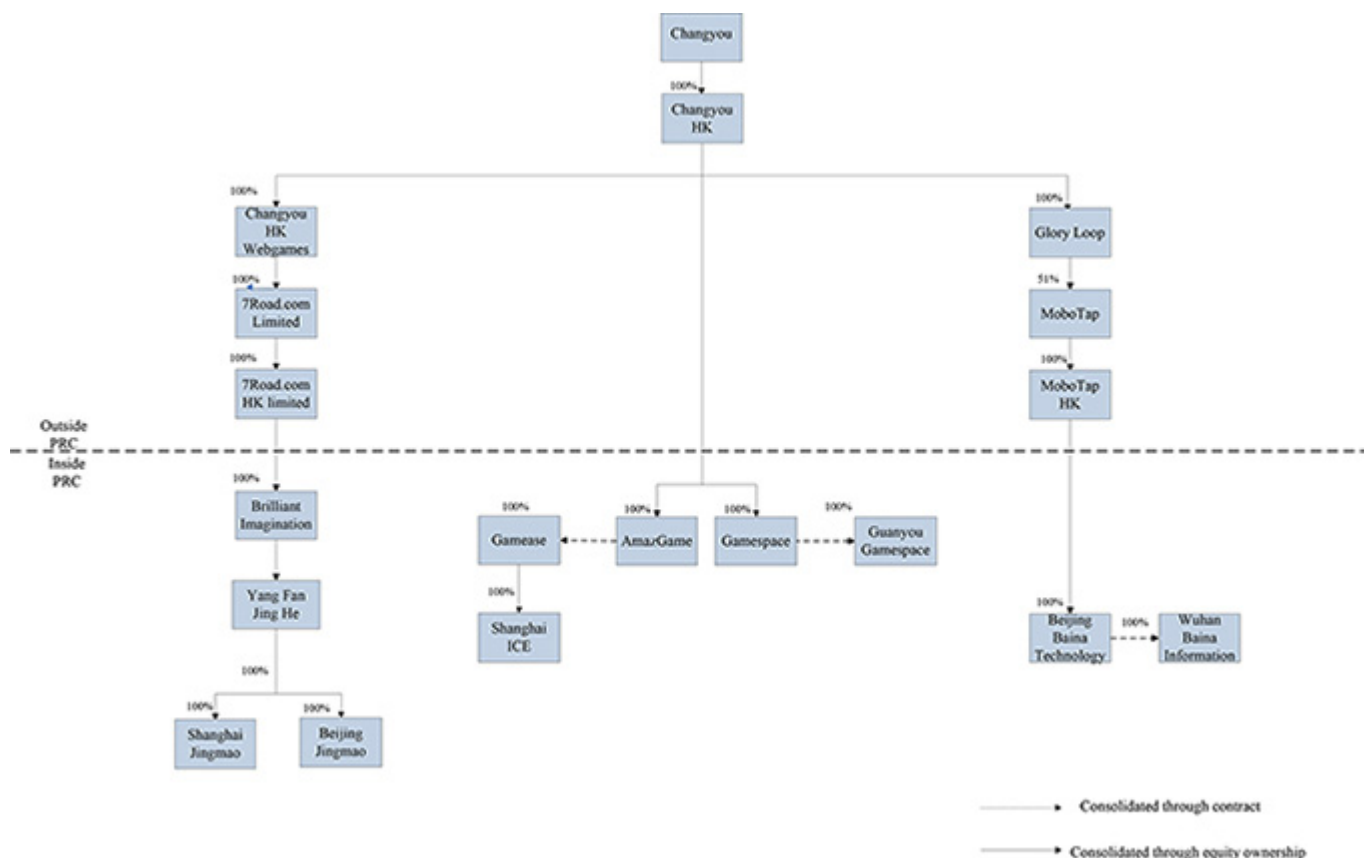
- Wuhan Baina Information

Wuhan Baina Information was incorporated in 2010. In October 2015, Gamease transferred its 60% equity interest in Wuhan Baina Information to Changyou Star. As a result of the transfer, Changyou Star holds a 60% interest in Wuhan Baina Information, and Yongzhi Yang holds a 40% interest in Wuhan Baina Information.

Gamease, Guanyou Gamespace, Shanghai ICE and Wuhan Baina Information hold the key licenses and permits required to operate our business and are controlled by AmazGame, Gamespace and Beijing Baina Technology, respectively, through a series of contractual arrangements. AmazGame, Gamespace and Beijing Baina Technology perform substantially all of our product development and technical support functions, which they provide to Gamease, Guanyou Gamespace and Beijing Baina Technology pursuant to contractual arrangements.

In the opinion of Haiwen & Partners, our PRC counsel, subject to the uncertainties and risks disclosed elsewhere in this annual report under the heading “Risk Factors” the ownership structures of our principal PRC subsidiaries and our principal VIEs comply with all existing laws, rules and regulations of the PRC and each of such companies has the full legal right, power and authority, and has been duly approved, to carry on and engage in the business described in its business license.

The following diagram presents our principal consolidated entities as of the date of this annual report.



ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with the section entitled "Selected Consolidated Financial Data" and our consolidated financial statements and the related notes included elsewhere in this annual report. The discussion in this section contains forward-looking statements that involve risks and uncertainties. As a result of various factors, including those set forth under "Item 3. Key Information—Risk Factors" and elsewhere in this annual report on Form 20-F, our actual future results may be materially different from what we expect.

Overview

Our three primary businesses are the online game business; the platform channel business, which consists of online advertising and software offerings; and the others business. The online game business and the platform channel business are our core businesses. We are a leading online game developer and operator in China as measured by the popularity of TLBB and our mobile game TLBB 3D. We engage in the development, operation and licensing of online games for PCs and mobile devices. This includes PC games, which are interactive online games that are accessed and played simultaneously by hundreds of thousands of game players through personal computers and require that local game client-end access software be installed on the computers used; mobile games, which are played on mobile devices and require an Internet connection; and Web games, which are online games that are played through a Web browser with no local game software installation requirements. For the three months ended December 31, 2015, the online games that we operate had approximately 7.3 million total average monthly active accounts and 2.1 million total active paying accounts. The revenues generated from the online games are classified as online game revenues.

Our platform channel business mainly consists of the operation of the 17173.com Website, one of the leading information portals in China, which provides news, electronic forums, online videos and other information services on online games to game players.

Our other services offerings include the sale, to advertisers, of pre-film cinema advertising slots, which are advertisements shown before the screening of a movie in a cinema theatre.

Our revenues grew from \$737.9 million for the year ended December 31, 2013 to \$755.3 million for the year ended December 31, 2014, and to \$761.6 million for the year ended December 31, 2015. Our net income attributable to Changyou.com Limited decreased from \$268.6 million for the year ended December 31, 2013 to a net loss attributable to Changyou.com Limited of \$3.4 million for the year ended December 31, 2014, and increased to net income attributable to Changyou.com Limited of \$212.8 million for the year ended December 31, 2015.

Factors Affecting Our Results of Operations

Our results of operations are affected by several key factors, including the following:

General economic conditions affecting our business

We have benefited from general conditions typically affecting the online game, online advertising and cinema advertising industries in China, including the overall economic growth, which has resulted in increases in disposable income and discretionary consumer spending and increases in advertising spending; the increasing use of the Internet with the growth of personal computers, mobile phones and broadband penetration; the growing popularity of online games in comparison with other forms of entertainment. We cannot assure you that the Chinese economy will continue to grow, or that if there is growth, such growth will be steady and uniform and that any such growth will lead to growth in our online game business, our online advertising, or our cinema advertising business or that if there is a slowdown, such slowdown will not have a negative effect on those businesses. For example, a slowdown in China's economic growth that occurred between the first quarter of 2010 and the third quarter of 2012 and during 2014 and 2015, caused in part by measures adopted by the Chinese government intended to slow such growth and to temper real estate prices and inflation, the significant instability recently experienced in the worldwide economy, with growth in the United States slowing, and the European Community facing disruptions as a result of crises in the economies of Greece and Spain, among other countries, and other such factors may lead in the future to decreases in the level of disposable income of our game players and negatively affect their spending on playing online games, as well as decreases in the advertising spending of our advertisers, who are typically other leading online game companies in China.

Our ability to maintain popular online games

The popularity of our games drives the growth of our game player base, which is the key component driving the sales and consumption of our virtual items and thus our revenues. To maintain and grow the popularity of our games, we must diligently maintain the quality of the games and continually enhance the games to meet game player preferences. We solicit feedback from our game players and have a dedicated product development team that helps us to identify market trends and user preferences. For TLBB, we typically provide weekly updates and more substantial enhancements in the form of expansion packs every few months. For mobile games such as TLBB 3D, we provide updates and expansion packs on a more frequent basis. If we fail to meet game player demands and maintain their satisfaction from playing our games, game players may leave the game, which would have an adverse effect on our revenues.

The shift away from PC games to new game products and services, and to mobile games in particular

For several years we have relied, and currently rely, on our popular game TLBB for a substantial portion of our revenues. However, the popularity of PC games continues to decline and an increasing number of online game developers are delaying or suspending their plans to develop and launch new PC games, as game players increasingly switch to mobile devices to access online games. As a result, we consider it to be essential to the prospects for the growth of our online game business that we shift considerable resources to the development of mobile games. Mobile games, even if successful, tend to have shorter lifespans than PC games, as the attention of users tend to shift rapidly away from existing mobile games, even those that are initially very successful, to mobile games that are new to the market. For example, our mobile game TLBB 3D was quite popular upon its launch in late 2014, but declined in popularity through 2015. We therefore consider it to be important for us to create a substantial pipeline of mobile games, either through in-house development, or through the licensing of rights from third-party developers. We also must anticipate that a number of our mobile games will not be accepted by the game-player market, even upon initial launch. Further, we generally operate, and expect that we will continue to operate, mobile games primarily through third-party platforms that require that we enter into revenue-sharing arrangements that provide for significant revenue-sharing payments to the operators of the platforms, and that, accordingly, our profit margins from mobile games are, and are likely to be, lower than those that we enjoy from PC games.

Product development and sales and marketing expenses

Developing and marketing a new online game and maintaining its popularity in the market requires a commitment of significant resources, including product development and sales and marketing expenses. We typically incur such expenses several quarters before such games generate any revenues. If such games are not popular and do not generate substantial revenues, we may not be able to recover our product development and sales and marketing expenses. In addition, because our product development strategy is to focus on a limited number of high-quality games, the failure of a small number of these games could adversely impact our growth rate.

Our sales and marketing expenses for platform channel business increased significantly during 2013 and 2014. We believe that it is unlikely that we will be able to recoup those expenses.

The cost of attracting and retaining game development personnel

Competition in the online game industry in China is intense, making it increasingly costly to retain and motivate existing talent and to attract new talent necessary for the growth of our business. Many of our competitors have been aggressively hiring game development personnel. If we are unable to retain our current talent and to attract new talent, we may have difficulty developing new games or enhancements for our existing games or meeting our development schedule, which could have an adverse impact on our business, financial condition and results of operations. See “Risk Factors—Risks Related to Our Business and Our Industry—Our business may not succeed in a highly competitive market.” in Item 3.

Attempted monetization of platform channel business apart from 17173.com Website

During 2013 and 2014 we made significant investments in acquiring assets and marketing, including both domestic and overseas marketing, and spent considerable sums to increase our staffing levels, with the goal of expanding and promoting our platform channels beyond the online advertising business operated by the 17173.com Website, including our acquisitions of RaidCall, MoboTap and several other entities offering Internet software products and services. However, we have had only limited success to date in generating revenues from such products and services.

As a result, it is unlikely that we will be able to recoup the investments we made in assets, marketing and staffing for the platform channel business.

Any restrictions imposed by PRC law on payments from our principal VIEs to our principal subsidiaries pursuant to contractual arrangements and any increase in the amount of PRC taxes applicable to such payments may adversely affect our business.

We conduct a substantial portion of our operations through our principal VIEs Gamease, Guanyou Gamespace, Shanghai ICE and Wuhan Baina Information, which generate nearly all of our revenues. As our principal VIEs are not owned by our subsidiaries, they are not able to make dividend payments to our subsidiaries. Instead, our principal PRC subsidiaries AmazGame, Gamespace, and Beijing Baina Technology entered into a number of contracts with their corresponding VIEs, pursuant to which the VIEs pay the PRC subsidiaries for certain services that the PRC subsidiaries provide to their corresponding VIEs. However, depending on the nature of services provided, certain of these payments are subject to PRC taxes at different rates, which effectively reduce the amount that we receive from the VIEs. We cannot assure you that the PRC government will not impose restrictions on such payments or change the tax rates applicable to such payments. Any such restrictions on such payments or increases in the applicable tax rates may adversely affect our ability to receive payments from the VIEs or the amount of such payments.

Government regulation imposed on online game industry

The Chinese government is formulating new regulations to further strengthen supervision of the online game industry. These regulations may increase our compliance costs, delay the release of our new games and new expansion packs for existing games, and restrict the access of certain groups of players, such as minors, to our games, which in turn may significantly affect our operating results. See “Risk Factors—Risks Related to Our Business and Our Industry”

Critical Accounting Policies and Management Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). We have identified below the accounting policies that reflect our more significant estimates and judgments, and those that we believe are the most critical to fully understanding and evaluating our consolidated financial statements.

When reviewing our financial statements, you should consider (i) our selection of critical accounting policies, (ii) the judgment and other uncertainties affecting the application of such policies and (iii) the sensitivity of reported results to changes in conditions and assumptions.

Basis of presentation and consolidation

Our consolidated financial statements have been prepared on a historical cost basis to reflect our financial position and results of operations in accordance with U.S. GAAP and on a going concern basis. Our consolidated financial statements include the financial statements of Changyou.com Limited and its controlled operating entities, including subsidiaries and VIEs. All inter-company balances and transactions within the Changyou group have been eliminated on consolidation.

We have adopted the guidance of accounting for VIEs, which requires VIEs to be consolidated by the primary beneficiary of the entity. Our management made evaluations of the relationships between us and our VIEs and the economic benefit flow of contractual arrangements with the VIEs. In connection with such evaluation, our management also took into account the fact that, as a result of such contractual arrangements, we control the shareholders’ voting interests in the VIEs. As a result of such evaluation, management concluded that Changyou.com Limited, through its indirect PRC subsidiaries, is the primary beneficiary of its VIEs. As a result, we consolidate all of our VIEs in our consolidated financial statements.

Use of estimates

The preparation of our financial statements requires our management to make estimates and judgments that affect the reported amounts of assets, liabilities, mezzanine equity, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Fair value measurement

U.S. GAAP establishes a three-tier hierarchy to prioritize the inputs used in the valuation methodologies in measuring the fair value of financial instruments. This hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three-tier fair value hierarchy is:

Level 1—observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2—other inputs that are directly or indirectly observable in the marketplace.

Level 3—unobservable inputs which are supported by little or no market activity.

Our financial instruments include cash equivalents, restricted time deposits, accounts receivable, short-term investments, prepaid and other current assets, investment in debt securities and other non-current assets, short-term and long-term accounts payable, receipts in advance and deferred revenue, accrued liabilities to suppliers, short-term and long-term bank loans and other short-term liabilities.

Cash and cash equivalents

We classify all highly-liquid investments with original maturities of three months or less as cash equivalents. Cash equivalents comprise investments in time deposits that mature within three months, which are stated at cost, and money market funds, which are stated at fair market value.

Restricted time deposits—Loans from offshore banks, secured by time deposits

Loans from offshore branches of lending banks are classified as short-term bank loans or long-term bank loans based on their repayment periods. The rates of interest under the loan agreements with the lending banks were determined based on the prevailing interest rates in the market. The RMB onshore deposits securing the offshore loans are treated as restricted time deposits in our consolidated balance sheets. Restricted time deposits are valued based on the prevailing interest rates in the market.

Accounts receivable, net

The carrying value of accounts receivable is reduced by an allowance that reflects our best estimate of the amounts that will not be collected. We make estimates of the collectability of accounts receivable. Many factors are considered in estimating the general allowance, including reviewing delinquent accounts receivable, performing aging analyses and customer credit analyses, and analyzing historical bad debt records and current economic trends. Additional allowance for specific doubtful accounts might be made if our customers are unable to make payments due to their deteriorating financial condition.

Short-term investments

In accordance with ASC 825, for investments in financial instruments with a variable interest rate indexed to the performance of underlying assets, we elected the fair value method at the date of initial recognition and carried these investments subsequently at fair value. Changes in the fair value are reflected in our consolidated statements of comprehensive income. To estimate fair value, we refer to the quoted rate of return provided by banks at the end of each period using the discounted cash flow method. Since these investments' maturity dates are within one year, they are classified as short-term investments.

Fixed assets and depreciation

Fixed assets, mainly comprising office buildings, leasehold improvements, building improvements, office furniture, vehicles, and computer equipment (including servers) are stated at cost less accumulated depreciation and impairment. Fixed assets are depreciated at rates sufficient to write off their costs less impairment, if any, over the estimated useful lives of the assets on a straight-line basis, with no residual value. The estimated useful lives are as follows:

	<u>Estimated useful life</u>
Office building	36-47 years
Leasehold improvements	Lesser of the term of the lease or the estimated useful lives of the assets
Building improvements	10 years
Office furniture	5 years
Vehicles	4-10 years
Computer equipment (including servers)	4 years

Intangible assets

Intangible assets mainly comprise operating rights for licensed games, computer software, developed technologies, trademarks and domain names, and cinema advertising slot rights. Intangible assets are recorded at cost less accumulated amortization with no residual value. Amortization is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are as follows:

	<u>Estimated useful life</u>
Operating rights for licensed games	Contract terms
Computer software	1-5 years
Developed technologies	3-5 years
Trademarks and domain names	5-30 years
Cinema advertising slot rights	Contract terms

Long-term investments

Equity investments

Investments in entities over which we do not have significant influence are recorded as equity investments and are accounted for by the cost method. Investments in entities over which we have significant influence but do not control are also recorded as equity investments and are accounted for by the equity method. Under the equity method, our share of the post-acquisition profits or losses of the equity investment is recognized in our consolidated statements of comprehensive income; and our share of post-acquisition movements in equity is recognized in equity in our consolidated balance sheets. Unrealized gains on transactions between us and an entity in which we have recorded an equity investment are eliminated to the extent of our interest in the entity. To the extent of our interest in the investment, unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. When our share of losses in an entity in which we have recorded an equity investment equals or exceeds our interest in the entity, we do not recognize further losses, unless we have incurred obligations or made payments on behalf of the equity investee.

Investments in debt securities

Investments in securities that have readily determinable fair values not classified as trading securities or as held-to-maturity securities are classified as available-for-sale securities and are included in long-term investments. Available-for-sale securities are reported at fair value, with unrealized gains or losses recorded in other comprehensive income or losses in the consolidated balance sheets. Realized gains or losses are included in the consolidated statements of comprehensive income during the period in which the gain or loss is realized. An impairment loss on the available-for-sale securities is recognized in our consolidated statements of comprehensive income when the decline in value is determined to be other-than-temporary.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the identifiable assets and liabilities acquired as a result of our acquisitions of interests in our subsidiaries and VIEs.

We test goodwill for impairment at the reporting unit level on an annual basis as of October 1, and between annual tests when an event occurs or circumstances change that could indicate that the asset might be impaired. Commencing in September 2011, in accordance with the FASB revised guidance on "Testing of Goodwill for Impairment," a company has the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. For those reporting units where it was determined that it was more likely than not that their fair values were less than the units' carrying amounts, we performed the first step of a two-step quantitative goodwill impairment test. After performing the assessment, if the carrying amounts of the reporting units were higher than their fair values, we performed the second step of the two-step quantitative goodwill impairment test.

If the company decides, as a result of its qualitative assessment, that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, a quantitative impairment test is mandatory. Otherwise, no further testing is required. The quantitative impairment test consists of a comparison of the fair value of goodwill with its carrying value. Application of a goodwill impairment test requires significant management judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value of each reporting unit. The judgment in estimating the fair value of reporting units includes estimating future cash flows, determining appropriate discount rates and making other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit.

Impairment of long-lived assets and intangible assets

The carrying amounts of long-lived assets and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is evaluated by a comparison of the carrying amount of assets to future undiscounted net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amounts of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell. We test impairment of long-lived assets and intangible assets at the reporting unit level when impairment indicator appeared and recognizes impairment in the event that the carrying value exceeds the fair value of each reporting unit.

Receipts in advance and deferred revenues

For our operation of PC games, the proceeds received from sales of prepaid game cards are initially recorded as receipts in advance. For the online advertising and cinema advertising services, cash payments, which are received in advance of the delivery of services pursuant to applicable advertising contracts, are recorded as receipts in advance.

For self-operated games, deferred revenues were recognized when the game points are sold through our online payment platform or when prepaid game cards are charged by the players to their respective game accounts. The deferred revenues are amortized when virtual items are consumed. For our licensed out games, deferred revenues represent the unamortized balance of license fees paid by third-party operators, and the deferred revenues are amortized on a straight line basis through the service period.

Contingent consideration

The acquisition of Doyo includes a contingent consideration arrangement that required additional consideration to be paid by us based on the financial performance of Doyo for the fiscal years 2013 through 2015. The fair value of the contingent consideration was recognized on the acquisition date using the income approach/ discounted cash flow method with a scenario analysis applied. There were no indemnification assets involved.

Mezzanine equity

Mezzanine equity consists of non-controlling interest in 7Road and a put option pursuant to which the non-controlling shareholders had the right to put their equity interests in 7Road to us at a pre-determined price if 7Road achieved specified performance milestones before the expiry of the put option and 7Road did not complete an initial public offering. The put option expired in 2014. Since the occurrence of the put was not solely within our control, we classify the non-controlling interest as mezzanine equity instead of permanent equity in our consolidated financial statements.

In accordance with ASC subtopic 480-10, we calculated, on an accumulative basis from the acquisition date, (i) the amount of accretion that would increase the balance of non-controlling interest to its estimated redemption value over the period from the date of the 7Road acquisition to the earliest redemption date of the non-controlling interest and (ii) the amount of net profit attributable to non-controlling shareholders of 7Road based on their ownership percentage. The carrying value of the non-controlling interest as mezzanine equity was adjusted by an accumulative amount equal to the higher of (i) and (ii). On May 1, 2013, we entered into an agreement to acquire all of the ordinary shares of 7Road held by the non-controlling shareholders and all of the equity interests in Shenzhen 7Road held by shareholders other than Gamease. The acquisition closed on June 5, 2013. Under ASC 810-10, changes in a parent's ownership interest while the parent retains control of its subsidiary are accounted for as equity transactions, and do not impact net income or comprehensive income in the consolidated financial statements. Following the closing of the acquisition, \$2.4 million, representing the excess of the amount of the mezzanine-classified non-controlling interest in 7Road over the purchase price as of the closing date, was recorded in our equity accounts. As Gamease held all of the equity interests in Shenzhen 7Road following the closing of the acquisition, no mezzanine equity existed as of December 31, 2013, 2014 and 2015.

Non-controlling interest

Non-controlling interests are recognized to reflect the portion of the equity of majority-owned subsidiaries and VIEs which is not attributable, directly or indirectly, to the controlling shareholder. Currently, the non-controlling interests in our consolidated financial statements consist primarily of non-controlling interests for Raidcall and MoboTap.

Treasury shares

On July 27, 2013, our Board of Directors authorized a share repurchase program of up to \$100 million of the outstanding ADSs of Changyou over a two-year period from July 27, 2013 to July 26, 2015. We accounted for those shares repurchased as treasury shares at cost in accordance with ASC 505-30. The treasury shares acquired are shown separately in shareholders' equity, as we have not yet decided on the ultimate disposition of those shares. If and when we cancel the treasury shares, the difference between the original issuance price and the repurchase price will be debited into additional paid-in capital.

Functional currency and foreign currency translation

Functional currency

An entity's functional currency is the currency of the primary economic environment in which it operates, and normally is the currency of the environment in which the entity primarily generates and expends cash. Our management's judgment is essential to determine our functional currency by assessing various indicators, such as cash flows, sales price and market, expenses, financing and inter-company transactions and arrangements. The functional currency of Changyou.com Limited and our subsidiaries in the United States, the Cayman Islands, the British Virgin Islands and Hong Kong is the U.S. dollar. The functional currencies of our subsidiaries and VIEs in other countries are the national currencies of those countries, rather than the U.S. dollar.

Foreign currency translation

Financial statements of entities with functional currencies other than the U.S. dollar are translated into the U.S. dollar, which is the reporting currency. Assets and liabilities are translated at the current exchange rate in effect at the balance sheet date, and revenues and expenses are translated at the average exchange rates in effect during the reporting period. Shareholders' equity accounts are translated using the historical exchange rates at the date the entry to shareholders' equity was recorded, except for the change in retained earnings during the year, which is translated using the historical exchange rates used to translate each period's income statement. Differences resulting from foreign currency translation to the reporting currency are recorded in accumulated other comprehensive income in the consolidated balance sheets.

Foreign currency transactions denominated in currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are re-measured at the applicable rates of exchange in effect at that date. Gains and losses resulting from foreign currency re-measurement are included in the consolidated statements of comprehensive income.

Revenue recognition

We recognize revenues when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collectability is reasonably assured. The recognition of revenues involves certain management judgments. The amount and timing of our revenues could be materially different for any period if management made different judgments or utilized different estimates.

Online game business

Our online game business offers to game players PC games, mobile games and Web games. All of our games are operated under the item-based revenue model, where the basic game play functions are free of charge and players are charged for purchases of in-game virtual items, including those with a predetermined expiration time and perpetual virtual items. Revenues that we generate from self-operated and licensed out online games are included in online game revenues.

Self-Operated Games

We are the primary obligor of the self-operated games. We host the games on our own servers and are responsible for the sale and marketing of the games as well as the customer services. Accordingly, revenues are recorded gross of revenue-sharing payments to third-party developers and/or mobile application stores, but are net of business tax and discounts to game card distributors where applicable. We obtain revenues from the sale of in-game virtual items. Revenues are recognized over the estimated lives of the virtual items purchased by game players or as the virtual items are consumed. If different assumptions were used in deriving the estimated lives of the virtual items, the timing of the recording of the revenues would be impacted.

PC games

Proceeds from the self-operation of PC games are collected from players and third-party game card distributors through sales of our game points on online payment platform and prepaid game cards. Self-operated PC games are either developed in house or licensed from third-party developers. For licensed PC games, we remit a pre-agreed percentage of the proceeds to the third-party developers, and keep the balance pursuant to revenue-sharing agreements. Such revenue-sharing amounts paid to third-party developers are included in our cost of revenues.

Mobile games

For self-operated mobile games, we sell game points to our game players via third-party mobile application stores. The mobile application stores in turn pay us proceeds after deducting their share of pre-agreed revenue-sharing amounts.

Self-operated mobile games are either developed in house or licensed from or jointly developed with third-party developers. For licensed and jointly developed mobile games, we remit a pre-agreed percentage of the proceeds to the third-party developers, and keep the balance pursuant to revenue-sharing agreements.

Such revenue-sharing amounts paid to mobile application stores and third-party developers are included in our cost of revenues.

Web games

Proceeds from self-operated Web games are collected from our players through the sale of game points.

Licensed Out Games

We also authorize third-parties to operate our online games. The licensed out games include PC games, mobile games and Web games developed in house and mobile games jointly developed with third-party developers. We receive monthly revenue-based royalty payments from all the third-party licensee operators. We receive additional up-front license fees from certain third-party licensee operators who are entitled to an exclusive right to operate our games in specified geographic areas. Since we are obligated to provide post-sale services, the initial license fees are recognized as revenue ratably over the license period, and the monthly revenue-based royalty payments are recognized when relevant services are delivered, provided that collectability is reasonably assured. We view the third-party licensee operators as our customers and recognize revenues on a net basis, as we do not have the primary responsibility for fulfillment and acceptability of the game services. We remit to the third-party developers a pre-agreed percentage of revenues from jointly developed and licensed out mobile games, and recognize revenues on a net basis.

Platform channel business

Our platform channel business mainly consists of the game information portal operated on the 17173.com Website, the Dolphin Browser and RaidCall. Our platform channel business generates online advertising revenues, which are derived primarily from the 17173.com Website; IVAS revenues, which are derived from other products and services that we offer; and a small amount of revenue derived from online games operated by MoboTap.

17173.com Website

Our online advertising revenues are mainly generated from the 17173.com Website. We sign the contract with the advertisers to fix the advertising service to be provided and the service price. Based on the contracts, we provide advertisement placements on the 17173.com Website in different forms, including text, rich media and video advertisements.

To determine the method of recognition of online advertising revenues, prior to entering into contracts, management makes a credit assessment of customers to assess the collectability of amounts due under the contracts. For those contracts for which collectability is determined to be reasonably assured, revenues are recognized ratably over the period during which the advertising services are provided and when all revenue-recognition criteria have been met. For those contracts for which collectability is determined to be not reasonably assured, revenues are recognized only when the cash is received and all other revenue-recognition criteria have been met.

We treat advertising contracts for the 17173.com Website with multiple deliverable elements as separate units of accounting for revenue recognition purposes and recognize revenues on a periodic basis during the contract periods when each deliverable service was provided. Since the contract price is for all the deliverables under one advertising contract, we allocate the contract price among all the deliverables at the inception of the arrangement on the basis of their relative selling prices according to the selling price hierarchy established by ASU No.2009 -13. We first use vendor-specific objective evidence of selling price, if it exists. If vendor-specific objective evidence of selling price does not exist, we use third-party evidence of selling price. If neither vendor-specific objective evidence of selling price nor third-party evidence of selling price exists, we use management's best estimate of the selling price for the deliverables.

Dolphin Browser, RaidCall and wan.com Website

We provide IVAS through our operation of software applications for PCs and mobile devices, such as Dolphin Browser and RaidCall. Prior to March 2015, IVAS revenues also included revenues generated from the wan.com Website. Revenues from IVAS are recognized under the gross method, as we are the principal obligor for provision of the services.

Online game revenues generated from MoboTap

We generate a small amount of online game revenues from our in-house developed or licensed games operated by MoboTap. Such revenues are recognized under the gross method, as we are the principal obligor for provision of the services.

Others business

Revenues generated from the cinema advertising business is classified as others revenues. We provide clients advertising placements in slots that are shown in theatres before the screening of movies. The rights to place advertisements in such advertising slots are granted under contracts we sign with different theatres. When all the recognition criteria are met, revenues from cinema advertising are recognized based on a percentage of the advertising slots actually delivered or on a straight-line basis over the contract period.

Cost of revenues

Cost of online game revenues consists primarily of revenue-sharing payments, salary and benefits expense, bandwidth leasing costs, PRC business tax and value-added tax which primarily arise from the revenues that AmazGame and Gamespace derive from their contractual arrangements with Gamease and Guanyou Gamespace, respectively, amortization of licensing fees, depreciation expenses, and other direct costs.

Cost of online advertising revenues consists primarily of salary and benefits expense, bandwidth leasing costs, depreciation expenses, and advertising design costs.

Cost of IVAS revenues consists primarily of revenue-sharing payments to third-party developers and service providers and bandwidth leasing costs.

Cost of others revenues consists primarily of payments to theatres for pre-film screening advertising slots.

Product development expenses

The product development expenses include the costs incurred for the development of our business prior to the establishment of technological feasibility and maintenance costs incurred after the establishment of technological feasibility. During the fiscal years ended December 31, 2013, 2014 and 2015, we did not capitalize any product development expenses.

Advertising expenses

Advertising expenses, which generally represent the cost of promotions to create or stimulate a positive image of us or a desire to buy our products and services, are expensed as incurred.

Government Grant

A government grant is recognized when the grant is received and the relevant requirements have been complied with. Government grants are generally recorded as other income, and grants for which the government stipulates specified uses are recorded as a reduction in operating expenses and cost of revenues.

Operating leases

Leases for which substantially all of the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received by us from the leasing company are charged to our consolidated statements of comprehensive income on a straight-line basis over the lease periods.

Share-based compensation expense

Share-based compensation expense is for share awards, including ordinary shares, share options, restricted shares and restricted share units, granted by us to employees and directors. Share-based compensation expense is recognized as costs and/or expenses in the financial statements based on the fair values of the related share-based awards on their grant dates.

We had two incentive plans in 2015 for the granting of share-based awards, including share options, restricted shares and restricted share units, to our employees and directors.

For share-based awards, in determining the fair value of ordinary shares, restricted shares and restricted share units granted before the shares underlying the awards were publicly traded, the income approach/discounted cash flow method with a discount for lack of marketability is applied. In determining the fair value of restricted share units granted shortly before our initial public offering, the fair value of the underlying shares was determined based on the offering price in the initial public offering. In determining the fair value of restricted share units granted after our initial public offering, the public market price of the underlying shares on the grant dates is applied. In determining the fair value of share options granted by Sohu to our employees prior to our initial public offering, we applied the Black-Scholes valuation model.

Determining the fair value of the ordinary shares not publicly traded required complex and subjective judgments regarding our projected financial and operating results, our unique business risks, the liquidity of our ordinary shares and our operating history and prospects at the time the grants were made. The assumptions used in share-based compensation expense recognition represent our management's best estimates based on historical experience and consideration to developing expectations about the future. However, these estimates involve inherent uncertainties and the application of management judgment. If factors change or different assumptions were used, the share-based compensation expense could be materially different for any period. Moreover, the estimates of fair value are not intended to predict actual future events or the value that ultimately will be realized by employees who receive equity awards, and subsequent events are not indicative of the reasonableness of the original estimates of fair value made by us for accounting purposes.

Share-based compensation expense for share options, restricted shares and restricted share units granted is recognized on an accelerated basis over the requisite service period. The number of share-based awards for which the service is not expected to be rendered over the requisite period is estimated, and the related compensation expense is not recorded for that number of awards.

Deferred compensation

Deferred compensation consists of arrangements where employees are entitled to payments at designated future dates for current or past services. Deferred compensation expense is accrued over the period of the applicable employee's service at a rate that is estimated to result in there being an amount accrued, as of date when the employee will be entitled to have received the deferred payments in full, equal to the present value of such deferred payments as of the date of the creation of the deferred payment arrangement.

On February 8, 2014, our Board of Directors approved three new employee incentive plans with terms of 10 years, commencing January 1, 2014. Under two of these three plans, we could have distributed cash compensation of up to 10% of our company-wide annual net profits after certain adjustments. The third employee incentive plan was structured to allow eligible employees to receive up to 20% of the annual adjusted net profits of projects that they worked on. In December 2014, our management reassessed the estimated compensation expense related to these three employee incentive plans and we reversed accruals associated with the compensation expense previously recognized for these plans in a total amount of \$32.2 million. Our management also recommended cancelling the three employee incentive plans, and replacing them with a new cash bonus plan commencing in 2015. Our Board of Directors approved the cancellation of the three incentive plans on February 7, 2015.

Income taxes

Current income taxes are provided on the basis of income for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes, in accordance with the regulations of the relevant tax jurisdictions. Deferred income taxes are provided using the liability method. Under this method, deferred income taxes are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws. The deferred tax assets are reduced by a valuation allowance if it is considered based on available evidence more likely than not that some portion, or all, of the deferred tax assets will not be realized. Deferred tax liability is not recognized for undistributed earnings of a PRC subsidiary if the subsidiary has invested or will invest the undistributed earnings indefinitely.

Uncertain tax positions

In order to assess uncertain tax positions, we apply a more likely than not threshold and a two-step approach for the tax position measurement and financial statement recognition. For the two-step approach, the first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon settlement.

Earnings (Losses) per share

Basic earnings (losses) per share are computed using the weighted average number of ordinary shares outstanding during the year. Diluted earnings (losses) per share are computed using the weighted average number of ordinary shares and, if dilutive, potential ordinary shares outstanding during the year. Potential ordinary shares consist of shares issuable upon the exercise of stock options and shares issuable upon the settlement of restricted share units. Potential ordinary shares are accounted for in the computation of diluted earnings (losses) per share using the treasury share method. Potential ordinary shares are not included in the denominator of the diluted earnings (losses) per share calculation when inclusion of such shares would be anti-dilutive, such as in a period in which a net loss is recorded. Earnings (losses) per share are computed on Class A ordinary shares and Class B ordinary shares together, because both classes have the same dividend rights and the same participation rights in our undistributed earnings (losses).

Comprehensive income (loss)

Comprehensive income (loss) is defined as the change in equity of a company during a period from transactions and other events and circumstances excluding transactions resulting from investments from owners and distributions to owners. Accumulated other comprehensive income (loss), as presented on the accompanying consolidated balance sheets, consists of the cumulative foreign currency translation adjustment and unrealized gain (loss) on available-for-sale securities.

Segment reporting

Operating segments are defined as components of an enterprise about which separate financial information is available and is evaluated regularly by the chief operating decision maker (“CODM”), or a decision making group, in deciding how to allocate resources and in assessing performance. Prior to November 2, 2014, our CODM was our former Chief Executive Officer, and beginning November 2, 2014, our CODMs are our Co-Chief Executive Officers.

Our organizational structure is based on a number of factors that the CODMs use to evaluate, view and run our business operations, which include, but are not limited to, customer base, homogeneity of products and technology. Our operating segments are based on our organizational structure and information reviewed by our CODMs to evaluate the operating segment results.

We determined that as of December 31, 2013 the business segments that constituted our primary reportable segments were the Online Game segment, which consisted of PC games and Web games, and the 17173 Business segment, which provided online advertising services and IVAS.

In 2014, we expanded our online game business to include mobile games, and the CODMs determined that the operation of mobile games should be reviewed under the Online Game segment. In addition, we developed and acquired several software applications for PCs and mobile devices intended to strengthen our competitiveness in the Internet sector. In 2014, we launched the wan.com Website which offered to game players Web games of third-party developers. The CODMs determined that the software applications for PCs and mobile devices and the wan.com Website should be reviewed together as one operating segment, identified as the software segment. Due to the similarity of the economic characteristics of the operations of the software applications and the wan.com Website included in the software segment to those of the 17173.com Website, the software segment was aggregated with the existing 17173.com segment under the Platform Channel segment. Cinema advertising is not deemed significant enough to qualify as a separate, reportable segment and therefore is included in “Others.” Accordingly, as of December 31, 2014 the business segments that constituted our primary reportable segments were the Online Game segment, which consisted of PC games, mobile games and Web games, and the Platform Channel segment, which consisted of online advertising services offered on the 17173.com Website and IVAS.

We ceased operating the wan.com Website in March 2015. As a result, IVAS consisted solely of software for PCs and mobile devices. As of December 31, 2015 the business segments that constituted our primary reportable segments were the Online Game segment, which consists of PC games, mobile games and Web games, and the Platform Channel segment, which consists primarily of online advertising services on the 17173.com Website and a relatively small amount of IVAS. Cinema advertising is not deemed significant enough to qualify as a separate, reportable segment and therefore is included in “Others.”

Results of Operations

Our Revenues

Our total revenues for 2015 were \$761.6 million, which included online game revenues of \$636.8 million from online game business, online advertising revenues of \$57.8 million and IVAS revenues of \$24.4 million from platform channel business and others revenue of \$42.6 million.

The following table sets forth our revenues generated from online games, online advertising, IVAS and others, in absolute amounts and as a percentage of total revenues for the periods indicated:

	For the Year Ended December 31,					
	2013		2014		2015	
	Amount	% of Total Revenues	Amount	% of Total Revenues	Amount	% of Total Revenues
	(\$ in thousands except percentages)					
Revenues:						
Online games	669,168	90.7%	652,008	86.3%	636,846	83.6%
Online advertising	49,998	6.8%	58,963	7.8%	57,832	7.6%
IVAS	5,402	0.7%	22,357	3.0%	24,385	3.2%
Others	13,307	1.8%	21,938	2.9%	42,573	5.6%
Total revenues	<u>737,875</u>	<u>100.0%</u>	<u>755,266</u>	<u>100.0%</u>	<u>761,636</u>	<u>100.0%</u>

Online Game Revenues

Online game revenues were \$636.8 million for 2015, compared to \$652.0 million and \$669.2 million, respectively, for 2014 and 2013.

PC games and mobile games

Revenue generated by our PC games was \$387.6 million for 2015, compared to \$485.1 million and \$531.7 million, respectively, for 2014 and 2013, representing 60.9%, 74.4% and 79.5% of our online game revenues for 2015, 2014 and 2013. The dominant PC game operated by us is TLBB. The year-over-year decrease in PC games revenues for 2015 was \$97.5 million, mainly due to the natural decline in revenues of older games, such as TLBB. The year-over-year decrease in PC games revenues for 2014 was \$46.6 million, mainly due to decreased revenues from TLBB, following the strategic decision to reduce the game's difficulty. For 2015, our revenues for TLBB were \$315.6 million, accounting for approximately 49.5% of our online game revenues and approximately 41.4% of our total revenues.

In 2012 we began to develop, and in 2013 we began to generate revenues from, mobile games, which are played on mobile devices and require an Internet connection. Revenues generated from mobile games were \$203.3 million for 2015, compared to \$66.2 million and \$1.7 million, respectively, for 2014 and 2013. The year-over-year increase in mobile games revenues for 2015 was \$137.1 million, mainly due to revenues from our primary mobile game TLBB 3D, which was launched in October, 2014.

The following table sets forth certain operating data for our PC games and mobile games in China for the periods indicated:

Average Monthly Active Accounts ⁽¹⁾ (in millions)	For the Three Months Ended							
	March 31		June 30		September 30		December 31	
	PC games	mobile games	PC games	mobile games	PC games	mobile games	PC games	mobile games
2013	13.4	0.1	12.3	0.1	7.6	1.2	6.7	1.0
2014	6.5	2.6	6.9	1.3	10.7	1.5	6.9	7.0
2015	4.9	4.4	4.4	5.7	4.1	2.4	3.6	3.7

Quarterly Aggregate Active Paying Accounts ⁽²⁾ (in millions)	For the Three Months Ended							
	March 31		June 30		September 30		December 31	
	PC games	mobile games	PC games	mobile games	PC games	mobile games	PC games	mobile games
2013	2.0	0.0	2.0	0.0	1.9	0.0	1.7	0.0
2014	1.5	0.0	1.4	0.1	1.5	0.1	1.3	1.4
2015	1.1	0.9	1.1	1.4	1.3	0.6	1.2	0.9

- (1) Average Monthly Active Accounts for a given period refers to the number of registered accounts that were logged in to these games at least once during the period.
- (2) Quarterly Aggregate Active Paying Accounts for a given period refers to the number of accounts from which game points are utilized at least once during the quarter.

Web games

Our primary Web games prior to our sale of Shenzhen 7Road in August 2015 were Wartune and DDTank. Our revenues generated from Web games were \$45.9 million for 2015, compared to \$100.7 million and \$135.7 million, respectively, for 2014 and 2013. The year-over-year decrease in Web game revenues for 2015 was \$54.8 million, mainly due to a decrease in Web game revenues upon the completion of the sale of the 7Road business during the third quarter of 2015. The year-over-year decrease in Web games revenues for 2014 was \$35.0 million, mainly due to decreased revenues in China from Wartune and DDTank, which had reached a mature phase in their operation.

Online Advertising Revenues

Online advertising revenues, which consist mainly of revenues generated from the 17173.com Website, were \$57.8 million for 2015, compared to \$59.0 million and \$50.0 million, respectively, for 2014 and 2013. The year-over-year decrease in online advertising revenues for 2015 was \$1.2 million. The year-over-year increase in online advertising revenues for 2014 was \$9.0 million, mainly due to an increase in the utilization rate of advertising on the 17173.com Website as a result of improvements made to the advertising sales function.

IVAS Revenues

Our IVAS revenues were \$24.4 million for 2015, compared to \$22.4 million and \$5.4 million, respectively, for 2014 and 2013. The year-over-year increase in IVAS revenues for 2015 was \$2.0 million, mainly due to higher revenues from PC and mobile products offered by our platform channel business. The year-over-year increase in IVAS revenues for 2014 was \$17.0 million, mainly due to the incremental revenues from the Dolphin Browser and Raidcall from their PC and mobile products.

Others Revenues

Others revenues, which consist of revenues from cinema advertising, were \$42.6 million for 2015, compared to \$21.9 million and \$13.3 million, respectively, for 2014 and 2013. The year-over-year increase in others revenues for 2015 was \$20.7 million, mainly due to strong growth in China's movie and cinema industry in general, and improvements made to our advertising sales function. The year-over-year increase for 2014 was \$8.6 million, mainly due to strong growth in China's movie and cinema industry in general.

Cost of Revenues

The following table presents our cost of revenues for online games, online advertising, IVAS and others revenues, in absolute amounts and as a percentage of total revenues for the periods indicated:

	For the Year Ended December 31,					
	2013		2014		2015	
	<u>Amount</u>	<u>% of Total Revenues</u>	<u>Amount</u>	<u>% of Total Revenues</u>	<u>Amount</u>	<u>% of Total Revenues</u>
Cost of Revenue:						
Online game	93,306	12.6%	142,549	18.9%	156,318	20.5%
Online advertising	13,827	1.9%	14,838	2.0%	11,565	1.5%
IVAS	1,786	0.2%	22,985	3.0%	19,647	2.6%
Others	17,518	2.4%	21,490	2.8%	29,231	3.8%
Total cost of revenues	<u>126,437</u>	<u>17.1%</u>	<u>201,862</u>	<u>26.7%</u>	<u>216,761</u>	<u>28.4%</u>

Cost of online game revenues was \$156.3 million for the year ended December 31, 2015, compared to \$142.5 million and \$93.3 million, respectively, for the year ended December 31, 2014 and 2013. The year-over-year increase in cost of online game revenues for 2015 was \$13.8 million. The increase mainly consisted of a \$53.8 million increase in revenue-sharing payments to mobile application stores, a \$19.0 million decrease in salary and benefits expense, a \$6.1 million decrease in PRC business tax and value-added tax, a \$5.8 million decrease in bandwidth leasing costs, a \$3.8 million decrease in depreciation expenses and a \$2.7 million decrease in revenue-sharing payments to third-party developers. The year-over-year increase in cost of online game revenues for 2014 was \$49.2 million. The increase mainly consisted of a \$24.6 million increase in revenue-sharing payments to mobile application stores, a \$7.5 million increase in revenue-sharing payments to third-party developers, a \$9.1 million increase in salary and benefits expense, and a \$1.5 million increase in bandwidth leasing costs.

Cost of online advertising revenues was \$11.6 million for the year ended December 31, 2015, compared to \$14.8 million and \$13.8 million, respectively, for the year ended December 31, 2014 and 2013. The year-over-year decrease in cost of online advertising revenues for 2015 was \$3.3 million. The decrease mainly consisted of a \$1.8 million decrease in salary and benefits expense, a \$0.6 million decrease in advertising design costs and a \$0.3 million decrease in depreciation expenses. The year-over-year increase in cost of online advertising revenues for 2014 was \$1.0 million. The increase was mainly due to increases in bandwidth leasing costs and salary and benefits expense.

Cost of IVAS revenues was \$19.6 million for the year ended December 31, 2015, compared to \$23.0 million and \$1.8 million, respectively, for the year ended December 31, 2014 and 2013. The year-over-year decrease in cost of IVAS revenues for 2015 was \$3.4 million. The decrease mainly consisted of a \$5.0 million decrease in bandwidth leasing costs and a \$0.8 million increase in revenue-sharing payments to third-party developers and service providers. The year-over-year increase in cost of IVAS revenues for 2014 was \$21.2 million. The increase mainly consisted of a \$12.5 million increase in bandwidth leasing costs and a \$5.2 million increase in revenue-sharing payments to third-party developers and service providers.

Cost of others revenues were \$29.2 million for the year ended December 31, 2015, compared to \$21.5 million and \$17.5 million, respectively, for the year ended December 31, 2014 and 2013. The year-over-year increase in cost of others revenues for 2015 was \$7.7 million. The increase was mainly due to an increase in purchases of pre-film screening advertising slots. The year-over-year increase in cost of others revenues for 2014 was \$4.0 million. The increase was mainly due to an increase in purchases of pre-film screening advertising slots.

Gross Profit

As a result of the foregoing, our gross profit was \$544.9 million for the year ended December 31, 2015, compared to \$553.4 million and \$611.4 million, respectively, for the year ended December 31, 2014 and the year ended December 31, 2013. Our gross margin was 71.5%, 73.3% and 82.9%, respectively, for the years ended December 31, 2015, December 31, 2014 and December 31, 2013. The decrease in gross margin was mainly due to a change in the revenue mix as we launched new mobile games and licensed PC games that typically require additional revenue sharing costs.

Operating Expenses

Our operating expenses consist of product development expenses, sales and marketing expenses, general and administrative expenses, and goodwill impairment and impairment of intangibles acquired as part of the acquisition of a business. Share-based compensation expenses are included in product development expenses, sales and marketing expenses, and general and administrative expenses.

The following table sets forth our product development expenses, sales and marketing expenses, general and administrative expenses, and goodwill impairment and impairment of intangibles acquired as part of the acquisition of a business, both in absolute amount and as a percentage of total revenues for the periods indicated:

	For the Year Ended December 31,					
	2013		2014		2015	
	Amount	% of Total Revenues	Amount	% of Total Revenues	Amount	% of Total Revenues
	(\$ in thousands, except percentages)					
Product development	119,909	16.3%	194,113	25.7%	170,605	22.4%
Sales and marketing	128,830	17.5%	241,307	32.0%	92,355	12.1%
General and administrative	57,191	7.8%	107,451	14.2%	80,269	10.5%
Goodwill impairment and impairment of intangibles as part of acquisition of a business	—	—	52,282	6.9%	40,324	5.3%
Total	305,930	41.6%	595,153	78.8%	383,553	50.3%

Product Development Expenses

Our product development expenses consist primarily of salary and benefits expense, including share-based compensation expense, for personnel engaged in the development of our game development platform and our games, and content and license expenses relating to our games. Product development expenses decreased to \$170.6 million for the year ended December 31, 2015 compared to \$194.1 million and \$119.9 million, respectively, for the years ended December 31, 2014 and 2013. The decrease in product development expenses for 2015 was mainly due to a decrease in salary and benefits expense as a result of a reduction in our workforce. The increase in product development expenses for 2014 mainly due to an increase in salary and benefits expense. Product development expenses constituted 22.4%, 25.7% and 16.3%, respectively, of our total revenues for the years ended December 31, 2015, 2014 and 2013.

Sales and Marketing Expenses

Our sales and marketing expenses consist primarily of expenses for advertisement and promotion, and salary and benefits expense, including share-based compensation expense, for our sales and marketing personnel. Sales and marketing expenses decreased to \$92.4 million for the year ended December 31, 2015 compared to \$241.3 million and \$128.8 million, respectively, for the years ended December 31, 2014 and 2013. The decrease in sales and marketing expenses for 2015 was mainly due to a significant reduction in marketing and promotional spending for mobile Internet products. The increase in sales and marketing expenses for 2014 mainly reflected higher advertising costs for promotion of the platform channel business. Sales and marketing expenses constituted 12.1%, 32.0% and 17.5%, respectively, of our total revenues for the years ended December 31, 2015, 2014 and 2013.

General and Administrative Expenses

Our general and administrative expenses consist primarily of salary and benefits expense, including share-based compensation expense, for management, finance and administrative personnel, and professional service fees. General and administrative expenses increased to \$80.3 million for the year ended December 31, 2015 compared to \$107.5 million and \$57.2 million, respectively, for the years ended December 31, 2014 and 2013. The decrease in general and administrative expenses for 2015 was primarily due to a decrease in salary and benefits expense as a result of a reduction in our workforce. The increase in general and administrative expenses for 2014 was primarily due to an increase in head count and related salary and benefit expense. General and administrative expenses constituted 10.5%, 14.2% and 7.8%, respectively, of our total revenues for the years ended December 31, 2015, 2014 and 2013.

Goodwill impairment and impairment of intangible assets acquired as part of acquisition of a business

In 2015, we recognized \$40.3 million of goodwill impairment and impairment of intangible assets acquired as part of the acquisition of a business. The \$40.3 million impairment loss consisted primarily of a \$29.6 million impairment loss for goodwill and an \$8.9 million impairment loss for intangible assets related to the Dolphin Browser, as a result of our managements' assessment that the expected synergies between our other mobile internet products and the Dolphin Browser were not likely to materialize.

In 2014, we recognized \$52.3 million of goodwill impairment and impairment of intangible assets acquired as part of the acquisition of a business. This \$52.3 million impairment loss consisted primarily of a \$33.8 million impairment loss for goodwill and a \$15.3 million impairment loss for intangible assets related to RaidCall, as a result of our management's assessment that the impairment existed based on its conclusion that RaidCall was unable to provide expected synergies with our online games business.

In 2013, there was no goodwill impairment and impairment of intangible assets acquired as part of acquisition of a business.

Share-based Compensation Expense

Share-based compensation expense was recognized in costs and expenses for the years ended December 31, 2015, 2014 and 2013, respectively, as follows (in thousands):

	For the Year Ended December 31,		
	2013	2014	2015
	Amount	Amount	Amount
	(\$ in thousands)		
Cost of revenues	101	152	35
Product development	475	1,069	5,475
Sales and marketing	74	105	1,017
General and administrative	624	2,788	8,497
Total	1,274	4,114	15,024

As of December 31, 2015, unrecognized share-based compensation expense is \$23.6 million.

Operating Profit/(Loss)

As a result of the foregoing, we had an operating profit of \$161.3 million for the year ended December 31, 2015, compared to an operating loss of \$41.7 million and an operating profit of \$305.5 million, respectively, for the years ended December 31, 2014 and December 31, 2013.

Foreign Currency Exchange/(Loss) Gain

For the year ended December 31, 2015, foreign currency exchange gain was \$3.0 million, compared to foreign currency exchange loss of \$0.7 million and foreign currency exchange loss of \$5.9 million, respectively, for the years ended December 31, 2014 and December 31, 2013.

Interest Income

For the year ended December 31, 2015 interest income was \$23.8 million, compared to \$26.1 million and \$28.5 million, respectively, for the years ended December 31, 2014 and December 31, 2013. The decrease was primarily due to a decrease in our average cash balance for the year.

Interest Expense

For the year ended December 31, 2015, interest expense was \$8.3 million, compared to \$6.5 million and \$8.8 million, respectively, for the years ended December 31, 2014 and December 31, 2013. The increase in 2015 was primarily due to an increase in our average balance of the bank loans. The decrease in 2014 was primarily due to a decrease in our average balance of the bank loans.

Other Income/(Expenses)

For the year ended December 31, 2015, other income/(expense) represents other income of \$65.0 million, compared to other income of \$4.1 million and other expense of \$3.6 million, respectively, for the years ended December 31, 2014 and December 31, 2013. The year-over-year increase in other income for 2015 was mainly due to our disposition of Shenzhen 7Road.

Income Tax Expense

Income tax expense was \$54.1 million for the year ended December 31, 2015, compared to \$2.5 million and \$36.4 million, respectively, for the years ended December 31, 2014 and December 31, 2013. The increase in 2015 was mainly due to an increase in our income before income tax expense. The decrease in 2014 was mainly due to a decrease in our income before income tax expense.

Net Income Attributable to Mezzanine Classified Non-controlling Interest

In accordance with ASC subtopic 480-10, we calculated, on an accumulative basis from the acquisition date, (i) the amount of accretion that would increase the balance of non-controlling interest to its estimated redemption value over the period from the date of the 7Road acquisition to the earliest redemption date of the non-controlling interest and (ii) the amount of net profit attributable to non-controlling shareholders of 7Road based on their ownership percentage. The carrying value of the non-controlling interest as mezzanine equity was adjusted by an accumulative amount equal to the higher of (i) and (ii). On June 5, 2013 Changyou acquired of the non-controlling interest in 7Road. Accordingly, no accretion charge has been recorded since the acquisition. The accretion charge was \$nil, \$nil and \$17.8 million, respectively, for the years ended December 31, 2015, December 31, 2014 and December 31, 2013.

Net Loss Attributable to Non-controlling Interests

Net loss attributable to non-controlling interests was \$22.2 million for the year ended December 31, 2015. Non-controlling interests consist of non-controlling interests in RaidCall and MoboTap.

Net Income/(Loss) Attributable to Changyou.com Limited

As a result of the foregoing, we had net income attributable to Changyou.com Limited of \$212.8 million for the year ended December 31, 2015, compared to a net loss of \$3.4 million and net income of \$268.6 million, respectively, for the years ended December 31, 2014 and December 31, 2013.

Liquidity and Capital Resources

Significant Cash-Related Activities

We have financed our operations primarily through cash flows from operations.

In 2007, Sohu transferred to us all of the assets and operations relating to its PC games business unit, and we assumed all the liabilities associated with Sohu's PC games business unit.

In April 2009, we received net proceeds of \$54.7 million from our initial public offering.

On April 1, 2009, we declared a cash dividend of \$96.8 million payable solely to Sohu.com (Game) Limited, which is an indirect wholly-owned subsidiary of Sohu.com Inc. In the fourth quarter of 2009, after receiving approval from the PRC government, we paid the dividend to Sohu.com (Game) Limited. In connection with such dividend we also paid PRC withholding tax of \$5.0 million.

On August 6, 2012 our Board of Directors declared, and on September 21, 2012 we paid to our shareholders, a special one-time cash dividend in the total amount of \$200.9 million, of which \$136.3 million was paid to Sohu.com (Game) Limited.

During 2012 and 2013, we drew down loans from offshore banks in an aggregate amount of \$410.3 million, which were secured by an equivalent or greater amount of RMB deposits in onshore branches of those banks, totaling \$424.7 million. As of December 31, 2013, \$307.0 million of the loan amount carried a floating rate of interest based on the London Inter-Bank Offered Rate and \$103.3 million carried a fixed rate of interest.

During 2014, we drew down loans from offshore banks in an aggregate amount of \$370.0 million. The loans were secured by an equivalent or greater amount of RMB deposits in onshore branches of those banks, totaling \$417.4 million. As of December 31, 2014, the entire loan amount carried a floating rate of interest based on the London Inter-Bank Offered Rate.

During 2015, we drew down loans from offshore banks in an aggregate amount of \$344.5 million. The loans were secured by RMB deposits totaling RMB2.3 billion (or \$354.7 million) in onshore branches of those banks. As of December 31, 2015, the entire loan amount carried a floating rate of interest based on the London Inter-Bank Offered Rate. We plan to repay the loans in full during 2016.

Liquidity Sources and Balances

We had cash and cash equivalents and short-term investments of approximately \$744.4 million, \$412.4 million and \$551.3 million, respectively, as of December 31, 2015, 2014 and 2013. Cash equivalents primarily consist of time deposits with maturities of three months or less and money market funds, which are stated at fair market value.

We believe our current liquidity and capital resources are sufficient to meet anticipated working capital needs (net cash used in operating activities), commitments and capital expenditures over the next twelve months.

Cash-Generating Ability

The following table sets forth a summary of our cash flows for the periods indicated:

	For the Year Ended December 31,		
	2013	2014	2015
	(\$ in thousands)		
Net cash provided by operating activities	358,643	50,316	213,344
Net cash used in investing activities	(322,693)	(330,502)	(3,935)
Net cash provided by/(used in) financing activities	130,102	(46,584)	142,894
Effect of exchange rate changes on cash and cash equivalents	15,793	(920)	(3,180)
Net increase/(decrease) in cash and cash equivalents	181,845	(327,690)	349,123
Cash and cash equivalents at beginning of the year	366,639	548,484	220,794
Cash and cash equivalents at end of the year	548,484	220,794	569,917

Operating Activities

Net cash provided by operating activities for the year ended December 31, 2015 was \$213.3 million, which was primarily attributable to net income of \$190.6 million, adjusted by non-cash items consisting of depreciation and amortization of \$41.1 million and goodwill impairment and impairment of intangible assets acquired as part of the acquisition of a business of \$40.3 million, offset by gain on disposal of subsidiaries and other long term investments of \$53.7 million.

Net cash provided by operating activities for the year ended December 31, 2014 was \$50.3 million, which was primarily attributable to our net loss of \$21.2 million, adjusted by non-cash items consisting of depreciation and amortization of \$65.2 million, goodwill impairment and impairment of intangible assets acquired as part of the acquisition of a business of \$52.3 million, and share-based compensation expense of \$4.1 million, offset by a deferred tax credit of \$21.0 million and change in other assets and liabilities of \$31.9 million.

Net cash provided by operating activities for the year ended December 31, 2013 was \$358.6 million, which was primarily attributable to the following factors: (i) net income of \$286.4 million, (ii) depreciation and amortization of \$42.4 million (iii) change in current assets and liabilities of \$21.0 million; and (iv) deferred tax expense of \$5.4 million.

Investing Activities

For the year ended December 31, 2015, net cash used in investing activities was \$3.9 million and was primarily attributable to consideration received from disposal of subsidiaries of \$184.3 million and cash proceeds relating to restricted time deposits of \$40.3 million, offset by matching loans to Sohu and SoEasy, of \$176.6 million, purchases of intangible assets and other assets for \$23.2 million and purchases of fixed assets for an aggregate of \$12.4 million.

For the year ended December 31, 2014, net cash used in investing activities was \$330.5 million, which was primarily attributable to purchases of short-term investments of \$186.5 million, cash paid for business acquisitions (net of cash acquired) of \$86.5 million, purchases of intangible assets and other assets for \$35.1 million, and purchases of fixed assets for \$24.2 million.

For the year ended December 31, 2013, net cash used in investing activities was \$322.7 million, which was primarily attributable to purchase of fixed assets of \$61.6 million, purchase of intangible assets and other assets of \$34.1 million, cash paid in relation to restricted time deposits of \$168.6 million and cash paid for business acquisitions (net of cash acquired) of \$109.7 million, partially offset by a cash inflow consisting of the proceeds from short-term investments of \$51.2 million.

Financing Activities

For the year ended December 31, 2015, net cash provided by financing activities was \$142.9 million, which was primarily due to matching loans from related parties of \$182.9 million, offset by repayments of loans to offshore banks of \$25.5 million and payment of \$14.5 million for repurchases under our share repurchase program.

For the year ended December 31, 2014, net cash used in financing activities was \$46.6 million, which was primarily due to repayments of loans to offshore banks of \$410.2 million, payment of \$3.6 million for repurchases under our share repurchase program and payment of contingent consideration of \$2.8 million, offset by proceeds of loans from offshore banks of \$370.0 million.

For the year ended December 31, 2013, net cash provided by financing activities was \$130.1 million, which was primarily due to our receipt of the proceeds of loans from offshore banks of \$167.0 million, and our payment of contingent consideration of \$19.7 million and payment of \$17.2 million for repurchases under our share repurchase program.

PRC Restrictions Related to Our VIE Structure

To fund any cash requirements from time to time, we may need to rely on dividends, loans or advances made by our principal PRC subsidiaries. We conduct most of our operations in PRC through our principal VIEs Gamease, Guanyou Gamespace, Shanghai ICE and Wuhan Baina Information, which generate most of our operating revenues. As our VIEs are not owned by our subsidiaries, they are not able to make dividend payments to our subsidiaries. Instead, our subsidiaries AmazGame, Gamespace and Beijing Baina Technology have entered into a number of contracts with their corresponding VIEs to provide services to such VIEs in return for cash payments. In order for us to receive any dividends, loans or advances from AmazGame, Gamespace or Beijing Baina Technology, or to distribute any dividends to our shareholders and ADS holders from operating income sources, we will need to rely on these payments made from our principal VIEs to these principal PRC subsidiaries. Depending on the nature of services provided by these PRC subsidiaries to their corresponding VIEs, certain of these payments are subject to PRC taxes, including business taxes and VAT, which effectively reduce the amount that a PRC subsidiary receives from its corresponding VIE. In addition, the PRC government could impose restrictions on such payments or change the tax rates applicable to such payments.

PRC Profit Appropriation, Withholding Tax on Dividends and Regulation of Foreign Currency Exchange

Regulations in the PRC currently permit payment of dividends of a PRC company, only out of accumulated profits as determined in accordance with accounting standards and regulations in China. Our China-based WFOEs are also required to set aside at least 10% of its after-tax profit, determined in accordance with PRC accounting standards, each year to its general reserves until the cumulative amount reaches 50% of its registered capital. These reserves are not distributable as cash dividends, or as loans or advances. Our WFOEs may also allocate a portion of their after-tax profits, as determined by its Board of Directors, to their staff welfare and bonus funds, which may not be distributed to us.

Furthermore, under regulations of the SAFE, the RMB is not convertible into foreign currencies for capital account items, such as loans, repatriation of investments and investments outside of China, unless the prior approval of the SAFE is obtained and prior registration with the SAFE is made.

Any dividends paid by any of our PRC subsidiaries to its direct holding company in Hong Kong will be subject to a withholding tax at a rate of at least 5% and could be as high as 10%, which will reduce the amount of cash available for distribution to us. See “Risk Factors—Risks related to Doing Business in China—There are significant uncertainties under the Corporate Income Tax Law of the PRC, or the CIT Law, regarding our PRC enterprise income tax liabilities, such as tax on dividends paid to us by our PRC subsidiaries. The CIT Law also contains uncertainties regarding possible PRC withholding tax on any dividends we pay to our overseas corporate shareholders and gains realized from the transfer of our shares by our overseas corporate shareholders.” in Item 3.

We do not expect any of such restrictions or taxes to have a material impact on our ability to meet our cash obligations.

We believe that our existing cash is sufficient to sustain our operations for at least the next twelve months.

Capital Expenditures

Our capital expenditures include the purchase of fixed assets, intangible assets and other assets. Our capital expenditures were \$35.6 million, \$59.4 million and \$95.7 million, respectively, for the years ended December 31, 2015, 2014 and 2013.

In August 2010, we entered into an agreement for the purchase and development of an office building of approximately 56,549 square meters in Beijing to serve as our headquarters, for consideration of approximately \$171 million. We occupied the office building in December 2013.

Research and Development, Patents and Licenses, etc.

Our research and development efforts are primarily to keep pace with technological advances in order to make our online game development capabilities and our games competitive in the market. Moreover, we also focus on the improvement of our licensed games. We intend to further expand our internal game development capabilities and license more new games that are attractive to users.

Off-balance Sheet Arrangements

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholder’s equity, or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or that engages in leasing, hedging or product development services with us.

Contractual Obligations

The following table sets forth our contractual obligations as of December 31, 2015 (in thousands):

	Total	Less than 1 Year	1-3 Years	More than 3 Years
Office rental	10,225	4,288	5,080	857
Bandwidth leasing charges	8,998	7,655	1,343	—
Expenditures for rights to titles and characters of games in development	1,623	1,623	—	—
Fees for operating rights of licensed games in development	3,188	3,038	150	—
Expenditures for operating rights of licensed games with technological feasibility	26,168	5,818	20,350	—
Cinema advertisement slot rights	61,885	23,745	37,130	1,010
Others	697	663	34	—
Total	<u>112,784</u>	<u>46,830</u>	<u>64,087</u>	<u>1,867</u>

Other than the obligations set forth above, we did not have any material capital commitments, long-term debt obligations, operating lease obligations, purchase obligations or other long-term liabilities as of December 31, 2015.

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

On May 28, 2014, the FASB and IASB issued their long-awaited converged standard on the recognition of revenue from contracts with customers. The standard is intended to improve the financial reporting of revenue and improve comparability of the top line in financial statements globally. The FASB is amending the FASB Accounting Standards Codification and creating a new Topic 606, Revenue from Contracts with Customers, to supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the Codification. Additionally, the amendments supersede some cost guidance included in Subtopic 605-35, Revenue Recognition — Construction — Type and Production — Type Contracts. For a public business entity, the amendments are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. We are currently evaluating the impact on our consolidated financial statements of adopting this guidance.

In February 2015, the FASB issued Consolidation (Topic 810) — Amendments to the Consolidation Analysis. The amendments in Topic 810 respond to stakeholders' concerns about the current accounting for consolidation of variable interest entities, by changing aspects of the analysis that a reporting entity must perform to determine whether it should consolidate such entities. Under the amendments, all reporting entities are within the scope of Subtopic 810-10, Consolidation — Overall, including limited partnerships and similar legal entities, unless a scope exception applies. The amendments are intended to be an improvement to current U.S. GAAP, as they simplify the codification of FASB Statement No. 167, Amendments to FASB Interpretation No. 46(R), with changes including reducing the number of consolidation models through the elimination of the indefinite deferral of Statement 167 and placing more emphasis on risk of loss when determining a controlling financial interest. The amendments are effective for publicly-traded companies for fiscal years beginning after December 15, 2015, and for interim periods within those fiscal years. Earlier adoption is permitted. We are currently evaluating the impact on our consolidated financial statements of adopting this guidance.

In September 2015, the FASB issued ASU No. 2015-16, Simplifying the Accounting for Measurement-Period Adjustments, which eliminates the requirement for acquirers in a business combination to account for measurement-period adjustments retrospectively. Instead, acquirers must recognize measurement-period adjustments during the period in which they determine the amounts, including the effect on earnings of any amounts that would have been recorded in previous periods if the accounting had been completed at the acquisition date. This update is effective for interim and annual periods beginning after December 15, 2015, with early adoption permitted. The implementation of this update is not expected to have any material impact on our condensed consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes, which simplifies the presentation of deferred income taxes by requiring that deferred tax assets and liabilities be classified as noncurrent on the balance sheet. The amendments in this update are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. All short-term deferred tax assets and liabilities will be reclassified to long-term assets and liabilities upon adoption of this update.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Directors and Senior Management

The following table sets forth information regarding our directors and executive officers as of the date of this annual report. The business address of each of our directors and executive officers is Changyou Building, Raycom Creative Industrial Park, No.65 Bajiao East Road, Shijingshan District, Beijing 100043, People's Republic of China.

<u>Directors and Executive Officers</u>	<u>Age</u>	<u>Position</u>
Charles Zhang	51	Chairman of the Board of Directors
Carol Yu	53	Director and Co-Chief Executive Officer
Dewen Chen	40	Co-Chief Executive Officer
Xiaojian Hong	38	Chief Operating Officer
Jasmine Zhou	41	Chief Financial Officer
Dave De Yang(1)	50	Independent Director
Xiao Chen(1)	52	Independent Director
Charles Chan(1)	62	Independent Director

(1) Member of the audit committee of our Board of Directors.

Dr. Charles Zhang is the Chairman of our Board of Directors. Dr. Zhang is the founder of Sohu and has been Chairman of the Board and CEO of Sohu since August 1996. Prior to founding Sohu, Dr. Zhang worked for Internet Securities Inc., or ISI, and helped establish its China operations. Prior to joining ISI, he worked as Massachusetts Institute of Technology's liaison officer with China. Dr. Zhang has a Ph.D. in Experimental Physics from the Massachusetts Institute of Technology and a Bachelor of science degree

from Tsinghua University in Beijing.

Carol Yu is our Co-Chief Executive Officer and was appointed by our Board as one of our directors on February 7, 2015 to fill the vacancy created by the resignation of Mr. Tao Wang as a director effective January 15, 2015. Ms. Yu is President and Chief Financial Officer of our ultimate parent Sohu.com Inc. Ms. Yu joined Sohu.com Inc. in March 2004 as its Chief Financial Officer. From March 1995 until November 2000, Ms. Carol Yu served as Senior Vice-President Investment Banking of Donaldson Lufkin & Jenrette Securities Corporation in Hong Kong. Ms. Carol Yu also worked with Arthur Andersen Hong Kong and Beijing for ten years and was a partner of the Audit Division, holding the position of General Manager of Arthur Andersen-Hua Qiang, the joint venture accounting firm formed between Arthur Andersen and the Ministry of Finance in China.

Dewen Chen is our Co-Chief Executive Officer and was one of the principal founders of our online game business. Mr. Chen joined Sohu in 2005 as a business manager, responsible for building our sales team for games products and starting May 2006, Mr. Chen was in charge of the overall marketing, promotion, sales and channel distribution of Sohu's games products. Prior to our carve out from Sohu, Mr. Chen was the Director of Marketing & Operations of the client-end installed MMORPG business of Sohu. From April 2000 to April 2005, Mr. Chen worked at Shanghai Hua Teng Software System Co. Ltd. as a pre-sale technology consultant and sale manager of its business with banks. Prior to that, Mr. Chen had worked with Fujian Shi Da Computer Group as a software engineer, project manager and later the Director of the Technology Department at its Shanghai branch office. Mr. Chen received a bachelor's degree in Computer Engineering from Xi'an Jiaotong University.

Xiaojian Hong is our Chief Operating Officer and was one of the principal founders of our MMORPG business. Mr. Hong has significant experience in the security, efficiency and stability of online games software and operations. Prior to our carve-out from Sohu, Mr. Hong was a Senior Manager of Sohu and played a key role in building Sohu's MMORPG software development division and was responsible for strategic planning for technology framework design and module development for our MMORPG business. From 2004 to 2005, Mr. Hong worked at Sina and was a research and development manager of its iGAME project. From 2001 to 2004, Mr. Hong was the Manager of Research and Development of Beijing Tian Ren Interactive Software Technologies Co. Ltd., responsible for in-house digital games design and development and introduction, distribution and localization of popular overseas games products. From 1999 to 2001, Mr. Hong was a project manager of Object Software (Beijing) Limited. Mr. Hong received a bachelor's degree in Engineering from Beijing Technology University.

Jasmine Zhou was appointed as our Chief Financial Officer on February 7, 2015. Ms. Zhou has been with Sohu since August 2003 and has extensive experience in capital markets and participated in all mergers, acquisitions and other capital related transactions of Sohu, including our carve-out from Sohu and our initial public offering in 2009 and Tencent's strategic investment in and business collaboration with Sohu's subsidiary Sogou Inc. Ms. Zhou received her bachelor's degree in law from Renmin University of China, an LL.M. degree from the University of Sydney, and a Dual Executive MBA degree from Tsinghua University and INSEAD.

Dave De Yang has served as an independent director and a member of our audit committee since April 2009. Mr. Yang has been serving a role of CFO for Reckitt Benckiser North Asia region including China, Hong Kong, Taiwan, Japan and Korea since September 2012. Prior to this role, Mr. Yang had worked for McDonald's Corporation as a senior financial director, including an international assignment as the Corporate Controller of McDonald's China for three and half years. Prior to such role, he served as acting controller of McDonald's India and Indonesia and as a senior director of McDonald's Corporation in Asia Pacific, Middle East and Africa division where he oversaw the development and supervision of financial strategy and policy. Prior to joining McDonald's Corporation, Mr. Yang worked in the U.S. business unit of Ernst & Young LLP for seven years in various positions, including as a group manager. During Mr. Yang's tenure at Ernst & Young LLP, he focused on business risk management consultation, corporate M&A, restructuring of corporate internal management processes, internal audits, risk assessment, control system designs, and auditing of corporate financial statements, primarily for Fortune 500 companies. Mr. Yang has a master of business administration degree from the City University of New York, a master's degree in Management and Engineering from the Graduate School of the Chinese Academy of Sciences in Beijing, and a bachelor's degree in Physics from the University of Science and Technology of China. Mr. Yang is a member of the U.S. Institute of Certified Internal Auditors, the Institute of Certified Public Accountants and the Institute of Certified Management Accountants.

Dr. Xiao Chen has served as an independent director and a member of our audit committee since August 2012. Dr. Chen has been an accounting professor at the School of Economics and Management at Tsinghua University since 1997. For the past 18 years, he has been teaching and conducting academic research in the fields of accounting and taxation at Tsinghua University. From August 2007 to July 2014, Dr. Chen served on the board of directors and as the chairman of the audit committee of Noah Education Holdings Ltd, a public company listed on the New York Stock Exchange. Since 2011, he has also served as an independent director of China First Chemical Holdings Ltd, a company listed on Hong Kong Stock Exchange. Prior to 2012, he served as an independent director of five public companies listed on the Shanghai and Shenzhen Stock Exchanges. Since November 2012, he has served as an independent director of Jintin Pharmaceutical Group Ltd., which is listed on the Hong Kong Stock Exchange. Since January 2015, he has served as an independent director of Beijing ChineseAll Digital Publishing Co., Ltd., which is listed on the Shenzhen Stock Exchange. Dr. Chen received a bachelor's degree in engineering from the Wuhan Institute of Chemical Engineering in 1983, a master's degree in management from the University of Science and Technology of China in 1989, and a Ph.D. in economics from Tulane University in 1996.

Mr. Charles Chan has served as an independent director and a member of our audit committee since September 2013. Mr. Chan joined Arthur Andersen Canada in 1977 and was admitted to the AA Worldwide Partnership in 1988. Transferred to Arthur Andersen Hong Kong/China in 1994, Mr. Chan was Head of Audit and Business Advisory Service for Greater China. After Arthur Andersen merged with PricewaterhouseCoopers, or PwC, in 2002, Mr. Chan assumed management positions at PwC, including as a partner and as a member of various committees. Mr. Chan qualified as a Chartered Accountant in Canada in 1980 and as a Certified Public Accountant in Hong Kong in 1995. He has extensive experience in serving major clients listed in various major capital markets through the IPO process, conducting annual audits, providing business advice with respect to M&A activities and various types of capital and debt financing transactions. Mr. Chan has served as a member of professional, government and regulatory committees, including the Hong Kong Stock Exchange Listing Committee, the Selection Committee for the first Legislative Council of the Hong Kong SAR and the Hong Kong Society of Certified Public Accountants. For the Hong Kong Society of Certified Public Accountants, he served as a member of its council, accounting standards committee and auditing standards committee, and was chairman of its China technical committee. Mr. Chan retired from PwC on June 30, 2012.

Compensation of Directors and Executive Officers

For the year ended December 31, 2015, we paid an aggregate of approximately \$6.2 million in cash compensation to our executive officers. We paid an aggregate of \$0.2 million in cash compensation to our non-executive directors other than Dr. Charles Zhang. In 2015, the total compensation expense recorded in our consolidated statements of comprehensive income was \$7.4 million. None of our directors have service contracts that provide for benefits upon termination of employment. For information regarding share-based compensation paid to officers and directors, see Item 6, “Directors, Senior Management and Employees—Compensation of Directors and Executive Officers—Share Incentive Plan”

Employment Agreements with Executive Officers

We have entered into employment agreements with each of our executive officers. Under these agreements with us, we may terminate an executive officer’s employment for cause, at any time, for certain acts of such officer such as willful misconduct or gross negligence, repeated failure to perform substantially his duties, indictment or conviction for or confession of a felony, or any crime involving moral turpitude. In such case, such officer will not be entitled to receive payment of any severance benefits or other amounts by reason of termination other than accrued salary and vacation through the date of termination and such officer’s right to all other benefits will terminate, except as required by any applicable law.

We may also terminate our employment agreements with our executive officers without cause upon thirty-day advance written notice. In such case of termination by us and also in a case where an executive officer voluntarily terminates his employment with us upon thirty-days’ advance written notice for “good reasons,” we are required to provide him with severance benefits equal to an amount up to six (6) months of his monthly base salary, provided that such executive officer complies with the “employee non-competition, non-solicitation, confidential information and work product agreement” during the severance period and execute a release agreement in the form requested by us. “Good reasons” include (i) any significant change in the executive officer’s duties and responsibilities inconsistent in any material and adverse respect with his title and position, and (ii) any material breach of the employment agreement by us, including any reduction in the executive officer’s base salary or our failure to pay to him any portion of his compensation.

In addition, each of our executive officers has entered into an employee non-competition, non-solicitation, confidential information, and work product agreement with us. Under these agreements, each of our executive officers has agreed to be bound by (i) non-competition restrictions during his employment and for one year after the termination of his or her employment or for such longer period during which we pay him or her any severance benefits, and (ii) non-solicitation restrictions during the non-competition period. Each executive officer has agreed to hold, both during and after the termination or expiry of his employment agreement, in strict confidence and not to use, except as required in the performance of his or her duties in connection with the employment, any of our confidential information or trade secrets, any confidential information or trade secrets of our clients or customers, or the confidential or proprietary information of any third party held by us in confidence. The executive officers have also agreed to disclose to us all inventions which they conceive and develop during the employment and to assign all right, title and interest in them to us and agreed not to assert any such rights against us.

Share Incentive Plan

Changyou.com Limited 2008 Share Incentive Plan

In December 2008, our Board of Directors and our shareholders adopted our 2008 Share Incentive Plan to attract, motivate and retain the best available personnel, provide additional incentives to our employees, directors and consultants and promote the success of our business. Our 2008 Share Incentive Plan provides for the issuance of up to 20,000,000 ordinary shares, of which 17,740,000 are Class B ordinary shares and 2,260,000 are Class A ordinary shares.

Plan Administration. Our Board of Directors or our compensation committee administers our share incentive plan and determines the terms and conditions of awards.

Types of Awards. The following is a summary of the awards that may be granted under our 2008 Share Incentive Plan.

- *Options.* Provide for the right to purchase our ordinary shares at a specified exercise price subject to vesting, and generally will become exercisable in four equal annual installments beginning on the first anniversary of the date of grant.
- *Restricted Shares.* A sale of ordinary shares at a price determined by our board or our compensation committee or a grant of our ordinary shares, in each case subject to vesting terms.
- *Restricted Share Units.* Represent the right to receive our ordinary shares, subject to vesting. Restricted share units will generally be settled upon vesting, either by our delivery to the holder of the number of ordinary shares that equals the number of the vested restricted share units or by a cash payment to the holder that equals the then fair market value of the number of underlying ordinary shares. If any of the restricted share units that are settleable in Class B ordinary shares expire without settlement, such underlying Class B ordinary shares will be automatically converted into Class A ordinary shares and such Class A ordinary shares so converted will become available for future issuance under our 2008 Share Incentive Plan.

Award Document. Awards granted under our share incentive plan are evidenced by an award document that sets forth the terms and conditions applicable to each of these awards, as determined by our board or compensation committee in its sole discretion.

Termination of the Share Incentive Plan. Our 2008 Share Incentive Plan will terminate in August 2018. Our Board of Directors may amend, suspend, or terminate our 2008 Share Incentive Plan at any time; provided, however, that our Board of Directors must first seek the approval of the participants of our share incentive plan if such amendment, suspension or termination would adversely affect the rights of participants with respect to any of their existing awards.

Changyou.com Limited 2014 Share Incentive Plan

In June 2014, our board of directors and our shareholders adopted our 2014 Share Incentive Plan. In November 2014, our board of directors approved an increase in the number of Class A ordinary shares reserved for issuance under our 2014 Share Incentive Plan and invoked the “home country practice” exception to the Nasdaq Listing Rules to approve such increase without shareholder approval. See “Risk Factors—Risks Related to Our Class A Ordinary Shares and ADSs —” in Item 3 of this annual report. Our 2014 Share Incentive Plan provides for the issuance of up to 6,000,000 Class A ordinary shares.

Plan Administration. Our compensation committee, or our board of directors in the absence of such a committee, will administer our share incentive plan. The compensation committee or the board of directors, as appropriate, will determine the provisions and terms and conditions of our awards.

Types of Awards. The following briefly describes the principal features of the various awards that may be granted under our 2014 Share Incentive Plan.

- *Options.* Options provide for the right to purchase our Class A ordinary shares at a specified exercise price subject to vesting according to a vesting schedule determined by our board or our compensation committee and provided in an award agreement.
- *Restricted Shares.* A restricted share award is the sale of Class A ordinary shares at a price determined by our board or our compensation committee or a grant of our ordinary shares, in each case subject to vesting terms.
- *Restricted Share Units.* Restricted share units represent the right to receive our Class A ordinary shares, subject to vesting. Restricted share units will be settled upon vesting, subject to the terms of the award agreement, either by our delivery to the holder of the number of Class A ordinary shares that equals the number of the vested restricted share units or by a cash payment to the holder that equals the then fair market value of the number of underlying Class A ordinary shares.

Award Document. Awards granted under our share incentive plan are evidenced by an award document that sets forth the terms and conditions applicable to each of these awards, as determined by our board or compensation committee in its sole discretion.

Termination of the Share Incentive Plan. Without further action by our board of directors, our 2014 Share Incentive Plan will terminate in June 2024. Our board of directors may amend, suspend, or terminate our 2014 Share Incentive Plan at any time; provided, however, that our board of directors must first seek the approval of the participants of our share incentive plan if such amendment, suspension or termination would adversely affect the rights of participants with respect to any of their existing awards.

Conversion Cash Bonus Plan

On July 10, 2012, 7Road adopted the 7Road 2012 Share Incentive Plan, which initially provided for the issuance of up to 5,100,000 Class A ordinary shares of 7Road (amounting to 5.1% of the then outstanding 7Road shares on a fully-diluted basis) to selected directors, officers, employees, consultants and advisors of 7Road. On November 2, 2012, the number of Class A ordinary shares available for issuance under the 7Road 2012 Share Incentive Plan was increased to 15,100,000 shares.

On June 28, 2013, 7Road's Board of Directors approved the cancellation of the 7Road 2012 Share Incentive Plan. 7Road concurrently offered to a total of 42 7Road employees holding an aggregate of 2,223,750 restricted share units which had been granted under the 7Road 2012 Share Incentive Plan the right to exchange their restricted share units for, at each employee's election, in each case subject to the employee's continued employment by 7Road, either (i) Scheme I: the right to a cash payment of up to an aggregate of \$2.90 per restricted share unit exchanged, vesting and payable at the rate of 40%, 30% and 30%, respectively, on the first, second and third anniversaries of July 18, 2012, which is the date when the surrendered restricted share units were granted under the 7Road 2012 Share Incentive Plan, or (ii) Scheme II: the right to receive an annual cash bonus, over a seven-year period commencing July 1, 2013, based on the adjusted annual cumulative net income of 7Road. All restricted share units held by these 42 holders under the 7Road 2012 Share Incentive Plan as of June 28, 2013 were included in this exchange program. In the third quarter of 2013, 7Road granted to an additional 48 7Road employees the right to receive an annual cash bonus under Scheme II with the same terms as described above.

On August 17, 2015, we completed the sale of the 7Road business. As of August 17, 2015, we had recognized an aggregate of \$4.2 million of compensation expense for Scheme I and \$0.7 million of compensation expense for Scheme II. As a result of the sale, there will be no additional compensation expense recognized for 7Road.

Employee Incentive Plans

On February 8, 2014, our Board of Directors approved three new employee incentive plans with terms of 10 years, commencing January 1, 2014. Under two of these three plans, we could have distributed cash compensation of up to 10% of our company-wide annual net profits after certain adjustments. The third employee incentive plan was structured to allow eligible employees to receive up to 20% of the annual adjusted net profits of projects that they worked on. In December 2014, our management reassessed the estimated compensation expense related to these three employee incentive plans and we reversed accruals associated with the compensation expense previously recognized for these plans in a total amount of \$32.2 million. Our management also recommended cancelling the three employee incentive plans, and replacing them with a new cash bonus plan commencing in 2015. Our Board of Directors approved the cancellation of the three incentive plans on February 7, 2015.

Issuance of Restricted Shares and Restricted Share Units to Executive Officers

On January 15, 2009, 8,000,000 Class B restricted shares were issued out of Sohu.com (Game) Limited's equity interest in us to Prominence Investments Ltd., or Prominence, a British Virgin Islands company beneficially owned by Tao Wang, our former Chief Executive Officer. The restricted shares were subject to vesting over a four-year period commencing on February 1, 2008, and were subject to forfeiture to Sohu.com (Game) Limited if the vesting conditions were not met. All of such Class B restricted shares had become vested as of the date of this annual report. Also see "Operating and Financial Review and Prospects—Operating Expenses—Share-based Compensation Expense" in Item 5.

On January 15, 2009, we issued to our then executive officers other than Tao Wang an aggregate of 1,800,000 of our Class B restricted shares under our 2008 Share Incentive Plan. On March 13, 2009, we exchanged these Class B restricted shares for restricted share units (settleable in Class B ordinary shares). The vesting of these restricted share units was contingent upon the completion of an initial public offering by us on an internationally recognized stock exchange, and the restricted share units are otherwise subject to vesting over a four-year period, subject to acceleration under certain circumstances, commencing February 1, 2008. On April 21, 2009, we granted to our then executive officers other than Tao Wang an aggregate of 1,200,000 of our Class A restricted share units under our 2008 Share Incentive Plan. These restricted share units are subject to vesting over a four-year period and will be forfeited to us if the vesting conditions are not met. See "Operating and Financial Review and Prospects—Operating Expenses—Share-based Compensation Expense"

On November 2, 2014, we granted to Dewen Chen, our Co-Chief Executive Officer and Xiaojian Hong, our Chief Operating Officer, an aggregate of 1,200,000 of our Class A restricted share units under our 2014 Share incentive Plan. These restricted share units are subject to vesting over a four-year period and will be forfeited to us if the vesting conditions are not met. On February 16, 2015, our Board of Directors approved the conversion of 2,400,000 Class A restricted share units into options for the purchase of Class A ordinary shares at an exercise price of \$0.01. See "Operating and Financial Review and Prospects—Operating Expenses—Share-based Compensation Expense"

As of December 31, 2015, we had granted the following restricted shares and restricted share units to our directors and executive officers pursuant to our 2008 Share Incentive Plan.

<u>Directors and Executive Officers</u>	<u>Restricted Shares and Restricted Share Units</u>	<u>Date of Grant</u>	<u>End of Vesting Period</u>
Dewen Chen	750,000 ⁽¹⁾	January 15, 2009	February 1, 2012
	500,000 ⁽²⁾	April 21, 2009	April 21, 2013
Xiaojian Hong	750,000 ⁽¹⁾	January 15, 2009	February 1, 2012
	500,000 ⁽²⁾	April 21, 2009	April 21, 2013

- (1) Restricted share units settleable in Class B ordinary shares, which have vested and are no longer subject to forfeiture.
(2) Restricted share units settleable in Class A ordinary shares, which have vested and are no longer subject to forfeiture.

As of December 31, 2015, we had granted the following share options to our executive officers pursuant to our 2014 Share Incentive Plan.

<u>Executive Officers</u>	<u>Share Options</u>	<u>Exercise Price (US\$)</u>	<u>Date of Grant</u>	<u>End of Vesting Period</u>	<u>Expiration Date</u>
Dewen Chen	600,000 ⁽¹⁾	0.01	November 2, 2014	November 2, 2018	November 1, 2024
Xiaojian Hong	600,000 ⁽¹⁾	0.01	November 2, 2014	November 2, 2018	November 1, 2024
Jasmine Zhou	100,000	0.01	June 1, 2015	June 1, 2019	May 31, 2025

- (1) Originally granted in the form of restricted share units settleable in Class A ordinary shares, which are subject to vesting over a four-year period and will be forfeited to us if the vesting conditions are not met. On February 16, 2015, our Board of Directors approved the conversion of the restricted share units into options for the purchase of Class A ordinary shares at an exercise price of \$0.01, subject to the same vesting conditions.

Board of Directors

Our Board of Directors currently consists of Dr. Charles Zhang, Carol Yu, Dave De Yang, Xiao Chen and Charles Chan. Our directors are elected by the holders of our ordinary shares and will hold office until our next annual general meeting of shareholders and until their successors are duly elected or appointed, or until their resignation or removal in accordance with the provisions of our memorandum and articles of association. A director is not required to hold any shares in our company by way of qualification. A director may vote with respect to any contract, proposed contract or arrangement in which he is materially interested provided that the nature of such interest is disclosed prior to any vote thereon. A director may exercise all the powers of our company to borrow money, mortgage or charge our undertakings, property and uncalled capital or any part thereof, and issue debentures or other securities whether outright or as security for any debt, liability or obligation of our company or of any third party.

A company of which more than 50% of the voting power is held by a single entity is considered a “controlled company” under the Nasdaq Listing Rules. A controlled company need not comply with the applicable Nasdaq corporate governance rules requiring its Board of Directors to have a majority of independent directors and independent compensation and corporate governance and nominating committees. Because more than 50% of the voting power of our company is held by Sohu, we qualify as a “controlled company” under the Nasdaq Listing Rules, and we avail ourselves of the controlled company exception provided under those rules. In the event that we are no longer a controlled company, a majority of our Board of Directors will be required to be independent and it will be necessary for us to have compensation and corporate governance and nominating committees that are composed entirely of independent directors, subject to a phase-in period during the first year we cease to be a controlled company, unless we invoke the home country exception to such requirement available to foreign private issuers, such as us, under the Nasdaq Listing Rules.

Committees of the Board of Directors

Audit Committee. Our audit committee currently consists of Dave De Yang, Xiao Chen and Charles Chan. Our Board of Directors has determined that Dave De Yang, Xiao Chen and Charles Chan satisfy the independence requirements of Rule 10A-3 under the Securities Exchange Act of 1934 and Rule 5605 of the Nasdaq Listing Rules. In addition, our Board of Directors has determined that Dave De Yang meets the criteria of an audit committee financial expert as set forth under the applicable SEC rules and Rule 5605(c)(2) of the Nasdaq Listing Rules. The full responsibilities of our audit committee are set forth in its charter, which will be reviewed and updated annually and approved by our board, and will be posted on our Website at www.changyou.com. The audit committee is responsible for, among other things:

- selecting the independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by the independent auditors;

- overseeing our accounting and financial reporting processes and audits of the financial statements of our company;
- reviewing with the independent auditors any audit problems or difficulties and management’s response;
- reviewing and approving all proposed related party transactions, as defined in Item 404 of Regulation S-K under the Securities Act and in the Nasdaq Listing Rules;
- discussing the annual audited financial statements with management and the independent auditors;
- reviewing major issues as to the adequacy of our internal controls over financial reporting and any special audit steps adopted in the light of any significant deficiencies or materially weakness in our internal controls; and
- meeting separately and periodically with management and the independent auditors.

Duties of Directors

Under Cayman Islands law, our directors have a common law duty to act honestly in good faith with a view to our best interests and for a proper purpose. Our directors also have a duty to exercise the skill they actually possess with the care and diligence that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association. A shareholder may have the right to seek various remedies, including damages on behalf of our company, if a duty owed by our directors is breached.

Terms of Directors and Officers

A director may be removed by ordinary resolution passed by a majority of our shareholders before the expiration of such director’s term. Officers are elected by and serve at the discretion of the Board of Directors.

Employees

As of December 31, 2015, we had approximately 3,262 full-time and part-time employees. None of our employees are represented under collective bargaining agreements.

Share Ownership

Refer to “*Item 7: Major Shareholders and Related Party Transactions*” below for a description of the share ownership of our directors and senior executive officers.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Major Shareholders

The following table sets forth information with respect to the beneficial ownership of our shares as of the date of this report by:

- each of our directors and executive officers; and
- each person known to us to own beneficially more than 5% of our shares.

	Ordinary Shares Beneficially Owned⁽¹⁾	
	Number	%
Directors and Executive Officers:		
Charles Zhang	*	*
Carol Yu	*	*
Dewen Chen	*	*
Xiaojian Hong	*	*
Jasmine Zhou	*	*
Dave De Yang	—	—
Xiao Chen	—	—
Charles Chan	—	—
Principal Shareholder:		
Sohu.com (Game) Ltd. ⁽³⁾	71,750,000	68.7%
Prominence Investments Ltd. ⁽²⁾	10,351,270	9.9%

* Less than 5% of our total outstanding voting securities.

- (1) Includes the number of Class A ordinary shares and percentage ownership represented by Class A ordinary shares determined to be beneficially owned by a person or entity in accordance with rules of the SEC. Holders of Class B ordinary shares may convert their Class B ordinary shares into the same number of Class A ordinary shares at any time and, accordingly, are deemed to beneficially own such Class A ordinary shares. The number of Class A ordinary shares or Class B ordinary shares beneficially owned by a person or entity includes restricted share units and/or share options that will vest within 60 days after the date of this report. Class A ordinary shares or Class B ordinary shares issuable upon the vesting of restricted share units are deemed outstanding for the purpose of computing the percentage of outstanding Class A ordinary shares owned by that person or entity. Such Class A ordinary shares or Class B ordinary shares issuable upon such vesting are not deemed outstanding, however, for the purpose of computing the percentage ownership of any other person or entity.
- (2) Data based on a Schedule 13G/A filed with the SEC on February 16, 2016. Consists of 10,351,270 Class A ordinary shares, represented by 5,175,635 ADSs, held by Prominence. Prominence is a British Virgin Islands company which is ultimately owned by a trust of which Tao Wang, our former Chief Executive Officer, is the primary beneficiary. The business address of Prominence Investments Ltd. is c/o Credit Suisse Trust, Singapore, 1 Raffles Link #05-02, Singapore.
- (3) Consists of 1,500,000 Class A ordinary shares, which are represented by 750,000 ADSs, and 70,250,000 Class B ordinary shares held by Sohu.com (Game) Limited. Sohu.com (Game) Limited, a Cayman Islands corporation and an indirect wholly-owned subsidiary of Sohu.com Inc. The registered address of Sohu.com (Game) Limited is Floor 4, Willow House, Cricket Square, P O Box 2804, Grand Cayman KY1-1112, Cayman Islands. The Class A ordinary shares (represented by ADSs) and the Class B ordinary shares held by Sohu.com (Game) Ltd. collectively represent approximately 83.0% of the voting power of all issued and outstanding ordinary shares of Changyou.

Our ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. With respect to matters requiring a shareholder vote, holders of Class A ordinary shares and holders of Class B ordinary shares vote together as one class. Each Class A ordinary share is entitled to one vote and each Class B ordinary share is entitled to ten votes. We issued Class A ordinary shares represented by our ADSs in our initial public offering. Holders of Class B ordinary shares may choose to convert their Class B ordinary shares into the same number of Class A ordinary shares at any time. Class B ordinary shares are only transferable to an affiliate of the holder or to an affiliate of us.

All of the 34,239,420 Class A ordinary shares issued and outstanding as of the date of this report, or approximately 32.8% of the combined total of our outstanding Class A and Class B ordinary shares, were held by a single holder of record in the United States, the Bank of New York Mellon, the depository for our ADS program.

Related Party Transactions

As of the date of this report, Sohu held approximately 68.7% of the combined total of Changyou's outstanding Class A and Class B ordinary shares and controlled approximately 95.6% of the total voting power in Changyou. As of the date of this report, Sohu continues to have the power acting alone to approve any action requiring a vote of the majority of our ordinary shares and to elect all our directors.

Contractual Arrangements with our VIEs and their Shareholders

PRC law currently restricts foreign ownership of online game businesses. To comply with PRC law, we conduct a significant part of our online games and platform channel businesses through contractual arrangements between our principal PRC subsidiaries AmazGame, Gamespace and Beijing Baina Technology and their corresponding VIEs Gamease, Guanyou Gamespace and Wuhan Baina Information and their respective shareholders. See "Information on the Company—Organizational Structure" in Item 4 of this annual report for a description of the ownership information of our current principal VIEs. Upon the completion of our sale of Shenzhen 7Road on August 17, 2015, all VIE contractual arrangements between Shenzhen 7Road, its corresponding PRC subsidiary Shenzhen 7Road Network Technologies Co., Ltd. and Gamease, which was the sole shareholder of Shenzhen 7Road, terminated. In October 2015, our VIE Gamease acquired from our employees Runa Pi and Rong Qi 100% of the equity interests in Shanghai ICE. As Shanghai ICE as a result of these transfer is now a wholly-owned subsidiary of Gamease, the VIE contractual arrangements for Shanghai ICE no longer necessary and have been terminated.

The following is a summary of the agreements currently in effect between these principal PRC subsidiaries and our principal VIEs:

Contractual Arrangements with Gamease and its Sole Shareholder High Century

- *Loan Agreement*, between AmazGame and Gamease's sole shareholder High Century. This loan agreement provides for a loan in the amount of RMB10,000,000 (approximately \$1,520,000) to High Century to make a contribution to the registered capital of Gamease in exchange for 100% of the equity interests in Gamease. The loan is interest free and is repayable on demand, but the shareholder can only repay the loan by transferring to AmazGame all of the equity interests in Gamease.

- *Equity Interest Purchase Right Agreement*, among AmazGame, Gamease and High Century. Pursuant to this agreement, AmazGame and any third party designated by AmazGame have the right, exercisable at any time during the term of the agreement, if and when it is legal to do so under PRC law, to purchase from High Century all or any part of its equity interests in Gamease at a purchase price equal to its initial contribution to the registered capital of Gamease.
- *Equity Pledge Agreements*, among AmazGame, Gamease and High Century. Pursuant to this agreement, High Century pledged to AmazGame its equity interests in Gamease to secure the performance of its obligations and Gamease's obligations under the various VIE-related agreements. If High Century breaches its obligations under any VIE-related agreements (Gamease's breach of any of its obligations under the various VIE-related agreements will be treated as High Century's breach of its obligations), including the Equity Pledge Agreement, AmazGame is entitled to exercise its rights as the beneficiary under the Equity Pledge Agreement, including all rights High Century has as a shareholder of Gamease.
- *Business Operation Agreement*, among AmazGame, Gamease and High Century. This agreement sets forth the rights of AmazGame to control the actions of Gamease and Gamease's sole shareholder High Century.
- *Power of Attorney*, executed by High Century in favor of AmazGame. This power of attorney gives the board of directors of AmazGame the exclusive right to appoint nominees to act on behalf of High Century in connection with all actions to be taken by Gamease.
- *Technology Support and Utilization Agreement*, between AmazGame and Gamease. Pursuant to this agreement, AmazGame has the exclusive right to provide certain product development and application services and technology support to Gamease for a fee equal to a predetermined percentage of Gamease's revenues.
- *Services and Maintenance Agreement*, between AmazGame and Gamease. Pursuant to this agreement, AmazGame provides marketing, staffing, business operation and maintenance services to Gamease in exchange for a fee equal to the cost of providing such services plus a predetermined margin.

Contractual Arrangements with Guanyou Gamespace and its Sole Shareholder Changyou Star

- *Loan Agreement*, between Gamespace and Guanyou Gamespace's sole shareholder Changyou Star. This loan agreement provides for a loan in the amount of RMB10,000,000 (approximately \$1,520,000) to Changyou Star to make a contribution to the registered capital of Guanyou Gamespace in exchange for 100% of the equity interests in Guanyou Gamespace. The loan is interest free and is repayable on demand, but Changyou Star can only repay the loan by transferring to Gamespace the equity interests in Guanyou Gamespace.
- *Equity Interest Purchase Right Agreement*, among Gamespace, Guanyou Gamespace and Changyou Star. Pursuant to this agreement, Gamespace and any third party designated by Gamespace have the right, exercisable at any time during the term of the agreement, if and when it is legal to do so under PRC law, to purchase from Changyou Star all or any part of its equity interests in Guanyou Gamespace at a purchase price equal to its initial contribution to the registered capital of Guanyou Gamespace.
- *Equity Pledge Agreements*, among Gamespace, Guanyou Gamespace and Changyou Star. Pursuant to this agreement, Changyou Star pledged to Gamespace its equity interests in Guanyou Gamespace to secure the performance of its obligations and Guanyou Gamespace's obligations under the various VIE-related agreements. If Changyou Star breaches its obligations under any VIE-related agreements (Guanyou Gamespace's breach of any of its obligations under the various VIE-related agreements will be treated as Changyou Star's breach of its obligations), including the Equity Pledge Agreement, Gamespace is entitled to exercise its rights as the beneficiary under the Equity Pledge Agreement, including all rights Changyou Star has as a shareholder of Guanyou Gamespace.
- *Business Operation Agreement*, among Gamespace, Guanyou Gamespace and Changyou Star. This agreement sets forth the rights of Gamespace to control the actions of Guanyou Gamespace and its sole shareholder Changyou Star.
- *Power of Attorney*, executed by Changyou Star in favor of Gamespace. This power of attorney gives the board of directors of Gamespace the exclusive right to appoint nominees to act on behalf of Changyou Star as the sole shareholder of Guanyou Gamespace in connection with all actions to be taken by Guanyou Gamespace.
- *Technology Support and Utilization Agreement*, between Gamespace and Guanyou Gamespace. Pursuant to this agreement, Gamespace has the exclusive right to provide certain product development and application services and technology support to Guanyou Gamespace for a fee equal to a predetermined percentage of Guanyou Gamespace's revenues.
- *Services and Maintenance Agreement*, between Gamespace and Guanyou Gamespace. Pursuant to this agreement, Gamespace provides marketing, staffing, business operation and maintenance services to Guanyou Gamespace in exchange for a fee equal to the cost of providing such services plus a predetermined margin.

Contractual Arrangements with Wuhan Baina Information and its Shareholders Changyou Star and Yongzhi Yang

- *Equity Pledge Agreement*, between Beijing Baina Technology and the shareholders of Wuhan Baina Information, which are Changyou Star and Yongzhi Yang. Pledge by the Changyou Star and Yongzhi Yang to Beijing Baina Technology of their equity interests in Wuhan Baina Information to secure the performance of their respective obligations and Wuhan Baina Information's obligations under the various VIE-related agreements. If Wuhan Baina Information or any of the shareholders of Wuhan Baina Information breaches its or his obligations under any VIE-related agreements, Beijing Baina Technology is entitled to exercise its rights as pledgee of the equity interests.
- *Exclusive Call Option Agreement*, among Beijing Baina Technology, Changyou Star, Wuhan Baina Information and Yongzhi Yang. Provides to Beijing Baina Technology and any third party designated by Beijing Baina Technology the right, exercisable at any time during the term of the agreement, if and when it is legal to do so under PRC law, to purchase from Changyou Star and Yongzhi Yang all or any part of their shares in Wuhan Baina Information or to purchase from Wuhan Baina Information all or part of its assets or business at the lower of RMB1.00 (approximately \$0.15) or the lowest purchase price permissible under PRC law.
- *Exclusive Services Agreement*, between Beijing Baina Technology and Wuhan Baina Information. Beijing Baina Technology agrees to provide Wuhan Baina Information with technical services, business consulting, capital equipment lease, market consulting, integration of systems, research and development of products and maintenance of systems. Service fees are to be determined with reference to the specific services provided, based on a transfer pricing analysis.
- *Business Operation Agreement*, among Beijing Baina Technology, Wuhan Baina Information, Changyou Star and Yongzhi Yang. This agreement sets forth the rights of Beijing Baina Technology to have effective control of the actions of Wuhan Baina Information and its shareholders.
- *Powers of Attorney*, executed by the shareholders of Wuhan Baina Information in favor of Beijing Baina Technology. These powers of attorney give Beijing Baina Technology the exclusive right to appoint nominees to act on behalf of each of Changyou Star and Yongzhi Yang in connection with all actions to be taken by Wuhan Baina Information.

Transactions and Agreements with Sohu in connection with the carve-out of our client-end installed MMORPG Business from Sohu

Expenses charged from Sohu for sales and marketing services and certain other services in connection with our business amounted to \$2.7 million, \$10.4 million and \$13.4 million, respectively, for the years ended December 31, 2015, 2014 and 2013. The amounts of these charges were agreed to by Sohu and us with reference to amounts charged for similar services by unrelated parties. Total corporate general administrative expenses allocated from Sohu were \$nil, \$15,000 and \$12,000, respectively, for the years ended December 31, 2015, 2014 and 2013.

During the past few years, we have continued to use the Sohu logo, to purchase banner advertisements from Sohu, and, before our acquisition of the assets associated with the 17173.com Website from Sohu on December 15, 2011, to pay Sohu to include advertisements for and links to our PC games on the 17173.com Website. For each of such banner advertisement and link placements, we paid Sohu at the same rates as Sohu charges third parties for such placements. We also used Sohu's PEAK online billing system and used Sohu to provide links to our PC game Website on Sohu.com's main Website, for which we paid Sohu at a rate comparable to the rates charged by third-party providers for similar services and placements. In 2015, for so long as Sohu remains as our controlling shareholder, we intend to enter into new agreements, or make amendments to existing agreements, between us and Sohu that involve significant expenditures or commitments with reference to the terms of similar agreements between unrelated third parties. We will also submit such agreements and amendments for review by the audit committee of our Board of Directors, which will assess such agreements and amendments for potential conflicts of interest in accordance with the Nasdaq Listing Rules, and seek to ensure that terms of such agreements and amendments are no less favorable than would be comparable agreements between us and an unrelated third party. We have adopted a policy for our audit committee setting forth the guidelines under which related party transactions, including transactions between Sohu and us, must be reviewed and approved or ratified by the audit committee. In assessing a related party transaction, the audit committee is required to consider such factors as (i) the benefits to us of the transaction; (ii) the commercial reasonableness of the terms of the related party transaction; (iii) the materiality of the transaction to us; and (iv) the extent of the related party's interest in the transaction.

The following are summaries of an Amended and Restated Non-Competition Agreement, and an Amended and Restated Marketing Services Agreement between Sohu and us:

Amended and Restated Non-Competition Agreement

We are a party to a Non-Competition Agreement, effective as of January 1, 2009 and amended and restated as of November 29, 2011, pursuant to which Sohu has agreed that, (i) until the later of three years after Sohu no longer owns in the aggregate at least 10% of the voting power of our then outstanding voting securities and March 17, 2014, or the general non-competition period, Sohu will not compete with us in the client-end installed MMORPG business anywhere in the world, and (ii) until December 15, 2016, or the 17173 non-competition period, Sohu will not compete with us in the 17173.com Website anywhere in the world, except that Sohu may, during the 17173 non-competition period, continue to own and operate a Web site through the domain name “games.sohu.com,” for so long as content for and maintenance of such site is primarily provided by our staff. We have agreed during the general non-competition period not to compete with Sohu in the Internet portal, search, mobile value-added services and any other businesses conducted or contemplated to be conducted by Sohu as of April 1, 2009, except the client-end installed MMORPG business and, after our acquisition of the 17173.com Website on December 15, 2011, the 17173.com Website. In addition, both parties have agreed not to solicit the employees of the other party.

Amended and Restated Marketing Services Agreement

We entered into a Marketing Services Agreement with Sohu, effective January 1, 2009, amended and restated as of January 1, 2010 and further amended as of January 1, 2011, pursuant to which Sohu provides certain rights and services to us, including marketing services and Sohu’s PEAK system for the distribution of our virtual prepaid game cards. The agreement further provides for the license from Sohu to us of certain domain names, permits us to co-brand our games with the Sohu name and logos, and allows us to identify ourselves as a member of the Sohu Group. The agreement will terminate upon the later of the date that is three years after the first date upon which Sohu ceases to own in the aggregate at least 10% of the voting power of the then outstanding securities of Changyou and the fifth anniversary of March 17, 2009. The amendment and restatement of the Marketing Services Agreement effective January 1, 2010 includes certain amendments to the original agreement, including clarifications and rate adjustments, and terms under which Sohu provides us with space on Sohu servers for the purpose of our display on Sohu Websites of banner ads and promotional material, continues to give us rights to use the Sohu brand and logo, certain Sohu domain names, Sohu Passport and the Sohu PEAK online payment system, and provides certain services to us, such as the construction and maintenance of a bulletin board system for some of our PC games.

Termination Agreement with Former Chief Executive Officer

Our Board of Directors accepted Mr. Tao Wang’s resignation as our Chief Executive Officer effective November 2, 2014 and Mr. Wang resigned from our Board of Directors effective January 15, 2015.

We entered into a termination agreement with Mr. Wang effective as of January 1, 2015 pursuant to which Mr. Wang confirmed that he submitted his resignation as our Chief Executive Officer on November 1, 2014, and from all other positions with us (including with any of our subsidiaries and VIEs) upon the execution of the termination agreement. Mr. Wang has also confirmed that he, as a shareholder of our VIEs, will cooperate with us to timely transfer all of his equity interests in those VIEs to a replacement shareholder designated by us. Pursuant to the termination agreement, we paid to Mr. Wang a one-time payment of RMB 7,380,000 (or approximately \$1.2 million) and agreed that his existing Executive Employee Non-Competition, Non-Solicitation, Confidential Information and Work Product Agreement terminated effective December 31, 2014. Mr. Wang agreed to provide consulting services to us during a period between January 1, 2015 and December 31, 2015. During the consulting period, in consideration for Mr. Wang’s consulting services, Mr. Wang will be entitled to receive the same benefits, in kind or in equivalent amounts, as were made available to him immediately prior to the termination of his employment with us.

Matching Loans Arrangement between Sohu and Changyou

During 2015, certain of our subsidiaries and certain Sohu subsidiaries entered into a series of one year loan agreements, pursuant to which our subsidiaries are entitled to draw down U.S. dollar-denominated loans from the Sohu subsidiaries and the Sohu subsidiaries are entitled to draw down equivalent RMB-denominated loans from our subsidiaries, to facilitate each other’s business operations. All of the loans carry a fixed rate of interest equal to the current market interest rate as of the date when the loan agreements were entered into. As of December 31, 2015, we had drawn down from Sohu subsidiaries loans in an aggregate principal amount of \$170 million and Sohu had drawn down from our subsidiaries loans in an aggregate principal amount of RMB1.02 billion (approximately \$157.1 million) For the year ended December 31, 2015, interest income that we earned from such RMB-denominated loans was \$4.9 million, and interest expense that we accrued for such U.S. dollar-denominated loans was \$1.2 million.

Matching Loans Arrangement between Changyou and SoEasy

During 2015, certain of our subsidiaries and certain subsidiaries of SoEasy Internet Finance Group Limited (“SoEasy”) entered into a series of one year loan agreements, pursuant to which our subsidiaries are entitled to draw down Hong Kong dollar-denominated loans up to HK\$100 million (approximately \$12.9 million) from SoEasy and the subsidiaries of SoEasy are entitled to draw down equivalent RMB-denominated loans from our subsidiaries, to facilitate each other’s business operations. All of the loans carry a fixed rate of interest equal to the current market interest rate as of the date when the loan agreements were entered into. As of December 31, 2015, we had drawn down from SoEasy loans in an aggregate principal amount of HK\$100 million (approximately \$12.9 million) and SoEasy had drawn down from our loans in an aggregate principal amount of RMB80 million (approximately \$12.3 million). For the year ended December 31, 2015, interest income that we earned from the RMB-denominated loans was \$0.4 million, and interest expense that we accrued for the Hong Kong dollar-denominated loans was \$0.1 million.

Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

Consolidated Financial Statements

Please see Item 18 “Financial Statements” for our audited consolidated financial statements filed as a part of this annual report.

Legal Proceedings

We may be subject to legal proceedings, investigations and claims incidental to the conduct of our business from time to time. We are not currently a party to, nor are we aware of, any legal proceeding, investigation or claim which, in the opinion of our management, is likely to have a material adverse effect on our business, financial condition or results of operations.

Dividend Policy

In 2013, 2014 and 2015, we did not declare or pay any dividends. In August 2012, our Board of Directors declared a special one-time cash dividend of \$1.90 per Class A ordinary shares or Class B ordinary share, or \$3.80 per ADS (each representing two Class A ordinary shares). The total amount of the special cash dividend was approximately \$200.9 million. In order to expedite the payment of the special cash dividend, we financed the payment through loans from offshore banks which are secured by an equivalent amount of RMB-denominated onshore bank deposits of our subsidiaries in China. The dividend was paid to our shareholders on September 21, 2012.

Future cash dividends, if any, will be declared at the sole discretion of our Board of Directors and will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors as our Board of Directors may deem relevant.

Holders of ADSs will be entitled to receive dividends, subject to the terms of the deposit agreement, to the same extent as the holders of our ordinary shares, less the fees and expenses payable under the deposit agreement. Cash dividends will be paid by the depository to holders of ADSs in U.S. dollars, subject to the terms of the deposit agreement. Other distributions, if any, will be paid by the depository to holders of ADSs in any means it deems legal, fair and practical.

ITEM 9. THE OFFER AND LISTING

Our ADSs are listed on the Nasdaq Global Select Market under the symbol “CYOU.” Trading in our ADSs commenced on April 2, 2009.

The following table provides the high and low reported sale prices for our ADSs on the Nasdaq Global Select Market for (1) the five most recent fiscal years (2) each quarter in the two most recent fiscal years, (3) each of the last six full months, and (4) the month of February 2016 through February 19, 2016.

	Trading Price (\$)	
	High	Low
2011		
Full Year	52.00	20.71
2012		
Full Year	29.52	17.00
2013		
Full Year	41.64	26.52
2014		
Full Year	34.32	17.13
First Quarter	34.32	25.00
Second Quarter	30.42	24.80
Third Quarter	26.85	23.20
Fourth Quarter	28.27	17.13
2015		
Full Year	35.27	17.00
First Quarter	29.53	24.07
Second Quarter	35.27	25.88
Third Quarter	29.98	17.00
Fourth Quarter	25.83	17.16
August	23.98	18.00
September	20.73	17.00
October	20.95	17.16
November	22.62	19.91
December	25.83	19.22
2016		
January	24.05	17.40
February (through February 19)	18.35	15.21

ITEM 10. ADDITIONAL INFORMATION

Memorandum and Articles of Association

We incorporate by reference into this annual report the description of our second amended and restated memorandum of association contained in our Registration Statement on Form F-1 (File No. 333-158061) originally filed with the SEC on March 17, 2009. Our shareholders adopted our second amended and restated memorandum and articles of association by a special resolution on March 16, 2009.

Differences in Corporate Law—Mergers and Similar Arrangements

Set forth below is a summary of the significant differences between the provisions of the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “Companies Law”) regarding mergers and similar arrangements that are applicable to us and the laws applicable to companies incorporated in the United States and their shareholders.

Under the laws of the Cayman Islands, two or more companies may merge or consolidate in accordance with Part XVI of the Companies Law. Merger means the merging of two or more constituent companies into a sole remaining constituent company or surviving company and the vesting of the undertaking, property and liabilities of the constituent companies in the surviving company. Consolidation means the combination of two or more constituent companies into a new consolidated company and the vesting of the undertaking, property and liabilities of the constituent companies in the consolidated company. The directors of each constituent company must approve a written plan of merger or consolidation (the “Plan”). The Plan must contain certain prescribed information including the effective date of the merger or consolidation; the basis of cancelling the shares in a constituent company in exchange for the relevant consideration or converting the shares in each constituent company into shares of the consolidated company or surviving company and the rights attached thereto; any proposed amendments to the memorandum and articles of association of the surviving company in a merger or the proposed new memorandum and articles of association of the consolidated company in a consolidation; and details of all secured creditors.

The Plan must be approved by each constituent company by way of (a) a special resolution of the shareholders; and (b) such other authorization, if any, as may be specified in such constituent company’s articles of association. Shareholders do not need to approve a merger between a Cayman Islands parent company and a Cayman Islands subsidiary. For this purpose a subsidiary is a company of which at least 90% of the issued shares entitled to vote are owned by the parent company.

The consent of each holder of a fixed or floating security interest over a constituent company is required unless this requirement is waived by a court in the Cayman Islands.

The Plan must be filed with the Registrar of Companies together with supporting documents including a declaration (a) of solvency (debts as they fall due); (b) that the merger or consolidation is bona fide and not intended to defraud unsecured creditors of the constituent companies; (c) of the assets and liabilities of each constituent company; (d) that no proceedings are outstanding and that no order has been made or resolution passed to wind up a constituent company or to appoint a receiver, trustee or administrator in any jurisdiction; (e) that no scheme, order, compromise or arrangement has been made in any jurisdiction whereby the rights of creditors have been suspended or restricted and an undertaking that a copy of the certificate of merger or consolidation will be given to members and creditors of the constituent company and notification of the merger or consolidation will be published in the Cayman Islands Gazette.

A certificate of merger or consolidation, which is prima facie evidence of compliance with all statutory requirements in respect of the merger or consolidation, is issued by the Registrar of Companies.

The effective date of a merger or consolidation is the date the Plan is registered by the Registrar of Companies, although the Plan may provide for an effective date up to 90 days after the date of registration.

Except under certain circumstances a dissenting shareholder of a Cayman Islands constituent company is entitled to payment of the fair value of his shares upon dissenting to a merger or consolidation. The exercise of appraisal rights will preclude the exercise of any other rights except for the dissenting shareholder's rights to be paid the fair value of his shares and to seek relief on the grounds that the merger or consolidation is void or unlawful.

The following procedure will otherwise apply:

- The dissenting shareholder must give written notice of objection ("notice of objection") to the constituent company before the vote to approve the merger or consolidation.
- Within 20 days of the vote approving the merger or consolidation the constituent company must give written notice of the approval ("approval notice") to all dissenting shareholders who served a notice of objection.
- Within 20 days ("dissent period") of the approval notice a dissenting shareholder must give a written notice of dissent ("notice of dissent") to the constituent company demanding payment of the fair value of his shares.
- Within 7 days of the expiry of the dissent period or within 7 days of the date on which the plan of merger or consolidation is filed with the Registrar of Companies (whichever is later) the constituent company, surviving company or consolidated company must make a written offer ("fair value offer"), to each dissenting shareholder to purchase their shares at a price determined by the company to be their fair value.
- If the company and the dissenting shareholders fail to agree the price within 30 days of the fair value offer ("negotiation period"), then within 20 days of the expiry of the negotiation period the company must apply to the Grand Court of the Cayman Islands to determine the fair value of the shares held by all dissenting shareholders who have served a notice of dissent and who have not agreed the fair value with the company.

All rights, benefits, immunities, privileges and property (including business and goodwill) of each of the constituent companies will vest in the surviving or consolidated company which will be liable for all debts, contracts, obligations, mortgages, charges, security interests and liabilities of each constituent company. Existing claims, proceedings, judgments, orders or rulings applicable to each constituent company will automatically apply to the surviving company or the consolidated company.

In addition, there are statutory provisions that facilitate the reconstruction and amalgamation of companies, provided that the scheme of arrangement is approved by a majority in number of each class of shareholders and creditors with whom the arrangement is to be made, and who must in addition represent three-fourths in value of each such class of shareholders or creditors, as the case may be, that are present and voting either in person or by proxy at a meeting, or meetings, convened for that purpose by order of the Grand Court of the Cayman Islands. The arrangement must be sanctioned by the Grand Court of the Cayman Islands. While a dissenting shareholder has the right to express to the court the view that the transaction ought not to be approved, the court can be expected to approve the arrangement if it determines that:

- the statutory provisions as to the required vote have been met;
- the shareholders have been fairly represented at the meeting in question and the statutory majority are acting bona fide without coercion of the minority;

- the arrangement is such that may be reasonably approved by an intelligent and honest man acting in respect of his interest in the relevant class; and
- the arrangement is not one that would more properly be sanctioned under some other provision of the Companies Law.

When a take-over offer is made for all the shares or all the shares of a particular class and accepted by holders of 90% of the shares which are the subject of the offer within four months of the date of the offer, the offer or may, within a two month period commencing on the expiration of such four month period, require the holders of the remaining shares to transfer their shares on the terms of the offer. An objection can be made to the Grand Court of the Cayman Islands but this is unlikely to succeed in the case of an offer which has been so approved unless there is evidence of fraud, bad faith, or breach of the Companies Law.

If a scheme of arrangement or take-over offer is approved or accepted, the dissenting shareholder(s) are unlikely to have any rights comparable to appraisal rights, which would otherwise ordinarily be available to dissenting shareholders of United States corporations, providing rights to receive payment in cash for the judicially determined value of the shares.

Material Contracts

We have not entered into any material contracts within the past two fiscal years other than in the ordinary course of business, other than those listed in Item 19 “Exhibits” or described elsewhere in this annual report, or as described below.

Purchase of Office Building

On August 23, 2010, we entered into an agreement with a property developer to purchase an office building to be built in Beijing at a price of approximately \$162.4 million to serve as our headquarters. The agreement provides for the developer to start construction in the first half of 2011, subject to necessary permits’ being obtained, and specifies that the developer was expected to complete construction and deliver the building to us by the end of 2012. We entered into an advance sale contract after the developer obtained an advance sale permit with respect to the purchase, specifying that the building was expected to have an area of approximately 56,549 square meters and that we were expected to pay up to 90% of the total purchase price to the developer upon the developer’s certifying completion of the building. The final unit price agreed to by the parties and cost adjustments, which have been agreed to be approximately \$3.2 million, related to changes to the original design of the building. The developer certified completion of the building in January 2013. As of December 31, 2014, we had paid \$165.2 million pursuant to the August 23, 2010 agreement and the advance sale contract. Depreciation of the building commenced in January 2014.

Amended and Restated Market Services Agreement with Sohu

Please refer to “Related Party Transactions—Transactions and Agreements with Sohu” in Item 7 of this annual report.

7Road Transactions

Share Transfer Framework Agreement with 7Road

On April 22, 2011, we entered into a Share Transfer Framework Agreement under which we, through our subsidiaries and Gamease, one of our VIEs, acquired 68.258% of the equity interests in Shenzhen 7Road, which was engaged in the operation (through third-party joint operators) and development of Web games in China. The purchase price consists of fixed cash consideration of approximately \$68.26 million and additional variable cash consideration of up to a maximum of \$32.76 million, contingent upon the achievement by 7Road of specified performance milestones through December 31, 2012. On and after the closing, four of the then shareholders of Shenzhen 7Road, who are also existing members of management of 7Road, or 7Road management shareholders, continued to hold 31.742%. We completed the acquisition under the Share Transfer Framework Agreement on May 11, 2011. We completed the 7Road Reorganization, which was contemplated by the Share Transfer Framework Agreement, on June 26, 2012.

Acquisition Framework Agreement

On May 1, 2013, we entered into an Acquisition Framework Agreement pursuant which we acquired all of the ordinary shares of 7Road held by the non-controlling shareholders and through our VIE Gamease, all of the equity interests in Shenzhen 7Road held by shareholders other than Gamease, for aggregate cash consideration of approximately \$78 million. Effective with our entering into the agreement, Mr. Dewen Chen, Changyou’s Co-CEO, was appointed as the Chairman and Chief Executive Officer of 7Road. As a result of the acquisition, which was completed on June 5, 2013, 7Road became our indirect wholly-owned subsidiary and our VIE Gamease became the sole shareholder of our VIE Shenzhen 7Road. Also effective upon the closing of the acquisition, the former non-controlling shareholders’ existing non-compete covenants with us were terminated, and an agreement took effect under which the former non-controlling shareholders agreed, for a period of two years after the closing, to not solicit or hire existing employees of 7Road.

See “Information on the Company—History and Development of the Company” in Item 4 of this annual report.

Share Purchase Agreements in connection with Dispositions of Shenzhen 7Road and Two Overseas Subsidiaries

On April 16, 2015, our VIE Gamease entered into a share purchase agreement in which it agreed to sell to Shanghai Yong Chong all of the equity interests in Shenzhen 7Road. On April 27, 2015, our wholly-owned subsidiary Changyou HK entered into share purchase agreements in which it agreed to sell to Supermax Holdings Group Limited, a British Virgin Islands company, all of the equity capital of Changyou My Sdn. Bhd, a Malaysia company, and all of the equity capital of Changyou.com (UK) Company Limited, a United Kingdom company. Upon the completion of these three transactions on August 17, 2015 we received aggregate cash consideration of \$205 million.

Transaction Agreements with MoboTap

Investment Agreement

On July 16, 2014, we, through a wholly-owned subsidiary and our VIE Gamease, entered into an investment agreement with MoboTap, which operates the Dolphin Browser, MoboTap’s subsidiaries and variable interest entities and MoboTap’s shareholders pursuant to which we acquired 51% of MoboTap. See “Information on the Company—History and Development of the Company” in Item 4 of this annual report.

Convertible Bond Subscription Agreement

On July 16, 2014, in connection with the investment agreement, we and MoboTap entered into a convertible bond subscription agreement, pursuant to which we purchased at the closing, which took place on July 31, 2014, \$30 million in principal amount of a zero-coupon convertible bond issued by MoboTap that will be due in five years. We will have the option, exercisable at any time when the bond is outstanding, to convert all or any part of the unpaid principal into shares of MoboTap at a conversion price that would result in our interest in MoboTap increasing to 60% on a fully-diluted basis, measured as of the closing, if the option is exercised in full. The exercise price of the option is subject to anti-dilution adjustment under certain circumstances specified in the subscription agreement.

Shareholder Agreement

On July 31, 2014, pursuant to the investment agreement, we, MoboTap and the noncontrolling shareholders of MoboTap entered into a shareholder agreement pursuant to which we have the right to designate three of the five directors of MoboTap, including the chairman of the board; our approval is required for any proposed transfers of equity interests in MoboTap held by the noncontrolling shareholders; and we are entitled to customary pre-emptive rights with respect to any new issuance of equity interests in MoboTap. In addition, if MoboTap achieves specified performance milestones for 2016 and certain specified key employees continue their employment with MoboTap at the time the milestones are achieved, but there has not been an IPO by MoboTap, the noncontrolling shareholders will have a one-time right to put to us shares of MoboTap held by them, representing up to 15% in MoboTap, for an aggregate price of up to \$53 million.

Exchange Controls

China’s government imposes control over the convertibility of RMB into foreign currencies. The conversion of RMB into foreign currencies, including U.S. dollars, has been based on rates announced by the People’s Bank of China. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the RMB to the U.S. dollar. Under the new policy, the RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in significant appreciation of the RMB against the U.S. dollar by the end of 2014. While the international reaction to the RMB revaluation has generally been positive, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of the RMB against the U.S. dollar.

Pursuant to the Foreign Exchange Administration Regulations issued by the State Council on January 29, 1996, and effective as of April 1, 1996 (and amended on January 14, 1997 and August 5, 2008) and the Regulations on the Administration of Settlement, Sale and Payment of Foreign Exchange issued by the People’s Bank of China on June 20, 1996 and effective on July 1, 1996, or the FX Regulations, regarding the administration and control of foreign exchange, conversion of RMB into foreign exchange by foreign investment enterprises for current account items, including the distribution of dividends and profits to foreign investors of joint ventures, is permissible. Foreign investment enterprises are permitted to remit foreign exchange from their foreign exchange bank account in China on the basis of, inter alia, the terms of the relevant joint venture contracts and the board resolutions declaring the distribution of the dividend and payment of profits. On January 14, 1997, the State Council amended the Foreign Exchange Administration Regulations and added, among other things, an important provision, as Article 5 provides that the State shall not impose restrictions on recurring international current account payments and transfers. Conversion of RMB into foreign currencies and remittance of foreign currencies for capital account items, including direct investment, loans, security investment, is still subject to the approval of the SAFE, in each such transaction.

Under the Foreign Exchange Administration Regulations, foreign investment enterprises are required to open and maintain separate foreign exchange accounts for capital account items (but not for other items). In addition, foreign investment enterprises may only buy, sell and/or remit foreign currencies at those banks authorized to conduct foreign exchange business upon the production of valid commercial documents and, in the case of capital account item transactions, document approval from the SAFE.

Currently, foreign investment enterprises are required to apply to the SAFE for “foreign exchange registration certificates for foreign investment enterprises” (which are granted to foreign investment enterprises, upon fulfilling specified conditions and which are subject to review and renewal by the SAFE on an annual basis). With such foreign exchange registration certificates and required underlying transaction documents, or with approval documents from the SAFE if the transactions are under capital account (which are obtained on a transaction-by-transaction basis), foreign-invested enterprises may enter into foreign exchange transactions at banks authorized to conduct foreign exchange business to obtain foreign exchange for their needs.

Taxation

The following summary of the material Cayman Islands, PRC and United States federal income tax consequences of an investment in our ADSs or Class A ordinary shares is based upon laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change. This summary does not discuss all possible tax consequences relating to an investment in our ADSs or Class A ordinary shares, such as the tax consequences under United States state, local and other tax laws.

Cayman Islands Taxation

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to us levied by the Government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or brought within the jurisdiction of the Cayman Islands. The Cayman Islands is not party to any double tax treaties. There are no exchange control regulations or currency restrictions in the Cayman Islands.

PRC Taxation

PRC taxation of us and our corporate group

We are a holding company incorporated in the Cayman Islands and hold our equity interests in AmazGame, Gamespace and Beijing Baina Technology, our principal PRC subsidiaries, indirectly through Changyou HK and MoboTap HK, our principal Hong Kong subsidiaries. A significant portion of our business operations are conducted by these PRC subsidiaries through our principal VIEs Gamease, Guanyou Gamespace, Shanghai ICE and Wuhan Baina Information. The CIT Law and its implementation rules provide that China-sourced income of foreign enterprises, such as dividends paid by a PRC subsidiary to its overseas parent that is not a PRC resident enterprise and has no establishment in the PRC, will normally be subject to PRC withholding tax at a rate of 10%, unless there are applicable tax treaties that reduce such rate. Under the China-HK Tax Arrangement, such dividend withholding tax rate may be reduced to 5% if a Hong Kong resident enterprise is considered a non-PRC tax resident enterprise and owns at least 25% of equity interests in the PRC company distributing the dividends, subject to approval of the PRC local tax authority. However, if the Hong Kong resident enterprise is not considered to be the beneficial owner of such dividends under applicable PRC tax regulations, such dividends may remain subject to withholding tax at a rate of 10%. On October 27, 2009, the SAT issued Circular 601, which provides guidance on determining whether an enterprise is a “beneficial owner” under China’s tax treaties and tax arrangements. Circular 601 provides that, in order to be a beneficial owner, an entity generally must be engaged in substantive business activities, and that a company that is set up for the purpose of avoiding or reducing taxes or transferring or accumulating profits, will not be regarded as a beneficial owner and will not qualify for treaty benefits such as preferential dividend withholding tax rates. If any of our Hong Kong subsidiaries is, in the light of Circular 601, considered to be a non-beneficial owner for purposes of the China-HK Tax Arrangement, any dividends paid to it by any of our PRC subsidiaries would not qualify for the preferential dividend withholding tax rate of 5%, but rather would be subject to withholding tax at the usual CIT Law rate of 10%.

Under the CIT Law, enterprises established under the laws of jurisdictions outside China with their “de facto management bodies” located within China may be considered to be PRC tax resident enterprises for tax purposes. A substantial majority of the members of our management team as well as the management team of Changyou HK, ICE HK and MoboTap HK are located in China. If we were to be considered a PRC tax resident enterprise under the CIT Law, then our global income would be subject to PRC enterprise income tax at the rate of 25%. Similarly, if Changyou HK, ICE HK or MoboTap HK were to be considered a PRC tax resident enterprise, then its global income would be subject to PRC enterprise income tax at the rate of 25%.

PRC taxation of our overseas shareholders

The implementation rules of the CIT Law provide that, (i) if the enterprise that distributes dividends is domiciled in the PRC, or (ii) if gains are realized from transferring equity interests of enterprises domiciled in the PRC, then such dividends or capital gains are treated as China-sourced income. It is not clear how “domicile” may be interpreted under the CIT Law, and it may be interpreted as the jurisdiction where the enterprise is a tax resident. Therefore, if we and Changyou HK are considered as a PRC tax resident enterprise for tax purposes, any dividends we pay to our overseas shareholders or ADS holders as well as gains realized by such shareholders or ADS holders from the transfer of our shares or ADSs may be regarded as China-sourced income and as a result become subject to PRC withholding tax at the rate up to 10%. See “Risk Factors—There are significant uncertainties under the Corporate Income Tax Law of the PRC, or the CIT Law, regarding our PRC enterprise income tax liabilities, such as tax on dividends paid to us by our PRC subsidiaries. The CIT Law also contains uncertainties regarding possible PRC withholding tax on any dividends we pay to our overseas corporate shareholders and gains realized from the transfer of our shares by our overseas corporate shareholders.”

United States Federal Income Taxation

The following is a general summary of the material United States federal income tax considerations related to the purchase, ownership and disposition of our ADSs or Class A ordinary shares by U.S. holders (as defined below). This summary applies only to U.S. holders that hold the ADSs or Class A ordinary shares as capital assets and that have the U.S. dollar as their functional currency. This discussion does not address any aspect of U.S. federal gift or estate tax, the state, local or foreign tax or the Medicare tax consequences of an investment in our ADSs. This discussion is based on the tax laws of the United States as in effect on the date of this annual report and on United States Treasury regulations in effect or, in some cases, proposed, as of the date of this annual report, as well as judicial and administrative interpretations thereof available on or before such date. All of the foregoing authorities are subject to change, which change could apply retroactively and could affect the tax consequences described below.

The following discussion does not describe the tax consequences that may be relevant to any particular investor or to persons in special tax situations such as:

- banks or certain financial institutions;
- insurance companies;
- broker dealers;
- traders that elect to mark to market;
- tax-exempt entities;
- persons liable for alternative minimum tax;
- persons holding ADSs or Class A ordinary shares as part of a straddle, hedging, conversion transaction or other integrated investment;
- regulated investments companies;
- persons who acquired ADSs or ordinary shares pursuant to the exercise of any employee share option or otherwise as compensation;
- persons that actually or constructively own 10% or more of the total combined voting power of all classes of our shares entitled to vote; or
- partnerships or other pass-through entities for U.S. federal income tax purposes or persons holding ADSs or Class A ordinary shares through partnerships or other pass-through entities.

U.S. holders are urged to consult their tax advisors about the application of the United States federal tax rules to their particular circumstances as well as the state, local and foreign tax consequences to them of the purchase, ownership and disposition of ADSs or Class A ordinary shares.

The discussion below of the United States federal income tax consequences to “U.S. holders” will apply to a beneficial owner of ADSs or Class A ordinary shares as capital assets for purposes of U.S. federal income tax laws and who is, for United States federal income tax purposes:

- a citizen or individual resident of the United States;
- a corporation (or other entity taxable as a corporation for United States federal income tax purposes) organized under the laws of the United States, any state thereof or the District of Columbia;

- an estate whose income is subject to United States federal income taxation regardless of its source; or
- a trust (1) whose administration is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust, or (2) that has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person.

For U.S. federal income tax purposes, the tax treatment of a partner in a partnership or other entity taxable as a partnership that holds ADSs or Class A ordinary shares, depends on the partner's status and the activities of the partnership. U.S. holders that hold their ADSs or Class A ordinary shares through a partnership, limited liability company, or other entity taxable as a partnership should consult their tax advisers regarding their tax treatment.

The discussion below assumes that the representations contained in the Deposit Agreement are true and that the obligations in the Deposit Agreement and any related agreement have been and will be complied with in accordance with their terms. Holders of ADSs will be treated as the holders of the underlying Class A ordinary shares represented by those ADSs for United States federal income tax purposes. Accordingly, deposits of Class A ordinary shares in return for ADSs representing those shares, and surrender of ADSs in return for the underlying Class A ordinary shares, will not be subject to United States federal income tax.

Taxation of Dividends and Other Distributions on ADSs or Class A Ordinary Shares

Subject to the passive foreign investment company rules discussed below, the gross amount of our distributions to a U.S. holder with respect to ADSs or Class A ordinary shares (including any amount withheld in respect of PRC taxes) generally will be included in a U.S. holder's gross income as foreign source dividend income on the date of receipt by the depositary, in the case of ADSs, or by the U.S. holder, in the case of Class A ordinary shares, but only to the extent that the distribution is paid out of our current or accumulated earnings and profits (as determined under United States federal income tax principles). To the extent, if any, that the amount of any such distribution exceeds our current and accumulated earnings and profits, it will be treated first as a tax-free return of the U.S. holder's tax basis in the ADSs or the Class A ordinary shares (thereby increasing the amount of any gain or decreasing the amount of any loss realized on the subsequent sale or disposition of such ADSs or Class A ordinary shares) and thereafter as capital gain. U.S. holders should note that we do not intend to calculate our earnings and profits under United States federal income tax principles. Therefore, a U.S. holder should expect that a distribution generally will be reported as a dividend even if that distribution should be treated as a non-taxable return of capital or as capital gain under the rules described above. Further, the dividends will not be eligible for the dividends-received deduction allowed to corporations in respect of dividends received from other United States corporations.

With respect to certain non-corporate U.S. holders, including individual U.S. holders, dividends may be taxed at a special rate (the applicable capital gains rate) that is applicable to "qualified dividend income" provided that (1) the ADSs or Class A ordinary shares are readily tradable on an established securities market in the United States, (2) we are not treated as a passive foreign investment company with respect to the U.S. holder (as discussed below) for our taxable year in which the dividend was paid and we were not a passive foreign investment company in the preceding taxable year, and (3) certain holding period requirements are met. Under Internal Revenue Service authority, our Class A ordinary shares, or ADSs representing such shares, will be considered for the purpose of clause (1) above to be readily tradable on an established securities market in the United States if they are listed (as our ADSs currently are) on the Nasdaq Global Select Market. U.S. holders should consult their tax advisors regarding the availability of the lower rate for dividends paid with respect to our ADSs or Class A ordinary shares. Dividends will constitute foreign source income for foreign tax credit limitation purposes. If the dividends are taxed as qualified dividend income (as discussed above), the amount of the dividend taken into account for purposes of calculating the foreign tax credit limitation will be limited to the gross amount of the dividend, multiplied by the reduced tax rate applicable to qualified dividend income and divided by the highest tax rate normally applicable to dividends. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For foreign tax credit purposes, dividends paid on our Class A ordinary shares will generally constitute "passive category income" but could, in the case of certain U.S. holders, constitute "general category income."

If PRC withholding taxes apply to dividends paid to a U.S. holder with respect to our ADSs or Class A ordinary shares, subject to certain conditions and limitations, such PRC withholding taxes will be treated as foreign taxes eligible for credit against the U.S. holder's United States federal income tax liability. The rules governing foreign tax credits are complex and, therefore, U.S. holders should consult their tax advisors regarding the availability of a foreign tax credit in such U.S. holders' particular circumstances.

Taxation of Disposition of Shares

Subject to the passive foreign investment company rules discussed below, a U.S. holder will recognize taxable gain or loss on any sale, exchange or other taxable disposition of an ADS or Class A ordinary share equal to the difference between the amount realized for the ADS or Class A ordinary share and the U.S. holder's tax basis in the ADS or Class A ordinary share. The gain or loss will be capital gain or loss. A non-corporate U.S. holder, including an individual U.S. holder, who has held the ADS or Class A ordinary share for more than one year will be eligible for reduced capital gains tax rates. The deductibility of capital losses is subject to limitations. Any such gain or loss that a U.S. holder recognizes will be treated as United States source income (or loss, in the case of losses, subject to certain limitations).

Subject to the passive foreign investment company rules discussed below, a U.S. holder will recognize taxable gain or loss on any sale, exchange or other taxable disposition of an ADS or Class A ordinary share equal to the difference between the amount realized for the ADS or Class A ordinary share and the U.S. holder's adjusted tax basis in the ADS or Class A ordinary share. The gain or loss will be capital gain or loss. A non-corporate U.S. holder, including an individual U.S. holder, who has held the ADS or Class A ordinary share for more than one year will be eligible for reduced capital gains tax rates. The deductibility of capital losses is subject to limitations. Any such gain or loss that a U.S. holder recognizes will be treated as United States source income (or loss, in the case of losses, subject to certain limitations) for foreign tax credit limitation purposes.

As described above under "Taxation—PRC Taxation," any gain from the disposition of our ADSs or Class A ordinary shares may be subject to PRC withholding tax. In such event, a U.S. holder that is eligible for the benefits of the income tax treaty between the United States and the PRC may elect to treat the gain as PRC source income for foreign tax credit purposes. U.S. holders should consult their tax advisors regarding their eligibility for benefits under the income tax treaty between the United States and the PRC and their ability to credit any PRC tax withheld in respect of a sale of our ADSs or Class A ordinary shares against their United States federal income tax liability.

Passive Foreign Investment Company

We believe that we will not be treated as a passive foreign investment company ("PFIC") for U.S. federal income tax purposes for our taxable year ending November 30, 2015. Our expectation is based on our operations and the composition of our earnings and assets for the 2015 taxable year, including the valuation of our assets (including goodwill) based on the expected price of our ADSs in the market. However, because we currently hold, and expect to continue to hold a substantial amount of cash and cash equivalents, and because the value of our other assets may be based in part on the market price of our ADSs, which has fluctuated and is likely to continue to fluctuate (and may fluctuate considerably given that market prices of internet and online game companies historically have been especially volatile), our PFIC status may depend in large part on the market price of our ADSs. A drop in the market price of our ADSs and associated decrease in the value of our goodwill would cause a reduction in the value of our non-passive assets for purposes of the asset test. Accordingly, we could become a PFIC if our market capitalization were to decrease significantly while we hold substantial cash and cash equivalents. In addition, the composition of our income and assets will be affected by how, and how quickly, we spend our cash. Furthermore, it is not entirely clear how the contractual arrangements between us and our consolidated VIEs will be treated for purposes of the PFIC rules. If these contractual arrangements were found by PRC authorities with appropriate jurisdiction to be unenforceable, this could cause more than 75% of our gross income or more than 50% of our assets to be passive in the year that this finding was made or in subsequent years, which could cause us to be classified as a PFIC. See "Risk Factors—Risks Related to Our Corporate Structure and PRC Law and Regulations—Our contractual arrangements with our VIEs and their shareholders may not be as effective in providing control over our VIEs as direct ownership of the VIEs and the shareholders of our VIEs may have conflicts of interest with us or with each other." Also our actual PFIC status for any taxable year will depend upon the character of our income and assets and the value of our assets for such year, which will not be determinable until after the close of the taxable year. Accordingly, there is no guarantee that we will not be a PFIC for any taxable year.

A non-U.S. corporation is considered a PFIC for any taxable year if either:

- at least 75% of its gross income is passive income (such as certain dividends, interest or royalties) (the "income test"), or
- at least 50% of the value of its assets (based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income (the "asset test").

For the purposes of this determination, we will be treated as owning our proportionate share of the assets and earning our proportionate share of the income of any other corporation in which we own, directly or indirectly, at least 25% (by value) of the shares.

We must make a separate determination each year as to whether we are a PFIC. As a result, our PFIC status may change.

If we are a PFIC for any taxable year during which a U.S. holder holds ADSs or Class A ordinary shares, such U.S. holder will be subject to special tax rules with respect to any “excess distribution” that such U.S. holder receives and any gain that such U.S. holder realizes from a sale or other disposition (including a pledge) of the ADSs or Class A ordinary shares, unless the holder makes a “mark-to-market” election as discussed below. For purpose of these special rules, if we are a PFIC for any year during which a U.S. holder holds ADSs or Class A ordinary shares, we will continue to be treated as a PFIC with respect to such U.S. holder for all succeeding years during which such U.S. holder holds ADSs or Class A ordinary shares. Under certain attribution rules, if we are a PFIC, a U.S. holder will be deemed to own such U.S. holder’s proportionate share of any subsidiaries or other entities that are PFICs in which we hold (directly or indirectly through other PFICs) an equity interest (“subsidiary PFICs”), and will generally be treated for purposes of the PFIC rules as if such U.S. holder directly held the shares of such subsidiary PFICs.

Under these special rules, distributions that a U.S. holder receives in a taxable year that are greater than 125% of the average annual distributions that such U.S. holder received during the shorter of the three preceding taxable years or such U.S. holder’s holding period for the ADSs or Class A ordinary shares will be treated as an excess distribution. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over the U.S. holder’s holding period for the ADSs or Class A ordinary shares;
- the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we became a PFIC, will be treated as ordinary income; and
- the amount allocated to each other taxable year will be subject to the highest tax rate in effect for that taxable year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such taxable year.

The tax liability for amounts allocated to years prior to the year of disposition or “excess distribution” cannot be offset by any net operating losses for such years, and gains (but not losses) realized on the sale of ADSs or Class A ordinary shares cannot be treated as capital, even if the U.S. holder holds the ADSs or Class A ordinary shares as capital assets. A U.S. holder will be subject to the same United States federal income tax rules as described above on indirect or constructive distributions that the U.S. holder is deemed to receive on shares of a subsidiary PFIC and on indirect or constructive dispositions of shares of subsidiary PFICs.

Alternatively, a U.S. holder of “marketable stock” (as defined below) in a PFIC may make a mark-to-market election for such stock of a PFIC to elect out of the tax treatment discussed in the two preceding paragraphs. A mark-to-market election will not be available, however, with respect to any subsidiary PFICs. If a U.S. holder makes a mark-to-market election for the ADSs or Class A ordinary shares, such U.S. holder will generally include in income each year an amount equal to the excess, if any, of the fair market value of the ADSs or Class A ordinary shares as of the close of such U.S. holder’s taxable year over such U.S. holder’s adjusted tax basis in such ADSs or Class A ordinary shares. The U.S. holder will be allowed a deduction for the excess, if any, of the adjusted basis of the ADSs or Class A ordinary shares over their fair market value as of the close of the taxable year. However, deductions are allowable only to the extent of any net mark-to-market gains on the ADSs or Class A ordinary shares included in the U.S. holder’s income for prior taxable years. Amounts included in a U.S. holder’s income under a mark-to-market election, as well as gain on the actual sale or other disposition of the ADSs or Class A ordinary shares, will generally be taxed at ordinary income rates. Ordinary loss treatment will also apply to the deductible portion of any mark-to-market loss on the ADSs or Class A ordinary shares, as well as to any loss realized on the actual sale or disposition of the ADSs or Class A ordinary shares, to the extent that the amount of such loss does not exceed the net mark-to-market gains previously included for such ADSs or Class A ordinary shares. A U.S. holder’s basis in the ADSs or Class A ordinary shares will be adjusted to reflect any such income or loss amounts. If the U.S. holder makes a mark-to-market election, tax rules that apply to distributions by corporations which are not PFICs would apply to distributions by us (except that the lower applicable capital gains rate for “qualified dividend income” discussed above would not apply). The basis adjustment and income or loss inclusion described here under this alternate mark-to-market regime will only apply during years in which we are a PFIC.

The mark-to-market election will only be available for “marketable stock” which is stock that is traded in more than de minimis quantities on at least 15 days during each calendar quarter on a qualified exchange or other market, as defined in applicable Treasury regulations. We expect that the ADSs will continue to be listed and regularly traded on the Nasdaq Global Select Market, which is a qualified exchange for these purposes, and, consequently, it can be expected that the mark-to-market election would be available to U.S. holders of our ADSs if we were to become a PFIC.

A third alternative taxation regime which may be available to some U.S. investors in PFICs, known as “qualified electing fund” (QEF) treatment, will not be available to U.S. holders of our ADSs or Class A ordinary shares. This is because QEF treatment requires the PFIC to supply annually certain information to U.S. holders of ADSs or Class A ordinary shares, and we will not be supplying such information.

A U.S. holder of ADSs or Class A ordinary shares in any year in which we are a PFIC will be required to file Internal Revenue Service Form 8621 regarding distributions received on the ADSs or Class A ordinary shares and any gain realized on the disposition of the ADSs or Class A ordinary shares. In addition, if we are a PFIC for a taxable year in which we pay a dividend, or for the prior taxable year, the lower rate on “qualified dividend income” discussed above with respect to dividends paid to certain non-corporate U.S. holders would not apply.

U.S. holders and prospective holders of our ADSs are urged to consult their tax advisors regarding the application of the PFIC rules to an investment in ADSs or Class A ordinary shares.

Information Reporting and Backup Withholding

Dividend payments with respect to ADSs or Class A ordinary shares and proceeds from the sale, exchange or redemption of ADSs or Class A ordinary shares may be subject to information reporting to the Internal Revenue Service and possible United States backup withholding at a current rate of 28%. Backup withholding will not apply, however, to a U.S. holder who furnishes a correct taxpayer identification number and makes any other required certifications or who is otherwise exempt from backup withholding. U.S. holders who are required to establish their exempt status must provide such certification on Internal Revenue Service Form W-9. U.S. holders should consult their tax advisors regarding the application of the United States information reporting and backup withholding rules.

Individual U.S. holders, and certain entities that are U.S. holders, that own “specified foreign financial assets” with an aggregate value in excess of \$50,000 are generally required to file an information statement along with their tax returns, currently on Form 8938, with respect to such assets. “Specified foreign financial assets” include any financial accounts held at a non-U.S. financial institution, as well as securities issued by a non-U.S. issuer (which would include our ADSs and Class A ordinary shares) that are not held in accounts maintained by financial institutions. Higher reporting thresholds apply to certain individuals living abroad and to certain married individuals. Regulations have been proposed that would extend this reporting requirement to certain entities that are treated as formed or availed of to hold direct or indirect interests in specified foreign financial assets based on certain objective criteria. U.S. holders who fail to report the required information could be subject to substantial penalties. Prospective investors should consult their own tax advisors concerning the application of these rules to their investment in our ADSs and Class A ordinary shares, including the application of the rules to their particular circumstances.

Prospective purchasers of our ADSs should consult their own tax advisor regarding the application of the U.S. federal income tax laws to their particular situations as well as any tax consequences resulting from purchasing, holding or disposing of our ADSs and Class A Ordinary Shares, including the applicability and effect of the tax laws of any state, local or foreign jurisdiction and including estate, gift and inheritance laws.

Available Additional Information

We are subject to the periodic reporting and other informational requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Under the Exchange Act, we are required to file reports and other information with the SEC.

Copies of reports and other information, when so filed, may be inspected without charge and may be obtained at prescribed rates at the public reference facilities maintained by the Securities and Exchange Commission at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. The public may obtain information regarding the Washington, D.C. Public Reference Room by calling the Commission at 1-800-SEC-0330. The SEC also maintains a Website at www.sec.gov that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

As permitted under Nasdaq Stock Market Rule 5250(d)(1)(C), we will post our annual reports filed with the SEC on our Web site at <http://www.changyou.com>. We will not furnish hard copies of such reports to holders of our ADSs unless we are requested to do so in writing by a holder. Upon receipt of such a request, we will provide a hard copy of such reports to such requesting holder free of charge.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Foreign Currency Exchange Risk

While our reporting currency is the U.S. dollar, to date the majority of our revenues and costs are denominated in RMB and a significant portion of our assets and liabilities are denominated in RMB. As a result, we are exposed to foreign exchange risk as our revenues and results of operations may be affected by fluctuations in the exchange rate between U.S. dollar and RMB. If the RMB depreciates against the U.S. dollar, the value of our RMB revenues and assets as expressed in our U.S. dollar financial statements will decline. For example, as reported in our U.S. dollar financial statements included in this annual report, our revenues for the year ended December 31, 2015 were \$761.6 million and our total assets as of December 31, 2015 were \$1.78 billion, representing revenues of RMB 4.95 billion and total assets of RMB11.6 billion at the noon buying rate of RMB 6.4936 to \$1.00 on December 31, 2015. If the value of the RMB were to depreciate by approximately 10% to RMB 7.1430 to \$1.00, the value of the same amount of RMB-denominated revenue and total assets in U.S. dollars would be \$692.4 million and \$1.62 billion, respectively. Also, we currently have outstanding loans from overseas banks that are denominated in U.S. dollars. To repay these loans, we will need to first convert our cash denominated in RMB into U.S. dollars. If the RMB depreciates relative to the U.S. dollar, we will have to use a larger amount of cash in RMB for any such loan repayment. For example, as reported in our U.S. dollar financial statements included in this annual report, our loans denominated in U.S. dollars as of December 31, 2015 aggregated \$344.5 million. We needed RMB2.24 billion to settle these loans at the noon buying rate of RMB 6.4936 to \$1.00 on December 31, 2015. If the value of the RMB were to depreciate by approximately 10% to RMB 7.1430 to \$1.00, we would have to use RMB2.46 billion to settle loans in the same aggregate amount. We do not hold any derivative or other financial instruments that expose us to substantial market risk. See “Risk Factors—Risks Related to Doing Business in China—We have suffered currency exchange losses, and we may continue to suffer currency exchange losses if the RMB continues to depreciate relative to the U.S. dollar, and fluctuations in the value of the RMB may have an adverse effect on our shareholders’ investment.” in Item 3.

The RMB is currently freely convertible under the “current account,” which includes dividends, trade and service-related foreign exchange transactions, but not under the “capital account,” which includes foreign direct investment. In addition, commencing on July 21, 2005, China reformed its exchange rate regime by changing to a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. Provisions on Administration of Foreign Exchange, as amended in August 2008, further changed China’s exchange regime to a managed floating exchange rate regime based on market supply and demand. Under the managed floating exchange rate regime, the RMB is no longer pegged to the U.S. dollar. The exchange rate of the RMB against the U.S. dollar was adjusted to RMB 8.11 per U.S. dollar as of July 22, 2005, representing an appreciation of about 2%. The People’s Bank of China will announce the closing prices of foreign currencies such as the U.S. dollar traded against the RMB in the inter-bank foreign exchange market after the closing of the market on each business day, and will make such prices the central parity for trading against the RMB on the following business day. On May 19, 2007, the People’s Bank of China announced a policy to expand the maximum daily floating range of RMB trading prices against the U.S. dollar in the inter-bank spot foreign exchange market from 0.3% to 0.5%. While the international reactions to the RMB revaluation and widening of the RMB’s daily trading band have generally been positive, with the increased floating range of the RMB’s value against foreign currencies, the RMB may appreciate or depreciate significantly in value against the U.S. dollar or other foreign currencies in the long term, depending on the fluctuation of the basket of currencies against which it is currently valued. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the effectiveness of these hedges may be limited and we may not be able to successfully hedge our exposure. Accordingly, we may incur economic losses in the future due to foreign exchange rate fluctuations, which could have a negative impact on our financial condition and results of operations.

The following table sets forth a summary of our foreign currency sensitive financial instruments as of December 31, 2015, which consisted of cash and cash equivalents, restricted time deposits, accounts receivable, short term investments, prepaid and other current assets, short-term bank loans, other current liabilities, long-term accounts payables and other long-term liabilities. The book value of those financial instruments approximated their fair value.

	Denominated in			
	US\$	RMB	Others	Total
	(in thousands)			
Cash and cash equivalents	\$269,620	\$284,964	\$15,333	\$569,917
Restricted time deposits	—	354,739	—	354,739
Accounts receivable, net	7,250	59,548	1,161	67,959
Short-term investments	18,000	156,515	—	174,515
Prepaid and other current assets	325	231,402	665	232,392
Short-term bank loans	344,500	—	—	344,500
Other current liabilities	175,505	181,838	13,056	370,399
Long-term accounts payable	—	1,004	—	1,004
Other long-term liabilities	—	738	—	738

Inflation Rate Risk

According to the National Bureau of Statistics of China, the change in the consumer price index in China was 1.4%, 2.0% and 2.6% in 2015, 2014 and 2013, respectively. If inflation rises, it may materially and adversely affect our business.

Interest Rate Risk

Our investment policy limits our investments of excess cash in high-quality corporate securities and limits the amount of credit exposure to any one issuer. We protect and preserve our invested funds by limiting default, market and reinvestment risk.

During 2014, we drew down loans from the offshore branches of certain banks, which were secured by an equivalent or greater amount of RMB deposits by us in the onshore branches of such banks. As of December 31, 2015, the total amount of the loans was \$344.5 million and all carried a floating rate of interest based on the London Inter-Bank Offered Rate, or LIBOR. The fair value of our fixed interest rate loans will fluctuate with movements of market interest rates, increasing in periods of declining rates of interest and declining in periods of increasing rates of interest. Based upon the prevailing interest rates in the market, the fair value of our loans was \$344.5 million at December 31, 2015. Based on our interest-bearing loans in 2015, a 10% change in the interest rate would result in an increase or decrease of \$0.7 million of our total amount of interest expense in 2015.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

The following table summarizes the fees and charges that a holder of our ADSs may have to pay, directly or indirectly, pursuant to the Deposit Agreement, which was filed as an exhibit to our Registration Statement on Form F-1 filed with the SEC on March 17, 2009 (File No. 333-158061), and the types of services and the amount of the fees or charges paid therefore:

<i>Persons depositing or withdrawing shares or ADS holders must pay:</i>	<i>For:</i>
\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)	<ul style="list-style-type: none">• Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property
\$.02 (or less) per ADS	<ul style="list-style-type: none">• Cancellation of ADSs for the purpose of withdrawal, including if the Deposit Agreement terminates• Any cash distribution to ADS holders
A fee equivalent to the fee that would be payable if securities distributed to you had been shares and the shares had been deposited for issuance of ADSs	<ul style="list-style-type: none">• Distribution of securities distributed to holders of deposited securities which are distributed by the depository to ADS holders
\$.02 (or less) per ADSs per calendar year	<ul style="list-style-type: none">• Depository services
Registration or transfer fees	<ul style="list-style-type: none">• Transfer and registration of shares on our share register to or from the name of the depository or its agent when you deposit or withdraw shares
Expenses of the depository	<ul style="list-style-type: none">• Cable, telex and facsimile transmissions (when expressly provided in the Deposit Agreement)• converting foreign currency to U.S. dollars
Taxes and other governmental charges the depository or the custodian have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes	<ul style="list-style-type: none">• As necessary
Any charges incurred by the depository or its agents for servicing the deposited securities	<ul style="list-style-type: none">• As necessary

Pursuant to an agreement dated April 1, 2009, as amended in June 4, 2010, between us and the Bank of New York Mellon, the depository for our ADSs, the depository reimbursed us in May of each of 2013, 2014 and 2015 for our expenses, including investor relations expenses, legal fees, accounting fees, Nasdaq listing application and listing fees and related expenses, of \$6,000, \$nil and \$nil, respectively, which figures are net of U.S. withholding tax, related to the establishment of an American depository receipt facility.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not Applicable.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Use of Proceeds

On April 1, 2009, our registration statement on Form F-1 (File No. 333-158061), as amended, was declared effective by the SEC for our initial public offering, pursuant to which we and Sohu.com (Game) Limited, an indirect wholly-owned subsidiary of Sohu and the selling shareholder in the offering, offered and sold a total of 8,625,000 ADSs at the public offering price of \$16.00 per ADS. The offering was completed on April 7, 2009.

We sold 3,750,000 ADSs and the selling shareholder sold 4,875,000 ADSs in our initial public offering. We received net proceeds of approximately \$54.7 million, after deducting underwriting discounts and commissions of approximately \$4.2 million and other expenses of approximately \$1.1 million. None of the underwriting discounts and commissions or other expenses were paid directly or indirectly to any director, officer, or general partner of ours or to their associates, persons owning ten percent or more of any class of our equity securities, or to any of our affiliates. We did not receive any proceeds from the sale of our ADSs by the selling shareholder. Credit Suisse Securities (USA) LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated were the managing underwriters for the offering.

As of December 31, 2015, we had not used any of the net proceeds to us from our initial public offering. Proceeds from the offering have been deposited in banks.

ITEM 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of the end of the period covered by this annual report, our principal executive officer and principal financial officer have performed an evaluation of the effectiveness of our disclosure controls and procedures as defined and required under Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Based upon that evaluation, they have concluded that our disclosure controls and procedures were effective in ensuring that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure. Our principal executive officer and principal financial officer also concluded that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in by the Securities and Exchange Commission's rules and regulations.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of are being made only in accordance with authorizations of management; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of any of our assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an assessment of the effectiveness of our internal control over financial reporting based upon criteria established in the "Internal Control—Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this assessment, management has concluded that our internal control over financial reporting is effective as of December 31, 2015.

The effectiveness of our internal control over financial reporting as of December 31, 2015 has been audited by PricewaterhouseCoopers Zhong Tian LLP, our independent registered public accounting firm, as stated in its report included on page F-2.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15 or 15d-15 that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our Board of Directors has determined that Dave De Yang is an “audit committee financial expert” as defined under the applicable SEC rules and Rule 5605(c)(2) of the Nasdaq Listing Rules. Our Board of Directors has determined that all three members of our audit committee are “independent” under Rule 10A-3 under the Securities Exchange Act of 1934 and Rule 5605 of the Nasdaq Listing Rules.

ITEM 16B. CODE OF ETHICS

Our Board of Directors adopted a code of ethics and conduct that is applicable to all of our directors, officers and employees. A copy of our code of ethics and conduct was filed as an exhibit to our Registration Statement on Form F-1 (File No. 333-158061) originally filed with the SEC on March 17, 2009, and is also posted on our Website at <http://www.changyou.com> under the “Investor Relations—Corporate Governance.”

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by PricewaterhouseCoopers Zhong Tian LLP, our principal external auditors, for the periods indicated below.

	For the year ended December 31,	
	2014	2015
	US\$	US\$
	(in thousands)	
Audit fees ⁽¹⁾	\$2,035	\$1,799
Tax fees ⁽²⁾	1,415	1,415
Audit related fees ⁽³⁾	126	61
All other fees	<u>2</u>	<u>2</u>
Total	<u>\$3,578</u>	<u>\$3,277</u>

- (1) “Audit fees” means the aggregate fees billed in each of the fiscal years listed for professional services rendered by our principal auditors for the audit of our annual financial statements and our internal controls over financial reporting.
- (2) “Tax fees” means the aggregate fees billed in each of the fiscal years listed for professional services rendered by our principal auditors for tax compliance and tax advice.
- (3) “Audit-related fees” means the aggregate fees billed in each of the fiscal years listed for professional services rendered by our principal auditors related to the audit of our financial statements and our internal controls over financial reporting that are not reported under “Audit Fees” and consultation on accounting standards or transactions.

Audit Committee Pre-approval Policies and Procedures

Our audit committee has adopted procedures which set forth the manner in which the committee will review and approve all audit and non-audit services to be provided by PricewaterhouseCoopers Zhong Tian LLP before that firm is retained for such services. The pre-approval procedures are as follows:

- Any audit or non-audit service to be provided to us by the independent accountant must be submitted to the audit committee for review and approval, with a description of the services to be performed and the fees to be charged.
- The audit committee in its sole discretion then approves or disapproves the proposed services and documents such approval, if given, through written resolutions or in the minutes of meetings, as the case may be.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not Applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

On July 29, 2013, we announced that our board of directors had authorized a share repurchase program of up to US\$100 million of our outstanding American depository shares, or ADSs, over a two-year period from July 27, 2013 to July 26, 2015. The ADSs may be purchased from time to time at management's discretion at prevailing market prices in the open market in accordance with Rule 10b-18 under the Securities Exchange Act of 1934. Changyou's management will determine the timing and amount of any purchases of Changyou ADSs based on their evaluation of market conditions, the trading price of our ADSs and other factors. The purchase program may be suspended or discontinued at any time. As of July 26, 2015, we had repurchased an aggregate of 1,364,846 ADSs, representing 2,729,692 Class A ordinary shares, for an aggregate purchase price of \$35 million (equivalent to an average price of \$25.90 per ADS, or \$12.95 per Class A ordinary share). All ADSs repurchased by us during 2015, 2014 and 2013 were made pursuant to our publicly announced share repurchase program. We financed the share repurchase program through U.S. dollar-denominated loans from offshore banks which are secured by an equivalent amount of RMB-denominated onshore bank deposits of our subsidiaries in China.

The table below provides additional information on our repurchases of ADSs for each month of 2013, 2014 and 2015 after the commencement of the program:

<u>Month</u>	<u>Number of ADSs Purchased</u>	<u>Purchase Cost (US\$)*</u>	<u>Average Price Paid Per ADS (US\$)*</u>	<u>Average Price Paid Per Ordinary Share (US\$)*</u>
2013				
August (from August 9 to August 21)	227,500	6,796,182	29.87	14.94
September (from September 3 to September 6)	78,300	2,258,222	28.84	14.42
October (from October 28 to October 30)	284,700	8,197,604	28.79	14.40
	<u>590,500</u>	<u>17,252,008</u>	<u>29.22</u>	<u>14.61</u>
2014				
December (from December 5 to December 11)	164,300	3,576,792	21.77	10.88
	<u>164,300</u>	<u>3,576,792</u>	<u>21.77</u>	<u>10.88</u>
2015				
February (February 20)	847	21,615	25.52	12.76
March (from March 16 to March 20)	51,599	1,307,707	25.34	12.67
July (from July 6 to July 24)	557,600	13,192,624	23.66	11.83
Total	<u>1,364,846</u>	<u>35,350,746</u>	<u>25.90</u>	<u>12.95</u>

* Cost and average price data includes trading commissions. Some numbers may not add due to rounding.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not Applicable.

ITEM 16G. CORPORATE GOVERNANCE

Because Sohu owns more than 50% of the total voting power of our ordinary shares, we are a "controlled company" under the Nasdaq Listing Rules. We intend to rely on certain exemptions that are available to controlled companies from Nasdaq corporate governance requirements, including the requirements:

- that we have a corporate governance and nominating committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities;
- that we have a compensation committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities; and
- for an annual performance evaluation of the nominating and governance committee and compensation committee.

We are not required to and will not voluntarily meet these requirements.

In addition, we may invoke the “home country practice” exceptions available to foreign private issuers, such as us, under the Nasdaq Listing Rules, including those that are similar to the exemptions for controlled companies and other exemptions from Nasdaq corporate governance requirements.

In November 2014 our board of directors approved an increase in the number of Class A ordinary shares reserved for issuance under our 2014 Share Incentive Plan, and we invoked the “home country practice” exception in order to implement the increase immediately, without seeking shareholder approval. Under the law of the Cayman Islands, which is our “home country” under the Nasdaq Listing Rules, shareholder approval is not required for such an increase.

As a result of our use of the “controlled company” exemptions and our invoking of one the “home country practice” exceptions, our investors do not have the same protection afforded to shareholders of companies that are subject to all of Nasdaq’s corporate governance requirements.

ITEM 16H. MINE SAFETY DISCLOSURE

Not Applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

We have elected to provide financial statements pursuant to Item 18.

ITEM 18. FINANCIAL STATEMENTS

The consolidated financial statements of Changyou and its subsidiaries and VIEs are included at the end of this annual report.

ITEM 19. EXHIBITS

<u>Exhibit Number</u>	<u>Description of Document</u>
1.1 ⁽¹⁾	Second Amended and Restated Memorandum and Articles of Association of the Registrant
2.1 ⁽¹⁾	Registrant’s Specimen American Depositary Receipt
2.2 ⁽¹⁾	Registrant’s Specimen Certificate for Class A ordinary shares
2.3 ⁽¹⁾	Form of Deposit Agreement among the Registrant, the depositary and all registered holders and beneficial owners of the American Depositary Shares
4.1 ⁽¹⁾	2008 Share Incentive Plan
4.2 ⁽¹⁾	Form of Indemnification Agreement with the Registrant’s directors
4.3 ⁽¹⁾	English translation of Services and Maintenance Agreement, dated November 30, 2007, between AmazGame and Gamease
4.4 ⁽¹⁾	English translation of Technology Support and Utilization Agreement, dated August 20, 2008, between AmazGame and Gamease
4.5 ⁽¹⁾	Master Transaction Agreement, dated January 1, 2009, by and between Sohu.com Inc. and Changyou.com Limited
4.6 ⁽¹⁾	English Translation of License Agreement between Gamease and Louis Cha regarding TLBB†
4.7 ⁽²⁾	English Translation of Project Cooperation Agreement, dated August 23, 2010, between AmazGame and Beijing Raycom Jingyuan Real Estate Development Co., Ltd.
4.8 ⁽²⁾	Amended and Restated Marketing Services Agreement, dated January 1, 2010, between Changyou and Sohu
4.9 ⁽²⁾	English translation of Services and Maintenance Agreement, dated September 1, 2010, between Gamespace and Guanyou Gamespace

<u>Exhibit Number</u>	<u>Description of Document</u>
4.10 ⁽²⁾	English translation of Technology Support and Utilization Agreement, dated September 1, 2010, between Gamespace and Guanyou Gamespace
4.11 ⁽³⁾	Master Transaction Agreement, dated as of November 29, 2011, between, on the one hand, Sohu.com Inc., Sohu.com Limited, Beijing Sohu Internet Information Service Co., Ltd., Beijing Sohu New Era Information Technology Co., Ltd., and Beijing Sohu New Media Information Technology Co., Ltd., and, on the other hand, Changyou.com Limited, Changyou.com HK Limited, and Beijing Changyou Gamespace Software Technology Co., Ltd., Beijing Guanyou Gamespace Digital Technology Co., Ltd.
4.12 ⁽³⁾	Amended and Restated Non-Competition Agreement, dated as of November 29, 2011, by and between Sohu.com Inc. and Changyou.com Limited
4.13 ⁽³⁾	Services Agreement, dated as of November 29, 2011, by and between Beijing Changyou Gamespace Software Technology Co., Ltd. and Beijing Sohu New Media Information Technology Co., Ltd.
4.14 ⁽³⁾	English Translation of Form of Beijing Commercial Property Advance Sale Contract between AmazGame and Beijing Raycom Jingyuan Real Estate Development Co., Ltd.
4.15 ⁽⁴⁾	Loan Facility Letter, dated August 13, 2013, among Hang Seng Bank Limited, Changyou.com HK Limited and Changyou.com Limited
4.16 ⁽⁴⁾	Loan Facility Letter, dated July 26, 2013, between the Bank of East Asia, Limited and Changyou.com Limited
4.17 ⁽⁴⁾	Loan Facility Letter, dated May 8, 2013, among Hang Seng Bank Limited, Changyou.com HK Limited and Changyou.com Limited
4.18 ⁽⁵⁾	Form of Executive Employment Agreement, effective as of January 1, 2015 with Executive Officers
4.19 ⁽⁵⁾	Form of Executive Employee Non-Competition, Non-Solicitation Agreement, Confidential Information and Work Product Agreement, effective as of January 1, 2015 with Executive Officers.
4.20 ⁽⁵⁾	Termination Agreement dated as of January 15, 2015 between Changyou.com Limited and Tao Wang†
4.21 ⁽⁵⁾	Changyou.com Limited 2014 Share Incentive Plan
4.22*	English translation of Loan Agreement, dated April 15, 2015, between AmazGame and High Century
4.23*	English translation of Equity Interest Purchase Right Agreement, dated April 15, 2015, among AmazGame, Gamease and High Century
4.24*	English translation of Equity Pledge Agreements, dated April 15, 2015, among AmazGame, Gamease and High Century
4.25*	English translation of Business Operation Agreement, dated April 15, 2015, among AmazGame, Gamease and High Century
4.26*	English translation of Power of Attorney, dated April 15, 2015, executed by High Century in favor of AmazGame
4.27*	English translation of Loan Agreement, dated July 6, 2015, between Gamespace and Changyou Star
4.28*	English translation of Equity Interest Purchase Right Agreement, dated July 6, 2015, among Gamespace, Guanyou Gamespace and Changyou Star
4.29*	English translation of Equity Pledge Agreements, dated July 6, 2015, among Gamespace, Guanyou Gamespace and Changyou Star.
4.30*	English translation of Business Operation Agreement, dated July 6, 2015, among Gamespace, Guanyou Gamespace and Changyou Star.
4.31*	English translation of Power of Attorney, dated July 6, 2015, executed by Changyou Star in favor of Gamespace.
4.32*	English translation of Equity Pledge Agreement, dated September 30, 2015, among Beijing Baina Technology, Changyou Star and Yongzhi Yang
4.33*	English translation of Exclusive Call Option Agreement, dated September 30, 2015, among Beijing Baina Technology, Changyou Star, Wuhan Baina Information and Yongzhi Yang
4.34*	English translation of Exclusive Services Agreement, dated September 30, 2015, between Beijing Baina Technology and Wuhan Baina Information.

<u>Exhibit Number</u>	<u>Description of Document</u>
4.35*	English translation of Business Operation Agreement, dated September 30, 2015, among Beijing Baina Technology, Wuhan Baina Information, Changyou Star and Yongzhi Yang.
4.36*	English translation of Power of Attorney, dated September 30, 2015, executed by the shareholders of Wuhan Baina Information in favor of Beijing Baina Technology.
4.37*	English translation of Equity Purchase Agreement, dated April 16, 2015, among Meng Shuqi, Gamease, Shenzhen 7Road and Shanghai Yong Chong.
8.1*	Subsidiaries of the Registrant
11.1 ⁽¹⁾	Code of Ethics and Conduct for Directors, Officers and Employees
12.1*	Certification of Co-Chief Executive Officer Required by Rule 13a-14(a)
12.2*	Certification of Co-Chief Executive Officer Required by Rule 13a-14(a)
12.3*	Certification of Chief Financial Officer Required by Rule 13a-14(a)
13.1*	Certification of Co-Chief Executive Officer Required by Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code
13.2*	Certification of Co-Chief Executive Officer Required by Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code
13.3*	Certification of Chief Financial Officer Required by Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code
15.1*	Consent of PricewaterhouseCoopers Zhong Tian LLP, an independent registered public accounting firm
15.2*	Consent of Haiwen & Partners
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

(1) Incorporated by reference to our Registration Statement on Form F-1 (file no. 333-158061) filed with the Securities and Exchange Commission on March 17, 2009.

(2) Incorporated by reference to our Annual Report on Form 20-F filed with the Securities and Exchange Commission on February 28, 2011.

(3) Incorporated by reference to our Annual Report on Form 20-F filed with the Securities and Exchange Commission on February 28, 2012.

(4) Incorporated by reference to our Annual Report on Form 20-F filed with the Securities and Exchange Commission on February 28, 2014.

(5) Incorporated by reference to our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 2, 2015.

† Portions of these exhibits have been omitted pursuant to a request for confidential treatment, and the omitted information has been filed separately with the Securities and Exchange Commission.

* Filed or furnished with this Annual Report on Form 20-F.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing its annual report on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

CHANGYOU.COM LIMITED

By /s/ CAROL YU
Name: **Carol Yu**
Title: **Co-Chief Executive Officer**

By /s/ DEWEN CHEN
Name: **Dewen Chen**
Title: **Co-Chief Executive Officer**

By /s/ JASMINE ZHOU
Name: **Jasmine Zhou**
Title: **Chief Financial Officer**

Date: February 26, 2016

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	<u>Page</u>
<u>Report of Independent Registered Public Accounting Firm</u>	F-2
<u>Consolidated Balance Sheets as of December 31, 2014 and 2015</u>	F-3
<u>Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2013, 2014 and 2015</u>	F-4
<u>Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2013, 2014 and 2015</u>	F-5
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2013, 2014 and 2015</u>	F-6
<u>Notes to Consolidated Financial Statements</u>	F-7

Report of Independent Registered Public Accounting Firm

To Board of Directors and Shareholders of Changyou.Com Limited:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of comprehensive income, consolidated statements of shareholders' equity and consolidated statements of cash flows present fairly, in all material respects, the financial position of Changyou.com Limited (the "Company") and its subsidiaries at December 31, 2015 and December 31, 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in management's annual report on internal control over financial reporting appearing under Item 15 of the accompanying Form 20-F. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers Zhong Tian LLP
Beijing, the People's Republic of China
February 26, 2016

CHANGYOU.COM LIMITED
CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2014 and 2015
(In thousands, except par value)

	Notes	As of December 31,	
		2014	2015
		US\$	US\$
Assets			
Current assets:			
Cash and cash equivalents		220,794	569,917
Short-term investments	4(g)	191,577	174,515
Accounts receivable, net	8	77,969	67,959
Prepaid and other current assets (including \$nil and \$174,574, respectively, of matching loans to related parties)	9	34,845	232,392
Restricted time deposits	4(e), 7	282,186	227,285
Total current assets		807,371	1,272,068
Non-current assets:			
Fixed assets, net	10	243,837	214,306
Intangible assets, net	11	68,276	25,139
Long-term investments, net	12	5,138	4,630
Goodwill	13	258,997	111,082
Restricted time deposits	4(e), 7	135,256	127,454
Other assets, net	14	29,090	24,827
Total assets		1,547,965	1,779,506
Liabilities and shareholders' equity			
Current liabilities:			
Accounts payable (including accounts payable of consolidated variable interest entities ("VIEs") without recourse to the Company of \$27,153 and \$8,414, respectively)		50,782	25,484
Receipts in advance and deferred revenue (including receipts in advance and deferred revenue of consolidated VIEs without recourse to the Company of \$37,871 and \$36,463, respectively)	16	39,178	42,166
Accrued salary and benefits (including accrued salary and benefits of consolidated VIEs without recourse to the Company of \$2,727 and \$880, respectively)		55,592	37,347
Accrued liabilities to suppliers (including accrued liabilities to suppliers of consolidated VIEs without recourse to the Company of \$14,295 and \$3,993, respectively)		17,240	14,930
Tax payables (including tax payables of consolidated VIEs without recourse to the Company of \$5,139 and \$13,700, respectively)		18,471	27,423
Short-term bank loans	4(e), 7	25,500	344,500
Other short-term liabilities (including \$nil and \$184,239, respectively, of matching loans from related parties and other short-term liabilities of consolidated VIEs without recourse to the Company of \$9,618 and \$6,506, respectively)	17	14,893	198,165
Deferred tax liabilities		22,356	24,884
Current contingent consideration	4(n)	3,935	—
Total current liabilities		247,947	714,899
Long-term liabilities:			
Long-term accounts payable		5,143	1,004
Long-term bank loans	4(e), 7	344,500	—
Long-term deferred tax liabilities (including long-term deferred tax liabilities of consolidated VIEs without recourse to the Company of \$1,799 and \$1,540, respectively)		5,748	3,616
Long-term contingent consideration (including long-term contingent consideration of consolidated VIEs without recourse to the Company of \$1,929 and \$nil, respectively)	4(n)	1,929	—
Other long-term liabilities		—	738
Total liabilities		605,267	720,257
Commitments and contingencies	28		
Shareholders' equity:			
Class A ordinary shares par value \$0.01, 200,000 authorized; 22,977 and 34,089, respectively, issued and outstanding as of December 31, 2014 and 2015		245	368
Class B ordinary shares par value \$0.01, 97,740 authorized; 82,490 and 70,250, respectively, issued and outstanding as of December 31, 2014 and 2015		825	703
Additional paid-in capital		96,004	111,719
Treasury shares (1,510 and 2,730 shares, respectively, as of December 31, 2014 and 2015)	26	(20,817)	(35,323)
Statutory reserves	23	9,367	6,746
Retained earnings		735,962	951,367
Accumulated other comprehensive income/(loss)		68,802	(6,101)
Total Changyou.com Limited shareholders' equity		890,388	1,029,479
Non-controlling interest		52,310	29,770
Total shareholders' equity		942,698	1,059,249
Total liabilities and shareholders' equity		1,547,965	1,779,506

The accompanying notes are an integral part of these consolidated financial statements.

CHANGYOU.COM LIMITED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2013, 2014 and 2015
(In thousands, except per share or per ADS data)

	Note	For the Year Ended December 31		
		2013	2014	2015
		US\$	US\$	US\$
Revenues:				
Online game		669,168	652,008	636,846
Online advertising		49,998	58,963	57,832
IVAS		5,402	22,357	24,385
Others		13,307	21,938	42,573
Total revenues		737,875	755,266	761,636
Cost of revenues:				
Online game		93,306	142,549	156,318
Online advertising		13,827	14,838	11,565
IVAS		1,786	22,985	19,647
Others(including transactions with related parties of \$1,310, \$nil and \$nil, respectively)		17,518	21,490	29,231
Total cost of revenues		126,437	201,862	216,761
Gross profit		611,438	553,404	544,875
Operating expenses:				
Product development		119,909	194,113	170,605
Sales and marketing(including transactions with related parties of \$13,390, \$10,401 and \$2,651, respectively)		128,830	241,307	92,355
General and administrative		57,191	107,451	80,269
Goodwill impairment and impairment of intangible assets acquired as part of acquisition of a business		—	52,282	40,324
Total operating expenses		305,930	595,153	383,553
Operating profit/(loss)		305,508	(41,749)	161,322
Interest income (including transactions with related parties of \$nil, \$nil and \$5,360, respectively)		28,455	26,091	23,777
Foreign currency exchange gain/(loss)		(5,936)	(668)	2,954
Interest expense (including transactions with related parties of \$nil, \$nil and \$1,340, respectively)		(8,835)	(6,452)	(8,333)
Other income		3,613	4,112	64,962
Income/(Loss) before income tax expense		322,805	(18,666)	244,682
Income tax expense	20	36,383	2,493	54,055
Net income/(loss)		286,422	(21,159)	190,627
Less: Net income attributable to the mezzanine classified non-controlling interest shareholders		17,780	—	—
Less: Net loss attributable to the non-controlling interest shareholders		—	(17,778)	(22,157)
Net income/(loss) attributable to Changyou.com Limited		268,642	(3,381)	212,784
Net income/(loss)		286,422	(21,159)	190,627
Other comprehensive income/(loss)		33,600	(2,931)	(74,922)
Comprehensive income/(loss)		320,022	(24,090)	115,705
Comprehensive income attributable to the mezzanine classified non-controlling interest shareholders		17,780	—	—
Comprehensive loss attributable to the non-controlling interest shareholders		—	(17,778)	(22,176)
Comprehensive income/(loss) attributable to Changyou.com Limited		302,242	(6,312)	137,881
Basic net income/(loss) per share	24	2.53	(0.03)	2.03
Diluted net income/(loss) per share	24	2.52	(0.03)	2.01
Basic net income/(loss) per ADS		5.06	(0.06)	4.06
Diluted net income/(loss) per ADS		5.04	(0.06)	4.02
Weighted average number of ordinary shares outstanding, basic		106,252	105,722	104,924
Weighted average number of ordinary shares outstanding, diluted		106,676	105,722	105,762
Weighted average number of ADS outstanding, basic		53,126	52,861	52,462
Weighted average number of ADS outstanding, diluted		53,338	52,861	52,881
Total share-based compensation cost included in:				
Cost of revenues		101	152	35
Product development		475	1,069	5,475
Sales and marketing		74	105	1,017
General and administrative		624	2,788	8,497

The accompanying notes are an integral part of these consolidated financial statements.

CHANGYOU.COM LIMITED
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2013, 2014 and 2015
(In thousands)

	Ordinary shares				Statutory reserves	Retained earnings	Accumulated other comprehensive income	Non-controlling interest	Total shareholders' equity
	Number of shares	Additional paid-in capital		Treasury shares					
		Amount	US\$						
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	
Balance as of December 31, 2012	105,784	1,058	88,626	—	9,351	470,717	38,133	—	607,885
Issuance of ordinary shares upon vesting and settlement of restricted share units	1,071	11	(11)	—	—	—	—	—	—
Share-based compensation	—	—	1,117	—	—	—	—	—	1,117
Share-based compensation allocated from Sohu	—	—	77	—	—	—	—	—	77
Foreign currency translation adjustment	—	—	—	—	—	—	33,600	—	33,600
Net income attributable to Changyou.com Limited	—	—	—	—	—	268,642	—	—	268,642
Appropriation for statutory reserves	—	—	—	—	16	(16)	—	—	—
Gain from acquisition of minority interest in 7Road	—	—	2,409	—	—	—	—	—	2,409
Transaction costs for acquisition of minority interest in 7Road	—	—	(152)	—	—	—	—	—	(152)
Repurchase of common stock	—	—	—	(17,240)	—	—	—	—	(17,240)
Acquisition of majority interest in RaidCall	—	—	—	—	—	—	—	17,178	17,178
Balance as of December 31, 2013	<u>106,855</u>	<u>1,069</u>	<u>92,066</u>	<u>(17,240)</u>	<u>9,367</u>	<u>739,343</u>	<u>71,733</u>	<u>17,178</u>	<u>913,516</u>
Issuance of ordinary shares upon vesting and settlement of restricted share units	70	1	(1)	—	—	—	—	—	—
Share-based compensation	—	—	3,912	—	—	—	—	138	4,050
Share-based compensation allocated from Sohu	—	—	27	—	—	—	—	—	27
Foreign currency translation adjustment	—	—	—	—	—	—	(2,949)	—	(2,949)
Unrealized gain on available-for-sale securities, net	—	—	—	—	—	—	18	—	18
Net loss attributable to Changyou.com Limited and non-controlling interest shareholders	—	—	—	—	—	(3,381)	—	(17,778)	(21,159)
Acquisition of MoboTap	—	—	—	—	—	—	—	53,424	53,424
Disposal of a subsidiary	—	—	—	—	—	—	—	(652)	(652)
Repurchase of common stock	—	—	—	(3,577)	—	—	—	—	(3,577)
Balance as of December 31, 2014	<u>106,925</u>	<u>1,070</u>	<u>96,004</u>	<u>(20,817)</u>	<u>9,367</u>	<u>735,962</u>	<u>68,802</u>	<u>52,310</u>	<u>942,698</u>
Issuance of ordinary shares upon vesting and settlement of restricted share units	144	1	(1)	—	—	—	—	—	—
Share-based compensation	—	—	15,044	—	—	—	—	30	15,074
Foreign currency translation adjustment	—	—	—	—	—	—	(74,885)	(19)	(74,904)
Disposal of available-for-sale securities, net	—	—	—	—	—	—	(18)	—	(18)
Net income/(loss) attributable to Changyou.com Limited and non-controlling interest shareholders	—	—	—	—	—	212,784	—	(22,157)	190,627
Changes in statutory reserve	—	—	—	—	(2,621)	2,621	—	—	—
Non-controlling interest recognized in domestic company.	—	—	—	—	—	—	—	278	278
Repurchase of common stock	—	—	—	(14,506)	—	—	—	—	(14,506)
Change in majority interest in RaidCall	—	—	672	—	—	—	—	(672)	—
Balance as of December 31, 2015	<u>107,069</u>	<u>1,071</u>	<u>111,719</u>	<u>(35,323)</u>	<u>6,746</u>	<u>951,367</u>	<u>(6,101)</u>	<u>29,770</u>	<u>1,059,249</u>

The accompanying notes are an integral part of these consolidated financial statements.

CHANGYOU.COM LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015
(In thousands)

	For the Year Ended		
	December 31,		
	2013	2014	2015
	US\$	US\$	US\$
Cash flows from operating activities:			
Net income/(loss)	286,422	(21,159)	190,627
Adjustments to reconcile net income/(loss) to net cash provided by operating activities			
Bad debt provision	(300)	89	582
Depreciation	15,583	23,745	16,374
Amortization of intangible assets and other assets	26,790	41,423	24,739
Goodwill impairment and impairment of intangible assets acquired as part of acquisition of a business	—	52,282	40,324
Impairment loss of other assets	4,474	1,687	15,600
Share-based compensation allocated from Sohu	77	27	—
Share-based compensation expense	1,197	4,087	15,024
Loss from equity investments	—	232	724
Disposal loss of fixed assets and intangible assets	128	1,560	805
Deferred tax expense/(credits)	5,382	(20,965)	8,009
Change in contingent consideration	167	1,441	114
Change in fair value of short-term investments	(2,292)	(1,611)	(1,331)
Disposal of subsidiary and debt investment	—	—	(53,744)
Others	—	(652)	—
Changes in current assets and liabilities, net of acquisition:			
Accounts receivable, net	(11,843)	(41,133)	4,295
Prepaid and other assets, net (including interest receivable from related parties of \$nil, \$nil and \$5,360, respectively)	(25,653)	28,721	(12,743)
Accounts payable	22,751	(2,954)	(16,280)
Receipts in advance and deferred revenue	1,003	(4,584)	2,065
Accrued salary and benefits	15,825	6,049	(16,460)
Accrued liabilities to suppliers	5,922	(6,294)	951
Tax payables	13,352	(12,753)	4,464
Other short-term liabilities (including interest payable on related parties of \$nil, \$nil and \$1,340, respectively)	(342)	1,078	(10,795)
Net cash provided by operating activities	358,643	50,316	213,344
Cash flows from investing activities:			
Purchase of fixed assets	(61,582)	(24,241)	(12,443)
Purchase of intangible assets and other assets	(34,141)	(35,118)	(23,167)
Cash proceeds/(paid) relating to restricted time deposits	(168,635)	5,763	40,310
Cash paid for business acquisition, net of cash acquired	(109,695)	(86,539)	—
Investment in equity investees and debt securities	—	(4,918)	(4,136)
Proceeds from/(purchase of) short-term investments, net	51,185	(186,508)	5,511
Matching loans to related parties	—	—	(176,639)
Consideration received from sale of 7Road business and two subsidiaries and Doyo, net of cash	—	—	184,345
Other investing activities	175	1,059	(17,716)
Net cash used in investing activities	(322,693)	(330,502)	(3,935)
Cash flows from financing activities:			
Loan proceeds from banks	167,000	370,000	—
Matching loans from related parties	—	—	182,900
Repayments of loans to offshore banks	—	(410,194)	(25,500)
Payment of contingent consideration	(19,658)	(2,813)	—
Payment for repurchase of shares	(17,240)	(3,577)	(14,506)
Net cash provided by/(used in) financing activities	130,102	(46,584)	142,894
Effect of exchange rate changes on cash and cash equivalents	15,793	(920)	(3,180)
Net increase/(decrease) in cash and cash equivalents	181,845	(327,690)	349,123
Cash and cash equivalents, beginning of year	366,639	548,484	220,794
Cash and cash equivalents, end of year	548,484	220,794	569,917
Supplemental disclosures of cash flow			
Cash paid for income taxes	(48,590)	(11,982)	(40,241)
Cash paid for interest expense	(8,812)	(6,283)	(7,235)
Supplemental schedule of non-cash investing activity			
Consideration payable for the purchase of non-controlling interest in 7Road	2,000	—	—
Consideration payable for the acquisition of Doyo	4,952	—	—
Changes in government grant in prepaid and other current assets	1,355	1,425	—

The accompanying notes are an integral part of these consolidated financial statements.

CHANGYOU.COM LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND NATURE OF OPERATIONS

The accompanying consolidated financial statements include the financial statements of Changyou.com Limited (the “Company” or “Changyou”) and its subsidiaries and variable interest entities (“VIEs”). The Company was incorporated in the Cayman Islands on August 6, 2007. The Company and its subsidiaries and VIEs are collectively referred to as the “Group”. The principal subsidiaries and VIEs through which the Company conducts its business operations as of December 31, 2015 are described below:

<u>Name of entity</u>	<u>Place and date of incorporation or acquisition</u>	<u>Effective interest held</u>
Controlled entities:		
Changyou.com (HK) Limited (“Changyou HK”)	Hong Kong, China, August 13, 2007	100%
Beijing AmazGame Age Internet Technology Co., Ltd. (“AmazGame”)	Beijing, China, September 26, 2007	100%
Beijing Changyou Gamespace Software Technology Co., Ltd. (“Gamespace”)	Beijing, China, October 29, 2009	100%
Beijing Yang Fan Jing He Information Consulting Co., Ltd. (“Yang Fan Jing He”)	Beijing, China, April 22, 2010	100%
Shanghai Jing Mao Culture Communication Co., Ltd (“Shanghai Jingmao”)	Shanghai, China, acquired on January 25, 2011	100%
Beijing Changyou Jingmao Film & Culture Communication Co., Ltd. (“Beijing Jingmao”)	Beijing, China, acquired on January 25, 2011	100%
Shenzhen Brilliant Imagination Technologies Co., Ltd. (“Brilliant Imagination”)	Shenzhen, China, incorporated on April 18, 2014	100%
Changyou.com Webgames (HK) Limited (“Changyou HK Webgames”)	Hong Kong, China, September 21, 2011	100%
7Road.com Limited (“7Road”)	Cayman Islands, incorporated on June 15, 2011	100%
7Road.com HK Limited	Hong Kong, China, incorporated on July 6, 2011	100%
Glory Loop Limited	British Virgin Islands, incorporated on June 23, 2014	100%
MoboTap Inc. (“MoboTap”)	Cayman Islands, acquired on July 31, 2014	51%
MoboTap Inc. Limited	Hong Kong, China, acquired on July 31, 2014	51%
Baina Zhiyuan (Beijing) Technology Co., Ltd. (“Beijing Baina Technology”)	Beijing, China, acquired on July 31, 2014	51%
VIEs:		
Beijing Gamease Age Digital Technology Co., Ltd. (“Gamease”)	Beijing, China, incorporated on August 23, 2007	100%
Shanghai ICE Information Technology Co., Ltd. (“Shanghai ICE”)	Shanghai, China, acquired on May 28, 2010	100%
Beijing Guanyou Gamespace Digital Technology Co., Ltd. (“Guanyou Gamespace”)	Beijing, China, incorporated on August 5, 2010	100%
Baina (Wuhan) Information Technology Co., Ltd. (“Wuhan Baina Information”)	Wuhan, China, acquired on July 31, 2014	51%

The Group’s primary businesses are the online game business; the platform channel business, which consists of online advertising and software offerings; and the others business. The online game business and the platform channel business are the Group’s core businesses.

The Company is a leading online game developer and operator in China as measured by the popularity of TLBB and the mobile game TLBB 3D. The Group engages in the development, operation and licensing of online games for PCs and mobile devices. This includes PC games, which are interactive online games that are accessed and played simultaneously by hundreds of thousands of game players through personal computers and require that local client-end game access software be installed on the computers used; mobile games, which are played on mobile devices and require an Internet connection; and Web games, which are online games that are played through a Web browser with no local game software installation requirements.

The Group's platform channel business mainly consists of the operation of the 17173.com Website, one of the leading information portals in China, which provides news, electronic forums, online videos and other information services on online games to game players.

The Group's other services offerings include the sale, to advertisers, of pre-film cinema advertising slots, which are advertisements shown before the screening of movie in cinema theatres.

2. REORGANIZATION AND ACQUISITIONS

a. Reorganization

In August 2007, Sohu.com Inc. ("Sohu.com"), which is the Company's ultimate parent company, undertook a restructuring and reorganization (the "Reorganization"). Sohu.com and its subsidiaries and VIEs, excluding the Company and its subsidiaries and VIEs, are collectively referred to as "Sohu." Sohu.com and its subsidiaries and VIEs, including the Company and its subsidiaries and VIEs, are collectively referred to as the "Sohu Group." The Reorganization was effected in connection with a contemplated initial public offering by the Company on the Nasdaq Global Select Market.

Prior to the establishment of the Group, the operation and licensing of PC games were carried out by various companies owned or controlled by Sohu.com (the "Predecessor Operations"). In connection with the Reorganization, the Predecessor Operations, which include all operating assets and liabilities relating to the operation of massively multi-player online role-playing games ("MMORPGs") (which are a subset of massive multi-player online games ("MMOGs")), were transferred to the Group with legal effect as of December 1, 2007.

On April 7, 2009, the Company completed an initial public offering on the Nasdaq Global Select Market. In the offering, 8,625,000 American depositary shares ("ADSs"), representing 17,250,000 Class A ordinary shares, were sold to the public at a price of \$16.00 per ADS. Of these, 3,750,000 ADSs, representing 7,500,000 Class A ordinary shares, were sold by the Company; and 4,875,000 ADSs, representing 9,750,000 Class A ordinary shares, were sold by an indirect wholly-owned subsidiary of Sohu.com. The net proceeds to the Company from the initial public offering, after deducting commissions and offering expenses, were approximately \$54.7 million.

b. Share Repurchase Program

On July 27, 2013, Changyou's Board of Directors authorized a share repurchase program (the "Share Repurchase Program") of up to \$100 million of the outstanding ADSs of Changyou over a two-year period from July 27, 2013 to July 26, 2015. As of July 26, 2015, Changyou had repurchased 1,364,846 Changyou ADSs, representing 2,729,692 Class A ordinary shares, at an average price of \$25.9 per ADS, or \$12.95 per Class A ordinary share, for aggregate consideration of \$35 million, which was recorded in treasury shares in shareholder's equity.

c. 7Road Transactions

On May 11, 2011, the Group, through its VIE Gamease, acquired 68.258% of the equity interests of Shenzhen 7Road Technology Co., Ltd., or Shenzhen 7Road, and began to consolidate Shenzhen 7Road's financial statements on June 1, 2011. Effective June 26, 2012, Shenzhen 7Road was reorganized into a Cayman Islands holding company structure (the "7Road Reorganization") where Changyou held a direct ownership interest in 7Road through the Group's subsidiary Changyou HK Webgames and Shenzhen 7Road was a VIE of 7Road. As the reorganization did not result in any change in the ultimate beneficial ownership of Shenzhen 7Road's business, assets and results of operations, the Group's management believes that the reorganization should be viewed as a non-substantive transaction and treated as if it had been effective upon the Group's acquisition of 68.258% of the equity interests in Shenzhen 7Road.

On June 21, 2012, 7Road's then Chief Executive Officer surrendered to 7Road, without consideration, ordinary shares of 7Road representing 5.1% of the then outstanding ordinary shares of 7Road, with the intention that these shares would be added to the shares reserved by 7Road for grants of equity incentive awards under the 7Road 2012 Share Incentive Plan, without dilution of the other shareholders of 7Road. As a result, the non-controlling interest decreased to 28.074% of 7Road and the Group's interest in 7Road increased to 71.926%.

On May 1, 2013, Changyou entered into an agreement to acquire all of the ordinary shares of 7Road held by the non-controlling shareholders, representing 28.074% of the outstanding share capital of 7Road, and all of the equity interests in Shenzhen 7Road held by shareholders other than Gamease, for aggregate cash consideration of approximately \$78 million. Upon the closing of the acquisition on June 5, 2013, 7Road became an indirect wholly-owned subsidiary of Changyou, and Changyou's VIE Gamease became the sole shareholder of 7Road's VIE Shenzhen 7Road.

On August 17, 2015, (i) Changyou's VIE Gamease completed the sale to Shanghai Yong Chong Investment Center LP, a PRC limited partnership, of all of the equity interests in Shenzhen 7Road, a PRC company primarily engaged in the Web game business, and (ii) Changyou's wholly-owned subsidiary Changyou HK completed the sale to Supermax Holdings Group Limited, a British Virgin Islands company, of all of the equity capital of Changyou My Sdn. Bhd, a Malaysia company, and Changyou.com (UK) Company Limited, a United Kingdom company, which are engaged in the online game business in Malaysia and the United Kingdom, respectively. The aggregate consideration for these transactions was \$205.0 million in cash. As of December 31, 2015, all of the consideration had been paid to Changyou. In connection with these transactions, a disposal gain of \$55.1 million was recorded in other income in the Group's consolidated statements of comprehensive income.

d. Doyo Transactions

On November 26, 2013, Guanyou Gamespace acquired all of the equity interests in Beijing Doyo Internet Technology Co., Ltd. ("Doyo"), which is primarily engaged in the online advertising and traffic monetization business, for fixed cash consideration of approximately \$6.5 million and contingent consideration of up to \$7.3 million. As of December 31, 2014, Changyou had paid the fixed cash consideration of \$6.5 million and contingent consideration of \$0.8 million for the acquisition of Doyo.

In September 2015, Changyou's VIE Guanyou Gamespace entered into an agreement to sell all of the equity interests of Doyo to a PRC company owned by the former members of the management of Doyo. The aggregate consideration contemplated by the agreement includes cash consideration of approximately \$2.9 million, and forgiveness, effective upon the completion of the sale, of contingent consideration payable to former members of the management of Doyo in the amount of \$6.0 million. Changyou's management treated the fact that the total consideration for the sale of Doyo pursuant to the agreement will be lower than the carrying value of Doyo's net assets as an indicator that the goodwill associated with Doyo might be impaired. Accordingly, in September 2015 management performed a goodwill impairment test and recognized goodwill impairment in the amount of \$1.9 million and there was no further gain or loss recognized in other income in the Group's consolidated statements of comprehensive income. The transaction was completed on October 27, 2015.

e. Acquisition of RaidCall

On November 19, 2013, the Company entered into an investment agreement with the Kalends Group, pursuant to which TalkTalk was incorporated in the British Virgin Islands and initially wholly-owned by the Kalends Group, RaidCall (HK) Limited ("RaidCall HK") was incorporated in Hong Kong as a wholly-owned subsidiary of TalkTalk, and Beijing Changyou RaidCall Internet Technology Co., Ltd. ("Changyou RaidCall") was incorporated in the PRC as a wholly-owned subsidiary of RaidCall HK. The Kalends Group then transferred to RaidCall HK and Changyou RaidCall all of the assets associated with a free social communication software platform designed for online gaming and music-related value-added services that the Kalends Group operated through a series of Websites ("RaidCall"). On December 24, 2013, pursuant to the investment agreement, the Company acquired 62.5% of the equity interests, on a fully-diluted basis, in TalkTalk for cash consideration of \$47.6 million. Of the total consideration, \$27.6 million was paid to purchase from the Kalends Group a portion of the ordinary shares of TalkTalk held by the Kalends Group, and \$20 million was injected for newly-issued ordinary shares of TalkTalk. Also effective upon the closing of the transaction, 15% of the equity interests of TalkTalk on a fully-diluted basis were reserved for grants of equity incentive awards to key employees associated with RaidCall, and the Kalends Group continued to hold the remaining 22.5% of the equity interests on a fully-diluted basis.

At the closing of the transaction, the parties entered into a shareholder agreement pursuant to which the Company has the right to designate three of the five directors of TalkTalk, including the chairman of the board, and the Company has customary rights of first refusal with respect to proposed transfers of equity interests in TalkTalk by the Kalends Group.

In March 2015, the Kalends Group transferred additional ordinary shares of TalkTalk held by it to the Company and TalkTalk issued additional ordinary shares to the Company pursuant to the investment agreement because RaidCall had failed to achieve certain average daily active account milestones specified in the agreement. As a result, the Company's equity interest in TalkTalk increased to 70% on a fully-diluted basis.

f. Acquisition of MoboTap

On July 16, 2014, Changyou, through a wholly-owned subsidiary, entered into an investment agreement with MoboTap, which is a Cayman Islands company that is the mobile technology developer behind the Dolphin Browser, MoboTap's subsidiaries and variable interest entities and MoboTap's shareholders. On July 31, 2014, pursuant to the investment agreement, Changyou purchased from existing shareholders of MoboTap shares of MoboTap representing 51% of the equity interests in MoboTap on a fully-diluted basis for approximately \$91 million in cash.

On July 31, 2014, pursuant to the investment agreement, Changyou, MoboTap and the noncontrolling shareholders of MoboTap entered into a shareholder agreement pursuant to which Changyou has the right to designate three of the five directors of MoboTap, including the chairman of the board; Changyou's approval will be required for any proposed transfers of equity interests in MoboTap held by the noncontrolling shareholders; and Changyou will be entitled to customary pre-emptive rights with respect to any new issuance of equity interests in MoboTap. Changyou has the right to purchase up to 10% of the equity interests in MoboTap from noncontrolling shareholders, at a price of 20% below the initial public offering ("IPO") price, before a qualified IPO of MoboTap. If MoboTap achieves specified performance milestones for 2016 and certain specified key employees continue their employment with MoboTap at the time the milestones are achieved, but there has not been an IPO by MoboTap, the non-controlling shareholders of MoboTap will have a one-time right to put to Changyou shares of MoboTap held by them, representing up to 15% equity interests of MoboTap, for an aggregate price of up to \$53 million.

3. VARIABLE INTEREST ENTITIES

Consolidated VIEs

Basic Information

PRC law and regulations prohibit or restrict foreign ownership of companies that operate online games and internet content services. Consequently, the Group operates its online game business and its platform channel business primarily through its principal VIEs. Gamease is 100% owned directly by Beijing Century High Tech Investment Co., Ltd. ("High Century"), which is a PRC company and a VIE of Sohu.com Inc. that is held 80% by Charles Zhang, Changyou's Chairman of the Board, and 20% by Wei Li, an employee of Sohu.. Guanyou Gamespace is 100% owned directly by Beijing Changyou Star Digital Technology Co., Ltd., ("Changyou Star"), which is a PRC company owned by Dewen Chen, Changyou's Co-Chief Executive Officer, and Jie Liu, a Changyou employee, each holding a 50% interest in Changyou Star. Shanghai ICE is owned 100% by Changyou's VIE Gamease.

On July 31, 2014, the Group purchased from existing shareholders of MoboTap shares of MoboTap representing 51% of the equity interests in MoboTap on a fully-diluted basis. See "Acquisition of MoboTap" in Note 2.f. MoboTap's VIE Wuhan Baina Information is held 60% and 40%, respectively, by the Group's VIE Gamease and Yongzhi Yang, the chief executive officer of MoboTap. In October 2015, Gamease transferred its 60% equity interest in Wuhan Baina Information to Changyou Star. As a result of the transfer, Changyou Star holds a 60% interest in Wuhan Baina Information, and Yongzhi Yang holds a 40% interest in Wuhan Baina Information.

For accounting purposes during consolidation, the registered capital of Gamease, Guanyou Gamespace and Wuhan Baina Information is eliminated with the Group's loans to the shareholders of Gamease and Guanyou Gamespace and long-term investment in Wuhan Baina Information.

Under contractual agreements with the Company, shareholders of Gamease and Guanyou Gamespace are required to transfer their ownership in Gamease and Guanyou Gamespace to the Company, if permitted by PRC law and regulations, or, if not so permitted, to designees of the Company at any time to repay the loans outstanding. High Century and Changyou Star have pledged their shares in Gamease and Guanyou Gamespace to AmazGame and Gamespace as collateral to secure the performance of their obligations and Gamease's and Guanyou Gamespace's obligations under the applicable VIE-related agreements, including repayment of the loans. The aggregate amount of these loans as of December 31, 2015 was \$3.1 million. All voting rights of Gamease, Guanyou Gamespace and Wuhan Baina Information are assigned to the Company; the Company has the right to designate all directors and senior management personnel of Gamease, Guanyou Gamespace and Wuhan Baina Information.

Effective upon the completion of the 7Road Reorganization, Shenzhen 7Road became a VIE of 7Road, of which approximately 71.926% was owned by Changyou through Changyou HK Webgames. Shenzhen 7Road was directly owned by Changyou's VIE Gamease, which held 68.258%, and by the other shareholders of Shenzhen 7Road, who held 31.742%. On June 5, 2013, Changyou, through Changyou HK Webgames, acquired all of the ordinary shares of 7Road held by the non-controlling shareholders of 7Road and, through Gamease, acquired all of the equity interests in Shenzhen 7Road held by shareholders other than Gamease. See Note 2.c "— 7Road Transactions." Before the sale of Shenzhen 7Road on August 17, 2015, the Company was the primary beneficiary of Shenzhen 7Road as a result of contractual arrangements among Shenzhen 7Road, the Company's subsidiary Shenzhen 7Road Network Technologies Co., Ltd. ("7Road Technology") and Gamease.

The Group follows the relevant guidance on accounting for variable interest entities, which requires certain variable interest entities to be consolidated by the primary beneficiary of the entity. The Group's management evaluated the contractual relationships between the Company, AmazGame and Gamease, the contractual relationship between the Company, Gamespace and Guanyou Gamespace; the contractual relationship between the Company, Baina Zhiyuan (Beijing) Technology Co., Ltd. ("Beijing Baina Technology"), Wuhan Baina Information; and the contractual relationship between the Company, 7Road Technology and Shenzhen 7Road before the sale of Shenzhen 7Road on August 17, 2015, and the economic benefit flows of these contractual arrangements. In connection with such evaluation, management also took into account the facts that, as a result of these contractual arrangements, AmazGame and Gamespace and Beijing Baina Technology control 100% of the shareholders' voting interests in Gamease; Guanyou Gamespace and Wuhan Baina Information; that before the sale of Shenzhen 7Road on August 17, 2015, 7Road Technology controlled 100% of the shareholders' voting interests in Shenzhen 7Road; and that Gamease holds and controls 100% of the equity and voting interests in Shanghai ICE. The Group concluded that Gamease, Guanyou Gamespace, Shanghai ICE and Wuhan Baina Information are variable interest entities of the Company and that the Company is the primary beneficiary of each of them and that Shenzhen 7Road was a variable interest entity of the Company and that the Company was the primary beneficiary of Shenzhen 7Road before the sale of Shenzhen 7Road on August 17, 2015. As a result, Gamease's, Guanyou Gamespace's, Shanghai ICE's and Wuhan Baina Information's results of operations, assets and liabilities, and Shenzhen 7Road's results of operations, assets and liabilities until August 17, 2015, have been included in the Group's consolidated financial statements.

Financial Information

The following combined financial information of the Group's VIEs was included in the accompanying consolidated financial statements of the Group as follows:

	As of December 31, (in thousands)	
	2014	2015
ASSETS:		
Cash and cash equivalents	\$ 13,926	\$ 10,318
Restricted time deposit	294	—
Accounts receivable, net	62,725	49,272
Prepaid expense	7,762	4,202
Other receivable	7,130	31,328
Due from affiliates	171,808	192,204
Due from Sohu Group	5,095	242
Other current assets	1,406	—
Total current assets	<u>270,146</u>	<u>287,566</u>
Goodwill	127,541	10,257
Deferred tax assets and provision	18,066	11,665
Other non-current assets	81,723	6,879
Total assets	<u>\$497,476</u>	<u>\$316,367</u>
LIABILITIES:		
Accounts payable	\$ 27,153	\$ 8,414
Accrued and other short-term liabilities	17,022	11,379
Due to affiliates	233,715	83,602
Receipts in advance and deferred revenue	37,871	36,463
Tax payable	5,139	13,700
Contingent consideration- current	3,935	—
Total current liabilities	<u>324,835</u>	<u>153,558</u>
Contingent consideration- non-current	1,929	—
Other long-term liabilities	1,799	1,540
Total liabilities	<u>\$328,563</u>	<u>\$155,098</u>

	For the Year ended December 31, (in thousands)		
	2013	2014	2015
Net revenue	\$719,253	\$ 726,668	\$742,547
Net income/(loss)	(1,170)	(108,889)	2,499
For the Year ended December 31, (in thousands)			
	2013	2014	2015
Net cash provided by operating activities	\$102,086	\$ 2,296	\$ (74,415)
Net cash used in investing activities	(53,925)	(94,257)	71,687
Net cash used in financing activities	—	(793)	—

Under contractual arrangements with the Company's VIEs, the Company has the power to direct activities of the VIEs, and can have assets transferred freely out of the VIEs without any restrictions. Therefore, the Company considers that there is no asset of the consolidated VIEs that can be used only to settle obligations of the VIEs, except for registered capital and PRC statutory reserves of the VIEs. As of December 31, 2015, the registered capital and PRC statutory reserves of the Company's VIEs totaled \$34.1 million. As the Company's consolidated VIEs are incorporated as limited liability companies under PRC law, creditors of the consolidated VIEs do not have recourse to the general credit of the Company for any of the liabilities of such VIEs.

Currently there is no contractual arrangement that requires the Company to provide additional financial support to the Company's VIEs. As the Company is conducting its online game business and platform channel business mainly through its principal VIEs, the Company may provide such support on a discretionary basis in the future, which could expose the Company to a loss.

Summary of significant agreements currently in effect

Agreements Between Principal VIEs and Nominee Shareholders

Loan agreements and equity pledge agreements between AmazGame and the sole shareholder of Gamease and between Gamespace and the sole shareholder of Guanyou Gamespace. The loan agreements provide for loans to the respective shareholder of Gamease and Guanyou Gamespace for the shareholders to make contributions to the registered capital of Gamease and Guanyou Gamespace in exchange for 100% of the equity interests in Gamease and Guanyou Gamespace. The loans are interest free and are repayable on demand, but the shareholders can only repay the loans by transferring to AmazGame and Gamespace, as the case may be, their equity interests in Gamease and Guanyou Gamespace. Under the equity pledge agreements, the respective shareholders of Gamease and Guanyou Gamespace pledge to AmazGame and Gamespace, their equity interests in Gamease and Guanyou Gamespace to secure the performance of their obligations under the loan agreements and Gamease's and Guanyou Gamespace's obligations to AmazGame and Gamespace under the various VIE-related agreements. If the shareholders breach their obligations under any VIE-related agreements (Gamease's or Guanyou Gamespace's breach of any of its obligations under the various applicable VIE-related agreements will be treated as its shareholder's breach of its obligations), including the equity pledge agreements, AmazGame and Gamespace are entitled to exercise their rights as the beneficiaries under the applicable equity pledge agreements, including all rights the respective shareholders have as shareholders of Gamease or Guanyou Gamespace.

Equity interest purchase right agreements among AmazGame, Gamease and the sole shareholder of Gamease and among Gamespace, Guanyou Gamespace and the sole shareholder of Guanyou Gamespace. Pursuant to these agreements, AmazGame and Gamespace have the right, exercisable at any time during the terms of these agreements, if and when it is legal to do so under PRC law, to purchase from the respective shareholders of Gamease and Guanyou Gamespace all or any part of their equity interests in Gamease and Guanyou Gamespace at a purchase price equal to their initial contributions to registered capital of Gamease and Guanyou Gamespace.

Powers of attorney executed by the sole shareholder of Gamease in favor of AmazGame and by the sole shareholder of Guanyou Gamespace in favor of Gamespace, with a term of 10 years. These powers of attorney give the respective board of directors of AmazGame and Gamespace the exclusive right to appoint nominees to act on behalf of their respective shareholders in connection with all actions to be taken by Gamease and Guanyou Gamespace.

Business operation agreements among AmazGame, Gamease and the sole shareholder of Gamease and among Gamespace, Guanyou Gamespace and the sole shareholder of Guanyou Gamespace. These agreements set forth the right of AmazGame and Gamespace, to control the actions of Gamease and Guanyou Gamespace, as the case may be, and the respective shareholders of Gamease and Guanyou Gamespace. Each agreement has a term of 10 years.

Equity pledge agreement between Beijing Baina Technology and the shareholders of Wuhan Baina Information, which are Gamease and Yongzhi Yang. Pursuant to this equity pledge agreement, the shareholders pledged to Beijing Baina Technology their equity interests in Wuhan Baina Information to secure the performance of their obligations and Wuhan Baina Information's obligations under the various VIE-related agreements. If the shareholders breach their obligations under any VIE-related agreements (Wuhan Baina Information's breach of any of its obligations under the various VIE-related agreements will be treated as the shareholders' breach of their obligations), including the equity pledge agreement, Beijing Baina Technology is entitled to exercise its rights as the beneficiary under the equity pledge agreement, including all rights the shareholders as the shareholder of Wuhan Baina Information.

Call option agreement among Beijing Baina Technology, Wuhan Baina Information, Changyou Star, and Yongzhi Yang. This agreement provides to Beijing Baina Technology and any third party designated by Beijing Baina Technology the right, exercisable at any time during the term of the agreement, if and when it is legal to do so under PRC law, to purchase from Changyou Star and Yongzhi Yang all or any part of their shares in Wuhan Baina Information or to purchase from Wuhan Baina Information all or part of its assets or business at the lower of RMB1.00 (approximately \$0.15) or the lowest purchase price permissible under PRC law.

Business Operation Agreement, among Beijing Baina Technology, Wuhan Baina Information, Changyou Star and Yongzhi Yang. This agreement grants Beijing Baina Technology effective control of Wuhan Baina Information.

Business Arrangements Between Principal WFOEs and VIEs

Technology support and utilization agreements between AmazGame and Gamease and between Gamespace and Guanyou Gamespace. Pursuant to these agreements, AmazGame and Gamespace have the exclusive right to provide certain product development and application services and technology support to Gamease and Guanyou Gamespace, respectively, for a fee equal to a predetermined percentage, subject to adjustment by AmazGame or Gamespace at any time, of Gamease's and Guanyou Gamespace's respective revenues. Each agreement terminates only when AmazGame or Gamespace is dissolved.

Services and maintenance agreements between AmazGame and Gamease between Gamespace and Guanyou Gamespace. Pursuant to these agreements, AmazGame and Gamespace, respectively, provide marketing, staffing, business operation and maintenance services to Gamease and Guanyou Gamespace, respectively, in exchange for a fee equal to the cost of providing such services plus a predetermined margin. Each agreement terminates only when AmazGame or Gamespace, as the case may be, is dissolved.

Exclusive Services agreement between Beijing Baina Technology and Wuhan Baina Information. Beijing Baina Technology agrees to provide Wuhan Baina Information with technical services, business consulting, capital equipment lease, market consulting, integration of systems, research and development of products and maintenance of systems. Service fees are to be determined with reference to the specific services provided, based on a transfer pricing analysis.

Certain of the agreements described above between the Company's principal VIEs and the corresponding wholly-owned subsidiaries, or WFOEs, of the Company do not have renewal terms. However, because the VIEs are controlled by their corresponding WFOEs through their respective business operation agreements and through the powers of attorney granted to the WFOEs by the shareholders of the VIEs, such agreements can be, and are expected to be, renewed at the election of the WFOEs.

The following is a summary of agreements among 7Road Technology, Shenzhen 7Road and Shenzhen 7Road's sole shareholder Gamease, all of which were terminated as of August 17, 2015:

Amended and restated equity interest purchase right agreement among 7Road Technology, Shenzhen 7Road and Gamease, which was Shenzhen 7Road's sole shareholder. Under this agreement, 7Road Technology and any third-party designated by 7Road Technology had the right, exercisable at any time during the term of the agreement, if and when it became legal to do so under PRC law, to purchase from Gamease all or any part of its shares in Shenzhen 7Road at a nominal purchase price. This agreement had a term of 10 years, was renewable by 7Road Technology for such term as it might determine and was terminable by 7Road Technology by notice to the other parties at any time when, under PRC law as then in effect, 7Road Technology could not exercise its purchase right, and was also terminable if Shenzhen 7Road's or 7Road's existence was terminated, by mutual agreement of the parties or upon the written request of 7Road Technology. Neither Gamease nor Shenzhen 7Road had any power to terminate the agreement.

Amended and restated equity interest pledge agreement among 7Road Technology, Shenzhen 7Road and Gamease. Under this agreement, Gamease pledged to 7Road Technology Gamease's equity interests in Shenzhen 7Road to secure the performance of Gamease's obligations and Shenzhen 7Road's obligations under the various VIE-related agreements. If Gamease or Shenzhen 7Road breached its obligations under any VIE-related agreements, 7Road Technology was entitled to exercise its rights as the beneficiary under the Equity Interest Pledge Agreements. This agreement terminated only after all of the obligations of Gamease and/or of Shenzhen 7Road under the various VIE-related agreements were no longer in effect.

Amended and restated business operation agreement among 7Road Technology, Shenzhen 7Road and Gamease. This agreement granted to 7Road Technology the right to control the actions of Shenzhen 7Road and to control the actions of Gamease in its capacity as the sole shareholder of Shenzhen 7Road. This agreement had an initial term of 10 years, was renewable by 7Road Technology for such term as it might determine and was terminable early if the existence of Shenzhen 7Road or 7Road Technology was terminated, or upon 30 days' advance written notice of 7Road Technology to Shenzhen 7Road.

Power of attorney executed by Gamease in favor of 7Road Technology. This power of attorney gave 7Road Technology the exclusive right to appoint designees to act on behalf of Gamease in connection with all actions to be taken by Shenzhen 7Road requiring shareholder approval.

Technology development and utilization agreement between 7Road Technology and Shenzhen 7Road. Under this agreement, 7Road Technology had the exclusive right to provide product development and application services and technology support to Shenzhen 7Road for a fee based on Shenzhen 7Road's revenues, which fee could be adjusted by 7Road Technology at any time in its sole discretion. The fee was eliminated upon consolidation.

Services and maintenance agreement between 7Road Technology and Shenzhen 7Road. Pursuant to this agreement, 7Road Technology provided marketing and maintenance services to Shenzhen 7Road in exchange for a fee equal to the cost of providing such services plus a predetermined margin.

VIE-Related Risks

It is possible that the Group's operation of certain of its operations and businesses through VIEs could be found by PRC authorities to be in violation of PRC law and regulations prohibiting or restricting foreign ownership of companies that engage in such operations and businesses. While the Group's management considers the possibility of such a finding by PRC regulatory authorities under current law and regulations to be remote, on January 19, 2015, the Ministry of Commerce of the PRC, or (the "MOFCOM") released on its Website for public comment a proposed PRC law (the "Draft FIE Law") that appears to include VIEs within the scope of entities that could be considered to be foreign invested enterprises (or "FIEs") that would be subject to restrictions under existing PRC law on foreign investment in certain categories of industry. Specifically, the Draft FIE Law introduces the concept of "actual control" for determining whether an entity is considered to be an FIE. In addition to control through direct or indirect ownership or equity, the Draft FIE Law includes control through contractual arrangements within the definition of "actual control." If the Draft FIE Law is passed by the People's Congress of the PRC and goes into effect in its current form, these provisions regarding control through contractual arrangements could be construed to reach the Group's VIE arrangements, and as a result the Group's VIEs could become explicitly subject to the current restrictions on foreign investment in certain categories of industry. The Draft FIE Law includes provisions that would exempt from the definition of foreign invested enterprises entities where the ultimate controlling shareholders are either entities organized under PRC law or individuals who are PRC citizens. The Draft FIE Law does not make clear how "control" would be determined for such purpose, and is silent as to what type of enforcement action might be taken against existing VIEs that operate in restricted industries and are not controlled by entities organized under PRC law or individuals who are PRC citizens. If a finding were made by PRC authorities, under existing law and regulations or under the Draft FIE Law if it becomes effective, that the Group's operation of certain of its operations and businesses through VIEs, regulatory authorities with jurisdiction over the licensing and operation of such operations and businesses would have broad discretion in dealing with such a violation, including levying fines, confiscating the Group's income, revoking the business or operating licenses of the affected businesses, requiring the Group to restructure its ownership structure or operations, or requiring the Group to discontinue all or any portion of its operations. Any of these actions could cause significant disruption to the Group's business operations, and have a severe adverse impact on the Group's cash flows, financial position and operating performance.

In addition, it is possible that the contracts among the Group, the Group's VIEs and shareholders of its VIEs would not be enforceable in China if PRC government authorities or courts were to find that such contracts contravene PRC law and regulations or are otherwise not enforceable for public policy reasons. In the event that the Group was unable to enforce these contractual arrangements, the Group would not be able to exert effective control over the affected VIEs. Consequently, such VIE's results of operations, assets and liabilities would not be included in the Group's consolidated financial statements. If such were the case, the Group's cash flows, financial position and operating performance would be severely adversely affected. The Group's contractual arrangements with respect to its consolidated VIEs are approved and in place. The Group's management believes that such contracts are enforceable, and considers the possibility remote that PRC regulatory authorities with jurisdiction over the Group's operations and contractual relationships would find the contracts to be unenforceable.

The Group's operations and businesses rely on the operations and businesses of its principal VIEs, which hold certain recognized and unrecognized revenue-producing assets. The recognized revenue-producing assets include goodwill and intangible assets acquired through business acquisitions. Goodwill primarily represents the expected synergies from combining an acquired business with the Group. Intangible assets acquired through business acquisitions mainly consist of customer relationships, non-compete agreements, user bases, copyrights, trademarks and developed technologies. Unrecognized revenue-producing assets mainly consist of licenses and intellectual property. Licenses include operations licenses, such as Internet information service licenses and licenses for providing content. Intellectual property developed by the Group mainly consists of patents, copyrights, trademarks, and domain names. The Group's operations and businesses may be adversely impacted if the Group loses the ability to use and enjoy assets held by these VIEs.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of presentation and consolidation

The consolidated financial statements have been prepared on a historical cost basis to reflect the financial position and results of operations of the Company in accordance with U.S. GAAP and on a going concern basis.

The consolidated financial statements include the financial statements of the Company and its controlled operating entities, including the Group's subsidiaries and VIEs. All inter-company balances and transactions within the Group have been eliminated on consolidation.

The Company has adopted the guidance of accounting for VIEs, which requires VIEs to be consolidated by the primary beneficiary of the entity. The Company's management made evaluations of the relationships between the Company and its VIEs and the economic benefit flow of contractual arrangements with the VIEs. In connection with such evaluation, management also took into account the fact that, as a result of such contractual arrangements, the Group controls the shareholders' voting interests in the VIEs. As a result of such evaluation, management concluded that the Group is the primary beneficiary of its VIEs. As a result, the Company consolidates all of its VIEs in its consolidated financial statements. Please refer to Note 3 — "VARIABLE INTEREST ENTITIES" for more details.

b. Use of estimates

The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, mezzanine equity, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

c. Fair value measurement

U.S. GAAP establishes a three-tier hierarchy to prioritize the inputs used in the valuation methodologies in measuring the fair value of financial instruments. This hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three-tier fair value hierarchy is:

Level 1 — observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 — other inputs that are directly or indirectly observable in the marketplace.

Level 3 — unobservable inputs which are supported by little or no market activity.

Company's financial instruments include cash equivalents, restricted time deposits, accounts receivable, short-term investments, prepaid and other current assets, investments in debt securities, and other non-current assets, short-term and long-term accounts payable, receipts in advance and deferred revenue, accrued liabilities to suppliers, short-term and long-term bank loans and other short-term liabilities.

d. Cash and cash equivalents

The Company classifies all highly-liquid investments with original maturities of three months or less as cash equivalents. Cash equivalents comprise investments in time deposits that mature within three months, which are stated at cost, and money market funds, which are stated at fair market value.

e. Restricted time deposits — Loans from offshore banks, secured by time deposits

Loans from offshore branches of lending banks are classified as short-term bank loans or long-term bank loans based on their repayment periods. The rates of interest under the loan agreements with the lending banks were determined based on the prevailing interest rates in the market. The RMB onshore deposits securing the offshore loans are treated as restricted time deposits in the Company's consolidated balance sheets. Restricted time deposits are valued based on the prevailing interest rates in the market.

f. Accounts receivable, net

The carrying value of accounts receivable is reduced by an allowance that reflects the Company's best estimate of the amounts that will not be collected. The Company makes estimates of the collectability of accounts receivable. Many factors are considered in estimating the general allowance, including reviewing delinquent accounts receivable, performing aging analyses and customer credit analyses, and analyzing historical bad debt records and current economic trends. Additional allowance for specific doubtful accounts might be made if the Company's customers are unable to make payments due to their deteriorating financial conditions.

g. Short-term investments

In accordance with ASC 825, for investments in financial instruments with a variable interest rate indexed to the performance of underlying assets, the Company elected the fair value method at the date of initial recognition and carried these investments subsequently at fair value. Changes in the fair value are reflected in the consolidated statements of comprehensive income. To estimate fair value, the Company refers to the quoted rate of return provided by banks at the end of each period using the discounted cash flow method. Since these investments' maturity dates are within one year, they are classified as short-term investments.

h. Fixed assets and depreciation

Fixed assets, mainly comprising office buildings, leasehold improvements, building improvements, office furniture, vehicles, and computer equipment (including servers) are stated at cost less accumulated depreciation and impairment. Fixed assets are depreciated at rates sufficient to write off their costs less impairment, if any, over the estimated useful lives of the assets on a straight-line basis, with no residual value. The estimated useful lives are as follows:

	<u>Estimated useful life</u>
Office building	36-47 years
Leasehold improvements	Lesser of the term of the lease or the estimated useful lives of the assets
Building improvements	10 years
Office furniture	5 years
Vehicles	4-10 years
Computer equipment (including servers)	4 years

Expenditure for maintenance and repairs is expensed as incurred. The gain or loss on the disposal of fixed assets is the difference between the net sales proceeds and the carrying amount of the relevant assets and is recognized in operating expenses in the consolidated statements of comprehensive income.

i. Intangible assets

Intangible assets mainly comprise operating rights for licensed games, computer software, developed technologies, trademarks and domain names, and cinema advertising slot rights. Intangible assets are recorded at cost less accumulated amortization with no residual value. Amortization is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are as follows:

	<u>Estimated useful life</u>
Operating rights for licensed games	Contract terms
Computer software	1-5 years
Developed technologies	3-5 years
Trademarks and domain names	5-30 years
Cinema advertising slot rights	Contract terms

j. Long-term investments

Equity investments

Investments in entities over which the Company does not have significant influence are recorded as equity investments and are accounted for by the cost method. Investments in entities over which the Company has significant influence but does not control are also recorded as equity investments and are accounted for by the equity method. Under the equity method, the Company's share of the post-acquisition profits or losses of equity investments is recognized in the Company's consolidated statements of comprehensive income; and the Company's share of post-acquisition movements in equity is recognized in equity in the Company's consolidated balance sheets. Unrealized gains on transactions between the Company and an entity in which the Company has recorded an equity investment are eliminated to the extent of the Company's interest in the entity. To the extent of the Company's interest in the investment, unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. When the Company's share of losses in an entity in which the Company has recorded an equity investment equals or exceeds its interest in the entity, the Company does not recognize further losses, unless the Company has incurred obligations or made payments on behalf of the equity investee.

Investments in debt securities

Investments in securities that have readily determinable fair values not classified as trading securities or as held-to-maturity securities are classified as available-for-sale securities and are included in long-term investments. Available-for-sale securities are reported at fair value, with unrealized gains or losses recorded in other comprehensive income or losses in the consolidated balance sheets. Realized gains or losses are included in the consolidated statements of comprehensive income during the period in which the gain or loss is realized. An impairment loss on the available-for-sale securities is recognized in the consolidated statements of comprehensive income when the decline in value is determined to be other-than-temporary.

k. Goodwill

Goodwill represents the excess of the purchase price over the fair value of the identifiable assets and liabilities acquired as a result of the Company's acquisitions of interests in its subsidiaries and VIEs.

The Company tests goodwill for impairment at the reporting unit level on an annual basis as of October 1, and between annual tests when an event occurs or circumstances change that could indicate that the asset might be impaired. Commencing in September 2011, in accordance with the FASB revised guidance on "Testing of Goodwill for Impairment," a company first has the option to assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. For those reporting units where it was determined that it was more likely than not that their fair values were less than the units' carrying amounts, the Group performed the first step of a two-step quantitative goodwill impairment test. After performing the assessment, if the carrying amounts of the reporting units were higher than their fair values, the Group performed the second step of the two-step quantitative goodwill impairment test.

If the Company decides, as a result of its qualitative assessment, that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is mandatory. Otherwise, no further testing is required. The quantitative impairment test consists of a comparison of the fair value of goodwill with its carrying value. Application of a goodwill impairment test requires significant management judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value of each reporting unit. The judgment in estimating the fair value of reporting units includes estimating future cash flows, determining appropriate discount rates and making other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit.

l. Impairment of long-lived assets and intangible assets

The carrying amounts of long-lived assets and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is evaluated by a comparison of the carrying amount of assets to future undiscounted net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amounts of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell. The Company tests impairment of long-lived assets and intangible assets at the reporting unit level when impairment indicator appeared and recognizes impairment in the event that the carrying value exceeds the fair value of each reporting unit.

m. Receipts in advance and deferred revenues

For the operation of PC games, proceeds received from sales of prepaid game cards are initially recorded as receipts in advance. For the online advertising and cinema advertising services, cash payments, which are received in advance of the delivery of services pursuant to applicable advertising contracts, are recorded as receipts in advance.

For self-operated games, deferred revenues are recognized when the game points are sold through the Company's online payment platform or when prepaid cards are charged by the players to their respective game accounts. The deferred revenues are amortized when virtual items are consumed. For licensed out games, deferred revenues represent the unamortized balance of license fees paid by third-party operators, and the deferred revenues are amortized on a straight-line basis through the service period.

n. Contingent consideration

The acquisition of Doyo included a contingent consideration arrangement that required additional consideration to be paid by the Group based on the financial performance of Doyo for the fiscal years 2013 through 2015. The fair value of the contingent consideration was recognized on the acquisition date using the income approach/ discounted cash flow method with a scenario analysis applied. There were no indemnification assets involved.

In September 2015, Changyou entered into an agreement to sell all of the equity interests of Doyo. The aggregate consideration under the agreement includes cash consideration of approximately \$2.9 million, and forgiveness, effective upon the completion of the sale, of contingent consideration payable to former members of the management of Doyo in the amount of \$6.0 million. The transaction was completed on October 27, 2015. As a result, there was no contingent consideration as of December 31, 2015.

o. Mezzanine equity

Mezzanine equity consists of non-controlling interest in 7Road and a put option pursuant to which the non-controlling shareholders had the right to put their equity interests in 7Road to the Company at a pre-determined price if 7Road achieved specified performance milestones before the expiry of the put option and 7Road did not complete an initial public offering. The put option expired in 2014. Since the occurrence of the put was not solely within the control of the Company, the Company classifies the non-controlling interest as mezzanine equity instead of permanent equity in the Company's consolidated financial statements.

In accordance with ASC subtopic 480-10, the Company calculated, on an accumulative basis from the acquisition date, (i) the amount of accretion that would increase the balance of non-controlling interest to its estimated redemption value over the period from the date of the 7Road acquisition to the earliest redemption date of the non-controlling interest and (ii) the amount of net profit attributable to non-controlling shareholders of 7Road based on their ownership percentage. The carrying value of the non-controlling interest as mezzanine equity was adjusted by an accumulative amount equal to the higher of (i) and (ii). On May 1, 2013, the Company entered into an agreement to acquire all of the ordinary shares of 7Road held by the non-controlling shareholders and all of the equity interests in Shenzhen 7Road held by shareholders other than Gamease. The acquisition closed on June 5, 2013. Under ASC 810-10, changes in a parent's ownership interest while the parent retains control of its subsidiary are accounted for as equity transactions, and do not impact net income or comprehensive income in the consolidated financial statements. Following the closing of the acquisition, \$2.4 million, representing the excess of the amount of the mezzanine-classified non-controlling interest in 7Road over the purchase price as of the closing date, was recorded in the Group's equity accounts. As Gamease held all of the equity interests in Shenzhen 7Road following the closing of the acquisition, no mezzanine equity existed as of December 31, 2013 and 2014.

p. Non-controlling interest

Non-controlling interests are recognized to reflect the portion of the equity of majority-owned subsidiaries and VIEs which is not attributable, directly or indirectly, to the controlling shareholder. Currently, the non-controlling interests in the Company's consolidated financial statements consist primarily of non-controlling interests for TalkTalk and MoboTap.

q. Treasury shares

On July 27, 2013, the Company's Board of Directors authorized a share repurchase program of up to \$100 million of the outstanding ADSs of Changyou over a two-year period from July 27, 2013 to July 26, 2015. The Company accounted for those shares repurchased as treasury shares at cost in accordance with ASC 505-30, and the treasury shares acquired are shown separately in shareholders' equity as the Company has not yet decided on the ultimate disposition of those shares. If and when the Company cancels the treasury shares, the difference between the original issuance price and the repurchase price will be debited into additional paid-in capital. See Note 26 — "TREASURY SHARES".

r. Functional currency and foreign currency translation

Functional currency

An entity's functional currency is the currency of the primary economic environment in which it operates, and normally is the currency of the environment in which the entity primarily generates and expends cash. Management's judgment is essential to determine the functional currency by assessing various indicators, such as cash flows, sales price and market, expenses, financing and inter-company transactions and arrangements. The functional currency of the Company and its subsidiaries in the United States, the Cayman Islands, the British Virgin Islands and Hong Kong is the U.S. dollar. The functional currencies of the Company's subsidiaries and VIEs in other countries are the national currencies of those countries, rather than the U.S. dollar.

Foreign currency translation

Financial statements of entities with functional currencies other than the U.S. dollar are translated into the U.S. dollar, which is the reporting currency. Assets and liabilities are translated at the current exchange rate in effect at the balance sheet date, and revenues and expenses are translated at the average exchange rates in effect during the reporting period. Shareholders' equity accounts are translated using the historical exchange rates at the date the entry to shareholders' equity was recorded, except for the change in retained earnings during the year, which is translated using the historical exchange rates used to translate each period's income statement. Differences resulting from foreign currency translation to the reporting currency are recorded in accumulated other comprehensive income in the consolidated balance sheets.

Foreign currency transactions denominated in currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are re-measured at the applicable rates of exchange in effect at that date. Gains and losses resulting from foreign currency re-measurement are included in the consolidated statements of comprehensive income.

s. Revenue recognition

The Group recognizes revenues when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collectability is reasonably assured. The recognition of revenues involves certain management judgments. The amount and timing of the Group's revenues could be materially different for any period if management made different judgments or utilized different estimates.

Online game business

The Group's online game business offers to game players PC games, mobile games and Web games. All of its games are operated under the item-based revenue model, where the basic game play functions are free of charge and players are charged for purchases of in-game virtual items, including those with a predetermined expiration time and perpetual virtual items. Revenues that the Group generates from self-operated and licensed out online games are included in online game revenues.

Self-Operated Games

The Group is the primary obligor of the self-operated games. The Group hosts the games on its own servers and is responsible for the sale and marketing of the games as well as the customer services. Accordingly, revenues are recorded gross of revenue-sharing payments to third-party developers and/or mobile application stores, but are net of business tax and discounts to game card distributors where applicable. The Group obtains revenues from the sale of in-game virtual items. Revenues are recognized over the estimated lives of the virtual items purchased by game players or as the virtual items are consumed. If different assumptions were used in deriving the estimated lives of the virtual items, the timing of the recording of the revenues would be impacted.

PC games

Proceeds from the self-operation of PC games are collected from players and third-party game card distributors through sales of game points on the online payment platform and prepaid game cards.

Self-operated PC games are either developed in house or licensed from third-party developers. For licensed PC games, the Group remits a pre-agreed percentage of the proceeds to the third-party developers, and keeps the balance pursuant to revenue-sharing agreements. Such revenue-sharing amounts paid to third-party developers are included in the Group's cost of revenues.

Mobile games

For self-operated mobile games, the Group sells game points to game players via third party mobile application stores. The mobile application stores in turn pay the Group proceeds after deducting their share of pre-agreed revenue-sharing amounts.

Self-operated mobile games are either developed in house or licensed from or jointly developed with third-party developers. For licensed and jointly developed mobile games, the Group remits a pre-agreed percentage of the proceeds to the third-party developers, and keeps the balance pursuant to revenue-sharing agreements.

Such revenue-sharing amounts paid to mobile application stores and third-party developers are included in the Group's cost of revenues.

Web games

Proceeds from self-operated Web games are collected from players through the sale of game points.

Licensed Out Games

The Group also authorizes third-parties to operate its online games. The licensed out games include PC games, mobile games and Web games developed in house and mobile games jointly developed with third-party developers. The Group receives monthly revenue-based royalty payments from all the third-party licensee operators. The Group receives additional up-front license fees from certain third-party licensee operators who are entitled to an exclusive right to operate the Group's games in specified geographic areas. Since the Group is obligated to provide post-sale services, the initial license fees are recognized as revenue ratably over the license period, and monthly revenue-based royalty payments are recognized when the relevant services are delivered, provided that collectability is reasonably assured. The Group views the third-party licensee operators as its customers and recognizes revenues on a net basis, as the Group does not have the primary responsibility for fulfillment and acceptability of the game services. The Group remits to the third-party developers a pre-agreed percentage of revenues from jointly developed and licensed out mobile games, and recognizes revenues on a net basis.

Platform channel business

The Group's platform channel business mainly consists of the game information portal operated on the 17173.com Website, the Dolphin Browser and RaidCall. The Group's platform channel business generates online advertising revenues, which are derived primarily from the 17173.com Website; IVAS revenues, which are derived from other products and services that the Group offers; and a small amount of revenues derived from online games operated by MoboTap.

17173.com Website

The Group's online advertising revenues are mainly generated from the 17173.com Website. The Group signs contracts with the advertisers to fix the advertising services to be provided and the prices for the services. Based on the contracts, the Group provides advertisement placements on the 17173.com Website in different forms, including text, rich media and video advertisements.

To determine the method of recognition of online advertising revenues, prior to entering into contracts, management makes a credit assessment of customers to assess the collectability of amounts due under the contracts. For those contracts for which collectability is determined to be reasonably assured, revenues are recognized ratably over the period during which the advertising services are provided and when all revenue-recognition criteria have been met. For those contracts for which collectability is determined to be not reasonably assured, revenues are recognized only when the cash is received and all other revenue-recognition criteria have been met.

The Group treats advertising contracts for the 17173.com Website with multiple deliverable elements as separate units of accounting for revenue recognition purposes and recognizes revenues on a regular basis during the contract periods when each deliverable service is provided. Since the contract price is for all the deliverables under one advertising contract, the Group allocates the contract price among all the deliverables at the inception of the arrangement on the basis of their relative selling prices according to the selling price hierarchy established by ASU No. 2009-13. The Group first uses vendor-specific objective evidence of selling price, if it exists. If vendor-specific objective evidence of selling price does not exist, the Group uses third-party evidence of selling price. If neither vendor-specific objective evidence of selling price nor third-party evidence of selling price exists, the Group uses management's best estimate of the selling price for the deliverables.

Dolphin Browser, RaidCall and wan.com Website

The Group provides IVAS, which consists primarily of software applications for PCs and mobile devices, such as the Dolphin Browser and RaidCall. Prior to March 2015, IVAS revenues also included revenues generated from the wan.com Website. Revenues from IVAS are recognized under the gross method, as the Group is the principal obligor for provision of the services.

Online game revenues generated from MoboTap

The Group also generates a small amount of online game revenues from its in-house developed or licensed online games operated by MoboTap. Such revenues are recognized under the gross method, as the Group is the principal obligor for provision of the services.

Others business

Revenues generated from the cinema advertising business are classified as others revenues. The Group provides clients advertising placements in slots that are shown in theatres before the screening of movies. The rights to place advertisements in such advertising slots are granted under contracts the Group signs with different theatres. When all the recognition criteria are met, revenues from cinema advertising are recognized based on a percentage of the advertising slots actually delivered or on a straight-line basis over the contract period.

t. Cost of revenues

Cost of online game revenues consists primarily of salary and benefits expense, revenue-sharing payments, bandwidth leasing costs, PRC business tax and value-added tax which primarily arise from the revenue that AmazGame and Gamespace derive from their contractual arrangements with Gamease and Guanyou Gamespace, respectively, depreciation expense, amortization of licensing fees, and other direct costs.

Cost of online advertising revenues consists primarily of salary and benefits expense, bandwidth leasing costs, depreciation expenses, and advertising design costs.

Cost of IVAS revenues consists primarily of bandwidth leasing costs and revenue-sharing payments to third-party developers and service providers.

Cost of others revenues consists primarily of payments to theatres for pre-film screening advertising slots.

u. Product development expenses

The product development expenses include the costs incurred for the development of the business prior to the establishment of technological feasibility and maintenance costs incurred after the establishment of technological feasibility. During the fiscal years ended December 31, 2013, 2014 and 2015, the Group did not capitalize any product development expenses.

v. Advertising expenses

Advertising expenses, which generally represent the cost of promotions to create or stimulate a positive image of the Company or a desire to buy the Company's products and services, are expensed as incurred.

w. Government grant

A government grant is recognized when the grant is received and the relevant requirements have been complied with. Government grants are generally recorded as other income, and grants for which the government stipulates specified uses are recorded as a reduction in operating expenses and cost of revenues.

x. Operating leases

Leases for which substantially all of the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received by the Company from the leasing company are charged to the Group's consolidated statements of comprehensive income on a straight-line basis over the lease periods.

y. Share-based compensation expense

Share-based compensation expense is for share awards, including ordinary shares, share options, restricted shares and restricted share units, granted by the Company to employees and directors. For share-based awards for which a grant date has occurred, share-based compensation expense is recognized as costs and expenses in the consolidated statements of comprehensive income based on the fair value of the related share-based awards on their grant dates. For share-based awards for which the service inception date precedes the grant date, share-based compensation expense is recognized as costs and expenses in the consolidated statements of comprehensive income beginning on the service inception date and is re-measured on each subsequent reporting date before the grant date, based on the estimated fair value of the related share-based awards.

Changyou has two incentive plans in 2015 for the granting of share-based awards, including share options, restricted shares and restricted share units, to their employees and directors. See Note 18 “SHARE-BASED COMPENSATION”

For share-based awards, in determining the fair value of ordinary shares, share options, restricted shares and restricted share units granted before the shares underlying the awards were publicly traded, the income approach/discounted cash flow method with a discount for lack of marketability was applied. In determining the fair value of restricted share units granted shortly before Changyou’s initial public offering, the fair value of the underlying shares was determined based on the offering price in the initial public offering. In determining the fair value of restricted share units granted after Changyou’s initial public offering, the public market price of the underlying shares on the grant dates is applied. The fair value of share options for which the service inception date preceded the grant date was re-measured on each subsequent reporting date before the grant date based on the public market price of the underlying shares. In determining the fair value of share options granted by Sohu to employees of Changyou prior to its initial public offering, the Company applied the Black-Scholes valuation model.

Determining the fair value of the ordinary shares not publicly traded required complex and subjective judgments regarding the Company’s projected financial and operating results, its unique business risks, the liquidity of its ordinary shares and its operating history and prospects at the time the grants were made. The assumptions used in share-based compensation expense recognition represent management’s best estimates based on historical experience and consideration to developing expectations about the future. However, these estimates involve inherent uncertainties and the application of management judgment. If factors change or different assumptions are used, the share-based compensation expense could be materially different for any period. Moreover, the estimates of fair value are not intended to predict actual future events or the value that ultimately will be realized by employees who receive equity awards, and subsequent events are not indicative of the reasonableness of the original estimates of fair value made by the Company for accounting purposes.

Share-based compensation expense for share options, restricted shares and restricted share units granted is recognized on an accelerated basis over the requisite service period. The number of share-based awards for which the service is not expected to be rendered over the requisite period is estimated, and the related compensation expense is not recorded for that number of awards.

z. Deferred compensation

Deferred compensation consists of arrangements where employees are entitled to payments at designated future dates for current or past services. Deferred compensation expense is accrued over the period of the applicable employee’s service at a rate that is estimated to result in there being an amount accrued, as of date when the employee will be entitled to have received the deferred payments in full, equal to the present value of such deferred payments as of the date of the creation of the deferred payment arrangement.

On February 8, 2014, the Company’s Board of Directors approved three new employee incentive plans with terms of 10 years, commencing January 1, 2014. Under two of these three plans, the Company could have distributed cash compensation of up to 10% of the Company’s annual net profits after certain adjustments. The third employee incentive plan was structured to allow eligible employees to receive up to 20% of the annual adjusted net profits of projects that they worked on. In December 2014, the Company’s management reassessed the estimated compensation expense related to these three employee incentive plans and the Company reversed accruals associated with the compensation expense previously recognized for these plans in a total amount of \$32.2 million. Our management also recommended cancelling the three employee incentive plans, and replacing them with a new cash bonus plan commencing in 2015. Our Board of Directors approved the cancellation of the three incentive plans on February 7, 2015.

aa. Income taxes

Current income taxes are provided on the basis of income for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes, in accordance with the regulations of the relevant tax jurisdictions. Deferred income taxes are provided using the liability method. Under this method, deferred income taxes are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using the currently enacted tax rates and laws. The deferred tax assets are reduced by a valuation allowance if it is considered based on available evidence more likely than not that some portion, or all, of the deferred tax assets will not be realized. Deferred tax liability is not recognized for undistributed earnings of a PRC subsidiary if the subsidiary has invested or will invest the undistributed earnings indefinitely.

ab. Uncertain tax positions

In order to assess uncertain tax positions, the Company applies a more likely than not threshold and a two-step approach for the tax position measurement and financial statement recognition. For the two-step approach, the first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon settlement.

ac. Earnings (Losses) per share

Basic earnings (losses) per share are computed using the weighted average number of ordinary shares outstanding during the year. Diluted earnings (losses) per share are computed using the weighted average number of ordinary shares and, if dilutive, potential ordinary shares outstanding during the year. Potential ordinary shares consist of shares issuable upon the exercise of stock options and shares issuable upon the settlement of restricted share units. Potential ordinary shares are accounted for in the computation of diluted earnings (losses) per share using the treasury share method. Potential ordinary shares are not included in the denominator of the diluted earnings (losses) per share calculation when inclusion of such shares would be anti-dilutive, such as in a period in which a net loss is recorded. Earnings (losses) per share is computed on Class A ordinary shares and Class B ordinary shares together, because both classes have the same dividend rights and the same participation rights in the Company's undistributed earnings (losses).

ad. Comprehensive income (loss)

Comprehensive income (loss) is defined as the change in equity of a company during a period from transactions and other events and circumstances excluding transactions resulting from investments from owners and distributions to owners. Accumulated other comprehensive income (loss), as presented on the accompanying consolidated balance sheets, consists of the cumulative foreign currency translation adjustment and unrealized gain (loss) on available-for-sale securities.

ae. Segment reporting

Operating segments are defined as components of an enterprise about which separate financial information is available and is evaluated regularly by the chief operating decision maker ("CODM"), or a decision making group, in deciding how to allocate resources and in assessing performance. Prior to November 2, 2014, the Company's CODM was its former Chief Executive Officer, and beginning November 2, 2014, the Company's CODMs are its Co-Chief Executive Officers.

The Company's organizational structure is based on a number of factors that the CODMs use to evaluate, view and run the Company's business operations, which include, but are not limited to, customer base, homogeneity of products and technology. The Company's operating segments are based on its organizational structure and information reviewed by the Company's CODMs to evaluate the operating segment results.

The Company determined that as of December 31, 2013 the business segments that constituted its then primary reportable segments were the Online Game segment, which consisted of PC games and Web games, and the 17173 Business segment, which provided online advertising services and IVAS.

In 2014, the Company expanded its online game business to include mobile games, and the CODMs determined that the operation of mobile games should be reviewed under the Online Game segment. In addition, the Group developed and acquired software applications for PCs and mobile devices intended to strengthen the Group's competitiveness in the Internet sector. In 2014, the Group launched the wan.com Website, which offered to game players Web games of third-party developers. The CODMs determined that software applications for PCs and mobile devices and the wan.com Website should be reviewed together as one operating segment identified as the software segment. Due to the similarity of the economic characteristics of the operations of the software applications and the wan.com Website included in the software segment to those of the 17173.com Website, the software segment was aggregated with the existing 17173.com segment under the Platform Channel segment. Cinema advertising was not deemed significant enough to qualify as a separate, reportable segment and therefore was included in "Others." Accordingly, as of December 31, 2014 the business segments that constituted the Company's primary reportable segments were the Online Game segment, which consisted of PC games, mobile games and Web games, and the Platform Channel segment, which consisted of online advertising services offered on the 17173.com Website and IVAS.

The Group ceased operating the wan.com Website in March 2015. As a result, thereafter IVAS aggregated with 17173.com segment in the Platform Channel segment consisted solely of software for PCs and mobile devices. As of December 31, 2015, the business segments that constituted the Company's primary reportable segments were the Online Game segment, which consists of PC games, mobile games and Web games, and the Platform Channel segment, which consists primarily of online advertising services on the 17173.com Website, and a relatively small amount of IVAS. Cinema advertising is not deemed significant enough to qualify as a separate, reportable segment and therefore is included in "Others."

af. Recently issued accounting standards

On May 28, 2014, the FASB and IASB issued their long-awaited converged standard on the recognition of revenue from contracts with customers. The standard is intended to improve the financial reporting of revenue and improve comparability of the top line in financial statements globally. The FASB is amending the FASB Accounting Standards Codification and creating a new Topic 606, Revenue from Contracts with Customers, to supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the Codification. Additionally, the amendments supersede some cost guidance included in Subtopic 605-35, Revenue Recognition — Construction — Type and Production — Type Contracts. For a public business entity, the amendments are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. The Group is currently evaluating the impact on its consolidated financial statements of adopting this guidance.

In February 2015, the FASB issued Consolidation (Topic 810) — Amendments to the Consolidation Analysis. The amendments in Topic 810 respond to stakeholders' concerns about the current accounting for consolidation of variable interest entities, by changing aspects of the analysis that a reporting entity must perform to determine whether it should consolidate such entities. Under the amendments, all reporting entities are within the scope of Subtopic 810-10, Consolidation—Overall, including limited partnerships and similar legal entities, unless a scope exception applies. The amendments are intended to be an improvement to current U.S. GAAP, as they simplify the codification of FASB Statement No. 167, Amendments to FASB Interpretation No. 46(R), with changes including reducing the number of consolidation models through the elimination of the indefinite deferral of Statement 167 and placing more emphasis on risk of loss when determining a controlling financial interest. The amendments are effective for publicly-traded companies for fiscal years beginning after December 15, 2015, and for interim periods within those fiscal years. Earlier adoption is permitted. The Group is currently evaluating the impact on its consolidated financial statements of adopting this guidance.

In September 2015, the FASB issued ASU No. 2015-16, Simplifying the Accounting for Measurement-Period Adjustments, which eliminates the requirement for acquirers in a business combination to account for measurement-period adjustments retrospectively. Instead, acquirers must recognize measurement-period adjustments during the period in which they determine the amounts, including the effect on earnings of any amounts that would have been recorded in previous periods if the accounting had been completed at the acquisition date. This update is effective for interim and annual periods beginning after December 15, 2015, with early adoption permitted. The implementation of this update is not expected to have any material impact on the Group's condensed consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes, which simplifies the presentation of deferred income taxes by requiring deferred tax assets and liabilities be classified as noncurrent on the balance sheet. The amendments in this update are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. All short-term deferred tax assets and liabilities will be reclassified to long-term assets and liabilities upon adoption of this update.

5. CONCENTRATION RISKS

Operations risk

Approximately 64%, 55% and 41%, respectively, of the Group's net revenues for the year ended December 31, 2013, 2014 and 2015 were derived from a single PC game, TLBB, which was launched in May 2007. Approximately 91%, 91% and 94%, respectively, of the Group's net revenues for the years ended December 31, 2013, 2014 and 2015 were derived from domestic operations.

Substantially all the Company's long-lived assets are located in the PRC.

Currency risk

A majority of the Group's sales and expenses transactions are denominated in RMB and a significant portion of the Group's assets and liabilities is denominated in RMB. The RMB is not freely convertible into foreign currencies. In the PRC, certain foreign exchange transactions are required by law to be transacted only by authorized financial institutions at exchange rates set by the PBOC. Remittances in currencies other than RMB by the Group in China must be processed through the PBOC or other China foreign exchange regulatory bodies, which require certain supporting documentation in order to affect the remittance. Total cash and cash equivalents in currencies other than RMB held at financial institutions in mainland China were \$1.2 million and \$1.0 million, respectively, as of December 31, 2014 and 2015.

Credit risk

The Group holds its cash and bank deposits at Chinese financial institutions that are among the largest and most respected in the PRC and at international financial institutions with high ratings from internationally-recognized rating agencies. The Company's management chooses these institutions because of their reputations and track records for stability, and their known large cash reserves, and management periodically reviews these institutions' reputations, track records, and reported reserves. Management expects that any additional institutions that the Group uses for its cash and bank deposits will be chosen with similar criteria for soundness. As a further means of managing its credit risk, the Group held its cash and bank deposits in approximately 27 and 24 different financial institutions as of December 31, 2014 and 2015, respectively, and held no more than approximately 25% and 32%, of its total cash at any single institution as of December 31, 2014 and 2015, respectively.

Under PRC law, it is generally required that a commercial bank in the PRC that holds third-party cash deposits protect the depositors' rights over and interests in their deposited money; PRC banks are subject to a series of risk control regulatory standards; and PRC bank regulatory authorities are empowered to take over the operation and management of any PRC bank that faces a material credit crisis.

6. BUSINESS COMBINATIONS

7Road Transactions

On May 11, 2011, the Group acquired 68.258% of the equity interests of Shenzhen 7Road for fixed cash consideration of approximately \$68.26 million, plus additional variable cash consideration of up to a maximum of \$32.76 million that is contingent upon the achievement of specified performance milestones through December 31, 2012. Shenzhen 7Road was primarily engaged in Web game operations, through third-party joint operators, and development. The Company began to consolidate Shenzhen 7Road's financial statements on June 1, 2011. On the acquisition date, the allocation of the consideration of the assets acquired and liabilities assumed based on their fair value was as follows:

	As of June 1, 2011
	(in thousands)
Cash consideration	\$ 68,258
Contingent consideration	28,051
Total consideration	<u>96,309</u>
Receivables	7,440
Other tangible assets	22,213
Completed game	20,837
Games under development	3,561
Other identifiable intangible assets acquired	986
Goodwill	103,366
Liabilities assumed	(8,983)
Fair value of non-controlling interest and put option	<u>(53,111)</u>
Total	<u>\$ 96,309</u>

The excess of the purchase price over tangible assets, identifiable intangible assets acquired, and liabilities assumed were recorded as goodwill relating to the Online Game segment. The acquired identifiable intangible assets were valued by various approaches, including the income approach, as appropriate.

The fair value of non-controlling interest in Shenzhen 7Road was determined mainly based on the number of shares held by non-controlling shareholders and the equity value close to the acquisition date, taking into consideration other factors, as appropriate. If Shenzhen 7Road achieved specified performance milestones and 7Road (after the 7Road Reorganization) did not complete an initial public offering, the non-controlling shareholders had the right to put their equity interests in 7Road to the Group at a predetermined price agreed upon at the acquisition date ("the put option"). In accordance with ASC480, the Company measured this non-controlling interest and a put option at their acquisition-date fair value. An independent valuation firm was hired to determine the fair value upon the acquisition date.

The agreement for the acquisition of Shenzhen 7Road included a contingent consideration arrangement that required additional consideration to be paid by the Group based on the financial performance of Shenzhen 7Road over a period through December 31, 2012. The range of the undiscounted amounts the Company could have paid under the contingent consideration provisions of the agreement was between \$nil and \$32.76 million. The fair value of the contingent consideration recognized on the acquisition date of \$28.05 million was estimated by an independent valuation firm, with the income approach applied. There were no indemnification assets involved. As of the end of 2012, 7Road had exceeded the financial performance milestones and as a result changes in fair value of the contingent consideration of \$2.2 million were recognized in other expense for the year ended December 31, 2012. Total identifiable intangible assets acquired upon acquisition mainly included completed game, games under development and other identifiable intangible assets acquired, including non-compete agreement of \$179,000 and relationship with operators of \$807,000. Games under development were subject to amortization after completion. Completed game and other identifiable intangible assets acquired were amortized over an estimated average weighted useful life of five years. Total goodwill of \$103.4 million primarily represented the expected synergies from combining operations of Shenzhen 7Road with those of the Group, which were expected to be complementary to each other. In accordance with ASC350, goodwill was not amortized but was tested for impairment and was not deductible for tax purposes.

On May 1, 2013, Changyou entered into an agreement to acquire all of the ordinary shares of 7Road held by the non-controlling shareholders, representing 28.074% of the outstanding share capital of 7Road, and all of the equity interests in Shenzhen 7Road held by shareholders other than Gamease, for aggregate cash consideration of approximately \$78 million. The acquisition closed on June 5, 2013. Effective with the closing, 7Road became an indirect wholly-owned subsidiary of Changyou, and Changyou's VIE Gamease became the sole shareholder of 7Road's VIE Shenzhen 7Road.

On August 17, 2015, (i) Changyou's VIE Gamease completed the sale to Shanghai Yong Chong Investment Center LP, a PRC limited partnership, of all of the equity interests in Shenzhen 7Road, and (ii) Changyou's wholly-owned subsidiary Changyou HK completed the sale to Supermax Holdings Group Limited, a British Virgin Islands company, of all of the equity capital of Changyou My Sdn. Bhd, a Malaysia company, and Changyou.com (UK) Company Limited, a United Kingdom company, which are engaged in the online game business in Malaysia and the United Kingdom, respectively. The aggregate consideration for these transactions was \$205.0 million in cash. As of December 31, 2015, all of the consideration had been paid to Changyou. In connection with these transactions, a disposal gain of \$55.1 million was recognized in other income in the Group's consolidated statements of comprehensive income. Income before tax of the disposal group was \$75.9 million, \$41.1 million and \$23.3 million, respectively, for the years ended December 31, 2013 and 2014 and the period ended August 17, 2015.

Doyo Transactions

In November 2013, the Group acquired 100% of the equity interests in Doyo, a game resources portal, for fixed cash consideration of approximately \$6.5 million, and variable cash consideration up to a maximum of \$7.3 million, which would be paid if and when Doyo achieved performance milestones set by the agreement. The Company's management performed with the assistance of a third party valuer a valuation as of the date of acquisition of the variable contingent cash consideration considering the possibility of Doyo's achieving the milestones, and determined that the fair value was \$4.8 million at the time of the acquisition. The Company began to consolidate Doyo's financial statements commencing with the acquisition.

The allocation of consideration for assets acquired and liabilities assumed based on their historical carrying amounts was as follows:

	As of November 29, 2013
	(in thousands)
Cash Consideration	\$ 6,521
Contingent Consideration	4,785
Total consideration	11,306
Tangible assets	1,324
Identifiable intangible assets acquired	3,620
Goodwill	7,626
Liabilities assumed	(1,264)
Total	\$ 11,306

Since Doyo was primarily engaged in online advertising and traffic monetization businesses, which had economic characteristics similar to those of the 17173.com Website, Doyo was aggregated into the business associated with the 17173.com Website as a reporting unit of the platform channel segment and the excess of the purchase price over the tangible assets, identifiable intangible assets (mainly user base and domain names) acquired and liabilities assumed was recorded as goodwill relating to the business associated with the 17173.com Website. The acquired identifiable intangible assets were valued by various approaches, including the income approach, as appropriate. Total goodwill of \$7.6 million primarily represented the expected synergies from combining operations of the Company and Doyo, which management considered to be complementary to each other. In accordance with ASC350, goodwill was not amortized but was tested for impairment and was not deductible for tax purposes.

Changyou's management reviewed the achievement of performance milestones for Doyo as of December 31, 2014. Doyo's performance had exceeded the milestone established for the year ended December 31, 2014, and considering the operations of Doyo as at December 31, 2014, management determined that there was a higher probability of Doyo's achieving the milestone established for the year ended December 31, 2015 than that there was at the time of the acquisition. As a result, the Company recorded a change in fair value of the contingent consideration of \$1.2 million in the consolidated statements of comprehensive income in 2014. As of December 31, 2014, the carrying value of the contingent consideration amounted to \$5.9 million.

In September 2015, Changyou's VIE Guanyou Gamespace entered into an agreement to sell all of the equity interests of Doyo to a PRC company owned by the former members of the management of Doyo. The aggregate consideration contemplated by the agreement includes cash consideration of approximately \$2.9 million, and forgiveness, effective upon the completion of the sale, of contingent consideration payable to former members of the management of Doyo in the amount of \$6.0 million. Changyou's management treated the fact that the total consideration for the sale of Doyo pursuant to the agreement was lower than the carrying value of Doyo's net assets as an indicator that the goodwill associated with Doyo might be impaired. Accordingly, in September 2015 management performed a goodwill impairment test and recognized goodwill impairment in the amount of \$1.9 million and there was no further gain or loss recognized in other income in the Group's consolidated statements of comprehensive income. The transaction was completed on October 27, 2015.

Acquisition of RaidCall

In December 2013, the Group acquired 62.5% of the equity interests, on a fully-diluted basis, in TalkTalk for cash consideration of \$47.6 million. Of the total consideration, \$27.6 million was paid by the Company to the Kalends Group for a portion of the ordinary shares of TalkTalk held by the Kalends Group, and \$20 million was injected for newly issued ordinary shares of TalkTalk. See Note 2.e "Acquisition of RaidCall." On the acquisition date, the allocation of the consideration for assets acquired and liabilities assumed based on their fair values was as follows:

	As of December 24, 2013
	(in thousands)
Cash Consideration	<u>\$ 47,627</u>
Tangible assets	20,016
Identifiable intangible assets acquired	17,888
Goodwill	33,740
Fair value of non-controlling interest	(17,172)
Liability assumed	(6,845)
Total	<u>\$ 47,627</u>

The excess of the purchase price over the tangible assets, identifiable intangible assets acquired (consisting primarily of software technology and a domain name) and liabilities assumed was initially recorded as goodwill relating to the Online Game segment. The acquired identifiable intangible assets were valued using the income approach. Total goodwill of \$33.7 million primarily represented synergies between the Company's existing online game business and RaidCall that were expected to result from an enhancement of game players' experience through the Company's offering of the RaidCall communications tool with the Company's online games. In December 2014, Changyou's management concluded that RaidCall was unable to provide the expected synergies with Changyou's online games business. Accordingly, goodwill impairment and impairment of acquired intangible assets of \$33.8 million and \$15.3 million, respectively, were charged for the year ended December 31, 2014. Beginning in 2014, the operations of RaidCall were reclassified from the Online Game segment to the Platform Channel Business segment, due to a change in the CODMs review of the operating segment.

Acquisition of MoboTap

On July 16, 2014, Changyou, through a wholly-owned subsidiary, entered into an investment agreement with MoboTap, MoboTap's subsidiaries and variable interest entities, and MoboTap's shareholders pursuant to which Changyou purchased from then existing shareholders of MoboTap at the closing, which took place on July 31, 2014, shares of MoboTap representing 51% of the equity interests in MoboTap on a fully-diluted basis for approximately \$91 million in cash. In addition, Changyou has the right to purchase up to 10% of the equity interests in MoboTap from the noncontrolling shareholders, at a price of 20% below the IPO price, before a qualified IPO of MoboTap. If MoboTap achieves specified performance milestones for 2016 and certain specified key employees continue their employment with MoboTap at the time the milestones are achieved, but there has not been an IPO by MoboTap, the noncontrolling shareholders of MoboTap will have a one-time right to put to Changyou shares of MoboTap held by them, representing up to 15% of the equity interests in MoboTap, for an aggregate price of up to \$53 million. The Group began to consolidate MoboTap's financial statements commencing with the closing of the acquisition. On the acquisition date, the allocation of the consideration of the assets acquired and liabilities assumed based on their fair values was as follows (in thousands):

	As of July 31, 2014 (in thousands)
Cash consideration	\$ 90,830
Repurchase option	793
Identifiable intangible assets acquired	27,000
Goodwill	113,040
Other assets	6,714
Put option	(298)
Liabilities assumed	(2,995)
Noncontrolling interest	(53,424)
Total	<u>\$ 90,830</u>

The acquired identifiable intangible assets represent the Dolphin Browser user base, technology and trademark, the useful lives of which were 2.4 years, 5.4 years and 10.4 years, respectively. The acquired user base was valued using the cost saving approach, and the acquired technology and trademark were valued using the income approach. Goodwill of \$113 million was recognized at the time of the Company's acquisition of MoboTap.

In accordance with ASC 350, goodwill is not amortized but is tested for impairment and is not deductible for tax purposes. In the year ended December 31, 2015, the financial performance of MoboTap was below original expectations, and Changyou's management concluded that the Dolphin Browser was unable to provide expected synergies with Changyou's platform channel business, and accordingly performed a goodwill impairment test using the net present value method for the goodwill generated in the acquisition of MoboTap. As a result, Changyou recorded \$29.6 million and \$8.9 million, respectively, in goodwill and intangible assets impairment losses.

Based on an assessment of MoboTap's financial performance conducted in connection with the acquisition, MoboTap was not considered material to the Group. Thus the Group's management concluded that the presentation of pro forma financial information with respect to the results of operations of the Group including the acquired MoboTap was not necessary.

The operating results of MoboTap, which are not significant to the Group, have been included in the consolidated financial statements since the acquisition date. The Dolphin Browser serves as a gateway to a host of user activities on mobile devices, which contributes to the Group's Platform Channel Business. Accordingly, MoboTap was reported in 2014 and 2015 under the Platform Channel Business segment.

7. BANK LOANS AND RESTRICTED TIME DEPOSITS

Beginning in 2012, Changyou drew down loans from offshore branches of certain banks for the purposes of expediting the payment of a special one-time cash dividend to its shareholders, providing working capital to support its overseas operations, and funding the Company's acquisitions and the Company's share repurchase program. These bank loans were secured by an equivalent or greater amount of RMB deposits by Changyou in the onshore branches of such banks. The loans from the offshore branches of the lending banks are classified as short-term bank loans or long-term bank loans based on their payment terms.

As of December 31, 2015, the total amount of the bank loans was \$344.5 million, all of which carried a floating rate of interest based on the London Inter-Bank Offered Rate ("LIBOR"). For the years ended December 31, 2014 and 2015, interest income from the restricted time deposits securing the loans was \$16.3 million and \$12.8 million, respectively, and interest expense on the bank loans was \$6.4 million and \$7.1 million, respectively.

8. ACCOUNTS RECEIVABLE, NET

The carrying amounts of accounts receivable of the Group are stated as follows:

	As of December 31, (in thousands)	
	2014	2015
Accounts receivable	\$ 80,383	\$ 69,133
Allowance for doubtful accounts:		
Balance at the beginning of year	(2,677)	(2,414)
Additional provision for bad debt	(35)	(683)
Reversal of provision	11	1,822
Cash collection	287	101
Balance at the end of year	(2,414)	(1,174)
Net Book Value	\$ 77,969	\$ 67,959

9. PREPAID AND OTHER CURRENT ASSETS

	As of December 31, (in thousands)	
	2014	2015
Matching loans to related parties	\$ —	\$ 174,574
Due from 7Road	—	20,579
Rental deposits	6,158	6,268
Refundable corporate income tax	—	6,115
Prepaid cost of revenue	7,383	5,615
Deferred tax assets	4,918	4,673
Others	16,386	14,568
Total	\$ 34,845	\$ 232,392

Matching loans between Changyou and Sohu

During 2015, certain subsidiaries of the Company and certain subsidiaries of Sohu entered into a series of one year loan agreements, pursuant to which the subsidiaries of the Company are entitled to draw down U.S. dollar-denominated loans from the Sohu subsidiaries and the Sohu subsidiaries are entitled to draw down equivalent RMB-denominated loans from the subsidiaries of the Company, to facilitate each other's business operations. All of the loans carry a fixed rate of interest equal to the current market interest rate as of the date when the loan agreements were entered into. As of December 31, 2015, the Company had drawn down from the Sohu subsidiaries loans in an aggregate principal amount of \$170 million and Sohu had drawn down from the subsidiaries of the Company loans in an aggregate principal amount of RMB1.02 billion (approximately \$157.1 million). For the year ended December 31, 2015, interest income that the Company earned from such RMB-denominated loans was \$4.9 million, and interest expense that the Company accrued for such U.S. dollar-denominated loans was \$1.2 million.

Matching loans between Changyou and SoEasy

During 2015, certain subsidiaries of the Company and certain subsidiaries of SoEasy Internet Finance Group Limited ("SoEasy") entered into a series of one year loan agreements, pursuant to which the subsidiaries of the Company are entitled to draw down HK dollar-denominated loans from the SoEasy subsidiaries and the SoEasy subsidiaries are entitled to draw down equivalent RMB-denominated loans from the subsidiaries of the Company, to facilitate each other's business operations. All of the loans carry a fixed rate of interest equal to the current market interest rate as of the date when the loan agreements were entered into. As of December 31, 2015, the Company had drawn down from SoEasy subsidiaries loans in an aggregate principal amount of HK\$100 million (approximately \$12.9 million) and SoEasy had drawn down from the subsidiaries of the Company loans in an aggregate principal amount of RMB 80 million (approximately \$12.3 million). For the year ended December 31, 2015, interest income that the Company earned from such RMB-denominated loans was \$0.4 million, and interest expense that the Company accrued for such HK dollar-denominated loans was \$0.1 million.

10. FIXED ASSETS, NET

	As of December 31, (in thousands)	
	2014	2015
Office building	\$207,236	\$195,281
Computer equipment (including servers)	68,152	50,660
Leasehold and building improvements	34,004	32,143
Office furniture	5,463	4,440
Vehicles	1,522	1,729
Total	316,377	284,253
Less: accumulated depreciation	(72,540)	(69,947)
Net book value	<u>\$243,837</u>	<u>\$214,306</u>

The depreciation expense for fixed assets was \$15.6 million, \$23.7 million and \$16.4 million, respectively, for the years ended December 31, 2013, 2014 and 2015.

11. INTANGIBLE ASSETS, NET

The following table summarizes the Company's intangible assets, net:

Items	As of December 31, 2015 (in thousands)			
	Gross Carrying Amount	Accumulated Amortization	Impairment	Net Carrying Amount
Operating rights for licensed games	\$ 26,869	\$ (9,517)	\$ (9,474)	\$ 7,878
Computer software	6,902	(5,021)	—	1,881
Developed technologies	18,736	(3,111)	(12,334)	3,291
Trademarks and domain names	20,676	(5,988)	(11,747)	2,941
Cinema advertising slot rights	12,615	(8,721)	—	3,894
Others	19,468	(8,411)	(5,803)	5,254
Total	<u>\$105,266</u>	<u>\$ (40,769)</u>	<u>\$ (39,358)</u>	<u>\$25,139</u>

Items	As of December 31, 2014 (in thousands)			
	Gross Carrying Amount	Accumulated Amortization	Impairment	Net Carrying Amount
Operating rights for licensed games	\$ 33,464	\$ (12,695)	\$ (8,917)	\$11,852
Computer software	5,954	(4,235)	(259)	1,460
Developed technologies	46,587	(19,431)	(10,751)	16,405
Trademarks and domain names	23,689	(5,875)	(9,534)	8,280
Cinema advertising slot rights	53,239	(37,360)	—	15,879
Others	22,826	(4,764)	(3,662)	14,400
Total	<u>\$185,759</u>	<u>\$ (84,360)</u>	<u>\$ (33,123)</u>	<u>\$68,276</u>

Amortization

The amortization expense for intangible assets was \$26.8 million, \$41.4 million and \$24.6 million, respectively, for the years ended December 31, 2013, 2014 and 2015.

As of December 31, 2015, amortization expense of intangible assets for future years is expected to be as follows:

	Amortization expense of intangible assets (in thousands)
2016	12,714
2017	4,904
2018	3,192
2019	1,912
2020	555
Thereafter	1,862
Total expected amortization expense	25,139

Impairment of Intangible Assets

In 2014, the Group recognized \$20.2 million in losses from impairment of intangible assets, consisting primarily of a \$15.3 million impairment loss for intangible assets related to RaidCall, as a result of the Group's management's assessment that the impairment existed based on its conclusion that RaidCall was unable to provide expected synergies with the Group's online games business. The impaired intangible assets consisted primarily of domain names and computer software.

In 2015, the Group recognized \$19.9 million in losses for impairment of intangible assets, primarily related to the Dolphin Browser operated by MoboTap and related license rights. In the year ended December 31, 2015, the financial performance of MoboTap was below original expectations, and Changyou's management concluded that the Dolphin Browser was unable to provide expected synergies with Changyou's platform channel business, performed a goodwill impairment test for the goodwill generated in the acquisition of MoboTap, and recognized an \$8.9 million impairment loss for intangible assets. The impairment loss is recognized in the consolidated statements of comprehensive income under "goodwill impairment and impairment of intangibles as part of acquisition of a business." The impaired intangible assets primarily consisted of user base, technology, trademark and license rights.

12. LONG-TERM INVESTMENTS, NET

	As of December 31, (in thousands)	
	2014	2015
Equity investments	\$3,173	\$4,630
Investments in debt securities	1,965	—
Total	\$5,138	\$4,630

Equity investments

Changyou entered into investment agreements with seven mobile game development companies and one mobile product development company to acquire 10% to 30% of the equity interests in those companies, with aggregate initial consideration of \$4.0 million. These investments were accounted under the equity method, because Changyou can exercise significant influence over the companies through rights to appoint one director to the board of each of the investee companies but does not own a majority of the equity interests in or control the companies. During 2015, the Company recognized impairment losses of \$1.2 million in the aggregate for equity investments in four mobile game development companies, due to the companies' disappointing financial results. As of December 31, 2015 and 2014 the carrying amount of these equity method investments was \$1.6 million and \$2.9 million, respectively, reflecting the Company's proportionate share of the equity of these companies, and the Company recognized a gain of \$1,300 and a loss of \$0.2 million, respectively, in other income in the consolidated statements of comprehensive income in 2015 and 2014.

In 2015, Changyou made an initial investment of \$3 million in return for a limited partner interest in an incubator fund. Changyou does not have a significant influence over the fund, which has no readily determinable fair value, and accounted for the investment using the cost method.

Investment in debt securities

Investment in debt securities represents the convertible note of a foreign game developer that the Group purchased on July 10, 2014. The cost of the investment was approximately \$1.95 million. As a result of the issuer's disappointing financial results, the Group sold the convertible note back to the issuer for an amount lower than the original principal amount of the note. As a result, the Company recognized a loss of \$1.4 million during 2015.

13. GOODWILL

Changes in the carrying value of goodwill were as follows:

	Online Game (in thousands)	Platform Channel (in thousands)	Others (in thousands)	Total (in thousands)
Balance as of December 31, 2013				
Goodwill	\$ 120,294	\$ 59,958	\$ 5,201	\$ 185,453
Accumulated impairment loss	—	—	(5,201)	(5,201)
	<u>\$ 120,294</u>	<u>\$ 59,958</u>	<u>\$ —</u>	<u>\$ 180,252</u>
Transactions in 2014				
Acquisitions	\$ —	\$ 113,039	\$ —	\$ 113,039
Foreign exchange	(398)	(95)	—	(493)
Impairment loss	—	(33,801)	—	(33,801)
Balance as of December 31, 2014				
Goodwill	\$ 119,896	\$ 172,902	\$ 5,201	\$ 297,999
Accumulated impairment loss	—	(33,801)	(5,201)	(39,002)
	<u>\$ 119,896</u>	<u>\$ 139,101</u>	<u>\$ —</u>	<u>\$ 258,997</u>
Balance as of December 31, 2014				
Goodwill	\$ 119,896	\$ 172,902	\$ 5,201	\$ 297,999
Accumulated impairment loss	—	(33,801)	(5,201)	(39,002)
	<u>\$ 119,896</u>	<u>\$ 139,101</u>	<u>\$ —</u>	<u>\$ 258,997</u>
Transactions in 2015				
Foreign exchange	\$ (415)	\$ (1,355)	\$ —	\$ (1,770)
Impairment loss	—	(31,445)	—	(31,445)
Disposal	(109,224)	(5,476)	—	(114,700)
Balance as of December 31, 2015				
Goodwill	\$ 10,257	\$ 166,071	\$ 5,201	\$ 181,529
Accumulated impairment loss	—	(65,246)	(5,201)	(70,447)
	<u>\$ 10,257</u>	<u>\$ 100,825</u>	<u>\$ —</u>	<u>\$ 111,082</u>

Prior to August 17, 2015, there were two reporting units with goodwill under the Online Game segment, consisting of the Changyou online game business and the 7Road online game business. After the sale of Shenzhen 7Road on August 17, 2015, the Changyou online game business was the only reporting unit with goodwill under the Online Game segment. There were three reporting units with goodwill under the Platform Channel segment in 2015, consisting of the 17173.com Website, RaidCall and MobaTap. The only reporting unit under the Others segment, and therefore the only reporting unit with goodwill, was the cinema advertising business. The Group tested goodwill for impairment at the reporting unit level as of October 1, 2015.

For impairment tests performed for the reporting units, the Group first qualitatively assessed whether it was more likely than not that their fair values were less than their carrying amounts. In performing the assessment, the Group took into consideration all of the events and circumstances listed in ASC 350, in addition to other entity-specific factors. For those reporting units where it was determined that it was more likely than not that their fair values were less than the units' carrying amounts, the Group performed the first step of a two-step quantitative goodwill impairment test. After performing the assessment, if the carrying amounts of the reporting units were higher than their fair values, the Group performed the second step of the two-step quantitative goodwill impairment test. The Group assigned the fair value of a reporting unit to all of the assets and liabilities of that unit to determine the implied fair value of goodwill. For the two-step goodwill impairment test, the Group estimated the fair values with the income approach, and considered factors that included expected future cash flows, growth rates and discount rates.

In 2014, as Changyou's management concluded that RaidCall was unable to provide expected synergies with Changyou's online game business, Changyou performed a two-step goodwill impairment test for the goodwill generated in the acquisition of RaidCall. As a result of this analysis, Changyou recorded a \$33.8 million goodwill impairment loss.

In 2015, as the financial performance of MoboTap is below original expectations and Changyou's management concluded that the Dolphin Browser was unable to provide expected synergies with Changyou's platform channel business, Changyou performed a two-step goodwill impairment test for the goodwill generated in the acquisition of MoboTap. As a result, Changyou recorded \$29.6 million in goodwill impairment losses for goodwill associated with the acquisition of MoboTap. The goodwill impairment losses are included in the Group's statements of comprehensive income under "goodwill impairment and impairment of intangibles as part of acquisition of a business." In September 2015, Changyou's VIE Guanyou Gamespace entered into an agreement to sell all of the equity interests of Doyo to a PRC company owned by the former members of the management of Doyo. Changyou's management considered the fact that the total consideration for the sale of Doyo pursuant to the agreement would be lower than the carrying value of Doyo's net assets to be an indicator that the goodwill associated with Doyo might be impaired. Accordingly, in September 2015 management performed a goodwill impairment test and the Company recognized a goodwill impairment charge in the amount of \$1.9 million. The \$114.7 million of goodwill associated with the Company's previous acquisitions of 7Road and Doyo were de-recognized as a result of the Company's dispositions of Shenzhen 7Road and Doyo in 2015. The fair values of the other reporting units exceeded their carrying values, indicating that the goodwill of those reporting units was not impaired.

14. OTHER ASSETS, NET

	As of December 31, (in thousands)	
	2014	2015
Deferred tax assets, net	\$18,704	\$12,729
Accrued interest income	2,273	7,925
Employee advance	6,093	2,793
Others	2,020	1,380
Total	\$29,090	\$24,827

15. FAIR VALUE MEASUREMENT

Fair Value of Financial Instruments

The following table sets forth the financial instruments, measured at fair value, by level within the fair value hierarchy as of December 31, 2014 and 2015:

Items	As of December 31, 2015	Fair value measurement (in thousands) at reporting date using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	\$ 469,703	\$ —	\$ 469,703	\$ —
Restricted time deposits	354,739	—	354,739	—
Short-term investments	174,515	—	174,515	—
Total	\$ 998,957	\$ —	\$ 998,957	\$ —

Items	As of December 31, 2014	Fair value measurement (in thousands) at reporting date using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	\$ 110,698	\$ —	\$ 110,698	\$ —
Restricted time deposits	417,442	—	417,442	—
Short-term investments	191,577	—	191,577	—
Investment in debt securities	1,965	—	1,965	—
Total	\$ 721,682	\$ —	\$ 721,682	\$ —

Cash equivalents

The Company's cash equivalents mainly consist of time deposits and money market funds with original maturities of three months or less. The fair values of cash equivalents are determined based on the pervasive interest rates in the market. The Company classifies the valuation techniques that use the pervasive interest rates input as Level 2 of fair value measurements. Generally there are no quoted prices in active markets for identical cash equivalents at the reporting date. In order to determine the fair value, the Company must use the discounted cash flow method and observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Restricted time deposits

Restricted time deposits are valued based on the prevailing interest rates in the market using the discounted cash flow method. The Company classifies the valuation techniques that use these inputs as Level 2 of fair value measurements.

Short-term investments

To estimate the fair value of investments in financial instruments with a variable interest rate indexed to the performance of underlying assets, the Company refers to the quoted rate of return provided by banks at the end of each period using the discounted cash flow method. The Company classifies the valuation techniques that use these inputs as Level 2 of fair value measurement.

As of December 31, 2014 and 2015, the Company's investments in financial instruments were approximately \$191.6 million and \$174.5 million, respectively. The financial instruments are issued by commercial banks in China with a variable interest rate indexed to the performance of underlying assets. Since the maturity dates of these financial instruments are within one year, the investments are classified as short-term investments. For the years ended December 31, 2013, 2014 and 2015, the Company recorded changes in the fair value of short-term investments in the consolidated statements of comprehensive income of \$2.5 million, \$3.1 million and \$9.4 million, respectively.

Investments in debt securities

Investments in securities that have readily determinable fair values not classified as trading securities or as held-to-maturity securities are classified as available-for-sale securities. Available-for-sale securities are reported at fair value, with unrealized gains or losses recorded in other comprehensive income or losses in the consolidated balance sheets. Realized gains or losses are included in the consolidated statements of comprehensive income during the period in which the gain or loss is realized. For the years ended December 31, 2013, 2014 and 2015, the Company recorded changes in the fair value of investment in debt securities in the consolidated statements of comprehensive income of \$nil, \$18,000 and negative \$1.5 million, respectively.

The following are other financial instruments not measured at fair value in the balance sheets but for which the fair value is estimated for disclosure purposes.

Short-term receivables and payables

Accounts receivable and prepaid and other current assets are financial assets with carrying values that approximate fair value due to their short term nature. Short-term accounts payable, receipts in advance and deferred revenue, short-term bank loans and other short term liabilities are financial liabilities with carrying values that approximate fair value due to their short term nature. The rates of interest under the loan agreements with the lending banks were determined based on the prevailing interest rates in the market. The Company classifies the valuation techniques that use these inputs as Level 2 of fair value measurements of short-term bank loans. The Company estimated fair values of other short-term receivables and payables using the discounted cash flow method. The Company classifies the valuation technique as Level 3 of fair value measurement, as it uses estimated cash flow input which is unobservable in the market.

Other non-current assets and long-term accounts payable

Other non-current assets are financial assets, and long-term accounts payable are financial liabilities, with carrying values that approximate fair value because the change in fair value, after considering the discount rate, is immaterial. The rates of interest under the Company's loan agreements with the lending banks were determined based on the prevailing interest rates in the market. The Company classifies the valuation techniques that use these inputs as Level 2 of fair value measurements of long-term bank loans. The Company estimated fair values of other non-current assets and long-term accounts payable using the discounted cash flow method. The Company classifies the valuation technique as Level 3 of fair value measurement, as it uses estimated cash flow input which is unobservable in the market.

Assets Measured at Fair Value on a Nonrecurring Basis

The following table sets forth assets measured at fair value on a nonrecurring basis by level within the fair value hierarchy as of December 31, 2015 (in thousands):

Items	As of December 31, 2015	Fair value measurements at reporting date using			Total Losses
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Intangible assets, net	\$ 25,139	\$ —	\$ —	\$ 25,139	\$ 19,947
Goodwill	111,082	—	—	111,082	31,445
	<u>\$ 136,221</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 136,221</u>	<u>\$ 51,392</u>

Items	As of December 31, 2014	Fair value measurements at reporting date using			Total Losses
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Intangible assets, net	\$ 68,276	\$ —	\$ —	\$ 68,276	\$ 20,168
Goodwill	258,997	—	—	258,997	33,801
	<u>\$ 327,273</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 327,273</u>	<u>\$ 53,969</u>

Intangible Assets

Intangible assets mainly comprise operating rights for licensed games, computer software, developed technologies, trademarks and domain names and cinema advertising slot rights. See Note 11 — INTANGIBLE ASSETS, NET.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of identifiable assets and liabilities acquired as a result of the Group's acquisitions of interests in its subsidiaries and consolidated VIEs. See Note 13 — GOODWILL

16. RECEIPTS IN ADVANCE AND DEFERRED REVENUE

	As of December 31, (in thousands)	
	2014	2015
Receipts in advance	\$18,198	\$ 20,243
Deferred revenue	20,980	21,923
Total	\$39,178	\$ 42,166

17. OTHER SHORT-TERM LIABILITIES

	As of December 31, (in thousands)	
	2014	2015
Matching loans from related parties	\$ —	\$184,239
Customer deposits	4,315	4,509
Advance from government grants	4,613	1,694
Others	5,965	7,723
Total	\$14,893	\$198,165

During 2015, subsidiaries of the Company and subsidiaries of Sohu and SoEasy entered into a series of loan agreements. (See Note 9 — PREPAID AND OTHER CURRENT ASSETS).

18. SHARE-BASED COMPENSATION

Share-Based Awards Granted Before Initial Public Offering

Share-based compensation allocated from Sohu's 2000 Stock Incentive Plan

The 2000 Stock Incentive Plan of the Company's ultimate parent company, Sohu.com, provided for the issuance of stock options and restricted stock units to purchase up to 9,500,000 shares of common stock to qualified employees. The maximum term of any issued stock right was ten years from the grant date. The Sohu 2000 Stock Incentive Plan expired on January 24, 2010.

i) Summary of share option activity

A summary of option activity as of December 31, 2015, and changes during the year then ended, relating to options granted to employees of the Predecessor Operations and employees of the business associated with the 17173.com Website under Sohu's 2000 Stock Incentive Plan prior to Changyou's initial public offering is presented below:

Options	Number of Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2015	3	17.74	0.48	115
Exercised	(3)	17.74		
Outstanding at December 31, 2015	—			
Vested at December 31, 2015	—			
Exercisable at December 31, 2015	—			

The total intrinsic value of share options exercised during the year ended December 31, 2015 was \$139,062.

No options have been granted under Sohu's 2000 Stock Incentive Plan since 2006. For the years ended December 31, 2013, 2014 and 2015, no share-based compensation expense was recognized for share options under Sohu's 2000 Stock Incentive Plan because the requisite service periods for share options had ended by the end of 2009.

ii) Summary of restricted stock unit activity

As of December 31, 2015, there was \$nil of unrecognized compensation expenses related to unvested restricted stock units, net of estimated forfeitures, granted to employees of the Predecessor Operations and employees of the business associated with the 17173.com Website under Sohu's 2000 Stock Incentive Plan prior to Changyou's initial public offering, as these awards were fully vested in the 2014. The total fair values of restricted stock units granted to employees of the Predecessor Operations and employees of the business associated with the 17173.com Website under Sohu's 2000 Stock Incentive Plan prior to Changyou's initial public offering and expensed during the years ended December 31, 2013, 2014 and 2015 were \$76,000, \$26,926 and \$nil, respectively.

The total fair values on their respective vesting dates during the years ended December 31, 2013, 2014 and 2015 of vested restricted stock units granted to employees of the Predecessor Operations and employees of the business associated with the 17173.com Website under Sohu's 2000 Stock Incentive Plan prior to Changyou's initial public offering and were \$182,000, \$252,731 and \$nil, respectively.

Changyou 2008 Share Incentive Plan

On December 31, 2008, the Company reserved 2,000,000 of its ordinary shares, which included 1,774,000 Class B ordinary shares and 226,000 Class A ordinary shares, for issuance to certain of its executive officers and employees as incentive compensation under the Company's 2008 Share Incentive Plan (the "Changyou 2008 Share Incentive Plan"). In March 2009, the 2,000,000 reserved ordinary shares were subject to a ten-for-one share split and became 20,000,000 ordinary shares.

The Company's ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares and holders of Class B ordinary shares have the same rights in the Company, with the exception of voting and conversion rights. Each Class A ordinary share is entitled to one vote on all matters subject to a shareholder vote, and each Class B ordinary share is entitled to ten votes on all matters subject to a shareholder vote. Each Class B ordinary share is convertible into one Class A ordinary share at any time at the election of the holder. Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances.

Prior to completion of the Company's initial public offering, the Company granted under the Changyou 2008 Share Incentive Plan 15,000,000 Class B ordinary shares to Tao Wang, through Prominence Investments Ltd. ("Prominence") and 3,196,000 Class A and/or Class B restricted share units (setttable by issuance of Class A ordinary shares or Class B ordinary shares, respectively) to certain of its executive officers and to certain of its employees and certain Sohu employees. Prominence is an entity that may be deemed under applicable rules of the Securities and Exchange Commission ("SEC") to be beneficially owned by Tao Wang.

For the years ended December 31, 2013, 2014 and 2015, total share-based compensation expense recognized for restricted shares granted to Tao Wang and restricted share units granted to senior management and certain key employees under the Changyou 2008 Share Incentive Plan prior to the completion of Changyou's initial public offering was negative \$0.3 million, \$nil and \$nil, respectively. The negative \$0.3 million represents Changyou's true-up of the share-based compensation expense for restricted share units forfeited in 2013. For Changyou restricted shares granted to Tao Wang and restricted share units granted to senior management and certain key employees before Changyou's initial public offering, there was no unrecognized share-based compensation expense for these grants after December 31, 2013, as they were fully vested as of December 31, 2013.

The total fair values of restricted share units vested on their respective vesting dates during the years ended December 31, 2013, 2014 and 2015 were \$1.1 million, \$nil and \$nil, respectively.

Share-Based Awards Granted After Initial Public Offering

Changyou 2008 Share Incentive Plan

As of December 31, 2015, since the completion of the Company's initial public offering, the Company had granted an aggregate of 1,807,552 Class A restricted share units (setttable upon vesting in Class A ordinary shares) to executive officers other than the former CEO Tao Wang and certain non-executive employees. These Class A restricted share units are subject to vesting over a four-year period commencing on their grant dates. The fair values as of grant dates of restricted share units were determined based on the Company's share price on the grant dates.

A summary of activity for these restricted share units as of and for the year ended December 31, 2015 with respect to grants made under the Changyou 2008 Share Incentive Plan after the completion of the Company's initial public offering is presented below:

<u>Restricted Share Units</u>	<u>Number of Units (in thousands)</u>	<u>Weighted- Average Grant-Date Fair Value</u>
Unvested at January 1, 2015	220	\$ 14.09
Granted	—	
Vested	(95)	14.14
Forfeited	(105)	14.02
Unvested at December 31, 2015	<u>20</u>	<u>14.25</u>
Expected to vest thereafter	<u>20</u>	14.25

Share-based compensation expense recognized for the years ended December 31, 2013, 2014 and 2015 for restricted share units granted under the Changyou 2008 Share Incentive Plan after the completion of the Company's initial public offering was \$1.5 million, \$1.3 million and negative \$0.2 million, respectively. As of December 31, 2015, there was \$0.1 million of unrecognized compensation expense related to unvested restricted share units. The expense is expected to be recognized over a weighted average period of 0.86 years.

The total fair values of restricted stock units granted under the Changyou 2008 Share Incentive Plan after the completion of the Company's initial public offering vested on their respective vesting dates during the years ended December 31, 2013, 2014 and 2015 were \$5.5 million, \$1.1 million and \$1.1 million, respectively.

Changyou 2014 Share Incentive Plan

On June 27, 2014 the Company adopted and reserved for issuance 2,000,000 of Class A ordinary shares under a new share incentive plan (the "2014 Share Incentive Plan"). On November 2, 2014, the Company increased to 6,000,000 the number of Class A ordinary shares reserved under the 2014 Share Incentive Plan.

i) Summary of share option activity

Through December 31, 2014, the Company had contractually granted under the 2014 Share Incentive Plan an aggregate of 2,416,000 Class A restricted share units (setttable upon vesting in Class A ordinary shares) to certain employees. On February 16, 2015, Changyou's Board of Directors approved the conversion of 2,400,000 Class A restricted share units into options for the purchase of Class A ordinary shares at an exercise price of \$0.01. The conversion constituted a modification of share based compensation. The incremental value of the modification is approximately zero due to the facts that the exercise price is approximately zero and the other terms were not changed. On June 1, 2015, Changyou's Board of Directors approved the grants of options for the purchase of an aggregate of 1,998,000 Class A ordinary shares to certain members of the Company's management and certain other employees, at an exercise price of \$0.01. The options into which the Class A restricted units were converted on February 16, 2015 and the options approved on June 1, 2015 provide for vesting in four equal installments over a period of four years, with each installment vesting upon satisfaction of a service period requirement and the achievement of certain subjective performance targets. No grant date had been established for the unvested options for accounting purposes as of December 31, 2015, because a mutual understanding had not been reached between Changyou and the recipients clarifying the subjective performance requirements. Compensation expense for the options is accrued commencing on the service inception date and was, and will be, re-measured based on the then-current fair value of the options on each subsequent reporting date until the grant date is established. To determine the fair value of these share options, the public market price of Changyou's ADSs at each reporting date was used and a binomial valuation model was applied.

During 2015, 450,000 share options were vested. As of December 31, 2015, there were 450,000 share options that were vested and remained exercisable, with a weighted average remaining contractual life of 8.84 years and aggregate intrinsic value of \$5.6 million.

Share-based compensation expense recognized for share options for the years ended December 31 of 2014 and 2015 under the 2014 Share Incentive Plan was \$2.6 million and \$15.2 million, respectively.

The total fair values of share options vested on their respective vesting dates during the year ended December 31 of each of 2014 and 2015 was \$nil and \$4.7 million, respectively.

ii) Summary of restricted share unit activity

As of December 31, 2015, Changyou had granted under the 2014 Share Incentive Plan an aggregate of 16,000 Class A restricted share units to an employee. These Class A restricted share units are subject to vesting over a four-year period commencing on their grant dates. The fair values as of the grant dates of the restricted share units were determined based on market price of Changyou's ADSs on the grant dates.

A summary of restricted share unit activity with respect to grants under the Changyou 2014 Share Incentive Plan as of and for the year ended December 31, 2015 is presented below:

<u>Restricted Share Units</u>	<u>Number of Units (in thousands)</u>	<u>Weighted- Average Grant-Date Fair Value</u>
Unvested at January 1, 2015	16	\$ 12.64
Granted	—	
Vested	—	
Forfeited	(16)	12.64
Unvested at December 31, 2015	—	
Expected to vest thereafter	—	

Share-based compensation expense recognized for restricted share units for the year ended December 31, 2015 under the 2014 Share Incentive Plan was negative \$17,000, due to termination of holders' employment during the second quarter of 2015 prior to vesting. As of December 31, 2015, there was \$nil of unrecognized compensation expense related to unvested restricted share units that were granted under the 2014 Share Incentive Plan.

7Road 2012 Share Incentive Plan

On July 10, 2012, 7Road adopted a 2012 Share Incentive Plan (the "7Road 2012 Share Incentive Plan"). On June 28, 2013, 7Road's Board of Directors approved the cancellation of the 7Road 2012 Share Incentive Plan. 7Road concurrently offered to a total of 42 7Road employees holding an aggregate of 2,223,750 restricted share units which had been granted under the 7Road 2012 Share Incentive Plan the right to exchange their restricted share units for, at each employee's election, in each case subject to the employee's continued employment by 7Road, either (i) Scheme I: the right to a cash payment of up to an aggregate of \$2.90 per restricted share unit exchanged, vesting and payable at the rate of 40%, 30% and 30%, respectively, on the first, second and third anniversaries of July 18, 2012, which is the date when the surrendered restricted share units were granted under the 7Road 2012 Share Incentive Plan, or (ii) Scheme II: the right to receive an annual cash bonus, over a seven-year period commencing July 1, 2013, based on adjusted annual cumulative net income of 7Road. All restricted share units held by these 42 holders under the 7Road 2012 Share Incentive Plan as of June 28, 2013 were included in this exchange program.

In the third quarter of 2013, 7Road granted to an additional 48 7Road employees the right to receive an annual cash bonus under Scheme II with the same terms as described above.

As the original awards of restricted share units made under the 7Road 2012 Share Incentive Plan included as a vesting condition the completion of an initial public offering, which is not considered probable until it occurs, no share-based compensation expense was recognized for the fair value of the original awards. Incremental compensation expense, which is not classified as share-based compensation expense, is equal to the fair values of the two new compensation schemes included in the exchange program as of the date of the modification resulting from the exchange program.

On August 17, 2015, Changyou completed the sale of 7Road. Compensation expense recognized for the years ended December 31 of 2013, 2014 and 2015 was \$3.3 million, \$0.8 million and \$0.1 million, respectively, for Scheme I and \$0.4 million, \$0.3 million and \$nil, respectively, for Scheme II.

MoboTap Equity Incentives

Compensation expense of \$138,000 and \$29,947, respectively, was recognized for the years ended December 31, 2014 and 2015 with respect to share awards in MoboTap granted to employees of MoboTap. As of December 31, 2015, there was \$94,757 of unrecognized compensation expense related to MoboTap share awards.

19. MEZZANINE EQUITY

On May 11, 2011, the Company, through Gamease, acquired 68.258% of the equity interests of Shenzhen 7Road and began to consolidate 7Road's financial statements on June 1, 2011.

Mezzanine Equity consisted of non-controlling interest in 7Road and a put option pursuant to which the non-controlling shareholders had the right to put their equity interests in 7Road to the Company at a pre-determined price if 7Road achieved specified performance milestones before the expiry of the put option and 7Road did not complete an initial public offering. The put option expired in 2014. Since the occurrence of the sale was not solely within the control of the Company, the Company classified the non-controlling interest as mezzanine equity instead of permanent equity in the Company's consolidated financial statements.

In accordance with ASC subtopic 480-10, the Company calculated, on an accumulative basis from the acquisition date, (i) the amount of accretion that would increase the balance of non-controlling interest to its estimated redemption value over the period from the date of the 7Road acquisition to the earliest redemption date of the non-controlling interest and (ii) the amount of net profit attributable to non-controlling shareholders of 7Road based on their ownership percentage. The carrying value of the non-controlling interest as mezzanine equity was adjusted by an accumulative amount equal to the higher of (i) and (ii).

On May 1, 2013, Changyou entered into an agreement to acquire all of the ordinary shares of 7Road held by the non-controlling shareholders. The acquisition closed on June 5, 2013. Following the closing of the acquisition, \$2.4 million, representing the excess of the amount of the mezzanine-classified non-controlling interest in 7Road over the purchase price as of the closing date, was recorded in the equity accounts.

As a result of the acquisition of shares from non-controlling shareholders of 7Road in 2013, there were no accretion charges for the year ended December 31, 2014, compared to \$17.8 million for the year ended December 31, 2013, which was recorded as net income attributable to the mezzanine classified non-controlling interest shareholders in the statements of comprehensive income.

20. TAXATION

a. Transition from PRC Business Tax to PRC Value Added Tax

Effective September 1, 2012, a pilot program (the “Pilot Program”) for transition from the imposition of PRC business tax (“Business Tax”) to the imposition of value-added tax (“VAT”) for revenues from certain industries was expanded from Shanghai to eight other cities and provinces in China, including Beijing and Tianjin. Commencing August 1, 2013 the Pilot Program was expanded to cover all regions in the PRC. Online advertising revenues and cinema advertising revenues as well as certain online game revenues were subject to the Pilot Program.

b. Business Tax and related Surcharges

Prior to the Pilot Program, the Group was subject to a 5% PRC business tax and 0.6% in related surcharges on revenues from the online game business, the operation of 17173.com Website and the cinema advertising business in the PRC. PRC business tax and the related surcharges are recognized when the revenue is earned.

After the Pilot Program, the Company’s operation of PC games remains subject to business tax and related surcharges. The Group adopted the net presentation method for its PC games revenues. Under the net presentation method, revenues are net of business tax (at a rate of 5%).

c. VAT

The Company’s revenues from the operation of mobile games are generally subject to VAT at the rate of 6%.

VAT was imposed on the Company’s revenues from Web games developed in-house at a rate of 17%, with a 14% immediate tax refund, resulting in a net rate of 3% plus a related surcharge of 12% on the VAT payable.

After the Pilot Program, the Group’s online advertising and cinema advertising revenues are subject to VAT at a rate of 6%. There is a culture construction fee surcharge of 3% on revenues and the related VAT from the online advertising and cinema advertising businesses.

d. Income tax

Cayman Islands

Under the current tax laws of the Cayman Islands, the Company is not subject to tax on its income or capital gains. In addition, no Cayman Islands withholding tax will be imposed upon the payment of dividends by the Company to its shareholders.

Hong Kong

Entities incorporated in Hong Kong are subject to profits tax in Hong Kong at the rate of 16.5% for each of the years ended December 31, 2013, 2014 and 2015.

China

The Company’s subsidiaries and VIEs in China are governed by the Corporate Income Tax Law (“CIT Law”). Pursuant to the CIT Law and its implementation rules, enterprises in China are generally subject to tax at a statutory rate of 25%, certain High and New Technology Enterprises are entitled to a favorable statutory tax rate of 15%, and Software Enterprises can enjoy an income tax exemption for two years beginning with their first profitable year and a 50% tax reduction to a rate of 12.5% for the subsequent three years.

Principal Entities Qualified as High and New Technology Enterprises (“HNTEs”)

For the three years ended December 31, 2013, 2014 and 2015, AmazGame and Gamease were qualified as HNTEs and were entitled to an income tax rate of 15%, except that AmazGame was entitled to an income tax rate of 10% in 2013 and 2014 because it was also qualified as a Key National Software Enterprise (“KNSE”). AmazGame and Gamease will need to re-apply for HNTE qualification in 2017.

Principal Entities Qualified as Software Enterprises

- AmazGame also qualified as a KNSE and enjoyed a preferential income tax rate of 10% for 2013 and 2014. However, as a result of a restructuring of the approval process, the State Council recently suspended the acceptance of applications for KNSE status, and it is not clear when, if ever, the acceptance of applications for KNSE status will resume. The Company plans to re-apply to qualify AmazGame as a KNSE for 2015 and 2016 if and when the State Council again authorizes the acceptance of applications.
- In 2015, Gamespace was in its second year of a three-year period of qualification as a Software Enterprise, during which it is entitled to a 50% reduction to a rate of 12.5%.
- In 2015, 7Road Technology was entitled to a 50% reduction to a rate of 12.5% as a Software Enterprise.
- ICE Information Technology (Shanghai) Co., Ltd (“ICE Information”). ICE Information was not subject to income tax, as it incurred losses.
- Shanghai ICE was entitled to a 50% reduction to a rate of 12.5% as a Software Enterprise from 2012 to 2014. The reduced rate no longer applied in 2015.

The license fees and royalty payments received from licensees in various jurisdictions outside of the PRC are subject to foreign withholding taxes. The Group recognizes such foreign withholding taxes as income tax expense when the related license fee and royalty revenue is recognized.

PRC Withholding Tax on Dividends

Under the CIT Law and its implementation rules, the profits of a foreign invested enterprise arising in 2008 and onwards which are distributed to its immediate holding company outside the PRC are subject to a withholding tax rate of 10%. A lower withholding tax rate will be applied if there is a beneficial tax treaty between the PRC and the jurisdiction of the foreign holding company. A holding company in Hong Kong, for example, will be subject to a 5% withholding tax rate under the Arrangement Between the PRC and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital (the “China-HK Tax Arrangement”) if such holding companies is considered a non-PRC resident enterprises and holds at least 25% of the equity interests in the PRC foreign invested enterprise distributing the dividends, subject to approval of the PRC local tax authority. However, if the Hong Kong holding company is not considered to be the beneficial owner of such dividends under applicable PRC tax regulations, such dividend may remain subject to withholding tax rate of 10%.

On October 27, 2009, the PRC State Administration of Taxation issued Circular 601, which provides guidance on determining whether an enterprise is a beneficial owner under China’s tax treaties and tax arrangements. If any of the Company’s Hong Kong subsidiaries is, in the light of Circular 601, to be considered a non-beneficial owner for purpose of the China-HK Tax Arrangement, any dividends paid to it by any of the Company’s PRC subsidiaries would not qualify for the preferential dividend withholding tax rate of 5%, but rather would be subject to the statutory withholding tax rate of 10%. In order to fund the distribution of a dividend to the Company’s shareholders, the Company’s management determined to cause one of the Group’s PRC subsidiaries to declare and distribute a cash dividend of all of its stand-alone 2012 earnings and half of its stand-alone subsequent years’ earnings to its direct overseas parent company, Changyou HK. The Company does not intend to cause any of its PRC subsidiaries to distribute any profits of such subsidiaries with respect to years prior to 2012 to their direct overseas parent companies, but rather intends that such profits will be retained by such subsidiaries for their PRC operations. The Company’s management believes that under the corporate income tax law and relevant rules, such dividend out of earnings generated after January 1, 2012 is subject to a 5% withholding tax. Therefore, a withholding tax obligation of the PRC subsidiary associated with this distribution plan was accrued and recorded as deferred tax liabilities in the amount of \$24.9 million as of December 31, 2015.

Uncertain Tax Positions

For the years ended December 31, 2013, 2014 and 2015, the Company did not have any material interest or penalties associated with tax positions nor did the Company have any significant unrecognized uncertain tax positions.

In 2015, the Company recognized tax payable in the amount of \$14.6 million as management determined that certain business transactions that took place during the year may result in additional tax obligations under relevant tax rules.

The Group does not anticipate that the uncertain tax positions will significantly increase or decrease within twelve months of December 31, 2015.

Composition of income tax expense

The current and deferred portions of income tax expense included in the consolidated statements of comprehensive income are as follows:

	For the year ended December 31,		
	(in thousands)		
	2013	2014	2015
Income/(loss) from foreign entities	\$ (35,175)	\$ (48,460)	\$ 53,752
Income from PRC entities	357,980	29,794	190,930
Income/(loss) before income tax expenses	\$322,805	\$ (18,666)	\$244,682
Current income tax expense	\$ 28,909	\$ 21,930	\$ 44,668
Deferred tax	5,382	(20,965)	8,009
Income tax expenses applicable to PRC entities	\$ 34,291	\$ 965	\$ 52,677
Foreign withholding tax expense	2,092	1,528	1,378
Income tax expense	\$ 36,383	\$ 2,493	\$ 54,055

Reconciliation between the statutory CIT rate and the Group's effective tax rate is as follows:

	For the year ended December 31,		
	2013	2014	2015
Statutory CIT rate	25.0%	25.0%	25.0%
Effect of tax holidays	(19.5)%	115.8%	(12.8)%
Tax differential from statutory rate applicable to overseas subsidiaries	1.2%	(37.9)%	3.7%
Effect of withholding taxes	2.7%	(26.7)%	1.6%
Changes in valuation allowance	2.4%	(69.5)%	(2.7)%
Other permanent book-tax differences	(0.5)%	(20.1)%	7.3%
Effective CIT rate	11.3%	(13.4)%	22.1%

The combined effects of the income tax expense exemption and reduction available to the Group are as follows (in thousands, except per share data):

	For the year ended December 31,		
	2013	2014	2015
Tax holiday effect	\$ 62,893	\$ 21,619	\$ 31,431
Basic earnings per share	\$ 0.59	\$ 0.20	\$ 0.30

e. *Deferred tax assets and liabilities*

Significant components of the Group's deferred tax assets consist of the following:

	As of December 31, (in thousands)	
	2014	2015
Deferred tax assets		
Net operating loss from operations	\$ 61,450	\$ 40,788
Intangible assets	2,261	3,308
Accrued salary and benefits	7,871	4,678
Others	3,471	1,162
Total deferred tax assets	75,053	49,936
Less: Valuation allowance	(51,431)	(32,534)
Net deferred tax assets	<u>\$ 23,622</u>	<u>\$ 17,402</u>
Deferred tax liability		
Related to acquired intangible assets	\$ 1,805	\$ —
Withholding tax related to distribution of dividend	22,356	24,884
VAT refund	3,943	3,616
Net deferred tax liabilities	<u>\$ 28,104</u>	<u>\$ 28,500</u>

As of December 31, 2014 and 2015, the Group has made a valuation allowance against its deferred tax assets to the extent such deferred tax assets are not expected to be realized by certain subsidiaries and VIEs. The Group evaluated a variety of factors in determining the amount of the valuation allowance, including uncertainty as to the success of the Group's businesses due to intense competition in the industries in which the Group operates its businesses and the migration of game players to mobile devices.

As of December 31, 2015, the Group had net operating losses from PRC entities of approximately \$110.9 million available to offset against future net profit for income tax purposes. The Group anticipates that it is more likely than not that these net operating losses (except for the net operating losses generated by Gamease and Guanyou Gamespace) may not be utilized based on its estimate of the operation performance of these PRC entities; therefore, \$13.6 million in deferred tax assets generated from net operating losses were offset by a valuation allowance. These net operating losses are expected to expire during the period between December 31, 2016 and December 31, 2021.

21. CHINA CONTRIBUTION PLAN

The Company's subsidiaries and VIEs in the PRC participate in a government-mandated multi-employer defined contribution plan pursuant to which certain retirement, medical and other welfare benefits are provided to employees. Chinese labor regulations require the Company's subsidiaries and VIEs in the PRC to pay to the local labor bureau a monthly contribution at a stated contribution rate based on the monthly compensation of qualified employees. The relevant local labor bureau is responsible for meeting all retirement benefit obligations; the Group has no further commitments beyond its monthly contribution. During the years ended December 31, 2013, 2014 and 2015, the Group contributed approximately a total of \$30.1 million, \$47.0 million and \$36.3 million, respectively, to these funds.

22. ADVERTISING EXPENSES

Included in sales and marketing expense, advertising expenses generally represent the expenses of promotions to create or stimulate a positive image of the Group or a desire to subscribe for the Group's products and services. Advertising expenses are expensed as incurred. Advertising expenses recognized in the consolidated statements of comprehensive income were \$101.6 million, \$188.6 million and \$43.1 million, respectively, for the years ended December 31, 2013, 2014 and 2015. Advertising expenses charged from Sohu were \$13.4 million, \$10.4 million and \$2.7 million, respectively, for the years ended December 31, 2013, 2014 and 2015.

23. STATUTORY RESERVES

The Company's China-based subsidiaries and VIEs are required to make appropriations to certain non-distributable reserve funds.

Pursuant to the China Foreign Investment Enterprises laws, some of the Company's China-based subsidiaries, which are called wholly foreign-owned enterprises ("WFOEs"), have to make appropriations from their after-tax profit as determined under generally accepted accounting principles in the PRC (the "after-tax-profit under PRC GAAP") to non-distributable reserve funds, including (i) general reserve fund, (ii) enterprise expansion fund, and (iii) staff bonus and welfare fund. Each year, at least 10% of the after-tax-profit under PRC GAAP is required to be set aside as general reserve fund until such appropriations for the fund equal 50% of the paid-in capital of the applicable entity. The appropriation for the other two reserve funds is at the Company's discretion as determined by the Board of Directors of each entity.

Pursuant to PRC law, some of the Company's China-based subsidiaries, which are called domestically funded enterprises, as well as the Company's VIEs, have to make appropriations from their after-tax-profit under PRC GAAP to non-distributable reserve funds, including a statutory surplus fund and a discretionary surplus fund. Each year, at least 10% of the after-tax-profit under PRC GAAP is required to be set aside as a statutory surplus fund until such appropriations for the fund equal 50% of the registered capital of the applicable entity. The appropriation for the discretionary surplus fund is at the Company's discretion as determined by the Board of Directors of each entity.

Upon certain regulatory approvals and subject to certain limitations, the general reserve fund and the statutory surplus fund can be used to offset prior year losses, if any, and can be converted into paid-in capital of the applicable entity.

For the years ended December 31, 2013, 2014 and 2015, profit appropriation to the statutory surplus fund was approximately \$16,000, \$nil and \$0.8 million, respectively, and in 2015, \$3.4 million was derecognized due to the sale of Shenzhen 7Road.

24. EARNINGS (LOSSES) PER SHARE

The following table sets forth the computation of basic and diluted net income (loss) per share for the years indicated (in thousands except per share data):

	For the year ended December 31,		
	2013	2014	2015
Numerator:			
Net income/(loss) attributable to Changyou.com Limited	\$268,642	\$ (3,381)	\$212,784
Numerator for basic earnings/(losses) per share	268,642	(3,381)	212,784
Numerator for diluted earnings/(losses) per share	268,642	(3,381)	212,784
Denominator:			
Weighted average number of ordinary shares outstanding — basic	106,252	105,722	104,924
Incremental shares from treasury share method	424	—	838
Weighted average number of ordinary shares outstanding — diluted	<u>106,676</u>	<u>105,722</u>	<u>105,762</u>
Basic net income/(loss) per share	\$ 2.53	\$ (0.03)	\$ 2.03
Diluted net income/(loss) per share	\$ 2.52	\$ (0.03)	\$ 2.01

As of December 31, 2013, 2014 and 2015, a total of nil, 120 and nil outstanding non-vested restricted shares and share options were excluded from the computation of dilutive loss per share for the years ended December 31, 2013, 2014 and 2015 because of their anti-dilutive effect. The dilutive effects of restricted shares and share options are calculated using the treasury stock method.

25. SEGMENT INFORMATION

The Group currently has two reportable segments consisting of the Online Game segment and the Platform Channel segment.

The Company determined that as of December 31, 2013 the business segments that constituted its then primary reportable segments were the Online Game segment, which consisted of PC games, and the 17173 Business segment, which consisted of the online advertising business and the IVAS business. In 2014, the Company expanded its online game business to include mobile games, and the CODMs determined that the operation of mobile games should be reviewed under the Online Game segment. In addition, the Group developed and acquired software applications for PCs and mobile devices intended to strengthen the Group's competitiveness in the Internet sector. In 2014, the Group launched the wan.com Website, which provided to game players a collection of Web games of third-party developers. The CODMs determined that the software applications for PCs and mobile services and the wan.com Website should be reviewed together as one operating segment identified as the software segment. Due to the similarity of the economic characteristics of the operations of the software applications and the wan.com Website included in the software segment to those of the 17173.com Website, the software segment was aggregated with the existing 17173.com segment under the Platform Channel segment. Cinema advertising was not deemed significant enough to qualify as a separate, reportable segment and therefore was included in "Others."

Beginning in 2014, the Company stopped preparing discrete asset and liability information for individual operating segments, since the CODMs did not use balance sheet information for purposes of allocating resources to or evaluating the performance of the operating segments. Moreover, the CODMs began to review separate financial information of the software segment, which was reported within the Platform Channel segment in 2014. Promotion expenses for software in the amount of \$42.5 million, which were recognized under the Online Game segment in 2013, were reclassified into the Platform Channel segment to conform to the 2014 presentation.

The Group ceased operating the wan.com Website on March, 2015. As a result, thereafter IVAS aggregated with 17173.com segment in the Platform Channel segment consisted solely of software for PCs and mobile devices. As of December 31, 2015, the business segments that constituted the Company's primary reportable segments were the Online Game segment, which consists of PC games, mobile games and Web games, and the Platform Channel segment, which consists primarily of online advertising services on the 17173.com Website, and a relatively small amount of IVAS. Cinema advertising is not deemed significant enough to qualify as a separate, reportable segment and therefore is included in "Others."

Year Ended December 31, 2015

(in thousands)

	Online Game US\$	Platform Channel US\$	Others US\$	Eliminations and adjustments US\$	Consolidated US\$
Revenues(1):					
Online game	627,309	9,537	—	—	636,846
Online advertising	—	59,127	—	(1,295)	57,832
IVAS	—	24,385	—	—	24,385
Others	—	—	42,589	(16)	42,573
Total revenues	627,309	93,049	42,589	(1,311)	761,636
Cost of revenues:					
Online game	150,368	5,913	—	—	156,281
Online advertising	—	11,565	—	—	11,565
IVAS	—	19,649	—	—	19,649
Others	—	—	29,231	—	29,231
SBC (2) in cost of revenues	37	(2)	—	—	35
Total cost of revenues	150,405	37,125	29,231	—	216,761
Gross profit	476,904	55,924	13,358	(1,311)	544,875
Operating expenses:					
Product development	133,523	31,607	—	—	165,130
Sales and marketing	60,437	20,853	11,359	(1,311)	91,338
General and administrative	57,341	12,100	2,331	—	71,772
Goodwill impairment and impairment of acquired intangibles as part of acquisition of a business	—	40,324	—	—	40,324
SBC (2) in operating expenses	14,957	32	—	—	14,989
Total operating expenses	266,258	104,916	13,690	(1,311)	383,553
Operating profit/(loss)	210,646	(48,992)	(332)	—	161,322
Interest income	24,886	79	—	(1,188)	23,777
Foreign currency exchange loss	2,858	96	—	—	2,954
Interest expense	(8,330)	(1,191)	—	1,188	(8,333)
Other income/(expense)	64,912	382	(332)	—	64,962
Income/(loss) before income tax expense	294,972	(49,626)	(664)	—	244,682
Income tax expense/(credit)	53,186	193	676	—	54,055
Net income/(loss)	241,786	(49,819)	(1,340)	—	190,627
Less: Net loss attributable to the non-controlling interest	88	(22,245)	—	—	(22,157)
Net income/(loss) attributable to Changyou.com Limited	241,698	(27,574)	(1,340)	—	212,784

Year Ended December 31, 2014

(in thousands)

	Online Game	Platform Channel	Others	Eliminations and adjustments	Consolidated
	US\$	US\$	US\$	US\$	US\$
Revenues(1):					
Online game	647,719	4,289	—	—	652,008
Online advertising	—	67,403	—	(8,440)	58,963
IVAS	—	22,357	—	—	22,357
Others	—	—	44,683	(22,745)	21,938
Total revenues	647,719	94,049	44,683	(31,185)	755,266
Cost of revenues:					
Online game	138,483	3,084	—	925	142,492
Online advertising	—	15,412	—	(667)	14,745
IVAS	—	22,983	—	—	22,983
Others	—	—	21,490	—	21,490
SBC (2) in cost of revenues	57	95	—	—	152
Total cost of revenues	138,540	41,574	21,490	258	201,862
Gross profit/(loss)	509,179	52,475	23,193	(31,443)	553,404
Operating expenses:					
Product development	148,310	44,734	—	—	193,044
Sales and marketing	77,526	191,072	4,047	(31,443)	241,202
General and administrative	80,836	21,574	2,253	—	104,663
Goodwill impairment and impairment of acquired intangibles as part of acquisition of a business	3,225	49,057	—	—	52,282
SBC (2) in operating expenses	3,879	83	—	—	3,962
Total operating expenses	313,776	306,520	6,300	(31,443)	595,153
Operating profit/(loss)	195,403	(254,045)	16,893	—	(41,749)
Interest income	25,939	135	17	—	26,091
Foreign currency exchange loss	(458)	(210)	—	—	(668)
Interest expense	(6,452)	—	—	—	(6,452)
Other income/(expense)	5,494	(1,591)	209	—	4,112
Income/(loss) before income tax expense	219,926	(255,711)	17,119	—	(18,666)
Income tax expense/(credit)	4,171	(3,992)	2,314	—	2,493
Net income/(loss)	215,755	(251,719)	14,805	—	(21,159)
Less: Net loss attributable to the non-controlling interest	—	(17,778)	—	—	(17,778)
Net income/(loss) attributable to Changyou.com Limited	215,755	(233,941)	14,805	—	(3,381)

Year Ended December 31, 2013

(in thousands)

	Online Game	Platform Channel	Others	Eliminations and adjustments	Consolidated
	US\$	US\$	US\$	US\$	US\$
Revenues(1):					
Online game	669,168	—	—	—	669,168
Online advertising	—	54,882	—	(4,884)	49,998
IVAS	—	5,402	—	—	5,402
Others	—	—	25,031	(11,724)	13,307
Total revenues	669,168	60,284	25,031	(16,608)	737,875
Cost of revenues:					
Online game	93,048	—	—	187	93,235
Online advertising	—	13,797	—	—	13,797
IVAS	—	1,860	—	(74)	1,786
Others	—	—	17,518	—	17,518
SBC (2) in cost of revenues	71	30	—	—	101
Total cost of revenues	93,119	15,687	17,518	113	126,437
Gross profit/(loss)	576,049	44,597	7,513	(16,721)	611,438
Operating expenses:					
Product development	109,964	9,470	—	—	119,434
Sales and marketing	79,922	57,252	7,143	(15,561)	128,756
General and administrative	52,622	3,375	570	—	56,567
Goodwill impairment and impairment of acquired intangibles as part of acquisition of a business	—	—	—	—	—
SBC (2) in operating expenses	1,129	44	—	—	1,173
Total operating expenses	243,637	70,141	7,713	(15,561)	305,930
Operating profit/(loss)	332,412	(25,544)	(200)	(1,160)	305,508
Interest income	28,419	23	13	—	28,455
Foreign currency exchange loss	(5,935)	—	(1)	—	(5,936)
Interest expense	(8,835)	—	—	—	(8,835)
Other expense	3,669	(169)	113	—	3,613
Income/(loss) before income tax expense	349,730	(25,690)	(75)	(1,160)	322,805
Income tax expense/(credit)	35,988	(15)	410	—	36,383
Net income/(loss)	313,742	(25,675)	(485)	(1,160)	286,422
Less: Net income attributable to the mezzanine classified non-controlling interest	17,780	—	—	—	17,780
Net income/(loss) attributable to Changyou.com Limited	295,962	(25,675)	(485)	(1,160)	268,642

Note (1): The intercompany elimination for segment revenues mainly consists of sales and marketing services provided by the Platform Channel Business and the Others business to the Online Game Business.

Note (2): “SBC” stands for share-based compensation expense.

26. TREASURY SHARES

On July 27, 2013, the Company's board of directors approved a share repurchase program, pursuant to which the Company may repurchase from time to time at management's discretion, at prevailing market prices in the open market in accordance with Rule 10b-18 under the Securities Exchange Act of 1934, up to \$100 million of the Company's outstanding ADSs over a two-year period from July 27, 2013 to July 26, 2015. As of July 26, 2015, the Company had repurchased under the Share Repurchase Program an aggregate of 1,364,846 ADSs, representing 2,729,692 Class A ordinary shares, at an average price of \$25.9 per ADS, or \$12.95 per Class A ordinary share, for aggregate consideration of \$35 million. These shares were recorded at their historical purchase cost of \$35 million and were not canceled.

27. RELATED PARTY TRANSACTIONS

The table below sets forth major related parties and their relationships with the Group

<u>Company name</u>	<u>Relationship with the Group</u>
Sohu	Under common control of Sohu.com
SoEasy	An associate of Sohu
Jin Dian	A controlled company by a member of board

Jin Dian is controlled by Mr. Baoquan Zhang, who was a former member of our Board of Directors until his resignation on September 27, 2013. Jin Dian was no longer a related party of the Group after Mr. Zhang's resignation.

On November 29, 2011, the Group and Sohu separately entered into a services agreement and an online links and advertising agreement (together, the "Services and Advertising Agreements"), pursuant to which Sohu provide links and advertising space and technical support to the Group, including the provision and maintenance of user log-in, information management and virtual currency payment systems of the 17173.com Website. The Services and Advertising Agreements provide for a term of twenty-five years for the virtual currency payment system services, and an initial term of three years for all the other relevant services and links and advertising space, and involve aggregate fees to Sohu of approximately \$30 million. Under the Services and Advertising Agreements, the Group may renew certain rights for a subsequent term of twenty-two years, and may obtain a perpetual software license in respect of the information management system and the user log-in system following the expiration of the three-year term, subject to the Group's payment to Sohu of additional fees of up to approximately \$5 million in the aggregate.

During 2015, certain subsidiaries of the Company and certain subsidiaries of Sohu entered into a series of one year loan agreements, pursuant to which the subsidiaries of Changyou can draw down U.S. dollar-denominated loans from Sohu subsidiaries and the subsidiaries of Sohu can draw down equivalent RMB-denominated loans from the Changyou subsidiaries, to facilitate each other's business operations. All of the loans carry a fixed rate of interest equal to the current market interest rate as of the date when the loan agreements were entered into.

During 2015, certain subsidiaries of Changyou and certain subsidiaries of SoEasy entered into a series of one year loan agreements, pursuant to which the subsidiaries of Changyou may draw down HK dollar-denominated loans up to HK\$100 million from SoEasy and the subsidiaries of SoEasy may draw down equivalent RMB-denominated loans from the subsidiaries of Changyou, to facilitate each other's business operations. All of the loans carry a fixed rate of interest equal to the current market interest rate as of the date when the loan agreements were entered into.

During the years ended December 31, 2013, 2014 and 2015, significant related party transactions were as follows:

	For the year ended December 31, (in thousands)		
	2013	2014	2015
Transactions with Sohu			
<i>Services provided by Sohu</i>			
Sales and marketing services provided by Sohu	\$ 13,390	\$ 10,401	\$ 2,651
Interest expense on matching loans	—	—	1,234
<i>Services provided to Sohu</i>			
Interest income on matching loans	\$ —	\$ —	\$ 4,925

	For the year ended December 31, (in thousands)		
	2013	2014	2015
Transactions with Jin Dian			
Advertising slots provided by Shi Dai Jin Dian Cinema Investing Co., Ltd, or Jin Dian	\$ 1,310	\$ —	\$ —

	For the year ended December 31, (in thousands)		
	2013	2014	2015
Transactions with SoEasy			
<i>Services provided by SoEasy</i>			
Interest expense on matching loans	\$ —	\$ —	\$ 106
<i>Services provided to SoEasy</i>			
Interest income on matching loans	\$ —	\$ —	\$ 435

As of December 31, 2014 and 2015, the amounts due to related parties were as follows:

	As of December 31, (in thousands)	
	2014	2015
Due to Sohu (matching loans from Sohu)	\$ —	\$ 171,234
Due to SoEasy (matching loans from SoEasy)	—	13,005

As of December 31, 2014 and 2015, amounts due from and prepayment to related parties were as follows:

	As of December 31, (in thousands)	
	2014	2015
Due from Sohu (matching loans)	\$ —	\$ 161,834
Due from SoEasy (matching loans)	—	12,740

The transactions are measured at the amount of consideration established and agreed to by the related parties, which approximates amounts charged to third parties.

28. COMMITMENTS AND CONTINGENCIES

The Group has future rental commitments related to its bandwidth leasing charges, office rental, fees for operating rights of licensed games in development, interest payment and certain other services as follows:

	Bandwidth leasing (in thousands)	Office rental (in thousands)	Fees for operating rights of licensed games in development (in thousands)	Others (in thousands)
2016	\$ 7,655	\$ 4,288	\$ 3,038	\$ 663
2017	1,339	3,506	150	34
2018 and thereafter	4	2,431	—	—
Total minimum payments required	\$ 8,998	\$ 10,225	\$ 3,188	\$ 697

Rental expenses, including bandwidth leasing charges and office rental, were approximately \$30.2 million, \$48.4 million, and \$32.3 million, respectively, for the years ended December 31, 2013, 2014 and 2015 and were charged to the statement of comprehensive income as incurred.

The Group estimated the future capital commitments related to expenditures for rights to titles and characters for games in development, operating rights of licensed games with technological feasibility and cinema advertising slot rights to be as follows:

	Expenditures for rights to titles and characters for games in development (in thousands)	Expenditures for operating rights of licensed games with technological feasibility (in thousands)	Cinema advertising slot rights (in thousands)
2016	\$ 1,623	\$ 5,818	\$ 23,745
2017	—	20,350	26,868
2018 and thereafter	—	—	11,272
Total minimum payments required	\$ 1,623	\$ 26,168	\$ 61,885

The Group did not have any other significant capital and other commitments or guarantees as of December 31, 2015.

The Group did not have any material interest or penalties associated with tax positions nor did the Company have any significant unrecognized uncertain tax positions as of December 31, 2015.

The Group is not currently a party to any legal proceeding, investigation or claim which, in the opinion of the Group's management, is likely to have a material adverse effect on the business, financial condition or results of operations.

29. RESTRICTED NET ASSETS

Relevant PRC law and regulations permit payment of dividends by PRC-based operating entities such as AmazGame, Gamease, Gamespace and Guanyou Gamespace only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. In addition, a PRC-based operating entity is required to annually appropriate 10% of net after-tax income to the statutory surplus reserve fund (See Note 23 — STATUTORY RESERVES) prior to payment of any dividends, unless such reserve funds have reached 50% of the entity's registered capital. As a result of these and other restrictions under PRC law and regulations, PRC-based operating entities are restricted in their ability to transfer a portion of their net assets to the Company either in the form of dividends, loans or advances. Even though the Company currently does not require any such dividends, loans or advances from PRC-based operating entities for working capital and other funding purposes, the Company may in the future require additional cash resources from PRC-based operating entities due to changes in business conditions, to fund future acquisitions and development, or to declare and pay dividends to or distribution to its shareholders.

30. ADDITIONAL INFORMATION — CONDENSED FINANCIAL STATEMENTS

The condensed financial statements of Changyou.com Limited have been prepared in accordance with SEC Regulation S-X Rule 5-04 and Rule 12-04.

The Company records its investments in subsidiaries under the equity method of accounting. Such investments and long-term loans to subsidiaries are presented on the balance sheet as “Interests in subsidiaries and variable interest entities” and the profit of the subsidiaries is presented as “Share of profit of subsidiaries and variable interest entities” in the statement of comprehensive income.

For the VIEs, where the Company is the primary beneficiary, the amount of the Company’s investment is included in the balance sheet as “Interests in subsidiaries and variable interest entities” and the profit or loss of the VIEs is included in “Share of profit of subsidiaries and variable interest entities” in the statement of comprehensive income.

The footnote disclosures contain supplemental information relating to the operations of the Company and, as such, these financial statements should be read in conjunction with the notes to the Consolidated Financial Statements of the Company. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted.

As of December 31, 2014 and 2015, there were no material contingencies, significant provisions for long-term obligations, or guarantees of the Company, except for those, if any, which have been separately disclosed in the consolidated financial statements.

Financial information of Changyou.com Limited

Condensed Balance Sheets

(In thousands, except par value)

	As of December 31,	
	2014	2015
	US\$	US\$
Assets		
Cash and cash equivalents	24,429	5,118
Prepaid and other current assets	2	—
Restricted time deposits-current	—	478
Total current assets	24,431	5,596
Interests in subsidiaries and variable interest entities	1,236,882	1,368,978
Total assets	1,261,313	1,374,574
Liabilities and shareholders' equity		
Short-term bank loans	25,500	344,500
Accrued liabilities	925	595
Total current liabilities	26,425	345,095
Long-term bank loans	344,500	—
Total liabilities	370,925	345,095
Shareholders' equity		
Class A ordinary shares par value \$0.01, 200,000 authorized; 22,977 and 34,089 issued and outstanding as of December 31, 2014 and 2015, respectively	245	368
Class B ordinary shares par value \$0.01, 97,740 authorized; 82,490 and 70,250 issued and outstanding as of December 31, 2014 and 2015, respectively	825	703
Additional paid-in capital	96,004	111,719
Treasury shares (1,510 and 2,730 shares, respectively as of December 31, 2014 and 2015)	(20,817)	(35,323)
Statutory reserves	9,367	6,746
Retained earnings	735,962	951,367
Accumulated other comprehensive income/(loss)	68,802	(6,101)
Total shareholders' equity	890,388	1,029,479
Total liabilities and shareholders' equity	1,261,313	1,374,574

Financial information of Changyou.com Limited
Condensed Statements of Comprehensive Income
(In thousands)

	For the year ended December 31,		
	2013 US\$	2014 US\$	2015 US\$
Operating expenses:			
General and administrative	3,552	5,329	21,784
Total operating expenses	3,552	5,329	21,784
Operating loss	(3,552)	(5,329)	(21,784)
Share of profit of subsidiaries and variable interest entities	283,436	7,390	241,741
Interest expense, net	(11,242)	(5,442)	(7,173)
Income/(Loss) before income tax expense	268,642	(3,381)	212,784
Net income/(loss)	268,642	(3,381)	212,784
Other comprehensive income/(loss)	33,600	(2,931)	(74,903)
Comprehensive income/(loss)	302,242	(6,312)	137,881

Condensed Statement of Cash Flows
(In thousands)

	For the year ended December 31,		
	2013 US\$	2014 US\$	2015 US\$
Net cash used in operating activities	(14,668)	(10,483)	(14,238)
Cash flows from investing activities:			
Purchase of restricted time deposits	—	—	(478)
Proceeds/(Cash paid) relating to loans to subsidiaries	(102,165)	4,241	35,411
Net cash provided by/(used in) investing activities	(102,165)	4,241	34,933
Cash flows from financing activities:			
Proceeds of loans from offshore banks	140,978	370,000	—
Repayment of loans to offshore banks	—	(353,331)	(25,500)
Dividend distributed to shareholders	—	—	—
Payment for repurchase of shares	(17,240)	(3,577)	(14,506)
Net cash provided by/(used in) financing activities	123,738	13,092	(40,006)
Net increase/(decrease) in cash and cash equivalents	6,905	6,850	(19,311)
Cash and cash equivalents at beginning of year	10,674	17,579	24,429
Cash and cash equivalents at end of year	17,579	24,429	5,118

LOAN AGREEMENT

This Loan Agreement (the "Agreement") is entered into as of April 15, 2015 between and by the following Parties in Beijing, People's Republic of China ("China" or "PRC"):

Party A: **Beijing AmazGame Age Internet Technology Co., Ltd.**, with the registered address of No. 1210, Building 3, No. 3 Xijing Road, Badachu High-Tech Zone, Shijingshan District, Beijing; and

Party B: **Beijing Century High-Tech Investment Co., Ltd**, with the registered address of No.1 Zhong Guan Cun Dong Lu, Sohu Internet Plaza 10-08, Haidian District, Beijing.

(In this Agreement, Party A and Party B are called collectively as the "Parties" and respectively as "Party" or "Other Party")

WHEREAS,

1. Party A, a wholly foreign-owned enterprise duly incorporated and validly existing under the PRC laws;
2. Party B, a limited liability company duly incorporated and validly existing under the PRC laws and the shareholder of Beijing Gamease Age Digital Technology Co., Ltd. ("Gamease") holding 100% equity interests of Gamease; and
3. Party A, Party B have respectively entered into a Loan Assignment and Equity Interest Transfer Agreement with former shareholders of Gamease Mr. Tao Wang and Mr. Dewen Chen as of April 15, 2015 and March 31, 2015, according to which Party B agreed to inherit the interest-free loan borrowed by Mr. Tao Wang and Mr. Dewen Chen from Party A with the joint amount of RMB 10,000,000;

NOW, THEREFORE, in order to clarify the Parties' rights and obligations, through friendly negotiations, the Parties hereby agree as follows:

1. Loan

- 1.1 Under the provisions and conditions of this Agreement, Party A agrees that Party B shall inherit the interest-free loan with the amount of RMB 6,000,000.00 lent by Party A to Mr. Tao Wang according to the Revised Loan Agreement entered into by Party A and Mr. Tao Wang as of August 20, 2008 and the interest-free loan with the amount of RMB 4,000,000.00 lent by Party A to Mr. Dewen Chen according to the Loan Agreement entered into by Party A and Mr. Dewen Chen as of June 23, 2010, and Party B agrees to inherit the aforesaid loan.
- 1.2 Party B confirms that it has acquired 60% equity interests in Gamease from Mr. Tao Wang and 40% equity interests in Gamease from Mr. Dewen Chen as the consideration of inheriting the aforesaid loan.

2. Term of Loan

- 2.1. The term of such loan starts from April 15, 2015 until ten (10) years after signing this Agreement and could be extended upon the unilateral confirmation by Party A and the extended period shall be determined by Party A based on its independent judgment.
- 2.2. During the term or extended term of such a loan, Party A may accelerate the loan repayment in written notice, if any of the following events occurs:
 - (1) Party B quits or is dismissed by Party A or its affiliates;
 - (2) Party B enters in bankruptcy, recombination, liquidation, mandatory shut-down or similar legal procedures;
 - (3) Party B commits a crime or is involved in a crime;
 - (4) Any other third party claims more than RMB100,000 against Party B;
 - (5) Any statement or warranties made by Party B under this Agreement is untrue or in accurate in any material aspects; or Party B breaches the obligations under this Agreement; or

- (6) According to the PRC laws, Party A or its designated person may be qualified to invest in the business of value-added telecommunication, such as internet information service and other services, which Gamease runs, and also Party A has a written notice to Gamease and exercised its right of purchase in accordance with the terms of Equity Interest Purchase Agreement (“Purchase Agreement”).

3. Repayment of Loan

- 3.1. Party A can send the notice of repayment (“Notice of Payment”) to Party B fifteen days before anytime at Party A’s absolute discretion, requiring Party B to repay the total or part of the loan. The parties herein agree and confirm that Party B have to repay the loan only by the following methods: Party B or their heir or their successors or assignees, upon written notice request of Party A, have to transfer all equity interest in Gamease to Party A and/or the person designated by Party A in compliance with PRC laws and use the proceeds of the transfer to repay the loan, and the percentage of the transferred equity interest in Party B’s total equity interest in Gamease on the date of signing shall be equal to the percentage of the required amount of repayment of the loan in the total loan on the date of signing.
- 3.2. Without the written consent made by Party A, Party B shall not repay such loan partially or in full.
- 3.3. Based on the Clause 3.1, all parties herein agree and confirm that, according to the PRC laws, Party A or its designated person (including natural person, legal entity or any other entity) has the right, but not the obligation, to purchase all or part of the equity interest held by Party B in Gamease (the “Option”) at anytime, however, Party A shall notify Party B of such purchase of equity interests with a written notice. Once the written notice for exercising the Option is issued by Party A, Party B shall sell his all or part of equity interests of Gamease upon Party A’s request and instructions (including the equity interest obtained by any methods after such notice date) with the original invest price (the “Original Investment Price”, means RMB 100,000 for each 1% of equity interests) or price otherwise stipulated by laws according to the consent of Party A to Party A or its designated person. All parties agree and confirm that when Party A exercises the Option, the price that allowed by the applicable law at the time is higher than the Original Investment Price, Party A shall purchase the equity interests at the lowest price in accordance with the applicable law; if the lowest price is higher than the Original Investment Price, Party B shall reimburse the exceeding amount to Party A pursuant to Article 4 of this Agreement. All parties agree to execute the Purchase Agreement in connection with above matters.
- 3.4. The Parties agree to complete the registration for changing the shareholder at relevant administration for industry and commerce authorities; and the equity transfer abovementioned shall be considered as complete after Party A or its designated person is registered as legal owner of target equity interests.
- 3.5. When Party B repays the loan in accordance with the provision of article three, the parties shall finish the transferring of the equity interest under article three, guarantee the repayment of the loan and Party A or the designated person of Party A shall legally and totally accept the transferred equity interest in Gamease. There shall be no pledges or other types of encumbrances on the equity interest, except the equity interest pledge agreement and the equity interest purchase agreement.

4. Interests of Loan

All parties agree and confirm that this loan is an interest-free loan unless otherwise provided in this Agreement. But if the loan is due and Party B has to transfer his equity interests in Gamease to Party A pursuant to this Agreement or its designated person and the proceeds exceed the loan principal due to the legal requirement or other reasons, the extra amount over the principal of proceeds will be considered as the interests or capital use cost, which shall be repaid to Party A.

5. Party B’s Representative, Warranties and Promises

- 5.1 Party B shall deliver the copy of Capital Contribution Certificate which evidences he owns 100% equity interests of Gamease to Party A.
- 5.2 As the guarantee of the loan, Party B agrees to pledge all equity interests held in Gamease to Party A and grant Party B an option right to purchase such equity interests; and Party B agrees to execute the Equity Pledge Agreement and Purchase Agreement upon the request of Party A.
- 5.3 Without prior written consent by Party A, not to sell, transfer, mortgage or dispose, in any other form, any equity interests or any other rights, or to approve any other security interest set on it except the set is for the Party A’s benefit.
- 5.4 Without the prior written consent by Party A, not to decide or support or sign any shareholders resolution on Gamease’s shareholders’ meeting that approves any sale, transfer, mortgage or dispose of any legitimate or beneficial interest of equity interest of Gamease, or allows any other security interest set on it, other than made to Party A or its designated persons.

- 5.5 Without prior written notice by Party A, Party B shall not agree or support or execute any shareholders resolution on the Gamease's shareholders' meeting that approves Gamease to merger or associate with any person (under this Agreement, the "person" means individual, company, partnership or other entities), acquire any person or invest in any person.
- 5.6 Without prior written consent by Party A, not to take any action or any nonfeasance that may affect materially Gamease's assets, business and liabilities; Without prior written consent by Party A, not, upon the execution of this Agreement, to sale, transfer, mortgage or dispose, in any other form, any asset, legitimate or beneficial interest of business or income of Gamease, or to approve any other security interest set on it.
- 5.7 Upon the request of Party A, to appoint any person designated by Party A to be the directors and senior management personnel of Gamease.
- 5.8 Upon the exercise of the option and to the extent permitted by PRC laws, to transfer all or part of equity interests of Gamease held by Party B to the person designated by Party A in any time unconditionally, and to waive the first right of refusal for the equity interests to be transferred held by the other shareholder of Gamease.
- 5.9 Not to request Gamease to distribute the dividend; and not to approve any shareholders' resolution which may cause Gamease to distribute dividend to its shareholders.
- 5.10 Without prior written consent by Party A, not, in any form, to supplement, change or modify the Articles of Association of Gamease, to increase or decrease registered capital of the corporation, or to change the structure of the registered capital in any other forms.
- 5.11 According to fair finance and business standard and tradition, to maintain the existence of the corporation, prudently and effectively operate business and deal with works; to provide materials relating to Gamease's operation and financial conditions upon Party A's request; and to normally operate all business to maintain the asset value of Gamease.
- 5.12 Without prior written notice by Party A, not cause, inherit, guarantee or allow the existence of any debt, other than (i) the debt arising from normal or daily business but not from borrowing; and (ii) the debt disclosed to Party A and obtained the written consent from Party A.
- 5.13 Without prior written consent by Party A, not to enter into any material agreement, other than the agreement in the process of normal business (as in this paragraph, the amount in the agreement that exceeds a hundred thousand Yuan (RMB 100,000) shall be deemed as a material agreement).
- 5.14 In order to keep its ownership of the equity interest, to execute all requisite or appropriate documents, conduct all requisite or appropriate actions, and make all requisite or appropriate claims, or make requisite or appropriate defend against fall claims of compensation; to notify Party A the occurrence or the potential occurrence of any litigation, arbitration or administrative procedure related to Gamease.
- 5.15 To exercise the rights as Gamease's shareholder upon the request by Party A and only upon Party A's written authorization.
- 5.16 To prudently comply with the provisions of this Agreement and perform all obligations under these Agreements, without taking any action or any nonfeasance that sufficiently affects the validity and enforceability of this Agreement.
- 5.17 The Parties agree and confirm the meaning of "Party A's written consent" pursuant to this Agreement means the consent shall be approved by the board of Party A, no other types of consents shall constitute "Party A's written consent" under this agreement.

6. Taxes and Expenses

Unless otherwise provided in this Agreement, the Parties shall, according to the PRC laws, bear any and all taxes and expenses pursuant to this Agreement. Other taxes and reasonable expense regarding the loan shall be borne by Party A.

7. Effectiveness and Termination

- 7.1 This Agreement is concluded upon its execution and takes effect on the date hereof.
- 7.2 The Parties agree and confirm the this Agreement shall be terminated when the Parties has completed to perform their obligation under this Agreement; the Parties further agree and confirm that Party B shall be deemed the completion of performing their obligations under this agreement only if the following requirements are met:
 - (1) Party B has transferred all equity interests of Gamease to Party A and/or its designated person; and,

(2) Party B has repaid the total amount caused from the equity interest transferring according to this Agreement or the proceeds stipulated by Purchase Agreement to Party A.

7.3 Party B cannot terminate or revoke unilaterally this Agreement unless (1) Party A commits the gross negligence, fraud or other material illegal action; or (2) Party A terminates as a result of bankruptcy, dissolution, or being ordered to be closed down according to laws.

8. Breach of Contract

8.1 If any party (“Defaulting Party”) breaches any provision of this Agreement, which may cause the damages of the other party (“Non-defaulting Party”), the Non-defaulting Party could notify the Defaulting Party in written and request it to rectify and correct such breach of contract; if the Defaulting Party cannot take any action satisfied by Non-defaulting Party and rectify and correct such breach within fifteen (15) days upon the issuance of the written notice, the Non-defaulting Party could take the actions pursuant to this Agreement or other measures in accordance with laws.

8.2 If Party B can not repay the loan pursuant to this Agreement, Party B shall pay the penalty at a rate of 0.2‰ per day for any outstanding loan to Party A (from the request date for repayment by Party A), and shall also indemnify Party A on a full indemnity basis against all direct economic damages due to breach of contract by Party A (including but not limited to market value of pending equity interests held by Party B or outstanding loan, which is the higher).

9. Confidentiality

9.1 The Parties acknowledge and confirm any oral or written materials exchanged by the Parties in connection with this Agreement are confidential. The Parties shall maintain the secrecy and confidentiality of all such materials. Without the written approval by the other Parties, any Party shall not disclose to any third party any relevant materials, otherwise shall bear the liability of breach of the contract and compensate for the damages, except the following circumstances shall be excluded:

- (1) The materials that is known or may be known by the Public (but not include the materials disclosed by each party receiving the materials);
- (2) The materials required to be disclosed subject to the applicable laws or the rules or provisions of stock exchange; or
- (3) if any documents required to be disclosed by any party to its legal counsel or financial consultant for the purpose of the transaction of this Agreement by any party, such legal counsel or financial consultant shall also comply with the confidentiality as stated hereof. Any disclosure by employees or agencies employed by any party shall be deemed the disclosure of such party and such party shall assume the liabilities for its breach of contract pursuant to this Agreement. This Article shall survive whatever this Agreement is void, amended, cancelled, terminated or unable to perform.

9.2 After the termination of the Agreement, Party B shall return, destroy or dispose of all the documents, materials and software which contain confidential information at the requirement of Part A, and cease making use of such confidential information.

9.3 Notwithstanding any other provisions of the agreement, the validity of article 9 will survive any suspension or termination of the Agreement.

10. Notices

Notices or other communications required to be given by any party pursuant to this Agreement shall be in written and delivered personally or sent by registered mail or postage prepaid mail or by a recognized courier service or by facsimile transmission to the address of relevant each party or both parties set forth below or other address of the party or of the other addressees specified by such party from time to time. The date when the notice is deemed to be duly served shall be determined as the follows: (a) a notice delivered personally is deemed duly served upon the delivery; (b) a notice sent by mail is deemed duly served the seventh (7th) day after the date when the air registered mail with postage prepaid has been sent out (as is shown on the postmark), or the fourth (4th) day after the delivery date to the internationally recognized courier service agency; and (c) a notice sent by facsimile transmission is deemed duly served upon the receipt time as is shown on the transmission confirmation of relevant documents.

Party A: Beijing AmazGame Age Internet Technology Co., Ltd.
Legal Address: No. 1210, Building 3, No. 3 Xijing Road, Badachu High-Tech Zone, Shijingshan District, Beijing

Party B: Beijing Century High-Tech Investment Co., Ltd
Address: No.1 Zhong Guan Cun Dong Lu, Sohu Internet Plaza 10-08, Haidian District, Beijing

11. Applicable Law and Dispute Resolution

- 11.1 The execution, validity, performance, modification, interpretation, termination of this Agreement and the disputes resolution under this Agreement shall be governed by PRC laws.
- 11.2 The parties shall strive to settle any dispute arising from this Agreement through friendly consultation.
- 11.3 In case no settlement can be reached through consultation within thirty (30) days after such dispute is raised, each party can submit such matter to Beijing Arbitration Commission in accordance with its then effective rules. The arbitration shall take place in Beijing. The arbitration award shall be final conclusive and binding upon both parties. If there is any dispute is in process of arbitration, other then the matters in dispute, the Parties shall perform the other rights and obligation pursuant to this Agreement.

12. Miscellaneous

- 12.1 The headings contained in this Agreement are for the convenience of reference only and shall not affect the interpretation, explanation or in any other way the meaning of the provisions of this Agreement.
- 12.2 The Parties confirm that this Agreement shall constitute the entire agreement of the Parties upon its effectiveness with respect to the subject matters therein and supersedes and replaces all prior or contemporaneous verbal or/and written agreements and understandings.
- 12.3 This Agreement shall be binding and benefit the successor of each Party and the transferee allowed by each Party. Without the prior written notice by Party A, Party B shall not transfer, pledge or dispose in other manners its rights, interest and obligation pursuant to this Agreement.
- 12.4 Party B hereby agrees that, (i) if Party B enters in bankruptcy, recombination, liquidation, mandatory shut-down or similar legal procedures, Party B agree to transfer the rights and obligation pursuant to this Agreement to the person designated by Party A; (ii) Party A could transfer its rights and obligation pursuant to this Agreement to other third parties. Party A only needs to issue a written notice to Party B for such transfer and no need to obtain the consent by Party B.
- 12.5 Any rights, power and remedies of either party under this Agreement will not exclude any other types of rights, power and remedies of either party in accordance with the laws and other provisions under this agreement. Moreover, the performance of any rights, powers and remedies by any party will not exclude the performance of other rights, powers and remedies of such party.
- 12.6 Any nonperforming or delay in performing the rights, powers or remedies under the Agreement or laws by either Party shall not be deemed as waiver of such rights, powers or remedies and would not affect the future performance of such rights, powers or remedies in other ways or the performance of any other rights.
- 12.7 If any provision of this Agreement is judged as void, invalid or non-enforceable according to relevant laws, the provision shall be deemed invalid only within the applicable area of the PRC Laws, and the validity, legality and enforceability of the other provisions hereof shall not be affected or impaired in any way. The Parties shall cease performing such void, invalid or non-enforceable provisions and replace those void, invalid or non-enforceable provisions with valid provisions to the extent which such provisions could be valid, effective and enforceable.
- 12.8 Any matters excluded in this Agreement shall be negotiated by the Parties. Any amendment and supplement of this Agreement shall be made by the Parties in writing. The amendment and supplement duly executed by each Party shall be deemed as a part of this Agreement and shall have the same legal effect as this Agreement.
- 12.9 This Agreement is executed with four (4) original copies; each Party holds two (2) original copies and each original copy has the same legal effect.

IN WITNESS THEREFORE, the parties hereof have caused this Agreement to be executed by their duly authorized representatives as of the date first written above.

[No Text Below]

[Signature Page]

Party A: Beijing AmazGame Age Internet Technology Co., Ltd(Seal)

Signature: _____

Party B: Beijing Century High-Tech Investment Co., Ltd(Seal)

Signature: _____

EQUITY INTEREST PURCHASE AGREEMENT

This Equity Interest Purchase Agreement (this “Agreement”) is entered into as of April 15, 2015 between and by the following Parties in Beijing, People’s Republic of China (“China” or “PRC”):

- Party A:** **Beijing AmazGame Age Internet Technology Co., Ltd.**, with the registered address of No. 1210, Building 3, No. 3 Xijing Road, Badachu High-Tech Zone, Shijingshan District, Beijing;
- Party B:** **Beijing Century High-Tech Investment Co., Ltd.**, No.1 Zhong Guan Cun Dong Lu, Sohu Internet Plaza 10-08, Haidian District, Beijing
- Party C:** **Beijing Gamease Age Digital Technology Co., Ltd.**, with the registered address of No. 1197, Building 3, No. 3 Xijing Road, Badachu High-Tech Zone, Shijingshan District, Beijing;

WHEREAS:

1. Party A, a wholly foreign-owned enterprise incorporated under the PRC laws;
2. Party C, a limited liability company incorporated under the PRC laws;
3. Party B, a limited liability company incorporated under the PRC laws and the shareholder of Party C holding 40% equity interests of Party C (“Equity Interests”);
4. The Loan Agreement (“Loan Agreement”) was entered into between and by Party A and Party B on April 15, 2015, pursuant to which Party A has extended the interest free loan to Party B with the amount of RMB 10,000,000 and Party B has received the loan;
5. The Equity Interest Pledge Agreement (“Equity Pledge Agreement”) was entered between and by Party A and Party B on April 15, 2015; and
6. The Business Operation Agreement was entered among and by Party A, Party B, and Party C on April 15, 2015;

NOW, THEREFORE, to clarify the rights and obligations of each Party, through friendly negotiations, the Parties hereby agree to the following:

1. Purchase and Sale of Equity Interest

1.1 Grant Rights

Party B hereby exclusively and irrevocably grants to Party A an option to purchase Equity Interest unconditionally. According to the option, as permitted by the laws of China, Party A or one or more persons designated by Party A (“Designated Person”) have the right to, purchase a portion or all of the equity interests held by Party B in Party C (the “Option”) at any time according to steps-determined by Party A, and at the price specified in Section 1.3 of this Agreement. No Option shall be granted to any third party other than Party A and/or the Designated Persons. The “person” set forth in this Agreement means any individual person, corporation, joint venture, partnership, enterprise, trust or non-corporation organization. The person indicated hereunder means individual, company, association, partner, enterprise, trust and other organization.

1.2 Exercise Steps

Party A and/or the Designated Persons may exercise Option by issuing a written notice (the “Notice”) in the form of the sample attached in the appendix I to Party B specifying the equity interest to be purchased from Party B (the “Purchased Equity Interest”) and the manner of purchase.

Within 7 business days upon the receipt of Notice, Party B shall enter into an equity transfer agreement with Party A and/or its designated party and ensure transfer of Purchased Equity Interest to Party A and/or its designated person.

1.3 Purchase Price

- 1.3.1 When Party A exercises the Option, the purchase price of the Purchased Equity Interest (“Purchase Price”) shall be equal to the original investment price of the Purchased Equity Interest (“Original Investment Price”, of RMB 100,000 for 1% of equity interests) by Party B, unless applicable PRC laws and regulations require appraisal of the equity interests or stipulate other restrictions on the purchase price of equity interests.
- 1.3.2 If the applicable PRC laws require appraisal of the equity interests or stipulates other restrictions on the purchase price when Party A exercises the Option, the Parties agree that the Purchase Price shall be set at the lowest price permissible under the applicable laws. If the lowest price is higher than the original investment, the amount exceeded shall be repaid to Party A according to the Loan Agreement.

1.4 Transfer of the Purchased Equity Interest

After Party A provides written notice to purchase equity interest pursuant to this Agreement, each time the option is exercised:

- 1.4.1 Party B shall reach a timely resolution for Party B to transfer Equity Interest to Party A and/or the Designated Persons, and Party B shall sign a confirmation letter waiving the right of first refusal for other equity interests in Party C;
- 1.4.2 Party B shall, pursuant to the terms and conditions of this Agreement and the Purchased Equity Interest Notices, enter into an equity interest transfer agreement with Party A and/or the Designated Persons (as applicable) for each transfer;
- 1.4.3 The related parties shall execute all other requisite contracts, agreements or documents, obtain all requisite governmental approvals and consents, and conduct all necessary actions, without any security interest, transfer the valid ownership of the Purchased Equity Interest to Party A and/or the Designated Persons, and have Party A and/or the Designated Persons be the registered owner of the Purchased Equity Interest at administration for industry and commerce. In this clause and this Agreement, “Security Interest” includes guarantees, mortgages, pledges, the rights or interests of third parties, any equity interest purchase right, right of acquisition, right of first refusal, right of set-off, ownership detention or other security arrangements. It does not include any security interest subject to the Equity Pledge Agreement.
- 1.4.4 Party B and Party C shall unconditionally assist Party A and/or the Designated Persons in obtaining the governmental approvals, permits, registrations, filings and complete all necessary formalities for obtaining the Purchase Equity Interest.

1.5 Payment

Payment method of the Purchase Price shall be determined through consultation by Party A and/or the Designated Persons with Party B according to applicable laws when the option is exercised. Party A and Party B hereby agree that Party B shall repay any amount that is paid by Party A and/or the Designated Persons to Party B in connection with the Purchased Equity Interest to Party A in accordance with the law as reimbursement for the loan principal of the loan and interest or cost under the Loan Agreement as allowed by the law.

2. Party B and Party C’s Promises

- 2.1 Without prior written consent by Party A, not to, in any form supplement, change or amend the Articles of Association of Party C, increase or decrease registered capital of the corporation, or change the structure of the registered capital in any other form.
- 2.2 Without prior written consent by Party A, not to, upon the execution of this Agreement, sell, transfer, mortgage or dispose in any other form, any legitimate or beneficial equity interests, or approve any other security interest set on it except the pledges pursuant to the Equity Pledge Agreement.
- 2.3 Without prior written consent by Party A, Party B shall not decide, support or execute any shareholders resolution that approves any sale, transfer, mortgage or disposal of any legitimate or beneficial equity interest, or allow any other security interest set on it, except pledges on the equity interests made to Party A or its Designated Persons.
- 2.4 At any time, upon Party A’s request, to transfer Equity Interests to Party A and/or the Designated Person unconditionally at any time, and to waive the first right of refusal for the equity interests to be transferred held by the other shareholder of Party C.
- 2.5 Without prior written consent by Party A, Party B shall not agree, support or sign any shareholders resolution that allows Party C to merge, associate with, acquire, or invest in any person.
- 2.6 According to fair finance and business standards and customs, to maintain the existence of Party C, prudently and effectively operate the business and handle affairs to maintain the asset value of Party C, and to refrain from any action/inaction which affects its operations and asset value.

- 2.7 Without prior written consent by Party A, not to take any action and/or inaction, which may materially effect Party C's assets, business and liabilities; and not to, upon the execution of this Agreement, sell, transfer, mortgage or dispose in any other form, any asset, legitimate or beneficial business interest or income of Party C, or approve any other security interest set on it.
- 2.8 Without prior written consent by Party A, not to cause, inherit, guarantee or allow the existence of any debt, other than (i) debt arising from normal or daily business but not from borrowing; and (ii) debt already disclosed to and consented in writing by Party A.
- 2.9 Without prior written consent by Party A, not to enter into any material contract, other than those needed in the process of normal business operations (As in this paragraph, any agreement that exceeding one hundred thousand Yuan (RMB 100,000) shall be deemed as a material agreement).
- 2.10 Without prior written consent by Party A, not to provide any loans or credit loans to anyone.
- 2.11 Upon the request of Party A, to provide all operations and financial information of Party C timely.
- 2.12 To purchase and hold insurance from insurance companies accepted by Party A, the insurance amount and category shall be the same as those held by companies in the same area, operating a similar business and owning similar properties and assets as Party C.
- 2.13 To notify Party A on the occurrence or the potential occurrence of any litigation, arbitration or administrative procedures related to equity interests owned by Party B, or Party C's assets, business and revenue.
- 2.14 In order to keep ownership of Party B's equity interest, to execute all requisite or appropriate documents, conduct all requisite or appropriate actions, and make all requisite or appropriate claims, and take all requisite or appropriate defenses against false claims of compensation.
- 2.15 In order to keep ownership of Party C's assets, to execute all requisite or appropriate documents, conduct all requisite or appropriate actions, make all requisite or appropriate claims, and take all requisite or appropriate defenses against false claims of compensation.
- 2.16 Party C shall not distribute dividend to its shareholders in any manners (Without prior written consent by Party A), but should Party A request it, Party C should promptly distribute all part of its dividends to shareholders.
- 2.17 Promptly notify Party A on the occurrence or possible occurrence of litigation, arbitration or administrative proceeding regarding the equity interests held by Party B.
- 2.18 Party B shall facilitate Shareholder resolution approval of the transfer of Purchased Equity Interests subject to this Agreement.
- 2.19 Upon the request of Party A, to appoint any persons designated by Party A as director or senior management personnel of Party C.
- 2.20 To exercise rights as Party C's shareholder upon the request, and only upon the written authorization of Party A.
- 2.21 The Parties agree and confirm the meaning of "Party A's written consent" as stated in this Agreement means consent approved by the board of Party A.
- 2.22 To adhere strictly to the provisions of this Agreement and other Agreements entered into collectively or respectively by Party A, Party B and Party C, and to perform all obligations under these Agreements, without taking any action or inaction which affects the validity and enforceability of these Agreements.

3. Representations and Warranties

As of the execution date of this Agreement and every transfer date, Party B and Party C hereby represents and warrants to Party A as follows:

- 3.1 It has the power and ability to enter into and deliver on this Agreement and any equity interest transfer Agreements ("Transfer Agreement", respectively) which is a party of, for every transfer of Purchased Equity Interest pursuant to this Agreement, and to perform its obligations under this Agreement and any Transferring Agreement. Upon execution, this Agreement and the Transfer Agreements to which it is a party constitute a legal, valid and binding obligation enforceable against it in accordance with its terms;

- 3.2 The execution, delivery, and performance obligations of this Agreement and any Transfer Agreements do not: (i) cause violation of any relevant PRC laws and regulations; (ii) constitute a conflict with its Articles of Association or other organizational documents; (iii) cause a breach to any Agreement or instrument which it is a party of or is bound by, or constitute a breach under any Agreement or instruments to which it is a party of or is bound by; (iv) cause violations of any relevant permits or approvals and/or any relevant persistent valid conditions; or (v) cause any permits or approvals to be suspended, or removed, or induce additional conditions;
- 3.3 Party C holds valid ownership and sales rights to all its assets. Party C has not set any security interest on these assets;
- 3.4 Party C does not have any unpaid debt, except (i) debt arising in the normal course business; and (ii) debt already disclosed to Party A to which Party A has approved in writing;
- 3.5 Party C complies with all PRC laws and regulations applicable to the acquisition of assets;
- 3.6 No litigation, arbitration or administrative procedure relevant to the equity interest and assets of Party C or the corporation is in process, pending settlement or likely to occur;
- 3.7 Party B holds valid ownership sales rights to its equity interest and has not any security interests on these interests, other than the security interests pursuant to the Equity Pledge Agreement.

4. Breach of Contract

- 4.1 If any party (“Defaulting Party”) breaches any provision of this Agreement, which may cause damages to other parties (“Non-defaulting Party”), the Non-defaulting Party can notify the Defaulting Party in writing, requesting it rectify and correct such a breach of contract; if the Defaulting Party does not take actions which rectify and correct such breach to the satisfaction of the Non-defaulting Party within fifteen (15) days upon the issuance of the written notice, the Non-defaulting Party can take actions pursuant to this Agreement or other measures in accordance with laws in response.
- 4.2 The occurrence of the following events constitute a breach of contract by Party B:
 - (1) any violation by Party B of the provisions of this Agreement, or these exists in the representation and warranties hereunder material mistakes, inaccuracies or are otherwise incorrect;
 - (2) transference in any manner, or the pledging of any rights pursuant to this Agreement without the prior written consent of Party A; or
 - (3) this Agreement, Loan Agreement and/or Equity Pledge Agreement becomes invalid or unenforceable.
- 4.3 Should a breach of contract or violation of provisions under Loan Agreement, Equity Pledge Agreement and Business Operation Agreement occur, Party A can take the following actions:
 - (1) request Party B transferring all or part of Purchased Equity Interests at Purchase Price to Party A or the Designated Persons; and
 - (2) take back loans made under the Loan Agreement.
- 4.4 Once Party A realizes the pledge pursuant to Article 11 of the Equity Pledge Agreement and, Party A obtains the relevant payments, Party B will be deemed to have fulfilled its obligations under this Agreement and Party A should not request any other payments from Party B.
- 4.5 Notwithstanding other provisions under the Agreement, the validity of Article 4 will not be affected by the termination of the Agreement.

5. Assignment

- 5.1 Without prior written consent of the Party A, Party B shall not transfer its rights and obligations under this Agreement to any third party; if Party B dies, Party B agrees to transfer the rights and obligation under this Agreement to the person designated by Party A.
- 5.2 This Agreement shall be binding on the successor to Party B and is effective on any successor or transferee as allowed by Party A.
- 5.3 Party B hereby agrees that Party A shall be able to transfer all of its rights and obligation under this Agreement to any third party at its own discretion. Upon such transfer, Party A is only required to provide written notice to Party B, and no further consent from Party B will be required.

6. Effectiveness and Term

- 6.1 This Agreement shall be concluded and take effect on the date hereof.

- 6.2 The term of this Agreement is ten (10) years unless early termination in accordance with this Agreement is initiated or terms of other relevant agreements entered into by the Parties. This Agreement may be extended through the written notice by Party A before the expiration of this Agreement. The term of extension will be decided by Party A.
- 6.3 If Party A or Party C's operation term expires (including any extensions and grace periods) or is otherwise terminated prior to the expiration of this Agreement as set forth in Section 6.2, this Agreement shall be terminated simultaneously, except where Party A has transferred its rights and obligations in accordance with Section 5.2 of this Agreement.

7. Termination

- 7.1 At any time during the term of this Agreement, including any extension period, if Party A can not exercise the Option indicated in Article 1, Party A can, at its own discretion, terminate this Agreement by issuing written notice to Party B and does not need to assume any liability.
- 7.2 If Party C, during the term of this Agreement and its extension period, is bankrupt, dissolved or shut down by authorities, the obligations of Party B hereunder are terminated; Party B shall continue to perform its obligations under other agreements entered with Party A.
- 7.3 Except under circumstances indicated in clause 7.2, Party B and Party C does not have the right to dissolve this Agreement during the term and extension periods of this Agreement in any case.

8. Taxes and Expenses

Each Party shall, bear any and all registering taxes, costs and expenses as required by PRC laws for equity transfers arising from the preparation, execution and completion of this Agreement and all Transfer Agreements.

9. Confidentiality

- 9.1. The Parties acknowledge and confirm all oral or written materials exchanged by the Parties in connection with this Agreement are confidential. The Parties shall maintain the secrecy and confidentiality of these materials. Without the written consent of the other Parties, no Party shall disclose to any third party such materials, except under the following circumstances:
- (1) The materials are, or soon to be, public information (but disclosure cannot be by the Party receiving the information);
 - (2) The materials are required to be disclosed under applicable laws or the rules or provisions of a stock exchange; or
 - (3) Where documents are disclosed by any party to its legal or financial counsel for the purpose of transactions under this Agreement, said counsel shall also maintain confidentiality. Any disclosure by employees or agencies employed by any party shall be deemed as disclosure by such party and shall assume the liabilities for breach of contract pursuant to this Agreement. This Article remains in effect even if the Agreement should become void, cancelled, terminated or unenforceable.
- 9.2. After the termination of the Agreement, either Party shall return, destroy or dispose of all the documents, materials and software which contain confidential information at the requirement of the other Party, and cease making use of such confidential information.
- 9.3. Notwithstanding any other provisions of the Agreement, the validity of Article Nine will not be affected by the suspension or termination of the Agreement

10. Notices

Notices or other communications by any party relating to this Agreement shall be made in writing and delivered personally, sent by mail or a recognized courier service, or by facsimile transmission to the address set forth below, or such other addressees specified by the relevant party from time to time. The effective date of the notice is determined as follows: (a) a notice delivered personally is deemed duly served upon delivery; (b) a notice sent by mail is deemed duly served on the seventh (7th) day after the date when the air registered mail with postage prepaid has been sent out (as is shown on the postmark), or the fourth (4th) day after it is delivered to an internationally recognized courier service; and (c) a notice sent by facsimile transmission is deemed duly served as of the receipt time shown on the transmission confirmation.

Party A: **Beijing AmazGame Age Internet Technology Co., Ltd.**
Legal Address: No. 1210, Building 3, No. 3 Xijing Road, Badachu High-Tech Zone, Shijingshan District, Beijing

Party B: **Beijing Century High-Tech Investment Co., Ltd.**
Address: No.1 Zhong Guan Cun Dong Lu, Sohu Internet Plaza 10-08, Haidian District, Beijing

Party C: **Beijing Gamease Age Digital Technology Co., Ltd.**
Legal Address: No. 1197, Building 3, No. 3 Xijing Road, Badachu High-Tech Zone, Shijingshan District, Beijing

11. Applicable Law and Dispute Resolution

- 11.1 The execution, validity, performance, modification, interpretation, termination and method of disputes resolution under this Agreement shall be governed by PRC law.
- 11.2 The parties shall strive to settle any dispute arising from this Agreement through friendly negotiations.
- 11.3 If no settlement can be reached through negotiations within thirty (30) days after a dispute is raised, either party can submit the matter to Beijing Arbitration Commission in accordance with its effective rules. The arbitration shall take place in Beijing. The arbitration decision shall be final and is binding upon the Parties. If there is a dispute, whether newly arising or in the process of arbitration, other than the matters in dispute, the Parties shall enjoy all other rights and perform all other obligations pursuant to this Agreement.

12. Miscellaneous

- 12.1 The headings contained in this Agreement are for convenient referencing only and do not affect the interpretation, explanation or meaning of the provisions of this Agreement.
- 12.2 The Parties confirm that upon this Agreement effectiveness, both Parties are in complete agreement respect to the subject matters and interpretations of this Agreement and replaces all prior verbal or/and written agreements and understandings.
- 12.3 This Agreement shall bind and benefit the Parties, the “successor” and the transferees allowed by each Party.
- 12.4 Any rights, power and remedies under any provisions of the Agreement will not exclude any other types of rights, power and remedies in accordance with the laws and other provisions under the Agreement. Moreover, the performance of any rights, powers and remedies will not exclude the performance of other rights, powers and remedies.
- 12.5 Any nonperformance or delay in performing the rights, powers or remedies under the Agreement or laws by either Party shall not be deemed as waiver of such rights, powers or remedies (the “Party’s Rights”) and would not affect the future performance of such rights, powers or remedies in other ways or the performance of any other rights.
- 12.6 If any provision of this Agreement is judged as void, invalid or unenforceable under relevant laws, the provision shall be deemed invalid only within the applicable area of the law, The validity, legality and enforceability of the other provisions hereof are not affected or impaired in any way. The Parties shall cease performing such void, invalid or unenforceable provisions and replace these with provisions which are valid, effective and enforceable.
- 12.7 Any matters excluded in this Agreement shall be negotiated by the Parties. Any amendment or supplement to this Agreement shall be made in writing. Amendments and supplements duly executed by each Party shall be deemed as a part of this Agreement and enjoys the same legal effect as this Agreement.
- 12.8 This Agreement is drawn up with three (3) original copies; each Party holds one (1) copy and each copy has the same legal effect.

IN WITNESS THEREFORE, the parties hereof have personally or through their duly authorized representatives signed this Agreement as of the date written above.

[No Text Below]

Party A: Beijing AmazGame Age Internet Technology Co., Ltd.
(seal)

Signature: _____

Party B: Beijing Century High-Tech Investment Co., Ltd
(seal)

Signature: _____

Party C: Beijing Gamease Age Digital Technology Co., Ltd.
(seal)

Signature: _____

Appendix:

**Equity Purchase Notice
(Sample)**

To: Beijing Century High-Tech Investment Co., Ltd

According to the Equity Interest Purchase Agreement entered between and by you and us dated _____, we hereby notify and request you to transfer 100% equity interests in Beijing Gamease Age Digital Technology Co., Ltd. to _____ with a purchase price of RMB _____ in accordance with the provisions of said agreement. Please transfer the aforesaid equity interest to _____ according to the Equity Interest Purchase Agreement immediately upon receiving this notice.

Regards

Beijing AmazGame Age Internet Technology Co., Ltd.
(Seal)

Date: _____

EQUITY INTEREST PLEDGE AGREEMENT

This Equity Interest Pledge Agreement (hereinafter “this Agreement”) is entered into in Beijing, People’s Republic of China (“PRC” or “China”) on the day of April 15, 2015 by the following parties:

- Pledgor:** **Beijing Century High-Tech Investment Co., Ltd.**, with the registered address of No.1 Zhong Guan Cun Dong Lu, Sohu Internet Plaza 10-08, Haidian District, Beijing.
- Pledgee:** **Beijing AmazGame Age Internet Technology Co., Ltd.**, with the registered address of No. 1210, Building 3, No. 3 Xijing Road, Badachu High-Tech Zone, Shijingshan District, Beijing;
- Company:** Beijing Gamease Age Digital Technology Co., Ltd., with the registered address of Floor 2, east wing of Jing Yan Restaurant, No.29 Shijingshan Road, Shijingshan District, Beijing.

(In this Agreement, Pledgor and Pledgee are called collectively as the “Parties” and respectively as the “Party” or “Other Party”)

WHEREAS,

1. The Pledgee, a wholly foreign-owned enterprise, is duly incorporated and validly existing under the PRC laws;
2. Beijing Gamease Age Digital Technology Co., Ltd. (the “Gamease” or the “Company”), a limited liability company, is duly incorporated and validly existing under the PRC laws and engages in the value-added telecommunication business in respect of Internet information services;
3. The Pledgor, a limited liability company duly incorporated and validly existing under the PRC laws and the registered shareholder of Gamease holding 100% equity interests of Gamease;
4. The Pledgor and Pledgee has entered into a Loan Agreement dated April 15, 2015 (“Loan Agreement”), pursuant to which Pledgee has provided the interest free loan to Pledgor with the amount of RMB10,000,000 (“Loan”) and the Pledgor has received the aforesaid loan;
5. The Pledgor and Pledgee have entered into an Equity Interest Purchase Agreement dated as of April 15, 2015 (“Equity Purchase Agreement”). According to the Equity Purchase Agreement, on the premise of the legal permission of China, the Pledgor shall transfer all or a portion of its equity interests held in Gamease to the Pledgee or any other entity or individual at the requirement of the Pledgee;
6. The Pledgor and Gamease has entered into a Business Operation and Maintenance Services Agreement on December 1, 2007 and a Technology Support and Utilization Services Agreement on August 20, 2008 (collectively “Service Agreement”), pursuant to which the Gamease shall pay the relevant services fees (“Service Fee”) to Pledgee for the services provided under the provisions of Service Agreement;
7. The Pledgee has entered into a Business Operation Agreement with Gamease and its shareholders dated April 15, 2015 (together with this Agreement, Loan Agreement, Equity Purchase Agreement, Service Agreement, collectively called “Main Agreement”);
8. In order to ensure that Pledgor and Gamease will perform their obligations under Main Agreement, the Pledgor agrees to pledge all equity interest in Gamease as a security and give the Pledgee the first priority of compensation, and Gamease agrees to such equity interest pledge.

NOW, THEREFORE, through friendly negotiations and abiding by the principle of equality and mutual benefit, the Parties hereby agree as follows:

1. Pledge and Guarantee Scope

- 1.1 The Pledgor agree to pledge all the equity interest it held and have the right to dispose in Gamease to the Pledgee according to the provision of this Agreement as a security Pledgor and Gamease’s performance of obligation under the Main Agreement. The Gamease agrees that the Pledgor pledges the equity interests to the Pledgee in accordance with the Agreement. Pledge hereunder refers to the rights owned by the Pledgee, who shall be entitled to a priority in receiving payment by the evaluation or proceeds from the auction or sale of the equity interest pledged by the Pledgor to the Pledgee.

- 1.2 The effect of guarantee under this Agreement shall not be affected due to the revision or modification of Main Agreement and the guarantee to the obligation of Pledgor and Gamease under any revised Main Agreement shall keep effective. The invalid, withdrawal or termination of Main Agreement shall not affect the validity of this Agreement. If Main Agreement becomes invalid and is withdrawn or terminated, the Pledgee has the right to realize immediately the Pledge in accordance with Article 11 of this Agreement.

2. Pledged Equity

- 2.1 The pledged equity under this Agreement is 100% equity interests held by the Pledgor in Gamease (“Pledged Equity”) and all relevant interests. Upon the effectiveness of this Agreement, the situation of Pledged Equity is set out below:

Company’s Name: Beijing Gamease Age Digital Technology Co., Ltd.

Registered Capital: RMB10,000,000.00

Pledged Equity: 100% equity interests of Gamease

Capital Contribution corresponding to the Pledged Equity: RMB 10,000,000

- 2.2 Within the valid period of the Agreement, unless it is due to the Pledgee’s intention or gross negligence which directly causes the results, the Pledgee will not be liable for the decrease of the value of the equity interests. The Pledgor has no rights to claim in any way or raise any requirement against the Pledgee.
- 2.3 Without prejudice to the provisions of Article 2.2, if there is the possibility of significant decrease of the value of the equity interests so as to harm the rights of the Pledgee, the Pledgee may represent the Pledgor to auction or sell the Pledged Equity and make agreements with the Pledgor providing that the payment from the auction or the sale will be used to repay the secured debt beforehand or deposit it to the notary public (all the expenses shall be borne by the Pledgee).
- 2.4 When Gamease or the Pledgor has any event of breach of the contract, the Pledgee has the right to dispose of the Pledged Equity in accordance with Article 11 of the Agreement.
- 2.5 With the prior consent of the Pledgee, the Pledgor may increase its capital contribution in Gamease. The Pledgor’s increased capital contribution in Gamease will also be included in the Pledged Equity. The Pledgor shall complete all required procedures concerning the increased capital contribution, including but not limited to modification registration procedure in the industrial and commercial administrations.
- 2.6 The Pledgor promises to give up the right to dividend from the Pledged Equity within the valid period of the equity interest pledge stipulated herein.

3. Creation of Pledge

- 3.1 The Pledgor promises it will register the equity interest pledge (the “Pledge”) under this Agreement at the shareholders’ list of Gamease on the date hereof.
- 3.2 The Parties further agree the Pledge shall be recorded with the form attached hereto at the list of shareholders of Gamease and the list of shareholders shall be delivered to the Pledgee.
- 3.3 The Pledgor promises to register at the administration for industry and commerce where Gamease is registered with in connection with the Pledge, and Gamease promises to make its best effort to cooperate with the Pledgor to complete the registration provided in this article.

4. Term of Pledge

- 4.1 The term of Pledge pursuant to this Agreement shall start from the duly execution of this Agreement and the Pledge is recorded at Gamease’s Shareholder List according to laws until two (2) years after all obligations under Main Agreement has been performed (“Pledge Term”).
- 4.2 Within the Pledge Term, if the Pledgor and Gamease have not performed the obligations under Main Agreement, the Pledgor has the right to exercise the Pledge in accordance with Article 11 of this Agreement.

5. Keeping and Return of Pledge Certificate

- 5.1 The Pledgor shall deliver the pledge certificate to the Pledgee within three (3) working days after the Pledge is recorded at Shareholder's List of Gamease in accordance with Article 3; the Pledgee shall have such pledge documents well kept.
- 5.2 If the Pledge hereunder is terminated pursuant to this Agreement, the Pledgee shall return the pledge certificate to the Pledgor within three (3) working days after the Pledge is released pursuant to this Agreement and provide necessary assistance to the Pledgor for dealing with the process of Pledge's release.

6. Pledgor's Representations and Warranties

The Pledgor hereby represents and warrants as of the effective date of this Agreement:

- 6.1 The Pledgor is the sole legal owner of the Pledged Equity;
- 6.2 The Pledgor does not set up any other pledge or other rights on the equity interest except the set is for the Pledgee's benefit;
- 6.3 The Pledge under this Agreement constitutes the first priority security interest on the Pledged Equity Interest.
- 6.4 Gamease's shareholder meeting has approved the Pledge pursuant to this Agreement;
- 6.5 Upon the effectiveness of this Agreement, this Agreement constitutes a legal, valid and binding obligation of it enforceable against it in accordance with its terms to the Pledgor.
- 6.6 The Pledge pursuant to this Agreement does not cause to violate any relevant PRC laws and regulations or cause to breach any agreement or instruments with any third party or any promises made to the third parties;
- 6.7 All relevant documents and material related to this Agreement provided by the Pledgor to the Pledgee are true, accurate and complete;
- 6.8 to exercise the rights as shareholder of Gamease only upon the written authorization and request by Party A.

7. Gamease's Representations and Warranties

Gamease hereby represents and warrants to the Pledgee, as of the effectiveness of this Agreement, that:

- 7.1 Gamease is a limited liability company duly incorporated and validly existing under the PRC laws and has the independent legal person capacity; it has the complete and independent legal standing and capacity to execute, deliver and perform this Agreement and to be an independent litigation subject;
- 7.2 All the reports, documents and information with respect to the Pledged Equity and required by this Agreement, which have been provided by the Gamease to Pledgee before the effectiveness of this Agreement in all material respect are true and correct upon the effectiveness of this Agreement;
- 7.3 All the reports, documents and information with respect to the Pledged Equity and required by this Agreement, which will be provided by the Gamease to Pledgee after the effectiveness of this Agreement in all material respect are true and valid at the time of provision;
- 7.4 This Agreement is duly executed by Gamease and will bind Gamease legally and validly;
- 7.5 Gamease has all the corporate power and authorization to execute and deliver this Agreement and all the other documents to be executed which are related to the transactions in this Agreement. Gamease also has the complete power and authorization to perform the transactions contemplated in this Agreement;
- 7.6 There is no suit, legal proceeding or claim of any court or arbitral court or any government or administrative authority pending or threaten to raise against Gamease or its assets (including but not limited to the Pledge Equity) which has material or adverse effect on the financial situation of Gamease or the ability of the Pledgor performing the obligation and guarantee liability under this Agreement;
- 7.7 Gamease agrees to jointly undertake the liability of the representations and warranties made by the Pledgor under the article 6.1, 6.2, 6.3, 6.4 and 6.6 of this Agreement;
- 7.8 Gamease hereby warrants to the Pledgee that the aforesaid representations and warrants would be true, correct and completely afterwards at anytime and in any situation before the obligation is fully performed or the guaranteed debt is completely relieved.

8. Pledgor's Promises

- 8.1 During the effective term of this Agreement, the Pledgor promise to the Pledgee for its benefit that the Pledgor shall:
- (1) complete the pledge registration at administration for industry and commerce where Gamease is located pursuant to this Agreement
 - (2) not transfer or assign the equity interest, create or permit to create any pledges which may affect on the rights or benefits of the Pledgee without prior written consent from the Pledgee;
 - (3) comply with and implement relevant laws and regulations with respect to the pledge of rights; present to the Pledgee the notices, orders or suggestions with respect to the Pledge issued or made by the competent authority within five (5) days upon receiving such notices, orders or suggestions; and comply with such notices, orders or suggestions; or object to the foregoing matters at the reasonable request of the Pledgee or with consent from the Pledgee;
 - (4) timely notify the Pledgee of any events or any received notices which may affect the Pledgor's equity interest or any part of its right, and any events or any received notices which may change the Pledgor's any warranty and obligation under this Agreement or affect the Pledgor's performance of its obligations under this Agreement.
- 8.2 The Pledgor promises that the Pledgee's right to the Pledge obtained from this Agreement shall not be suspended or inhibited by any legal procedure launched by the Pledgor or any successors of the Pledgor or any person authorized by the Pledgor or any such other person.
- 8.3 The Pledgor promises to the Pledgee that in order to protect or perfect the security for the performance of the Pledgor and Gamease's obligation under Main Agreement, the Pledgor shall execute in good faith and cause other parties who have interests in the pledge to execute all the title certificates, contracts, and perform actions and cause other parties who have interests to take action, as required by the Pledgee; and make access to exercise the rights and authorization vested in the Pledgee under this Agreement.
- 8.4 The Pledgor promises to the Pledgee that they will execute all amendment documents (if applicable and necessary) in connection to the certificate of Equity Interest with the Pledgee or its designated person (natural person or a legal entity), and provide the notice, order and decision to the Pledgee which considers to be necessary within reasonable time.
- 8.5 The Pledgor promises to the Pledgee that they will comply with and perform all the guarantees, warranties, covenants, representations and conditions for the benefits of the Pledgee. The Pledgor shall compensate all the losses suffered by the Pledgee for the reasons that the Pledgor do not perform or fully perform their guarantees, warranties, covenants, representations and conditions.

9. Gamease's Promises

For the benefit of the Pledgee, Gamease promises to the Pledgee, during the effective term of this Agreement, that:

- 9.1 If it is required to obtain the consent, license, waiver, authorization of any third party or the approval, permit, exemption of, or the registration or filing with any government authority for the execution and performance of this Agreement and the Pledge under this Agreement, Gamease shall use its best endeavor to assist in obtaining and maintaining the validity of the aforesaid during the term of this Agreement;
- 9.2 Gamease would not assist the Pledgor in or permit the Pledgor setting up any new pledge or any other encumbrances on the Pledge Equity without prior consent from the Pledgee;
- 9.3 Gamease would not assist the Pledgor in or permit the Pledgor transferring the Pledged Equity without prior written consent from the Pledgee;
- 9.4 If any law suit, arbitration or other proceedings are raised which would probably exert adverse effect on the interest of the Company under this Agreement, the Pledged Equity or the Pledgee, Gamease shall timely notify the Pledgee in writing as soon as possible and take all the necessary measures to protect the interest of the Pledgee on the Pledged Equity according to the Pledgee's reasonable requirement;
- 9.5 Gamease shall provide the Pledgee the financial report of the Company of each prior calendar quarter within the first month of each calendar quarter, including but not limited to the balance sheet, the income statement and the cash flow statement;
- 9.6 Gamease undertakes that it shall take all the necessary measures and execute all the necessary documents (including but not limited to any supplement agreement to this Agreement) to make sure the enforcement and realization of the interest of the Pledgee on the Pledged Equity according to the Pledgee's reasonable request;

9.7 Gamease undertakes to take all measures to make the transfer of the Pledged Equity which is caused by the enforcement of the Pledge under this Agreement.

10. Event of Default and Breach of Contract

10.1 The following events shall be regarded as the events of default:

- (1) Pledgor or Gamease fails to perform the obligations under the Main Agreement, including but not limited to obligations under Loan Agreement;
- (2) The Pledgor makes any material misleading or mistaken representations, warranties or covenants under Article 5 and Article 6 herein; and the Pledgor breaches any other term and condition herein;
- (3) The Pledgor waives the Pledged Equity or transfers or assigns the Pledged Equity without prior written consent from the Pledgee;
- (4) The Pledgor's any external loan, security, compensation, covenants or any other compensation liabilities (i) are required to be repaid or performed prior to the scheduled date due to breach; or (ii) are due but can not be repaid or performed as scheduled and thereby cause the Pledgee to believe that the Pledgor's capacity to perform the obligations herein is affected;
- (5) Gamease is incapable of repaying the general debt or other debt;
- (6) This Agreement is illegal or the Pledgor is not capable of continuing to perform the obligations herein due to any reason except force majeure;
- (7) The property of the Pledgor is adversely changed causing the Pledgee to believe that the capability of the Pledgor to perform the obligations herein is affected;
- (8) The successors or agents of the Gamease are only able to perform a portion of or refuse to perform the payment obligation under the Main Agreement;
- (9) The breach of the other terms by action or nonfeasance under this Agreement by the Pledgor.
- (10) The Pledgor cannot perform its obligation under this Agreement since this Agreement is deemed as invalid or not executable due to any applicable laws; and
- (11) Any approval, permit or authorization, which causes this Agreement executable and valid, is revoked, termination, invalid or revised materially.

10.2 The Pledgor shall immediately give a written notice to the Pledgee if the Pledgor is aware of or find that any event under Article 10.1 herein or any event that may result in the foregoing events has happened or is going on.

10.3 Unless the event of default under Article 10.1 herein has been solved to the Pledgee's satisfaction, the Pledgee, at any time when the event of default happens or thereafter, may give a written notice of default to the Pledgor and require the Pledgor to immediately make full payment of the loan and the outstanding service fees under the Main Agreement and other payables or exercise the Pledge right in accordance with Article 11 herein.

10.4 Notwithstanding other provisions under the Agreement, The validity of Article 10 will not be affected by the termination of the Agreement.

11. Exercise of the Pledge

11.1 The Pledgor shall not transfer or assign the Pledged Equity without prior written approval from the Pledgee prior to the completion of performing all the obligations under the Main Agreement.

11.2 In case of occurrence of event of default indicated in Article 10, the Pledgee shall give a notice of default to the Pledgor when the Pledgee exercises the right of pledge; the Pledgee may exercise the right of pledge at any time when the Pledgee gives a notice of default in accordance with Article 10.3 or thereafter.

11.3 The Pledgee is entitled to sale in accordance with legal procedure or disposes in other manners the Pledged Equity. If the Pledgee decides to exercise its pledge rights, the Pledgor promises to transfer all of its shareholder's right to Pledgee. In addition, the Pledgee has the right to convert the value of all or party of equity interests pursuant to this Agreement into money in compliance with legal procedure, or has priority of compensation from the proceeds generated from auction or selling off full or part of the equity interests under this Agreement.

- 11.4 The Pledgor shall not hinder the Pledgee from exercising the right of pledge in accordance with this Agreement and shall give necessary assistance so that the Pledgee could realize its Pledge.

12. Assignment

- 12.1 The Pledgor shall not donate or transfer its rights and obligations herein without prior written consent from the Pledgee. In case of bankruptcy, liquidation, termination or other similar legal performance of the Pledgor, the Pledgor agrees to transfer the rights and obligation under this Agreement to the person designated by the Pledgee.
- 12.2 This Agreement shall be binding upon the Pledgor and his successors and be binding on the Pledgee and his each successor and allowed assignee.
- 12.3 The Pledgee may transfer or assign his all or any rights and obligations under the Main Agreement to any individual designated by it (natural person or legal entity) at any time to the extent permissible by the laws. In this case, the assignee shall enjoy and undertake the same rights and obligations herein of the Pledgee as if the assignee is a party hereto. When the Pledgee transfers or assigns the rights and obligations under the Main Agreement, and such transfer shall only be subject to a written notice serviced to Pledgor, and at the request of the Pledgee, the Pledgor shall execute the relevant agreements and/or documents with respect to such transfer or assignment.
- 12.4 After the Pledgee's change resulting from the transfer or assignment, the new parties to the pledge shall execute a new pledge contract; and the content of new pledge contract shall accord with the content of this Agreement in all material aspects.

13. Effectiveness and Termination

- 13.1 The agreement is concluded upon its execution and takes effect on the date hereof.
- 13.2 To the extent practicable, the Parties shall make their best efforts to register the pledge at the administration for industry and commerce where Gamease is located; but the Parties confirm that the effectiveness and validity of this Agreement shall not be affected whatever the registration is done or not.
- 13.3 This Agreement shall terminated once the Loan under the Loan Agreement and the Service Fee under the Service Agreement are paid off and the Pledgor will not undertake any obligations under the Loan Agreement and Gamease will not undertake any obligations under the Service Agreement any more, and the Pledgee shall cancel or terminate this Agreement within reasonable time as soon as practicable.
- 13.4 The release of pledge shall record accordingly at the Shareholder's List of Gamease, and complete the registration for removing the record at application administration for industry and commerce where Gamease is located.

14. Formalities Fees and Expenses

- 14.1 The Pledgor shall be responsible for all the fees and actual expenses in relation to this Agreement including but not limited to legal fees, cost of production, stamp tax and any other taxes and charges. If the Pledgee pays the relevant taxes in accordance with laws, the Pledgor shall fully indemnify the Pledgee such taxes paid by the Pledgee.
- 14.2 The Pledgor shall be responsible for all the fees (including but not limited to any taxes, formalities fees, management fees, litigation fees, attorney's fees, and various insurance premiums in connection with disposition of Pledge) incurred by the Pledgor for the reason that the Pledgor fails to pay any payable taxes, fees or charges for other reasons which cause the Pledgee to recourse by any means or ways.

15. Force Majeure

- 15.1 Force Majeure, which includes but not limited to acts of governments, acts of nature, fire, explosion, typhoon, flood, earthquake, tide, lightning, war, refers to any unforeseen events beyond the party's reasonable control and cannot be prevented with reasonable care. However, any shortage of credit, capital or finance shall not be regarded as an event beyond a Party's reasonable control. The effected party by Force Majeure shall notify the other party of such event resulting in exemption promptly.
- 15.2 In the event that the affected party is delayed in or prevented from performing its obligations under this Agreement by Force Majeure, only within the scope of such delay or prevention, the affected party will not be responsible for any damage by reason of such a failure or delay of performance. The affected party shall take appropriate means to minimize or remove the effects of Force Majeure and attempt to resume performance of the obligations delayed or prevented by the event of Force Majeure. After the event of Force Majeure is removed, both parties agree to resume the performance of this Agreement with their best efforts.

16. Confidentiality

- 16.1 The parties of this agreement acknowledge and make sure that all the oral and written materials exchanged relating to this contract are confidential. All the parties have to keep them confidential and can not disclose them to any other third party without other parties' prior written approval, unless: (a) the public know and will know the materials (not because of the disclosure by any contractual party); (b) the disclosed materials are required by laws or stock exchange rules; or (c) materials relating to this transaction are disclosed to parties' legal consultants or financial advisors, however, who have to keep them confidential as well. Disclosure of the confidential by employees or hired institutions of the parties is deemed as the act by the parties, therefore, subjecting them to liability. This Article remains in effect even if this Agreement should become valid, cancelled, terminated or unenforceable.
- 16.2 After the termination of the Agreement, either Party shall return, destroy or dispose of all the documents, materials and software which contain confidential information at the requirement of the other Party, and cease making use of such confidential information.
- 16.3 Notwithstanding any other provisions of the Agreement, the validity of Article 16 will not be affected by the suspension or termination of the Agreement

17. Governing Law and Dispute Resolution

- 17.1 The execution, validity, performance, modification, interpretation and termination of this Agreement and the disputes resolution under this Agreement shall be governed by PRC laws.
- 17.2 The parties shall strive to settle any dispute arising from this Agreement through friendly consultation.
- 17.3 In case no settlement can be reached through consultation within thirty (30) days after such dispute is raised, each party can submit such matter to Beijing Arbitration Commission in accordance with its then effective rules. The arbitration shall take place in Beijing. The arbitration award shall be final conclusive and binding upon both parties. If there is any dispute is in process of arbitration, other then the matters in dispute, the Parties shall perform the other rights and obligation pursuant to this Agreement.

18. Notice

Notices or other communications required to be given by any party pursuant to this Agreement shall be made in writing and delivered personally or sent by registered mail or postage prepaid mail or by a recognized courier service or by facsimile transmission to the address of relevant each party or both parties set forth below or other address of the party or of the other addressees specified by such party from time to time. The date when the notice is deemed to be duly served shall be determined as the follows: (a) a notice delivered personally is deemed duly served upon the delivery; (b) a notice sent by mail is deemed duly served the seventh (7th) day after the date when the air registered mail with postage prepaid has been sent out (as is shown on the postmark), or the fourth (4th) day after the delivery date to the internationally recognized courier service agency; and (c) a notice sent by facsimile transmission is deemed duly served upon the receipt time as is shown on the transmission confirmation of relevant documents.

Pledgee: Beijing AmazGame Age Internet Technology Co., Ltd.
Address: No. 1210, Building 3, No. 3 Xijing Road, Badachu High-Tech Zone, Shijingshan District, Beijing.

Pledgor: Beijing Century High-Tech Investment Co., Ltd
Address: No.1 Zhong Guan Cun Dong Lu, Sohu Internet Plaza 10-08, Haidian District, Beijing

Company: Beijing Gamease Age Digital Technology Co., Ltd.
Legal Address: Floor 2, east wing of Jing Yan Restaurant, No.29 Shijingshan Road, Shijingshan District, Beijing,

19. Miscellaneous

- 19.1 The headings contained in this Agreement are for the convenience of reference only and shall not affect the interpretation, explanation or in any other way the meaning of the provisions of this Agreement.
- 19.2 The parties confirm that this Agreement shall constitute the entire agreement of the parties upon its effectiveness with respect to the subject matters therein and supersedes and replaces all prior or contemporaneous verbal or/and written agreements and understandings.

- 19.3 This Agreement shall be binding and benefit the successor of each Party and the transferee allowed by each Party.
- 19.4 Any rights, power and remedies of either party under this Agreement will not exclude any other types of rights, power and remedies of either party in accordance with the laws and other provisions under this agreement. Moreover, the performance of any rights, powers and remedies by any party will not exclude the performance of other rights, powers and remedies of such party.
- 19.5 Any delay of performing the rights under the Agreement by either Party shall not be deemed the waiver of such rights and would not affect the future performance of such rights.
- 19.6 If any provision of this Agreement is judged as void, invalid or non-enforceable according to relevant laws, the provision shall be deemed invalid only within the applicable area of the PRC Laws, and the validity, legality and enforceability of the other provisions hereof shall not be affected or impaired in any way. The Parties shall cease performing such void, invalid or non-enforceable provisions and replace those are void, invalid or non-enforceable provisions with valid provisions to the extent which such provisions could be valid, effective and enforceable.
- 19.7 Any matters excluded in this Agreement shall be negotiated by the Parties. Any amendment and supplement of this Agreement shall be made by the Parties in writing. The amendment and supplement duly executed by each Party shall be deemed as a part of this Agreement and shall have the same legal effect as this Agreement.
- 19.8 This Agreement is executed with five (5) original copies and each original copy has the same legal effect; Each Party holds one (1) original copies and others are for pledge registration at relevant authorities.

IN WITNESS THEREFORE, the parties hereof have caused this Agreement to be executed by their duly authorized representatives as of the date first written above.

[No text below]

[Signature Page]

Pledgee: Beijing AmazGame Age Internet Technology Co., Ltd. (Seal)

Signature: _____

Pledgor: Beijing Century High-Tech Investment Co., Ltd (Seal)

Signature: _____

Company: Beijing Gamease Age Digital Technology Co., Ltd. (seal)

Signature: _____

Appendix:

Shareholder's List of Gamease

Date: April 15, 2015

<u>Name of Shareholder</u>	<u>Contributed Capital Shareholding</u>	<u>Shareholder's Information</u>	<u>Note:</u>
Beijing Century High-Tech Investment Co., Ltd	RMB 10,000,000 100%	Business License No.: 110000003484202 Address: No.1 Zhong Guan Cun Dong Lu, Sohu Internet Plaza 10-08, Haidian District, Beijing	According to the Equity Interest Pledge Agreement entered between and by Beijing Century High-Tech Investment Co., Ltd (Century High-Tech) and Beijing AmazGame Network Technology Co., Ltd. ("AmazGame") dated April 15, 2015, Century High-Tech agrees to pledge 100% equity interests held by it to AmazGame.

BUSINESS OPERATION AGREEMENT

This Business Operation Agreement (hereinafter referred to as “this Agreement”) is entered into among the following parties in Beijing, People’s Republic of China (“China” or “PRC”) as of April 15, 2015:

- Party A:** **Beijing AmazGame Age Internet Technology Co., Ltd.**, with the registered address of No. 1210, Building 3, No. 3 Xijing Road, Badachu High-Tech Zone, Shijingshan District, Beijing;
- Party B:** **Beijing Gamease Age Digital Technology Co., Ltd.**, with the registered address of Floor 2, east wing of Jing Yan Restaurant, No.29 Shijingshan Road, Shijingshan District
- Party C:** **Beijing Century High-Tech Investment Co., Ltd.**, with the address of Sohu Internet Plaza 10-08, No.1 Zhong Guan Cun Dong Lu, Haidian District, Beijing

WHEREAS:

1. Party A is a wholly foreign-owned enterprise duly incorporated and validly existing under the PRC law, which has the technology expertise and the practical experience on the development and design of computer software, and rich experience and professional technicians on information technology and services;
2. Party B is a limited liability company duly incorporated and validly existing under the PRC law, which is approved by Beijing Communication Administration to carry on the value-added communication business including Internet information services;
3. Party C is a company duly incorporated and validly existing under the PRC law, who is the shareholder of Party B and owns 100% equity interests of Party B;
4. Party A has established a business relationship with Party B by entering into an Operating Maintenance Service Agreement, Technology Development and Technology Application Service Agreement (collectively, “Services Agreement”) and etc.; Party B, pursuant to such agreements, is liable to pay a certain amount of money to Party B. Therefore, both parties are aware that the daily operation of Party B will have a material effect on its capacity to pay such payable account to Party A;
5. The parties hereby agree to further clarify, through this Agreement, the matters in connection with Party B’s operation pursuant to provisions herein.

NOW, THEREFORE, through friendly negotiations and abiding by the principle of equality and mutual benefit, the Parties hereby agree as follows:

1. To assure the performance of the various operation agreements between Party A and Party B and the payment of the payables accounts by Party B to Party A, Party B together with its shareholders Party C hereby jointly agree that Party B shall not conduct any transaction which may materially affects its assets, obligations, rights or the company’s operation (excluding the business contracts, agreements, sell or purchase assets during Party B’s regular operation and the lien obtained by relevant counter parties due to such transactions) unless the obtainment of a prior written consent from Party A, including but not limited to the following contents:
 - 1.1 to borrow money from any third party or assume any debt;
 - 1.2 to sell to or acquire from any third party any asset or right, including but not limited to any intellectual property right;
 - 1.3 to provide real guarantee for any third party with its assets or intellectual property rights;
 - 1.4 to assign to any third party its business agreements.
2. Party C, as Party B’s shareholder, further covenants that
 - 2.1 not sell, transfer, pledge, dispose in any other manners of their equity interests of Party B or other interests, or not allow to create other security interests on it without Party A’s prior written consent, except for Party A and/or its designated person;
 - 2.2 not to approve the shareholders’ resolution which may result in the Party B’s, merger or combination with, buy or investment in, or being purchased by any other person without Party A’s prior written consent, expect for purchased by Party A or its designated person;

- 2.3 not do anything that may materially affect the assets, business and liabilities of Party B without Party A's prior written consent; not, upon the execution of this Agreement, to sale, transfer, mortgage or dispose, in any other form, any asset, legitimate or beneficial interest of business or income of Party B, or to approve any other security interest set on it without prior written consent by Party A;
 - 2.4 not to request Party B or approve the shareholders' resolution to agree to distribute dividends or profits to shareholders without Party A's prior written consent;
 - 2.5 not to supplement, amend or modify its articles of association, or to increase or decrease its registered capital, or to change the capital structure of Party B in any way without Party A's prior written consent; and
 - 2.6 agree to execute the Power of Attorney attached hereto as requested by Party A upon the execution of this Agreement and within the term of this Agreement.
3. In order to ensure the performance of the various operation agreements between Party A and Party B and the payment of the various payables by Party B to Party A, Party B together with its shareholder Party C hereby jointly agree to accept, from time to time, the corporate policy advise and guidance provided by Party A in connection with the employment and dismissal of the company's employees, company's daily operating, financial management and so on.
 4. Party B together with its shareholder Party C hereby jointly agree that Party C shall appoint the person recommended by Party A as the directors of Party B, and Party B shall appoint Party A's senior managers as Party B's General Manager, Chief Financial Officer, and other senior officers. If any of the above senior officers leaves or is dismissed by Party A, he or she will lose the qualification to take any position in Party B and Party B shall appoint other senior officers of Party A recommended by Party A to assume such position. In this circumstance, the person recommended by Party A should comply with the stipulation on the statutory qualifications of directors, General Manager, chief financial controller, and other senior officers pursuant to applicable law.
 5. Party B together with its shareholder Party C hereby jointly agree and confirm that Party B shall seek the guarantee from Party A first if it needs any guarantee for its performance of any contract or loan of flow capital in the course of operation. In such case, Party A shall have the right but not the obligation to provide the appropriate guarantee to Party B on its own discretion. If Party A decides not to provide such guarantee, Party A shall issue a written notice to Party B in a timely manner and Party B shall seek a guarantee from other third party.
 6. In the event that any of the agreements between Party A and Party B terminates or expires, Party A shall have the right but not the obligation to terminate all agreements between Party A and Party B including but not limited to the Services Agreement.
 7. Any amendment and supplement of this Agreement shall be made in writing. The amendment and supplement duly executed by all parties shall be deemed as a part of this Agreement and shall have the same legal effect as this Agreement.
 8. If any clause hereof is judged as invalid or non-enforceable according to relevant laws, such clause shall be deemed invalid only within the applicable area of the laws without affecting other clauses hereof in any way.
 9. Party B shall not assign its rights and obligations under this Agreement to any third party without the prior written consent of Party A; Party B hereby agrees that Party A may assign its rights and obligations under this Agreement as it needs and such transfer shall only be subject to a written notice sent to Party B by Party A, and no any further consent from Party B will be required.
 10. All parties acknowledge and confirm that any oral or written materials communicated pursuant to this Agreement are confidential documents. All parties shall keep secret of all such documents and not disclose any such documents to any third party without prior written consent from other parties unless under the following conditions: (a) such documents are known or shall be known by the public (excluding the receiving party discloses such documents to the public without authorization); (b) any documents required to be disclosed in accordance with applicable laws or rules or regulations of stock exchange; or (c) if any documents required to be disclosed by any party to its legal counsel or financial consultant for the purpose of the transaction of this Agreement by any party, such legal counsel or financial consultant shall also comply with the confidentiality as stated hereof. Any disclosure by employees or agencies employed by any party shall be deemed the disclosure of such party and such party shall assume the liabilities for its breach of contract pursuant to this Agreement. This Article shall survive whatever this Agreement is void, amended, cancelled, terminated or unable to perform.
 11. This conclusion, validity, performance, modification, interpretation, termination and disputes resolution of Agreement shall be governed by the PRC law.

12. The parties hereto shall strive to settle any dispute arising from the interpretation or performance of this Agreement through friendly consultation. In case no settlement can be reached through consultation within thirty (30) days after such dispute is raised, each party can submit such matter to Beijing Arbitration Commission in accordance with its then effective rules. The arbitration shall take place in Beijing. The arbitration award shall be final conclusive and binding upon both parties. If there is any dispute is in process of arbitration, other than the matters in dispute, the Parties shall perform the other rights and obligation pursuant to this Agreement.
13. This Agreement shall be executed by a duly authorized representative of each party as of the date first written above and become effective simultaneously.
14. Notwithstanding Article 13 hereof, the parties confirm that this Agreement shall constitute the entire agreement of the parties with respect to the subject matters therein and supersedes and replaces all prior or contemporaneous verbal and written agreements and understandings.
15. The term of this agreement is ten (10) years unless early termination occurs in accordance with relevant provisions herein or in any other relevant agreements reached by all parties. This Agreement may be extended only upon Party A's written confirmation prior to the expiration of this Agreement and the extended term shall be determined by Party A based on its independent judgement. During the aforesaid term, if Party A or Party B is terminated at expiration of the operation term (including any extension of such term) or by any other reason, this Agreement shall be terminated upon such termination of such party, unless such party has already assigned its rights and obligations in accordance with Article 9 hereof.
16. The Parties agree and confirm the meaning of "Party A's (written) notice" pursuant to this Agreement means the consent shall be approved by the board of Party A, but if such consent only approved by Party C, such consent shall not be deemed as satisfied with the obtaining of written notice from Party A.
17. This Agreement shall be terminated on the expiring date unless it is renewed in accordance with the relevant provision herein. During the valid term of this Agreement, Party B shall not terminate this Agreement. Notwithstanding the above stipulation, Party A shall have the right to terminate this Agreement at any time by issuing a thirty (30) days prior written notice to Party B.
18. The original of this Agreement is in four (4) copies, each party holds one and all original are equally valid.

IN WITNESS THEREOF each party hereto have caused this Agreement duly executed by itself or a duly authorized representative on its behalf as of the date first written above.

[No text below]

Party A: Beijing AmazGame Age Internet Technology Co., Ltd.
(seal)

Signature: _____

Party B: Beijing Gamease Age Digital Technology Co., Ltd.
(seal)

Signature: _____

Party C: Beijing Century High-Tech Investment Co., Ltd

Signature: _____

Power of Attorney

The company, Beijing Century High-Tech Investment Co., Ltd, registered in the People’s Republic of China (“China”), with enterprise registration number 110000003484202, is the shareholder of Beijing Gamease Age Digital Technology Co., Ltd. (“Gamease”), holding 100% equity interests of Gamease. The company hereby agrees and irrevocably grants the person (“fiduciary”) who is appointed by the board of Beijing AmazGame Age Internet Technology Co., Ltd. (“AmazGame”) upon written resolutions from time to time with the following rights during the term of this Power of Attorney:

Authorize the fiduciary as the unique and exclusive attorney of the company and solely represent the company to exercise the shareholder’s all the due rights according to the Chinese laws and Gamease’s Articles of Association (including current and future amendments from time to time), including but not limited to the right to call the shareholder’s meeting (if applicable), accept the notice regarding the shareholder’s meeting (if applicable) and discussion procedure, participate in the shareholder’s meeting and exercise the voting right (if applicable , including but not limited to nominate, elect or appoint the director, general manager, financial controller or other senior management personnel, and the matters of dividend distribution etc.), make any shareholder decision, sell or transfer any or all of the equity interests of Gamease owned by himself/herself.

Such authorization and appointment are based upon the precondition that the fiduciary is acting as an employee of AmazGame or its affiliates. Once the fiduciary loses his/her title or position in AmazGame or its affiliates, or the board of AmazGame terminates such authorization and appointment in written notice, the authorization and appointment that granted by the company shall be immediately void. The company will designate/authorize the other individual nominated by the board of AmazGame in written resolutions to exercise all the above shareholder’s due rights.

The term of this Power of Attorney has the same term as the Business Operation Agreement that entered by Gamease, AmazGame and other party in April 15, 2015. If the foregoing Business Operation Agreement is terminated early or extended in accordance with the terms of this agreement, this Power of Attorney shall terminate at the same time as the Business Operation Agreement, or extend at the same time with the same extension of maturity as the Business Operation Agreement. Within the term of this Power of Attorney, this Power of Attorney shall not be revised or terminated without the written consent of AmazGame.

Beijing Century High-Tech Investment Co., Ltd (Signature/Seal)

April 15, 2015

LOAN AGREEMENT

The Loan Agreement (hereinafter referred to as the "Agreement") was entered into on July 6, 2015 in Beijing, the People's Republic of China ("China"):

By and between

Party A: **Beijing Changyou Gamespace Software Technology Co.,Ltd.**, having its registered address at Room 158, No.1 Building, No.3 Xijing Road, High-tech Park, Badachu, Shijingshan District, Beijing; and

Party B: **Beijing Changyou Star Digital Technology Co., Ltd.**, having its registered address at Room A-1049, 2/F, No.3 Building, No.30 Yard, Shixing Street, Shijingshan District, Beijing.

(For the purpose hereof, Party A and Party B are collectively referred to the "parties" and, each a "party").

Whereas:

1. Party A is a wholly foreign-owned enterprise legally established and validly existing under the Chinese laws;
2. Party B, a limited liability company legally established and validly existing under the Chinese laws, holds Beijing Guanyou Gamespace Digital Technology Co., Ltd. (the "Guanyou Gamespace")'s 100% equity as a shareholder of Guanyou Gamespace; and
3. Party A, Party B and Guanyou Gamespace's original shareholder, Gamease, concluded a Loan Succession and Share Transfer Agreement on July 6, 2015, under which, both parties and Gamease agree that Party B inherits RMB 10 million (RMB 10,000,000.00) interest-free loan borrowed by Gamease from Party A.

NOW THEFEFORE, the parties hereby agree as follows to make clear their rights and obligations through friendly negotiations:

1. Loan

- 1.1 According to the terms and conditions of the Agreement and the Loan Succession and Share Transfer Agreement, Party A agrees that Party B inherits RMB 10 million (RMB 10,000,000.00) interest-free loan borrowed by Gamease from Party A and Party B agrees to accept the above loan.
- 1.2 Party B confirms that, as consideration, Party B has taken from Gamease Guanyou Gamespace's 100% equity.

2. Loan Term

- 2.1 The loan under the Agreement will be valid for ten (10) years after the Agreement is signed, commencing on July 6, 2015 (the "Loan Term"); the Agreement can only be extended with Party A's confirmation and the extension time will be determined by Party A at its own discretion.
- 2.2 Within the Loan Term, or within any extended one, if Party B falls under any of the following circumstances, Party A has the right to determine the immediate expiry of the loan hereunder by a written notice, and require Party B to repay the loan in accordance with the Agreement:
 - (1) The party is no longer Party A or its affiliates;
 - (2) The party is bankruptcy, reorganized, liquidated, was ordered to shut down or enters into any similar proceedings;
 - (3) The party commits criminal acts or is involved in criminal activities;
 - (4) Any other third party claims against the party for any amount exceeding RMB Hundred Thousand (100,000);
 - (5) Any representations or warranties made by Party B under the Agreement are proven untrue or inaccurate in any material respect when they are made; or Party B breaches its obligations under the Agreement; or

- (6) When permitted by Chinese laws, if Party A or its designated persons can invest in the internet information services and other value-added telecom business as well as other business conducted by Guanyou Gamespace; and Party A has sent a written notice in connection with its purchase of Guanyou Gamespace's equity to Party B according to the Share Purchase Agreement signed with Party B, to exercise those options.

3. Repayment

- 3.1 Party A may at any time and at its absolute discretion, send to Party B repayment notice fifteen (15) days in advance, requiring Party B to repay any part or all of the price. Both parties agree and confirm that Party B must and can only repay the loan in the following ways: Party B (or its heirs, successors or assignees), as required by Party A's written notice, transfers all of its equity held in Guanyou Gamespace to Party A and / or the persons designated by Party A to the extent of permitted by Chinese laws, and shall repay the loan hereunder by the proceeds sourcing from its equity transfer; moreover, the ratio of the equity transferred in the equity held in Guanyou Gamespace on the date hereof shall be the same as that of the price required to be repaid in the loan on the date of the Agreement.
- 3.2 Without Party A's prior written consent, Party B may not repay the loan in whole or in part.
- 3.3 Based on Article 3.1 of the Agreement, the parties agree and confirm that, to the extent and within the scope permitted by Chinese laws, Party A has the right but not the obligation to buy or appoint any other persons at any time (including natural persons, legal persons or other entities) to purchase all or part of Party B's equity in Guanyou Gamespace (the "Option") but Party A shall issue a written notice on equity purchase to Party B. Once the said written notice is said by Party A, Party B shall immediately follow Party A's wishes and instructions, and transfer its equity held in Guanyou Gamespace in whole or in part (including the equity obtained by Party A after that date) to Party A or its designated person in accordance with its original investment price (the "original investment price", RMB 100,000 for every 1% equity) or at other price as agreed by Party A if otherwise provided by law. Both parties agree and confirm that when Party A exercises the Option, if in accordance with current applicable laws and regulations, the permitted minimum price is higher than the original investment price, the subscription price offered by Party A or a person designated by Party A shall be the minimum price permitted by law; for the part of the minimum price in excess of that of the underlying equity corresponding to the original investment price, Party B shall repay to Party A according to Article 4 of the Agreement. Both parties agreed to sign the Share Purchase Agreement on the above matters.
- 3.4 Both parties agree that when the shareholders change procedures are handled with the relevant industrial and commercial administrative department and Party A or its nominee has become the lawful holder of the Underlying Shares, it shall be deemed as the completion of the equity transfer under the Agreement.
- 3.5 When Party B repays the loan according to Article 3, the parties shall at the same time complete the equity transfer as stated in Article 3; subject to the satisfaction of the price, Party A or the person designated by Party A has legally and fully taken corresponding equity of Guanyou Gamespace under Article 3, and except Share Pledge Agreement and Share Purchase Agreement signed with Party A, there are no pledges or any other form of encumbrance on the equity.

4. Loan Interest

Both parties agree and confirm that unless otherwise agreed in the Agreement, the loan hereunder is interest-free loan. However, when the loan expires and Party B transfers the equity in accordance with the Agreement to Party A or its designated person, the actual equity transfer price is higher than Party B's loan principal as required by law or for other causes, the part of the proceeds from Party B's equity transfer in excess of the loan principal, to the extent permitted by law, shall be considered as interest or cost of funds possession, which shall be repaid to Party A together with the loan principal.

5. Party B's Representations, Warranties and Undertakings

- 5.1 Party B shall submit copy of the investment certificate recording its holding of Guanyou Gamespace's 100% equity to Party A.
- 5.2 As a security for the loan, Party B agrees to pledge all equity held in Guanyou Gamespace to Party A and grant to Party A an option for the above equity; and Party B agrees to, as required by Party A, sign the Equity Pledge Agreement and Share Purchase Agreement.
- 5.3 Except the equity pledge and other rights created for Party A's interests, without Party A's prior written consent, it does not sell, transfer, mortgage or otherwise dispose of its equity or other benefits in Guanyou Gamespace, or allow to create any other security interests thereon;

- 5.4 without Party A's prior written consent, it will not agree at Guanyou Gamespace's board of shareholders (if applicable), or support or sign any shareholder's resolution to approve to sell, transfer, mortgage or otherwise dispose of its legal or beneficial benefits in Guanyou Gamespace's equity, or allow to create any other security interests thereon, except made to Party A and/or its designated persons;
- 5.5 without Party A's prior written consent, it will not agree at Guanyou Gamespace's board of shareholders (if applicable), support or sign any shareholders' resolution approving Guanyou Gamespace's merger or consolidation with any person (for the purposes of the Agreement, "person" refers to any natural person, corporation, partnership or other entity), or Guanyou Gamespace's acquisition of any person or its assets or investment in any person.
- 5.6 without Party A's prior written consent, it will not incur any acts or omissions constituting any significant impacts on Guanyou Gamespace's assets, business, and liabilities; without Party A's prior written consent, it will not sell, transfer, mortgage or otherwise dispose of any legal or beneficial benefits in its assets, business or income, or allow to create any other security interests thereon at any time as of the date hereof.
- 5.7 At the request of Party A, appoint the person nominated by Party A as Guanyou Gamespace's director and senior officer.
- 5.8 When Party A exercises the above option hereunder and to the extent permitted by Chinese laws, immediately and unconditionally transfer all or part of the equity it owns in Guanyou Gamespace to Party A and / or its designated person and waive its pre-emptive rights on the equity transferred by Guanyou Gamespace's other shareholders.
- 5.9 it will not require Guanyou Gamespace to distribute dividends or make profit distribution or will not, acting as Guanyou Gamespace's shareholder, make any shareholders' decision consenting to distribute dividends or make profit distribution to shareholders.
- 5.10 without Party A's prior written consent, it will not replenish, change or modify its articles of association, increase or decrease its registered capital in any form, or in any way change its equity structure.
- 5.11 In accordance with sound financial and business standards and practices, maintain its existence, prudently and effectively operate its business and process services; at request of Party A, provide Party A with all information on Guanyou Gamespace's operations and financial condition; keep all business it has been operating in the normal course of business, in order to maintain the value of its assets.
- 5.12 without Party A's prior written consent, it will not occur, inherit, guarantee or tolerate any debts of Guanyou Gamespace, except the debts (i) other than borrowing during normal or daily business course; (ii) disclosed to Party A and obtained Party A's prior written consent.
- 5.13 without Party A's prior written consent, will not enter into any major contracts (the purpose of this clause, if the value of a contract exceeds RMB One Hundred Thousand (RMB 100,000.00), it shall be deemed a major contract), except those signed in the normal course of business.
- 5.14 In order to maintain its ownership of Guanyou Gamespace's equity, execute all necessary or appropriate documents, take all necessary or appropriate actions and file all necessary or appropriate complaints or claims to make all necessary and appropriate defenses; forthwith notify Party A of any litigations, arbitrations or administrative proceedings with respect to Guanyou Gamespace, whether happened or may happen.
- 5.15 Only with Party A's written authority, exercise all rights as Guanyou Gamespace's shareholder as required by Party A.
- 5.16 strictly abide by the provisions of the Agreement, earnestly fulfill its obligations under the Agreement, and will not conduct any actions / omissions sufficient to affect the validity and enforceability hereof.
- 5.17 Both parties agree and confirm that, for the purpose hereof, Party A's (written) consent refers to that the matters are subject to the approval of Party A's board of directors; and other approvals do not constitute Party A's (written) consent hereunder.

6. Taxes

Except as otherwise provided in the Agreement, the parties to the Agreement shall pay their own taxes and fees payable based on the Agreement in accordance with the laws and regulations. All taxes and other reasonable costs associated with the loan are undertaken by Party A.

7. Effectiveness and Termination

- 7.1 The Agreement will take effect when signed by the parties.

- 7.2 Both parties agree and acknowledge that the Agreement will terminate on the date when the parties fully fulfill all its obligations under the Agreement. Both parties agree and confirm that the satisfaction of all the following conditions is deemed as Party B's performance of its obligations under the Agreement:
- (1) Party B has transferred its equity held in Guanyou Gamespace to Party A and / or the persons designated by Party A; and
 - (2) Party B has given all the transfer price under the Agreement or the price obtained under the Share Purchase Agreement to Party A as repayment of price.
- 7.3 Unless (1) Party A commits serious negligence, fraud or other serious offenses; or (2) Party B is terminated due to bankruptcy, dissolution or ordered to close in accordance with the law, Party B may not unilaterally revoke or terminate the Agreement under any circumstances.

8. Liability for Breach

- 8.1 If either party (the "defaulting party") is in violation of any provision of the Agreement, causing damages to the other party (the "non-defaulting party"), the non-defaulting party may send written notice to the defaulting party, requiring the defaulting party to immediately remedy and correct its breach; if the defaulting party fails to take measures to the satisfaction of the non-defaulting party within fifteen (15) days as of the non-defaulting party sends the above notice in writing to remedy and correct its breach, the non-defaulting party may take other remedies by the prescribed methods under the Agreement or by legal means.
- 8.2 If Party B fails to repay the loan to Party A in accordance with the Agreement, Party B shall pay to Party A liquidated damages for the part not repaid at a rate of 0.02% per day (from the date when required by Party A) and shall indemnify Party A for direct economic losses arising from Party B's breach (including but not limited to the market value of the equity held by Party B in Guanyou Gamespace that is not transferred or the unpaid loan, whichever is higher).

9. Confidentiality

- 9.1 The parties acknowledge and confirm that the oral or written information exchanged with respect to the Agreement are confidential. The parties shall keep all such information confidential, and without the prior written consent of other party, they will not disclose any information to any third party; otherwise, it shall be liable for breach and make compensation, except the following information:
- (a) known by or will be known by the public (except disclosed to the public by one of the receiving party without authorization);
 - (b) as required to be disclosed by applicable laws or rules or regulations of the securities exchange; or
 - (c) If any one party is required to disclose any information to its legal or financial advisor for the transactions contemplated hereunder, the said legal or financial advisers shall also be subject to the confidentiality similar to this clause. Breach of confidentiality by either party's staff or the agency hired by that party will be deemed as that by that party, which shall therefore be liable for breach. The present term will survive the invalidity, revocation, termination or inoperability of the Agreement for any reason.
- 9.2 Party B shall return, destroy or otherwise dispose of all files, materials or software containing the Confidential Information at the request of Party A and stop using such confidential information after the termination hereof.
- 9.3 Notwithstanding the other provisions of the Agreement, Article 9 shall survive the suspension and termination of the Agreement.

10. Notices

Any notices or other communication sent by either party under the Agreement shall be made in writing, and sent to the following address or other address specified by the other party from time to time by personal delivery, letter or by facsimile. The notices shall be deemed served: (a) on the delivery date under personal delivery; (b) for a notice sent by letter, on the seventh (7) day after registered airmail (postage prepaid) is sent (marked on the postmark); or the fourth (4) day after being sent to the internationally recognized delivery service; and (c) if sent by fax, on the receipt time shown on the transmission confirmation printed by the sender.

Party A: Beijing Changyou Gamespace Software Technology Co., Ltd.

Address: Room 158, No.1 Building, No.3 Xijing Road, High-tech Park, Badachu, Shijingshan District, Beijing

Party B: Beijing Changyou Star Digital Technology Co., Ltd.

Address: B Changyou Building, No.65 East Bajiao Street, Shijingshan District, Beijing

11. Applicable Laws and Disputes Resolution

- 11.1 Conclusion, validity, execution, changes, interpretation, termination and disputes resolution of the Agreement shall be governed by the laws of China.
- 11.2 All the disputes arising from or in relation to the Agreement, if any, shall be amicably settled by the parties through amicable negotiations.
- 11.3 Where an agreement fails to be concluded within thirty (30) days after one party requests to settle the disputes through negotiation, either party agrees to submit the said disputes to Beijing Arbitration Commission for arbitration under its arbitration rules then in force in Beijing. The arbitral award is final and binding on all parties. All parties agree to be submitted and subject to the arbitral award. When any dispute occurs and any dispute is under arbitration, except the matter in question, the parties may still exercise other rights under the Agreement and perform other obligations hereunder.

12. Miscellaneous

- 12.1 Titles of the Agreement are solely inserted for convenience and may not be used to for explanation or interpretation or in other ways affect the meanings of the provisions of the Agreement.
- 12.2 The parties hereto acknowledge that, once valid, the Agreement constitutes the entire agreement and understanding between the parties with respect to the subject matter hereof, and supersedes all previous oral or/and written ones reached by and between the parties before the Agreement.
- 12.3 The Agreement is binding upon the parties hereto and their respective heirs, successors and permitted transferees, and inures to their benefits. Without Party A's prior written consent, Party B may not transfer, pledge or otherwise assign its rights, benefits or obligations hereunder.
- 12.4 Party B hereby agrees that, (i) if Party B is bankrupt, liquidated or closed or enters into similar legal procedures, Party B agrees to immediately transfer its rights and obligations under the Agreement to a person designated by Party A; (ii) Party A can transfer to other third party its rights and obligations under the Agreement when necessary. In such case, Party A is only required to send written notice to Party B when such transfer occurs and no longer secure Party B's consent to that transfer.
- 12.5 Any rights, powers and remedies empowered by any provision of the Agreement to the parties do not exclude any other rights, powers or remedies available to that party under the law and other provisions hereof and a party's exercise of its rights, powers and remedies does not exclude its exercise of other rights, powers and remedies available to it.
- 12.6 Any one party's failure to exercise or timely exercise the rights, power and remedy under the Agreement or available by law may not be considered as a waiver of those rights and will not affect that party's exercise of those rights in other means in the future nor exercise of other rights of that party.
- 12.7 If any provision of the Agreement is held void, invalid, or unenforceable by any court of competent jurisdiction or arbitration agency, such provision may not affect or impair the validity or enforceability of the remaining provisions. However, the parties hereto shall cease performance of the void, invalid and unenforceable provisions, and only make them valid and enforceable within the scope the closest to their original intention.
- 12.8 For matters uncovered herein, the parties shall otherwise decide the same through friendly negotiations. The parties shall set down any changes and amendments to the Agreement in a written agreement. The duly signed modification agreements and supplementary agreements with respect to the Agreement constitute an integral part hereof and bear the same legal effect as the Agreement.
- 12.9 The Agreement is made in four (4) copies of the same legal effect and each party holds two (2).

THEREFORE, the parties sign or cause their legal representatives or authorized representatives to sign the Agreement as of the date first written above.

(The remainder of this page is intentionally left blank.)

[Signature Page]

Party A: Beijing Changyou Gamespace Software Technology Co.,Ltd. (Seal)

Signature: _____

Party B: Beijing Changyou Star Digital Technology Co., Ltd. (Seal)

Signature: _____

EQUITY INTEREST PURCHASE AGREEMENT

The Equity Interest Purchase Agreement (hereinafter referred to as the “Agreement”) was entered into on July 6, 2015 in Beijing, the People’s Republic of China (“China”):

Party A: **Beijing Changyou Gamespace Software Technology Co.,Ltd.**, having its registered address at Room 158, No.1 Building, No.3 Xijing Road, High-tech Park, Badachu, Shijingshan District, Beijing;

Party B: **Beijing Changyou Star Digital Technology Co., Ltd.**, having its registered address at Room A-1049, 2/F, No.3 Building, No.30 Yard, Shixing Street, Shijingshan District, Beijing;

Party C: **Beijing Guanyou Gamespace Digital Technology Co., Ltd.**, having its registered address at Room 810, 7/F, No.1 Building, No.18 Yard B, Shijingshan Road, Shijingshan District, Beijing;

Whereas:

1. Party A is a wholly foreign-owned enterprise legally established and validly existing under the Chinese laws;
2. Party C is a limited liability company legally established and validly existing under the Chinese laws;
3. Party B, a limited liability company legally established and validly existing under the Chinese laws, holds Party C’s 100% equity as its shareholder included in its register of members;
4. Party A and Party B concluded a Loan Agreement on July 6, 2015, under which, Party A has provided Party B with and Party B has received RMB 10 million (RMB 10,000,000.00) interest-free loan;
5. Party A and Party B signed a Share Pledge Agreement on July 6, 2015; and
6. Party A, Party B and Party C signed the Business Agreement on July 6, 2015;

NOW THEREFORE, the parties hereby agree as follows to make clear their rights and obligations through friendly negotiations:

1. Option**1.1 Grant of rights**

Party B hereby exclusively, irrevocably and without any additional conditions grants an option to Party A, based on which, Party A is entitled to, within the scope permitted by Chinese laws and based on the steps decided by Party A at its own discretion, and at the price stated in Article 1.3, at any time, purchase or cause a person or more than one person (the “Nominee”) to purchase from Party B, all or any part of Party C’s equity held by Party B (the “Option”). Except Party A and / or the Nominee, no other person shall be entitled to buy shares. For the purpose of the Agreement, “persons” include an individual, corporation, joint venture, partnership, corporate, trust or unincorporated organization.

1.2 Exercise steps

Party A and / or the Nominee may exercise its grants by issuing a written notice in a format stated in Attachment 1 hereto to Party B, stating the units of the share to be purchased from Party B and the exercise manner.

Within seven (7) working days after Party B’s receipt of the exercise notice, Party B shall enter into a Share Transfer Agreement with Party A and / or the Nominee, so as to as soon as possible transfer the equity to be purchased to Party A and / or the Nominee.

1.3 Exercise price

- 1.3.1 When Party A exercises the Option, unless then applicable Chinese laws and regulations require evaluation on the share to be purchased or otherwise give restrictions on the share price, otherwise, the purchase price of the shares to be purchased (the “Exercise Price”) shall be equal to the original investment price paid by Party B for the shares to be purchased (the “Original Investment Price”, i.e. RMB 100,000 for every 1% equity).

1.3.2 When Party A exercises the Option, then applicable Chinese laws and regulations require evaluation on the share to be purchased or otherwise give restrictions on the share price, Party A and Party B agree that the exercise price shall be the minimum price permitted by applicable laws. Where the minimum price permitted by the laws is higher than the original investment price corresponding to the shares to be purchased, Party B shall repay the excess to Party A according to the Loan Agreement.

1.4 Transfer of the shares to be purchased

After Party A issues the option notice under the Agreement, at each exercise of the option:

1.4.1 Party B shall promptly make a resolution or a decision to approve the equity transfer to Party A, and Party B has signed a confirmation letter, agreeing to waive the rights of first refusal for Party C's other equity;

1.4.2 Party B shall sign equity transfer contract for each transfer according to the Agreement and the related equity purchase notice with Party A;

1.4.3 The parties concerned shall sign all other necessary contracts, agreements or documents, obtain all the necessary government approvals and consents, and take all necessary actions, without any attached security interest, transfer the effective ownership of the shares to be purchased to Party A and/or the Nominee and make Party A and/or the Nominee the owner of the shares to be purchased registered with the administrative department for industry and commerce. For this section and the Agreement, "security interests" include guarantee, mortgage, pledge, third party rights or interests, any option, right to acquire, rights of first refusal, right of set-off, ownership retention or other security arrangements, excluding any security interest under the Share Pledge Agreement.

1.4.4 Party B and Party C shall unconditionally assist Party A in obtaining all the government approvals, licenses, registration and filings required for the transfer of the shares to be purchased and completing all the necessary procedures.

1.5 Payment

The purchase price shall be paid in a manner determined by Party A and Party B according to the applicable laws upon exercise upon negotiations. Party A and Party B hereby agree that, for any price paid by Party A and/or the Nominee to Party B with respect to the shares to be purchased, Party B shall return it to Party A subject to laws, in order to repay the loan principal and interest or capital occupation cost permitted by laws under the Loan Agreement.

2. Party B's and Party C's Undertakings

2.1 they will not replenish, change or modify Party C's articles of association, increase or decrease their registered capital in any form, or in any way change their structure thereof.

2.2 without Party A's prior written consent, they will not sell, transfer, mortgage or otherwise dispose of any legal or beneficial benefits in equity, or allow to create any other security interests thereon at any time as of the date hereof, except the pledge right created on Party C's equity under the Equity Pledge Agreement.

2.3 without Party A's prior written consent, Party B will not agree at its board of shareholders, or support or sign any shareholder's resolution to approve to sell, transfer, mortgage or otherwise dispose of its legal or beneficial benefits in its equity, or allow to create any other security interests thereon, except made to Party A or its designated persons.

2.4 on Party A's demand at any time, unconditionally and immediately at any time transfer their equity to Party A, and give up the right of first refusal available to them with respect to the equity subject to above share transfer of Party C's another existing shareholder.

2.5 without Party A's prior written consent, Party B will not make any shareholders' decision approving, supporting or signing any shareholders' resolution on approving Party C's merger or alliance with any person, or purchase of, or investment in any person.

2.6 In accordance with sound financial and business standards and practices, maintain Party C's existence, prudently and effectively operate its business and process services; keep all business it has been operating in the normal course of business, in order to maintain Party C's assets value, and will not conduct any actions / omissions sufficient to affect its operations and assets value.

2.7 without Party A's prior written consent, it will not incur any acts or omissions constituting any significant impacts on Party C's assets, business, and liabilities; without Party A's prior written consent, will not sell, transfer, mortgage or otherwise dispose of any legal or beneficial benefits in Party C's assets, business or income, or allow to create any other security interests thereon at any time as of the date hereof;

- 2.8 without Party A's prior written consent, incur, inherit, provide guarantee for or allow any debts, except the debts (i) other than borrowing during normal or daily business course; (ii) disclosed to Party A and obtained Party A's written consent.
- 2.9 without Party A's prior written consent, will not enter into any major contracts (the purpose of this clause, if the value of a contract exceeds RMB One Hundred Thousand (RMB 100,000.00), it shall be deemed a major contract), except those signed in the normal course of business.
- 2.10 without Party A's prior written consent, not to provide any loan or credit.
- 2.11 timely provide Party A on its demand at any time with the information on Party C's operating and financial situation.
- 2.12 purchase and maintain insurance from the insurance company acceptable to Party A, to the extent that the insured amount and insurance type shall be the same as those usually covered by the company owning similar business and assets or property in the same area as Party C.
- 2.13 forthwith notify Party A of the any litigations, arbitrations or administrative proceedings or of any potential ones with respect to Party B's equity ownership, Party C's assets, business and income.
- 2.14 in order to maintain Party B's ownership of the equity, execute all necessary or appropriate documents, take all necessary or appropriate actions and file all necessary or appropriate claims to make all necessary and appropriate defenses.
- 2.15 in order to maintain Party C's ownership of all its assets, execute all necessary or appropriate documents, take all necessary or appropriate actions and file all necessary or appropriate claims to make all necessary and appropriate defenses.
- 2.16 without Party A's prior written consent, Party C shall not in any form distribute dividends to its shareholders; but once requested by Party A in written form, it shall immediately distribute all or any part of the profit available for distribution to its shareholders.
- 2.17 forthwith notify Party A of any litigations, arbitrations or administrative proceedings or of any potential ones with respect to the equity held by Party B.
- 2.18 Party B shall make the shareholder's decision or resolve at its shareholders' meeting to approve the transfer of the shares to be purchased under the Agreement.
- 2.19 at the request of Party A, appoint the person nominated by Party A as Party C's director and senior officer.
- 2.20 only with Party A's written authority, exercise all rights as Party C's shareholder as required by Party A.
- 2.21 the parties agree and confirm that, for the purpose hereof, Party A's (written) consent refers to that the matters are subject to the approval of Party A's board of directors.
- 2.22 strictly abide by the Agreement and other contracts signed by Party B, Party C and Party A, earnestly fulfill their obligations thereunder, and will not conduct any actions / omissions sufficient to affect the validity and enforceability thereof.

3. Representations and Warranties

Party B and Party C hereby represent and warrant as follows to Party A on the date of the Agreement and on each transfer date:

- 3.1 they have the right to sign and deliver the Agreement and any share transfer contract they have signed for the transfer of the shares to be purchased under the Agreement (the "transfer contract"), and to perform the obligations under the Agreement and any transfer contract. Once signed, the Agreement and the transfer contracts to which they are a party constitute legal, valid and binding obligations upon them and can be enforced according to their terms;
- 3.2 the signing and delivery of the Agreement or any of the transfer contract and the performance of their obligations under the agreement or any of the transfer contracts will not: (i) result in violation of any relevant Chinese laws and regulations; (ii) conflict with their articles of association or other charter documents; (iii) lead to any violation of any contract or deed, or constitute a breach of any contract or deed to which they are a party or that are binding upon them; (iv) result in violation of any conditions for granting of any permit or approval or for the renewal thereof; or (v) make any license or approval issued to them suspended or withdrew or have any additional conditions;
- 3.3 Party C has good and marketable ownership of all its assets and Party C does not create any security interests on these assets;
- 3.4 Party C has no outstanding debts, (i) other than borrowing during normal business course; (ii) disclosed to Party A and obtained Party A's prior written consent;
- 3.5 Party C will abide by all Chinese laws and regulations applicable to the assets acquisition;

- 3.6 currently, there are no ongoing or pending or potential litigations, arbitrations or administrative proceedings with respect to the equity held by Party B, Party C's assets or the company; and
- 3.7 Party B has a good and marketable title to all of its shares, and does not create any security interest in the equity, excluding the security interest as agreed in the Share Pledge Agreement.

4. Breach

- 4.1 If either party (the "defaulting party") is in violation of any provision of the Agreement, causing damages to the other party (the "non-defaulting party"), the non-defaulting party may send written notice to the defaulting party, requiring the defaulting party to immediately remedy and correct its breach; if the defaulting party fails to take measures to the satisfaction of the non-defaulting party within fifteen (15) days as of the non-defaulting party sends the above notice in writing to remedy and correct its breach, the non-defaulting party may take other remedies by the prescribed methods under the Agreement or by legal means.
- 4.2 The following matters are considered as Party B's breach:
 - 4.2.1 Party B violates any provision of the Agreement, or any representations and warranties made by Party B in the Agreement have any significant errors, or are inaccurate and incorrect;
 - 4.2.2 without Party A's prior written consent, transfer, or otherwise transfer or pledge any of its rights under the Agreement;
 - 4.2.3 the Agreement, the Loan Agreement and / or the Share Pledge Agreement becomes invalid or unenforceable.
- 4.3 If Party B is in default or violates the Loan Agreement, the Share Pledge Agreement or the Business Agreement, Party A can take the following measures:
 - 4.3.1 require Party B to immediately transfer all or any part of the shares to be purchased to Party A and/or the Nominee at the purchase price; and
 - 4.3.2 recover loans under the Loan Agreement;
- 4.4 Once Party A exercises the pledge right according to Article 11 of the Share Pledge Agreement and Party A obtains the income and payment related to the realization of the pledge right, Party B shall be deemed to have fully fulfilled the obligations under the Agreement, and Party A will not present any other payment requests to Party B in this regard.
- 4.5 Notwithstanding the other provisions of the Agreement, Article 4 shall survive the termination of the Agreement.

5. Transfer

- 5.1 Party B will not transfer its rights or obligations under the Agreement to any third party, unless with Party A's prior written consent; If Party B dies, Party B agrees to immediately transfer its rights and obligations under the Agreement to a person designated by it.
- 5.2 The Agreement is binding upon Party B and its successor or inheritor, and valid for Party A and its successors, heirs or permitted assignees.
- 5.3 Party B hereby agrees that Party A has the right to transfer to other third party its rights and obligations under the Agreement when necessary. In such case, Party A is only required to send written notice to Party B when such transfer occurs and no longer secure Party B's consent to that transfer.

6. Effectiveness and Term

- 6.1 The Agreement will take effect when signed by the parties.
- 6.2 The Agreement is valid for ten (10) years unless early terminated in accordance with its related terms hereof or the related agreements separately concluded by the parties. Before the expiry of the Agreement, the Agreement can only be extended with Party A's written confirmation and the extension time will be determined by Party A.
- 6.3 If during the term as stated in Article 6.2, Party A's or Party C's operation term (including any extension period) expires or terminates for other reasons, the Agreement will terminate upon that termination, unless Party A transfers its rights and obligations according to Article 5.2 hereof.

7. Termination

- 7.1 At any time during the term and the extended term of the Agreement, if Party A fails to exercise the Option in accordance with Article 1 of the Agreement due to then applicable laws, Party A can at its own discretion, send written notice to Party B to unconditionally revoke the Agreement without any liability.

- 7.2 In the event that Party C is terminated due to bankruptcy, dissolution or ordered to close in accordance with the law within the term and the extended term hereof, in the case of termination, Party B's obligations under the Agreement shall be discharged; however, Party B shall perform its corresponding obligations under other agreements signed with Party A.
- 7.3 Except as stated in Article 7.2 of the Agreement, within the term and the extended term hereof, Party B and Party C may not require to terminate the Agreement in any cases.

8. Taxes and Fees

Each party shall assume each and all transfer and registration taxes, expenses and costs it incurred or imposed on it arising from the preparation and execution of the Agreement and the transactions contemplated thereunder.

9. Confidentiality

- 9.1 The parties acknowledge and confirm that the oral or written information exchanged with respect to the Agreement are confidential. The parties shall keep all such information confidential, and without the prior written consent of other party, they will not disclose any information to any third party, however, except the following information:
- (a) known by or will be known by the public (but not disclosed to the public by the receiving party without authorization)
 - (b) as required to be disclosed by applicable laws or rules or regulations of the securities exchange; or
 - (c) if any one party is required to disclose any information to its legal or financial advisor for the transactions contemplated hereunder, the said legal or financial advisers shall also be subject to the confidentiality similar to this clause. Breach of confidentiality by either party's staff or the agency hired by that party will be deemed as that by that party, which shall therefore be liable for breach. The present term will survive the invalidity, revocation, termination or inoperability of the Agreement for any reason.
- 9.2 A party shall return, destroy or otherwise dispose of all files, materials or software containing the Confidential Information at the request of the other party and stop using such confidential information after the termination hereof.
- 9.3 Notwithstanding the other provisions of the Agreement, Article 9 shall survive the termination and suspension of the Agreement.

10. Notices

Any notices or other communication sent by either party under the Agreement shall be made in writing, and sent to the following address or other address specified by other parties from time to time by personal delivery, letter or by facsimile. The notices shall be deemed served: (a) on the delivery date under personal delivery; (b) for a notice sent by letter, on the seventh (7) day after registered airmail (postage prepaid) is sent (marked on the postmark); or the fourth (4) day after being sent to the internationally recognized delivery service; and (c) if sent by fax, on the receipt time shown on the transmission confirmation printed by the sender.

Party A: Beijing Changyou Gamespace Software Technology Co., Ltd

Address: B Changyou Building, No.65 East Bajiao Street, Shijingshan District, Beijing

Party B: Beijing Changyou Star Digital Technology Co., Ltd.

Address: B Changyou Building, No.65 East Bajiao Street, Shijingshan District, Beijing

Party C: Beijing Guanyou Gamespace Digital Technology Co., Ltd.

Address: Room 810, 7/F, No.1 Building, No.18 Yard B, Shijingshan Road, Shijingshan District, Beijing

11. Applicable Laws and Disputes Resolution

- 11.1 Conclusion, validity, execution, changes, interpretation, termination and disputes resolution of the Agreement shall be governed by the laws of China.
- 11.2 All the disputes arising from or in relation to the Agreement, if any, shall be amicably settled by the parties through amicable negotiations.

11.3 Where an agreement fails to be concluded within thirty (30) days after one party requests to settle the disputes through negotiation, either party agrees to submit the said disputes to Beijing Arbitration Commission for arbitration under its arbitration rules then in force in Beijing. The arbitral award is final and binding on all parties. All parties agree to be submitted and subject to the arbitral award. When any dispute occurs and any dispute is under arbitration, except the matter in question, the parties may still exercise other rights under the Agreement and perform other obligations hereunder.

12. Miscellaneous

- 12.1 Titles of the Agreement are solely inserted for convenience and may not be used to for explanation or interpretation or in other ways affect the meanings of the provisions of the Agreement.
- 12.2 The parties hereto acknowledge that, once valid, the Agreement constitutes the entire agreement and understanding among the parties with respect to the subject matter hereof, and supersedes all previous oral or/and written ones reached by and among the parties before the Agreement.
- 12.3 The Agreement is binding upon the parties hereto and their respective heirs, successors and permitted transferees, and inures to their benefits.
- 12.4 Any rights, powers and remedies empowered by any provision of the Agreement to the parties do not exclude any other rights, powers or remedies available to that party under the law and other provisions hereof and a party's exercise of its rights, powers and remedies does not exclude its exercise of other rights, powers and remedies available to it.
- 12.5 Any one party's failure to exercise or timely exercise the rights, power and remedy under the Agreement or available by law may not be considered as a waiver of those rights and will not affect that party's exercise of those rights in other means in the future nor exercise of other rights of that party.
- 12.6 If any provision of the Agreement is held void, invalid, or unenforceable by any court of competent jurisdiction or arbitration agency, such provision may not affect or impair the validity or enforceability of the remaining provisions. However, the parties hereto shall cease performance of the void, invalid and unenforceable provisions, and only make them valid and enforceable within the scope the closest to their original intention.
- 12.7 For matters uncovered herein, the parties shall otherwise decide the same through friendly negotiations. The parties shall set down any changes and amendments to the Agreement in a written agreement. The duly signed modification agreements and supplementary agreements with respect to the Agreement constitute an integral part hereof and bear the same legal effect as the Agreement.
- 12.8 The Agreement is made in three (3) copies of the same legal effect. Each party holds one (1).

THEREFORE, the parties sign or cause their legal representatives or authorized representatives to sign the Agreement as of the date first written above.

(The remainder of this page is intentionally left blank.)

[Signature Page]

Party A: Beijing Changyou Gamespace Software Technology Co., Ltd.
(seal)

Signature: _____

Party B: Beijing Changyou Star Digital Technology Co., Ltd.
(seal)

Signature: _____

Party C: Beijing Guanyou Gamespace Digital Technology Co., Ltd.
(seal)

Signature: _____

Attachment I:

Option Notice (Format)

To: Beijing Changyou Star Digital Technology Co., Ltd.

According to the Share Purchase Agreement signed by us with you on _____, we hereby send this notice and request you to, under the Share Purchase Agreement, transfer 100% equity of Beijing Guanyou Gamespace Digital Technology Co., Ltd. (the "Guanyou Gamespace") hold by you to _____ at a price of _____. Please effect the said transfer to _____ according to the Share Purchase Agreement after the receipt hereof.

Regards

Beijing Changyou Gamespace Software Technology Co., Ltd.
(Seal)

Date: _____

EQUITY PLEDGE AGREEMENT

The Equity Pledge Agreement (hereinafter referred to as the “Agreement”) was entered into on July 6, 2015 in Beijing, the People’s Republic of China (“China”):

By and among:

The Pledgor: Beijing Changyou Star Digital Technology Co., Ltd., having its registered address at Room A-1049, 2/F, No.3 Building, No.30 Yard, Shixing Street, Shijingshan District, Beijing;

The Pledgee: Beijing Changyou Gamespace Software Technology Co., Ltd., having its registered address at Room 158, No.1 Building, No.3 Xijing Road, High-tech Park, Badachu, Shijingshan District, Beijing;

The Company: Beijing Guanyou Gamespace Digital Technology Co., Ltd., having its registered address at Room 810, 7/F, No.1 Building, No.18 Yard B, Shijingshan Road, Shijingshan District, Beijing;

(For the purpose of the Agreement, the parties above are referred to each a “Party” and collectively herein as the “Parties”.)

Whereas:

1. The Pledgee is a wholly foreign-owned enterprise legally established and validly existing under the Chinese laws;
2. Beijing Guanyou Gamespace Digital Technology Co., Ltd. (the “Guanyou Gamespace” or “the Company”) is a limited liability company legally established and validly existing under the Chinese laws and engaged in internet information services and other value-added telecom business;
3. The Pledgor, a company legally established and validly existing under the Chinese laws, holds Guanyou Gamespace’s 100% equity as a shareholder of Guanyou Gamespace included in its register of members;
4. The Pledgee and the Pledgor concluded a Loan Agreement on July 6, 2015, under which, the Pledgee has provided the Pledgor with and the Pledgor has received RMB 10 million (RMB 10,000,000.00) interest-free loan;
5. The Pledgee and the Pledgor signed a Share Purchase Agreement on July 6, 2015, under which, the Pledgor shall, when permitted by Chinese laws and at the request of the Pledgee, transfer to the Pledgee and / or any other entity or individual designated by the Pledgee the equity held by it in Guanyou Gamespace in whole or in part;
6. The Pledgee and Guanyou Gamespace concluded a Operation and Maintenance Service Agreement on September 1, 2010, and on September 1, 2010, signed a Technology Development and Application Service Agreement (collectively, “Services Agreements” together with the Operation and Maintenance Service Agreement), under which, Guanyou Gamespace shall pay services fee to the Pledgee under the Services Agreement with respect to the services provided by the Pledgee;
7. The Pledgee has signed with Guanyou Gamespace and its shareholders a Business Agreement on July 6, 2015 (collectively, the “Master Agreement” together with the Agreement, the Loan Agreement, the Share Purchase Agreement and the Services Agreements);
8. In order to ensure the performance of the Pledgor’s and Guanyou Gamespace’s obligations under the Master Agreement, the Pledgor is willing to provide a guarantee by all of its equity in Guanyou Gamespace for the Pledgor’s and Guanyou Gamespace’s performance, and give to the Pledgee the primary right to seek payment, and Guanyou Gamespace consents to that equity pledge arrangement.

NOW THEREFORE, the parties hereby agree as follows to make clear their rights and obligations through friendly negotiations:

1. Pledge Right and Security Scope

- 1.1 The Pledgor agrees to pledge all of its equity in Guanyou Gamespace that it legally owns and of which it has the right to dispose to the Pledgee in accordance with the Agreement as a guarantee for the performance of all the obligations under the Master Agreement by the Pledgor and Guanyou Gamespace. Guanyou Gamespace agrees that the Pledgor pledges the relevant equity to the Pledgee in accordance with the Agreement. “Pledge right” refers to the Pledgee’s right to be firstly compensated by the price from discount or auction or sales of the equity pledged by the Pledgor to the Pledgee.

- 1.2 The security under the Agreement will not be affected in any way due to any changes or alteration to the Master Agreement, and the guarantee hereunder will be still valid for the Pledgor's and Guanyou Gamespace's obligations under the Master Agreement as modified. If the Master Agreement is invalid, revoked or annulled, it will not affect the validity of the Agreement. If the Master Agreement for any reason becomes invalid or revoked or annulled, the Pledgee has the right to immediately exercise the pledge right in accordance with Article 11 of the Agreement.

2. Equity Pledged

- 2.1 Equity pledged under the Agreement is all shares held by the Pledgor in Guanyou Gamespace and all benefits relating to the equity pledged. Details of the equity pledged are as follows as of the effective date of the Agreement:

Name: Beijing Guanyou Gamespace Digital Technology Co., Ltd.

Registered capital: RMB 10 million (RMB 10,000,000)

Equity Pledged: Guanyou Gamespace's 100% equity

Contribution: RMB 10 million (RMB 10,000,000.00)

- 2.2 During the term hereof, the Pledgee will not be liable for any devaluation of the equity pledged unless due to the Pledgee's intent or gross negligence having a direct causal relationship with the result, and the Pledgor has no recourse right in any form or make any demands upon the Pledgee.
- 2.3 Without prejudice to Article 2.2 hereof, if the value of the equity pledged has significantly reduced, which may sufficiently harm the Pledgee's rights, the Pledgee can at any time auction or sell the pledge right on behalf of the Pledgor as its agent, and it shall agree with the Pledgor to use the auction or sales proceeds to early repay the secured obligations or deposit with the notary agency where the Pledgee is located (costs arising therefrom shall be borne by the Pledgee).
- 2.4 If Guanyou Gamespace or the Pledgor breaches, the Pledgee is entitled to dispose of the pledge according to Article 11 hereof.
- 2.5 The Pledgor can make additional investment in Guanyou Gamespace with the Pledgee's prior consent. The additional contribution arising from the Pledgor's additional investment in Guanyou Gamespace is also the equity pledged and the Pledgor shall promptly handle all the formalities required for the pledge creation in respect of the additional equity, including but not limited to the registration procedures for changes with the administrative department for industry and commerce, etc.
- 2.6 The Pledgor commits to waive the right to dividends with respect to the equity pledged during the term thereof.

3. Creation

- 3.1 The Pledgor undertakes that it will be liable for recording the equity pledge arrangement hereunder into Guanyou Gamespace's register of members on the date hereof.
- 3.2 The parties further agree to include in accordance with the terms and conditions of the Agreement the pledge into Guanyou Gamespace's register of members in a format described in Attachment I hereto, and give the register of members recording the pledge to the Pledgee for custody purpose.
- 3.3 The Pledgor undertakes to register the creation of the pledge right with the industrial and commercial administrative department where Guanyou Gamespace is registered and Guanyou Gamespace commits to do its utmost to give cooperation for the said equity pledge matters mentioned in this article.

4. Pledge Term

- 4.1 The equity pledge under the Agreement will take effect after the parties hereto duly sign the Agreement and the equity pledge has been registered in Guanyou Gamespace's register of members and will be valid for two (2) years as of the expiration of the performance terms of all liabilities under the Master Agreement (the "Pledge Term").
- 4.2 During the pledge term, if the Pledgor or Guanyou Gamespace fails to fulfill its obligations under the Master Agreement, the Pledgee is entitled to dispose of the pledge according to Article 11 hereof.

5. Custody and Return of the Pledge Certificate

- 5.1 The Pledgor shall deliver the pledge certificate stated in Article 3 to the Pledgee for custody purpose within three (3) working days as of the date when the above-mentioned pledge is registered in Guanyou Gamespace's register of members; the Pledgee shall have custody of the pledge documents received.

- 5.2 If the pledge is released under the Agreement, the Pledgee shall within three (3) working days after the pledge is so released, return the pledge certificate to the Pledgor and provide necessary assistance in handling of the procedures for the pledge discharging.

6. The Pledgor's Representations and Warranties

The Pledgor represents and warrants to the Pledgee that, as of the effective date hereof:

- 6.1 The Pledgor is the only legitimate holder of the equity pledged;
- 6.2 Except the pledge created for the Pledgee's interests, the Pledgor does not create any pledge or other rights on the equity;
- 6.3 The pledge under the Agreement constitutes a primary security interest on equity pledged;
- 6.4 Guanyou Gamespace's shareholders have decided to agree on the share pledge hereunder;
- 6.5 Once valid, the Agreement constitutes legal, valid and binding obligations upon the Pledgor;
- 6.6 That the Pledgor pledges the equity under the Agreement violates neither the relevant national laws, regulations and other provisions of the government departments, nor any contract or agreements signed by and between the Pledgor and any third party or any commits made to any third party;
- 6.7 Documents and materials regarding the Agreement provided by the Pledgor to the Pledgee are true, accurate and complete;
- 6.8 Only with Party A's written authority, exercise all rights as Guanyou Gamespace's shareholder as required by Party A.

7. Guanyou Gamespace's Representations and Warranties

Guanyou Gamespace represents and warrants to the Pledgee that, as of the effective date hereof:

- 7.1 Guanyou Gamespace is a limited liability company legally established and validly existing under the Chinese laws with independent legal qualification; it has the full and independent legal status and legal capacity to sign, deliver and perform the Agreement, and may act independently as a party to proceedings;
- 7.2 All reports, documents and information provided by Guanyou Gamespace to the Pledgee before the commencement of the Agreement, with respect to all matters relating to the equity pledged and as required by the Agreement are true and accurate in all material respects at the time of entry into force of the Agreement;
- 7.3 All reports, documents and information provided by Guanyou Gamespace to the Pledgee after the commencement of the Agreement, with respect to all matters relating to the equity pledged and as required by the Agreement are true and effective in all material respects at the provision thereof;
- 7.4 The Agreement, after duly signed by Guanyou Gamespace, constitutes legal, valid and binding obligations upon Guanyou Gamespace;
- 7.5 Guanyou Gamespace has full power and authority to enter into and deliver the Agreement and other internal one to enter into the documents required in connection with the transaction contemplated hereunder and Guanyou Gamespace has full power and authority to complete the transaction contemplated hereunder;
- 7.6 In any court or tribunal or in any government agency or administrative agency, there are no pending or threatening litigations, legal proceedings or requests to the knowledge of Guanyou Gamespace against Guanyou Gamespace or its assets (including but not limited to equity pledged), which will have significant or adverse effects on Changyou Age's financial situation or the Pledgor's ability to perform the obligations and the warranty liability hereof.
- 7.7 Guanyou Gamespace agrees to be severally liable to the Pledgee for the representations and warranties made in Article 6.1, Article 6.2, Article 6.3, Article 6.4 and Article 6.6 hereof;
- 7.8 Guanyou Gamespace hereby undertakes to the Pledgee that the above representations and warranties are true and accurate, and will be fully complied with at any time and in any case before all contractual obligations are performed in full or the secured obligations are completely repaid.

8. The Pledgor's Undertakings

- 8.1 During the term of the Agreement, the Pledgor undertakes to the Pledgee for the Pledgee's interests that, the Pledgor will:
- (1) The equity pledge hereunder shall be registered in administrative department for industry and commerce under the Agreement;

- (2) Without the Pledgee's prior written consent, shall not transfer the ownership, create or permit any pledge that may affect any of the Pledgee's rights and interests;
 - (3) Abide by and implement all relevant laws and regulations on pledge right, and upon receipt of the notices, instructions or advices sent or formulated by the relevant competent authority on the pledge right, present within five (5) days the above notices, instructions or advices to the Pledgee and at the same time abide by the same or raise objections and statements with respect to above matters at the Pledgee's reasonable request or with the Pledgee's consent;
 - (4) Promptly notify the Pledgee of any events that may have an impact on the Pledgor's rights of the equity or any portion thereof or any notices received, as well as of any changes to any undertakings or obligations hereunder or any events that may have an impact or any notices received.
- 8.2 The Pledgor commits that, the Pledgee's exercise of its rights under the Agreement shall not be interrupted or jeopardized by the Pledgor or its heirs or principal or any other persons through legal process.
 - 8.3 The Pledgor commits to the Pledgee that, to protect or improve the guarantee provided by the Agreement for the obligations of the Pledgor and Guanyou Gamespace under the Master Agreement, the Pledgor signs in faith and causes other interested parties to sign all certificates or contracts as required by the Pledgee and / or performs and causes other interested parties to fulfill the acts as required by the Pledgee, and facilitates the exercise of the rights and authorizations empowered by the Agreement to the Pledgee.
 - 8.4 The Pledgor undertakes to the Pledgee to sign all relevant change documents regarding ownership certificate (if applicable and necessary) with the Pledgee or its designated person (natural person / legal entity), and within a reasonable period, provide the Pledgee with all relevant notice, orders and decisions in connection with the pledge right it deems necessary.
 - 8.5 The Pledgor undertakes to the Pledgee, in the interests of the Pledgee, the Pledgor will abide by and perform all guarantees, promises, agreements, representations and conditions. Otherwise, the Pledgor shall compensate the Pledgee for all the losses thus incurred.

9. Guanyou Gamespace's Undertakings

During the term of the Agreement, Guanyou Gamespace undertakes to the Pledgee for the Pledgee's interests that:

- 9.1 If any third party's consent, permit, waiver or authorization or any government agency's approval, license, or exemption or registration or filing formality with any government agency is required for the signing and performance of the Agreement and equity pledged hereunder, Guanyou Gamespace will try to assist in obtaining the same and make the same effective in full within the term of the Agreement;
- 9.2 Without the Pledgee's prior consent, Guanyou Gamespace will not assist or allow the Pledgor to create any new pledge or other security benefits on the equity pledged;
- 9.3 Without the Pledgee's prior written consent, Guanyou Gamespace will not assist or allow the Pledgor to transfer the equity pledged;
- 9.4 When there are any legal proceedings, arbitrations or other requests, which may have adverse effects on the benefits of the company, the equity pledged or the Pledgee in the transaction agreements or the Agreement, Guanyou Gamespace undertakes to as soon as possible and timely notify the Pledgee in writing and, as reasonably required by the Pledgee, take all necessary measures to ensure the Pledgee's interests in the equity pledged;
- 9.5 Guanyou Gamespace will provide the Pledgee with its financial statements for the prior quarter in calendar within the first month of each quarter in calendar, including but not limited to the balance sheet, income statement and cash flow statement;
- 9.6 Guanyou Gamespace undertakes to, as reasonably required by the Pledgee, take all necessary measures and sign all necessary documents (including but not limited to, the supplementary agreement to the Agreement) to ensure the exercise of the Pledgee's interests in the equity pledged and those rights;
- 9.7 If the exercise of the pledge right under the Agreement causes the transfer of any equity pledged, Guanyou Gamespace undertakes to take all measures to realize such transfer.

10. Breach and Liability for Breach

10.1 The following matters are considered as breach:

- (1) The Pledgor or Guanyou Gamespace fails to fulfill its obligations under the Master Agreement, including but not limited to those under the Loan Agreement;

- (2) Any representations, undertakings or warranties made by the Pledgor in Articles 5 and 6 are materially misleading or wrong; the Pledgor violates any other terms hereof;
 - (3) The Pledgor abandons the equity pledged or transfers the same without the Pledgee's written consent;
 - (4) (i) due to breach, the Pledgor's external borrowings, guarantees, indemnities, commitments or other debt obligations are required to be repaid or performed in advance; or (ii) Party B's external borrowings, guarantees, indemnities, commitments or other debt obligations cannot be repaid or performed on schedule when they fall due, making the Pledgee believe that the Pledgor's ability to fulfill the obligations under the Agreement has been affected;
 - (5) Guanyou Gamespace cannot repay general debts or other liabilities;
 - (6) Reasons other than Force Majeure render the Agreement illegal or the Pledgor cannot continue fulfilling its obligations under the Agreement;
 - (7) The property owned by the Pledgor suffers from unfavorable changes, making the Pledgee believe that the Pledgor's ability to fulfill the obligations under the Agreement has been affected;
 - (8) Guanyou Gamespace's heir or agent only partially performs or refuse to perform the payment obligations under the Master Agreement;
 - (9) Any breach arising from the Pledgor's acts or omissions of violating other provisions hereof;
 - (10) The Agreement is held illegal under any applicable laws or leads the Pledgor cannot continue fulfilling its obligations under the Agreement; and
 - (11) The governments' approval, permission or authorization making the Agreement enforceable, legitimate and effective is revoked, terminated, void or substantially modified.
- 10.2 The Pledgor shall immediately notify the Pledgee in writing after it is aware of or finds any of the matters referred to in Article 10.1 or the events may leading to the above matters.
- 10.3 Unless the breach listed in Article 10.1 has been satisfactorily resolved to the Pledgee's satisfaction, the Pledgee may send breach notice to the Pledgee when the Pledgor breaches or at any time after the breach, requiring the Pledgor to immediately pay the debts under the Master Agreement or other payables or dispose of the pledge right according to Article 11 of the Agreement.
- 10.4 Notwithstanding the other provisions of the Agreement, the provisions of this Article 10 shall survive the termination of the Agreement.

11. Exercise

- 11.1 Before the obligations under the Master Agreement are fully fulfilled, without the Pledgee's written consent, the Pledgor shall not transfer the pledged shares.
- 11.2 In the event of any breach stated in Article 10, the Pledgee shall issue breach notice to the Pledgor when exercising the pledge right. The Pledgee may dispose of the pledge right at the same time as the delivery of the breach notice under Article 10.3 or at any time after the breach notice is sent.
- 11.3 The Pledgee has the right to sell or otherwise dispose of the shares pledged under the Agreement in accordance with legal procedures. If the Pledgee decides to exercise the pledge right, the Pledgor undertakes to transfer all its shareholders' right to the Pledgee. Moreover, the Pledgee is entitled to be firstly compensated by the price from discount or auction or sales of the equity pledged hereunder in whole or in part under legal procedures.
- 11.4 When the Pledgee disposes of the pledge right under the Agreement, the Pledgor may not create any obstacles, and shall give necessary assistance to enable the Pledgee to exercise its pledge right.

12. Transfer

- 12.1 Unless with the Pledgee's prior written consent, the Pledgor is not entitled to give as a gift or transfer its rights and obligations hereunder. If the Pledgor is bankrupt, liquidated or closed or enters into similar legal procedures, the Pledgor agrees to immediately transfer its rights and obligations under the Agreement to a person designated by the Pledgee.
- 12.2 The Agreement is binding upon the Pledgor and its successor or inheritor, and valid for the Pledgee and its successors, heirs or permitted assignees.

- 12.3 The Pledgee can transfer at any time all or any of its rights and obligations under the Master Agreement to the person it designates (natural person / legal entity) to the extent of permitted by law, in which case, the assignee shall enjoy and assume the Pledgee's rights and obligations thereunder, as if it were a party thereto. When the Pledgee transfers its rights and obligations under the Master Agreement, it is only required to send a written notice to the Pledgor and the Pledgor shall sign agreements and / or files related to the transfer at request of the Pledgee.
- 12.4 Where the Pledgee changes due to transfer, the new parties shall sign a new share pledge agreement in substance substantially consistent with the Agreement.

13. Effectiveness and Termination

- 13.1 The Agreement will take effect when signed by the parties.
- 13.2 When permits, the parties will endeavor to handle and promote the registration of the pledge under the Agreement with the industrial and commercial administrative department where Guanyou Gamespace is registered, but the parties at the same time confirm, the registration of the pledge hereunder will have no impact on the effectiveness hereof.
- 13.3 The Agreement will terminate after the debts under the Loan Agreement and the services fee under the Services Agreements and the Pledgor no longer bear any obligations under the Loan Agreement and Guanyou Gamespace, those under the Services Agreements; and the Pledgee shall cancel or revoke the Agreement as soon as reasonably practicable.
- 13.4 Pledge revocation shall be accordingly recorded in Guanyou Gamespace's register of members and deregistration procedures are required with the industrial and commercial administrative department where Guanyou Gamespace is registered in accordance with the law.

14. Bank Charges and Others

- 14.1 All costs and actual expenses relating to the Agreement, including but not limited to legal fees, cost of production, stamp duty and any other taxes as well as fees, shall be borne by the Pledgor. If according to the laws, the related taxes shall be paid by the Pledgee, the Pledgor shall compensate in full the Pledgee for the taxes paid.
- 14.2 In the event that the Pledgor fails to pay any taxes or fees under the Agreement, or for other reasons, making the Pledgee take any recourse way or manner, the Pledgor shall bear all costs arising therefrom (including but not limited to various taxes, bank charges, management fees, legal costs, legal fees and premiums etc. for disposal of the pledge right).

15. Force Majeure

- 15.1 "Force Majeure" refers to any events beyond the reasonable control of one party and inevitable even with the reasonable care of the affected party, including but not limited to, governmental action, the forces of nature, fire, explosion, storm, flood, earthquake, tidal, lightning or war. However, lack of credit, funds or financing shall not be deemed as matters beyond the reasonable control of a party. The affected party shall immediately notify the other party of the matters for which liability is exempted.
- 15.2 When the performance of the Agreement is delayed or hindered due to the aforementioned force majeure, the affected party will not be liable to the extent of delay or hindrance. The affected party shall take appropriate measures to reduce or eliminate the effects of Force Majeure and seek for resuming the performance of obligations delayed or impeded due to Force Majeure. Once the Force Majeure eliminates, the parties agree to resume the performance of the Agreement with the maximum efforts.

16. Confidentiality

- 16.1 The parties acknowledge and confirm that the oral or written information exchanged with respect to the Agreement are confidential. The parties shall keep all such information confidential, and without the prior written consent of other party, they will not disclose any information to any third party, however, except the following information:
- (a) Known by or will be known by the public (but not disclosed to the public by the receiving party without authorization);
 - (b) As required to be disclosed by applicable laws or rules or regulations of the securities exchange; or
 - (c) If any one party is required to disclose any information to its legal or financial advisor for the transactions contemplated hereunder, the said legal or financial advisers shall also be subject to the confidentiality similar to this clause. Breach of confidentiality by either party's staff or the agency hired by that party will be deemed as that by that party, which shall therefore be liable for breach. The present term will survive the invalidity, revocation, termination or inoperability of the Agreement for any reason.

- 16.2 A party shall return, destroy or otherwise dispose of all files, materials or software containing the Confidential Information at the request of the other party and stop using such confidential information after the termination hereof.
- 16.3 Notwithstanding the other provisions of the Agreement, Article 16 shall survive the suspension and termination of the Agreement.

17. Applicable Laws and Disputes Resolution

- 17.1 Conclusion, validity, execution, changes, interpretation, termination and disputes resolution of the Agreement shall be governed by the laws of China.
- 17.2 All the disputes arising from or in relation to the Agreement, if any, shall be amicably settled by the parties through amicable negotiations.
- 17.3 Where an agreement fails to be concluded within thirty (30) days after one party requests to settle the disputes through negotiation, either party agrees to submit the said disputes to Beijing Arbitration Commission for arbitration under its arbitration rules then in force in Beijing. The arbitral award is final and binding on all parties. All parties agree to be submitted and subject to the arbitral award. When any dispute occurs and any dispute is under arbitration, except the matter in question, the parties may still exercise other rights under the Agreement and perform other obligations hereunder.

18. Notices

Any notices or other communication sent by either party under the Agreement shall be made in writing, and sent to the following address or other address specified by the other party from time to time by personal delivery, letter or by facsimile. The notices shall be deemed served: (a) on the delivery date under personal delivery; (b) for a notice sent by letter, on the seventh (7) day after registered airmail (postage prepaid) is sent (marked on the postmark); or the fourth (4) day after being sent to the internationally recognized delivery service; and (c) if sent by fax, on the receipt time shown on the transmission confirmation printed by the sender.

The Pledgee: Beijing Changyou Gamespace Software Technology Co., Ltd.

Address: B Changyou Building, No.65 East Bajiao Street, Shijingshan District, Beijing

The Pledgor: Beijing Changyou Star Digital Technology Co., Ltd.

Address: B Changyou Building, No.65 East Bajiao Street, Shijingshan District, Beijing

The Company: Beijing Guanyou Gamespace Digital Technology Co., Ltd.

Address: Room 810, 7/F, No.1 Building, No.18 Yard B, Shijingshan Road, Shijingshan District, Beijing

19. Miscellaneous

- 19.1 Titles of the Agreement are solely inserted for convenience and may not be used to for explanation or interpretation or in other ways affect the meanings of the provisions of the Agreement.
- 19.2 The parties hereto acknowledge that, once valid, the Agreement constitutes the entire agreement and understanding among the parties with respect to the subject matter hereof, and supersedes all previous oral or/and written ones reached by and among the parties before the Agreement.
- 19.3 The Agreement is binding upon the parties hereto and their respective heirs, successors and permitted transferees, and inures to their benefits.
- 19.4 Any rights, powers and remedies empowered by any provision of the Agreement to the parties do not exclude any other rights, powers or remedies available to that party under the law and other provisions hereof and a party's exercise of its rights, powers and remedies does not exclude its exercise of other rights, powers and remedies available to it.
- 19.5 Any one party's failure to exercise or timely exercise the rights, power and remedy under the Agreement or available by law may not be considered as a waiver of those rights and will not affect that party's exercise of those rights in other means in the future nor exercise of other rights of that party.

- 19.6 If any provision of the Agreement is held void, invalid, or unenforceable by any court of competent jurisdiction or arbitration agency, such provision may not affect or impair the validity or enforceability of the remaining provisions. However, the parties hereto shall cease performance of the void, invalid and unenforceable provisions, and only make them valid and enforceable within the scope the closest to their original intention.
- 19.7 For matters uncovered herein, the parties shall otherwise decide the same through friendly negotiations. The parties shall set down any changes and amendments to the Agreement in a written agreement. The duly signed modification agreements and supplementary agreements with respect to the Agreement constitute an integral part hereof and bear the same legal effect as the Agreement.
- 19.8 The Agreement is made in five (5) copies of the same legal effect. Each party respectively hold one (1) copy and others for equity pledge registrar for handling of equity pledge procedures.

THEREFORE, the parties sign or cause their legal representatives or authorized representatives to sign the Agreement as of the date first written above.

(The remainder of this page is intentionally left blank.)

[Signature Page]

Pledgee: Beijing Changyou Star Digital Technology Co., Ltd. (Seal)

Signature: _____

Pledgor: Beijing Changyou Gamespace Software Technology Co., Ltd. (Seal)

Signature: _____

Company: Beijing Guanyou Gamespace Digital Technology Co., Ltd. (seal)

Signature: _____

BUSINESS OPERATION AGREEMENT

The Business Agreement (hereinafter referred to as the “Agreement”) was entered into on July 6, 2015 in Beijing, the People’s Republic of China (“China”):

Party A: Beijing Changyou Gamespace Software Technology Co., Ltd., having its registered address at Room 158, No.1 Building, No.3 Xijing Road, High-tech Park, Badachu, Shijingshan District, Beijing;

Party B: Beijing Guanyou Gamespace Digital Technology Co., Ltd., having its registered address at Room 810, 7/F, No.1 Building, No.18 Yard B, Shijingshan Road, Shijingshan District, Beijing;

Party C: Beijing Changyou Star Digital Technology Co., Ltd., having its registered address at Room A-1049, 2/F, No.3 Building, No.30 Yard, Shixing Street, Shijingshan District, Beijing.

Whereas:

1. Party A is a wholly foreign-owned enterprise legally established and validly existing under the Chinese laws and is equipped with technical expertise and practical experience in computer software development and design, and also has rich experience and professionals in information technology and services;
2. Party B, a limited liability company legally established and validly existing under the Chinese laws, can be engaged in internet information services and other value-added telecom business as approved by Beijing Communications Administration;
3. Party C, a company legally established and validly existing under the Chinese laws, is a shareholder of Party B and holds Party B’s 100% equity;
4. Party A and Party B have concluded business relationships through the Operation and Maintenance Services Agreement and the Technology Development and Application Services Agreement (the “Services Agreements”) and other agreements, under which, Party B shall pay all kinds of prices to Party A. Therefore, both parties acknowledge that, Party B’s daily operational activities will have substantial impacts on its ability to make corresponding payments to Party A;
5. Now, the parties are willing to further make clear matters regarding Party B’s business through the Agreement.

NOW THEREFORE, the parties hereby agree as follows to make clear their rights and obligations through friendly negotiations:

1. In order to guarantee the implementation of the various business agreements between Party A and Party B and Party B’s payment of various payables to Party A, Party B and its shareholder Party C hereby agree that, without Party A’s prior written consent, Party B will not undertake any transactions possibly having substantial influence on its assets, obligations, rights or the company’s operations and Party B shall sign business contracts or agreements, sell or buy assets (except the statutory lien obtained by the related party) in the process of its normal business operations, including but not limited to the following contents:
 - 1.1 lend money to any third party or undertake any debts;
 - 1.2 sell or acquire any assets or rights to any third party, including but not limited to any intellectual property rights;
 - 1.3 provide security interests for its assets or intellectual property to any third party;
 - 1.4 transfer its agreements in terms of business to any third party.
2. Party C makes further commitments to Party A as Party B’s shareholder:
 - 2.1 without Party A’s written consent, it will not sell, transfer, mortgage or otherwise dispose of its legal or beneficial benefits in Party B’s equity, or allow to create any other security interests thereon, except for the benefits of Party A and/or its designated persons;
 - 2.2 without Party A’s written consent, it will not make any shareholders decision leading to Party B’s merger or alliance with any person, or purchase of, or investment in any person or acquisition by any person, except acquisition by Party A or its designated person;

- 2.3 without Party A's written consent, it will not incur any acts or omissions constituting any significant impacts on Party B's assets, business, and liabilities; without Party A's prior written consent, it will not sell, transfer, mortgage or otherwise dispose of any legal or beneficial benefits in Party B's assets, business or income, or allow to create any other security interests thereon at any time as of the date hereof;
- 2.4 without Party A's written consent, it will not require Party B to consent to or by making any shareholders' decision consenting to distribute dividends or make profit distribution to shareholders;
- 2.5 without Party A's written consent, it will not replenish, change or modify Party B's articles of association, increase or decrease Party B's registered capital in any form, or in any way change Party B's equity structure;
- 2.6 agrees to sign the Power of Attorney attached as required by Party A on the date hereof, and within the term of the Agreement.
3. In order to guarantee the implementation of the various business agreements between Party A and Party B and Party B's payment of various payables to Party A, Party B and its shareholder Party C hereby agree to accept advice and guidance on the company's policies in terms of Party B's staff employment and dismissal, daily management and financial management system and so on provided by Party A from time to time.
4. Party B and its shareholder Party C hereby agree that, Party C will appoint the candidate recommended by Party A as Party B's director and Party B will appoint the senior officers who are employed by Party A and recommended by Party A as its general manager, chief financial officer and other senior officers. If the above senior officers of Party A leave, whether voluntarily or dismissed by Party A, they will at the same time disqualified for any of Party B's post. In such a case, Party B will appoint other senior officers who are employed by Party A and recommended by Party A to take such post. The candidates recommended by Party A according to this article to Party B must conform to the legal qualifications of the applicable laws for directors, general manager, chief financial officer or other senior officers.
5. Party B and its shareholder Party C hereby agree and confirm that, in the event that Party B requires any performance guarantee or liquidity loan guarantee during Party B's business, Party B will firstly seek guarantee from Party A. In this case, Party A shall have the right but not obligation to provide appropriate guarantees at its own discretion. If Party A decides not to provide such guarantee, it shall timely send written notice to Party B, then Party B can seek guarantees from other third party.
6. If any agreement between Party A and Party B terminates or expires, Party A shall have the right but no obligation to terminate all agreements between them, including but not limited to the Services Agreements.
7. Any amendments and modifications to the Agreement shall be made in writing. The duly signed modification agreements and supplementary agreements with respect to the Agreement constitute an integral part hereof and bear the same legal effect as the Agreement.
8. Where any provisions of the Agreement are ineffective or unenforceable due to their inconformity with the applicable laws, they will be deemed invalid within the jurisdiction of the related laws and does not affect the validity of other provisions hereof.
9. Party B will not transfer its rights or obligations under the Agreement to any third party, unless with Party A's prior written consent; Party B hereby agrees that Party A can transfer to other third party its rights and obligations under the Agreement when necessary. In such case, Party A is only required to send written notice to Party B when such transfer occurs and no longer secure Party B's consent to that transfer.
10. The parties acknowledge and confirm that the oral or written information exchanged with respect to the Agreement are confidential. The parties shall keep all such information confidential, and without the prior written consent of other party, they will not disclose any information to any third party, however, except the following information: (a) known by or will be known by the public (but not disclosed to the public by the receiving party without authorization); (b) as required to be disclosed by applicable laws or rules or regulations of the securities exchange; or (c) if any one party is required to disclose any information to its legal or financial advisor for the transactions contemplated hereunder, the said legal or financial advisers shall also be subject to the confidentiality similar to this clause. Breach of confidentiality by either party's staff or the agency hired by that party will be deemed as that by that party, which shall therefore be liable for breach. The present term will survive the invalidity, changes, revocation, termination or inoperability of the Agreement for any reason.
11. Conclusion, validity, execution, changes, interpretation, termination and disputes resolution of the Agreement shall be governed by the laws of China.
12. If and in the event that the parties hereto have disputes on the interpretation and performance of the terms hereunder, the parties shall solve the same upon negotiations in good faith. Where an agreement fails to be concluded within thirty (30) days after the disputes happen, either party can submit the said disputes to Beijing Arbitration Commission for arbitration under its arbitration rules then in force. Arbitration is to take place in Beijing. The arbitral award is final and binding on all parties. When any dispute occurs and any dispute is under arbitration, except the matter in question, the parties may still exercise other rights under the Agreement and perform other obligations hereunder.

13. The Agreement was signed by the parties' authorized representatives as of the date first written above with immediate effect.
14. Notwithstanding Article 13 of the Agreement, once valid, the Agreement constitutes the entire agreement and understanding among the parties with respect to the subject matter hereof, and supersedes all previous oral and written ones with respect to the contents hereof reached by and among the parties before the Agreement.
15. The Agreement is valid for ten (10) years unless early terminated in accordance with its related terms hereof or the related agreements separately concluded by the parties; Before the expiry of the Agreement, the Agreement can only be extended with Party A's written confirmation and the extension time will be determined by Party A at its own discretion. If during the foregoing term, Party A's or Party B's operation term (including any extension period) expires or terminates for other reasons, the Agreement will terminate upon that termination, unless the party transfers its rights and obligations according to Article 9 hereof.
16. Both parties agree and confirm that, for the purpose hereof, Party A's (written) consent refers to that the matters are subject to the approval of Party A's board of directors; if only Party C's approval is required, the approval does not constitute Party A's (written) consent hereunder.
17. Unless renewed according to the relevant provisions of the Agreement, the Agreement will terminate upon maturity. During the term hereof, Party B shall not terminate the Agreement in advance. Notwithstanding the foregoing, Party A is entitled to terminate the Agreement at any time by sending prior written notice thirty (30) days in advance to Party B.
18. The Agreement is made in four (4) copies of the same legal effect. Each party holds one (1).

THEREFORE, the parties sign or cause their authorized representatives to sign the Agreement as of the date first written above.

(The remainder of this page is intentionally left blank.)

[Signature Page]

Party A: Beijing Changyou Gamespace Software Technology Co., Ltd.,
(seal)

Signature:

Party B: Beijing Guanyou Gamespace Digital Technology Co., Ltd.
(seal)

Signature:

Party C: Beijing Changyou Star Digital Technology Co., Ltd.
(seal)

Signature:

Power of Attorney

The Company, Beijing Changyou Star Digital Technology Co., Ltd., a citizen/registered limited liability company in the People's Republic of China (hereinafter referred to as "China"), has a company registration number 110107019384580, and holds 100% equity of Beijing Guanyou Gamespace Digital Technology Co., Ltd. (the "Guanyou Gamespace") as Guanyou Gamespace's shareholder. The Company again agrees to and irrevocably authorizes the person designated by the board of directors of Beijing Changyou Gamespace Software Technology Co.,Ltd. (the "Gamespace") from time to time in the form of a written resolution (the "Trustee") to exercise rights as follows within the term hereof:

Authorize the Trustee as the Company's sole and exclusive agent, to exercise on behalf of the Company, all the shareholders' rights available to the Company according to Chinese laws and Guanyou Gamespace's articles of association (the present and as revised from time to time), including but not limited to: the right to propose a shareholders' meeting (if applicable), accept any notice on the convening and proceedings of a shareholders' meeting (if applicable), attend the shareholders' meeting of Guanyou Gamespace and exercise voting rights at the same (if applicable, including but not limited to nomination and election or appointment of Gamespace's directors, general manager, chief financial officer and other senior officers, decision on dividend, etc.), make any shareholder's decision, decide to sell or transfer its equity in Guanyou Gamespace in whole or in part, etc.

The above authorization is subject to the Trustee's employment by Gamespace or Gamespace's affiliates. Once the Trustee resigns from Gamespace or its affiliates or Gamespace's board of directors terminates the above authorization in the form of a resolution in writing and with Gamespace's written notice, the Company's authorization will lose effect immediately and the Company will specify/authorize the new trustee nominated by Gamespace's board of directors in the form of a written resolution to exercise all the shareholders' rights available to the Company.

The term hereof is the same as that of the Business Agreement signed by and among Gamespace, Guanyou Gamespace and other parties on July 6, 2015. Where the above Business Agreement is terminated early or delayed in accordance with its terms, the Power of Attorney and the Business Agreement will terminate at the same time, or at the same time be extended to the extent that they are extended by the same period. Within the term hereof, the Power of Attorney shall not be modified or terminated without the written consent of Gamespace.

Beijing Changyou Star Digital Technology Co., Ltd. (seal)

July 6, 2015

Equity Pledge Agreement

The Equity Pledge Agreement (hereinafter referred to as the “Agreement”) was entered into on September 30, 2015:

By and among:

Party A: Baina Zhiyuan (Beijing) Technology Co., Ltd.

Party B1: YANG Yongzhi

Party B2: Beijing Changyou Star Digital Technology Co., Ltd.

For the purpose hereof, Party B1 and Party B2 are referred to “Party B” and Party A and Party B are collectively herein as the “parties”, and separately, a “party”.

Whereas:

- 1 Party A is a wholly foreign-owned limited liability company legally established and validly existing under the laws of the People’s Republic of China.
- 2 The equity pledged is that of Baina (Wuhan) Information Technology Co. Ltd. (the “Wuhan Baina Information”), which is a limited liability company legally established and validly existing under the Chinese laws and may be engaged in computer hardware and software, network products research and development, sales and technology transfer, technical advisory services, computer systems integration and other business as approved by East Lake Development Zone Branch, Wuhan Administration for Industry and Commerce.
- 3 Party B1 is a Chinese natural person having full capacity, and holds 40% Wuhan Baina Information equity; Party B2 is a legally established and validly existing limited liability company and holds 60% Wuhan Baina Information equity.
- 4 Party A, Party B and Wuhan Baina Information signed the Exclusive Call Option Agreement and Business Agreement on September 30, 2015 and Party A and Wuhan Baina Information have concluded the Exclusive Technology Consulting and Services Agreement (the “Agreements”) on September 30, 2015.
- 5 In order to ensure that Party B and Wuhan Baina Information fulfill all the obligations under the Agreements, Party B is willing to provide guarantee for Party B’s and Wuhan Baina Information’s performance by the equity held in Wuhan Baina Information.

NOW THEREFORE, the parties hereby agree as follows to make clear their rights and obligations through friendly negotiations:

I. Pledge Right and Security Scope

1. Party B pledges all equity it holds in Wuhan Baina Information to Party A as a guarantee for Party B’s and Wuhan Baina Information’s performance of the obligations of the Agreements. “Pledge right” refers to Party A’s right to be firstly compensated by the price from discount or auction or sales of the equity pledged by Party B to Party A.
2. The security under the Agreement will not be affected in any way due to any changes or alteration to the Agreement, and the guarantee hereunder will be still valid for Party B’s and Wuhan Baina Information’s obligations under the Agreements as modified. If the Agreement for any reason becomes invalid or revoked or annulled, Party A has the right to immediately exercise the pledge right in accordance with Article IX of the Agreement.

II. Equity Pledged

Equity pledged under the Agreement is all shares held by Party B in Wuhan Baina Information and all benefits relating to the equity pledged. Details of the equity pledged are as follows as of the effective date of the Agreement:

Company: Baina (Wuhan) Information Technology Co., Ltd.

Registered capital: RMB 20,000,000

The subject matter: Wuhan Baina Information's RMB 20 million equity

III. Creation

1. The equity pledge under the Agreement has been registered in Wuhan Baina Information's register of members as of the effectiveness hereof.
2. The parties further agree to include in accordance with the terms and conditions of the Agreement the pledge into Wuhan Baina Information's register of members in a format described in Attachment I hereto, and give the register of members recording the pledge to Party A for custody purpose.
3. Since the pledge right establishment shall be registered in industrial and commercial administrative department where Wuhan Baina Information is registered, the parties shall abide by laws and regulations, and make reasonable efforts to secure such registration.

IV. Pledge Term

1. The pledge hereunder is valid for two years as of the expiration of the performance terms of all liabilities under the Agreements (the "Pledge Term").
2. During the pledge term, if Party B or Wuhan Baina Information fails to fulfill its obligations under the Agreements, Party A is entitled to dispose of the pledge according to Article 9 hereof.

V. Custody and Return of the Pledge Certificate

1. Party B shall deliver the pledge certificate to Party A for custody purpose within three working days as of the date when the above-mentioned pledge is registered in Wuhan Baina Information's register of members; Party A shall have custody of the pledge documents received.
2. If the pledge is released under the Agreement, Party A shall within three working days after the pledge is so released, return the pledge certificate to Party B and provide necessary assistance in handling of the procedures for the pledge discharging.

VI. Party B's Representations and Warranties

Party B represents and warrants to Party A that, as of the effective date hereof:

1. Party B is the only legitimate holder of the equity pledged.
2. Except the pledge created for Party A's interests, Party B does not create any pledge or other rights on the equity.
3. Wuhan Baina Information has adopted a resolution approving the share pledge hereunder at its board of shareholders.
4. Once valid, the Agreement constitutes legal, valid and binding obligations upon Party B.
5. That Party B pledges the equity under the Agreement violates neither the relevant national laws, regulations or other provisions of the government departments, nor any contract or agreements signed by and between Party B and any third party or any commits made to any third party.
6. Documents and materials regarding the Agreement provided by Party B to Party A are true, accurate and complete.
7. Only with Party A's written authority, exercise all rights as Wuhan Baina Information's shareholder as required by Party A.

VII. Party B's Undertakings

1. During the term of the Agreement, Party B undertakes to Party A for Party A's interests that, Party B will:
 - (1) After there are enforceable pledge registration procedures with the industrial and commercial administrative department where Wuhan Baina Information is registered, the pledge hereunder shall be registered in administrative department for industry and commerce under the Agreement.
 - (2) without Party A's prior written consent, shall not transfer the ownership, create or permit any pledge that may affect any of Party A's rights and interests.

- (3) abide by and implement all relevant laws and regulations on pledge right, and upon receipt of the notices, instructions or advices sent or formulated by the relevant competent authority on the pledge right, present within 5 days the above notices, instructions or advices to Party A and at the same time abide by the same or raise objections and statements with respect to above matters at Party A's reasonable request or with Party A's consent.
- (4) promptly notify Party A of any events that may have an impact on Party B's rights of the equity or any portion thereof or any notices received, as well as of any changes to any undertakings or obligations hereunder or any events that may have an impact or any notices received.
2. Party B commits that, Party A's exercise of its rights under the Agreement shall not be interrupted or jeopardized by Party B or its heirs or principal or any other persons through legal process.
3. Party B undertakes to Party A, to protect or improve the guarantee provided by the Agreement for the obligations of Party B and Wuhan Baina Information under the agreement, that Party B signs in faith and causes other interested parties to sign all certificates or contracts as required by Party A and / or performs and causes other interested parties to fulfill the acts as required by Party A, and facilitates the exercise of the rights and authorizations empowered by the Agreement to Party A.
4. Party B undertakes to Party A to sign all relevant change documents regarding ownership certificate (if applicable and necessary) with Party A or its designated person (natural person / legal entity), and within a reasonable period, provide Party A with all relevant notice, orders and decisions in connection with the pledge right it deems necessary.
5. Party B undertakes to Party A, in the interests of Party A, Party B will abide by and perform all guarantees, promises, agreements, representations and conditions. Otherwise, Party B shall compensate Party A for all the losses thus incurred.

VIII. Breach and Liability for Breach

1. The following matters are considered as breach:
 - (1) Party B or Wuhan Baina Information fails to fulfill its obligations under each agreement.
 - (2) Any representations, undertakings or warranties made by Party B in Articles 6 and 7 are materially misleading or wrong; Party B violates any other terms hereof.
 - (3) Party B abandons the equity pledged or transfers the same without Party A's written consent.
 - (4) (a) due to breach, Party B's external borrowings, guarantees, indemnities, commitments or other debt obligations are required to be repaid or performed in advance; or (b) Party B's external borrowings, guarantees, indemnities, commitments or other debt obligations cannot be repaid or performed on schedule when they fall due, making Party A believe that Party B's ability to fulfill the obligations under the Agreement has been affected.
 - (5) Wuhan Baina Information cannot repay general debts or other liabilities.
 - (6) Reasons other than Force Majeure render the Agreement illegal or Party B cannot continue fulfilling its obligations under the Agreement.
 - (7) The property owned by Party B suffers from unfavorable changes, making Party A believe that Party B's ability to fulfill the obligations under the Agreement has been affected.
 - (8) Wuhan Baina Information's heir or agent only partially performs or refuse to perform the payment obligations under the Agreement.
 - (9) Any breach arising from Party B's acts or omissions of violating other provisions hereof.
 - (10) the Agreement is held illegal under any applicable laws or leads Party B cannot continue fulfilling its obligations under the Agreement.
 - (11) The governments' approval, permission or authorization making the Agreement enforceable, legitimate and effective is revoked, terminated, void or substantially modified.
2. Party B shall immediately notify Party A in writing after it is aware of or finds any of the matters referred to in paragraph (1) or the events may leading to the above matters.
3. Unless the breach listed in paragraph 1 has been satisfactorily resolved to Party A's satisfaction, Party A may send breach notice to Party B when Party B breaches or at any time after the breach, requiring Party B to immediately dispose of the pledge right according to Article IX of the Agreement.

IX. Exercise

1. Before the obligations under the Agreements are fully fulfilled, without Party A's written consent, Party B shall not transfer the pledged shares.
2. In the event of any breach stated in Article VIII, Party B shall issue breach notice to Party B when exercising the pledge right. Party A may dispose of the pledge right at the same time as the delivery of the breach notice under paragraph 3 of Article VIII or at any time after the breach notice is sent.
3. Party A has the right to sell or otherwise dispose of the shares pledged under the Agreement in accordance with legal procedures. If Party A decides to exercise the pledge right, Party B undertakes to transfer all its shareholders' right to Party A. Moreover, Party A is entitled to be firstly compensated by the price from discount or auction or sales of the equity pledged hereunder in whole or in part under legal procedures.
4. When Party A disposes of the pledge right under the Agreement, Party B may not create any obstacles, and shall give necessary assistance to enable Party A to exercise its pledge right.

X. Transfer

1. Unless with Party A's prior written consent, Party B is not entitled to give as a gift or transfer its rights and obligations hereunder. If Party B dies, Party B agrees to immediately transfer its rights and obligations under the Agreement to a person designated by Party A.
2. The Agreement is binding upon Party B and its successor or inheritor, and valid for Party A and its successors, heirs or permitted assignees.
3. Party A can transfer at any time all or any of its rights and obligations under each agreement to the person it designates (natural person / legal entity) to the extent of permitted by law, in which case, the assignee shall enjoy and assume Party A's rights and obligations thereunder, as if it were a party thereto. When Party A transfers its rights and obligations under each agreement, it is only required to send a written notice to Party B and Party B shall sign agreements and / or files related to the transfer at request of Party A.
4. Where Party A changes due to transfer, the new parties shall sign a new share pledge agreement in substance substantially consistent with the Agreement.

XI. Effectiveness and Termination

1. The Agreement will take effect when sealed by Party A and Party B2 and signed by Party B1.
2. When permits, the parties will endeavor to handle and promote the registration of the pledge under the Agreement with the industrial and commercial administrative department where Beijing Baina is registered, but the parties at the same time confirm, the registration of the pledge hereunder will have no impact on the effectiveness hereof.
3. Pledge revocation shall be accordingly recorded in Wuhan Baina Information's register of members and deregistration procedures are required with the industrial and commercial administrative department where Wuhan Baina Information is registered in accordance with the law.

XII. Bank Charges and Others

1. All costs and actual expenses relating to the Agreement, including but not limited to legal fees, cost of production, stamp duty and any other taxes as well as fees, shall be borne by Party B. If according to the laws, the related taxes shall be paid by Party B, Party B shall compensate in full Party A for the taxes paid.
2. In the event that Party B fails to pay any taxes or fees under the Agreement, or for other reasons, making Party A take any recourse way or manner, Party B shall bear all costs arising therefrom (including but not limited to various taxes, bank charges, management fees, legal costs, legal fees and premiums etc. for disposal of the pledge right).

XIII. Force Majeure

1. "Force Majeure" refers to any events beyond the reasonable control of one party and inevitable even with the reasonable care of the affected party, including but not limited to, governmental action, the forces of nature, fire, explosion, storm, flood, earthquake, tidal, lightning or war. However, lack of credit, funds or financing shall not be deemed as matters beyond the reasonable control of a party. The affected party shall immediately notify the other party of the matters for which liability is exempted.

2. When the performance of the Agreement is delayed or hindered due to the aforementioned force majeure, the affected party will not be liable to the extent of delay or hindrance. The affected party shall take appropriate measures to reduce or eliminate the effects of Force Majeure and seek for resuming the performance of obligations delayed or impeded due to Force Majeure. Once the Force Majeure eliminates, the parties agree to resume the performance of the Agreement with the maximum efforts.

XIV. Confidentiality

The parties acknowledge and confirm that the oral or written information exchanged with respect to the Agreement is confidential.

The parties shall keep all such information confidential, and without the prior written consent of other party, they will not disclose any information to any third party, however, except the following information:

1. known by or will be known by the public (but not disclosed to the public by the receiving party without authorization).
2. as required to be disclosed by applicable laws or rules or regulations of the securities exchange.
3. If any one party is required to disclose any information to its legal or financial advisor for the transactions contemplated hereunder, the said legal or financial advisers shall also be subject to the confidentiality similar to this clause. Breach of confidentiality by either party's staff or the agency hired by that party will be deemed as that by that party, which shall therefore be liable for breach. The present term will survive the invalidity, revocation, termination or inoperability of the Agreement for any reason.

XV. Applicable Laws and Disputes Resolution

1. Conclusion, validity, execution, interpretation and disputes resolution of the Agreement shall be governed by the laws of China.
2. All the disputes arising from or in relation to the Agreement, if any, shall be amicably settled by the parties through amicable negotiations.
3. Where an agreement fails to be concluded within thirty days after one party requests to settle the disputes through negotiation, either party agrees to submit the said disputes to China International Economic and Trade Arbitration Commission for arbitration under its arbitration rules then in force in Beijing. The arbitral award is final and binding on all parties. All parties agree to be submitted and subject to the arbitral award. When any dispute occurs and any dispute is under arbitration, except the matter in question, the parties may still exercise other rights under the Agreement and perform other obligations hereunder.

XVI. Notices

Any notices or other communication sent by either party under the Agreement shall be made in writing, and sent to the following address or other address specified by the other party from time to time by personal delivery, letter or by facsimile. The notices shall be deemed served:

1. on the delivery date under personal delivery;
2. for a notice sent by letter, on the seventh day after registered airmail (postage prepaid) is sent (marked on the postmark); or the third day after being sent to the internationally recognized delivery service.
3. if sent by fax, on the receipt time shown on the transmission confirmation printed by the sender.

Party A: Baina Zhiyuan (Beijing) Technology Co., Ltd.

Address: South 2-1-6, Block A, # 1 Plant, No.5 A Xueyuan Road, Haidian District, Beijing

Party B1: YANG Yongzhi

Address: No.14 South Avenue, Chaoyang Gate, Foreign Enterprise Service Company, Chaoyang District, Beijing

Party B2: Beijing Changyou Star Digital Technology Co., Ltd.

Address: Room A-1049, 2/F, No.3 Building, No.30 Yard, Shixing Street, Shijingshan District, Beijing

Miscellaneous

1. Titles of the Agreement are solely inserted for convenience and may not be used to for explanation or interpretation or in other ways affect the meanings of the provisions of the Agreement.

2. The parties hereto acknowledge that, once valid, the Agreement constitutes the entire agreement and understanding between the parties with respect to the subject matter hereof, and supersedes all previous oral or/and written ones reached by and between the parties before the Agreement.
3. The Agreement is binding upon the parties hereto and their respective heirs, successors and permitted transferees, and inures to their benefits.
4. Any one party's failure to timely exercise the rights under the Agreement may not be considered as a waiver of those rights and will not affect that party's exercise of the rights in the future.
5. If any provision of the Agreement is held void, invalid, or unenforceable by any court of competent jurisdiction or arbitration agency, such provision may not affect or impair the validity or enforceability of the remaining provisions. However, the parties hereto shall cease performance of the void, invalid and unenforceable provisions, and only make them valid and enforceable within the scope the closest to their original intention.
6. For matters uncovered herein, the parties shall otherwise decide the same through friendly negotiations. The parties shall set down any changes and amendments to the Agreement in a written agreement. The duly signed modification agreements and supplementary agreements with respect to the Agreement constitute an integral part hereof and bear the same legal effect as the Agreement.
7. The Agreement is made in four copies of the same legal effect. Party A, Party B1 and Party B2 respectively hold one copy and others for equity pledge registrar for handling of equity pledge procedures.

(The remainder of this page is intentionally left blank.)

(Signature Page)

Party A: Baina Zhiyuan (Beijing) Technology Co., Ltd.

(Seal)

Party B1: YANG Yongzhi

(Seal)

Party B2: Beijing Changyou Star Digital Technology Co., Ltd.

(Seal)

Attachment:

Register of Members of Baina (Wuhan) Information Technology Co., Ltd.

Date: , 2015

<u>Name</u>	<u>Shareholding ratio</u>	<u>Profile</u>	<u>Remark:</u>
YANG Yongzhi	RMB 8 million 40%	Nationality: Chinese ID number: 422123197810104218	<p>According to the Share Pledge Agreement signed by Baina Zhiyuan (Beijing) Technology Co., Ltd. (the “Beijing Baina Technology”) and YANG Yongzhi on XX XX, 2015, YANG Yongzhi agrees to pledge 40% equity of Baina (Wuhan) Information Technology Co. Ltd. (the “Wuhan Baina Information”) to Beijing Baina Technology.</p> <p>The equity pledge under the Share Pledge Agreement has been registered in Wuhan Baina Information’s register of members on XX XX, 2015.</p> <p>According to the Share Pledge Agreement signed by Baina Zhiyuan (Beijing) Technology Co., Ltd. (the “Beijing Baina Technology”) and Beijing Changyou Star Digital Technology Co., Ltd. (the “Changyou Star”) on XX XX, 2015, Changyou Star agrees to pledge 60% equity of Baina (Wuhan) Information Technology Co. Ltd. (the “Wuhan Baina Information”) to Beijing Baina Technology.</p> <p>The equity pledge under the Share Pledge Agreement has been registered in Wuhan Baina Information’s register of members on XX XX, 2015.</p>
Beijing Changyou Star Digital Technology Co., Ltd.	RMB 12 million 60%	Nationality: Chinese Registration No.: 110107019384580	

Exclusive Call Option Agreement

The Exclusive Call Option Agreement (hereinafter referred to as the “Agreement”) was entered into on September 30, 2015:

By and among:

Party A: Baina Zhiyuan (Beijing) Technology Co., Ltd.

Party B: YANG Yongzhi ID number: 422123197810104218

Party C: Beijing Changyou Star Digital Technology Co., Ltd.

Party D: Baina (Wuhan) Information Technology Co., Ltd.

For the purpose hereof, Party B and Party C are collectively herein as the “Party D’s Shareholders”; Party A, Party B, Party C and Party D are referred to each a “party” and collectively herein as the “parties”.

Whereas

- 1 Party A is a wholly foreign-owned limited liability company legally established and validly existing under the laws of the People’s Republic of China.
- 2 Party D is a domestic limited liability company legally established and validly existing under the laws of the People’s Republic of China.
- 3 Party B and Party C are Party D’s shareholders, and Party B holds Party D’s 40% equity and Party C, 60%.
- 4 Party D’s Shareholders agree to grant to Party A and Party A agrees to accept an exclusive right according to the Agreement, to buy all or part of the shares held by Party D’s Shareholders.

Therefore, the parties hereto agree as follows for mutual compliance through friendly consultations and in the principles of equality and mutual benefit:

I. Exclusive Call Option

1. Grant of rights

Party D’s Shareholders hereby irrevocably grant an exclusive right to Party A, under which, since the entry into force of the Agreement, to the extent permitted by Chinese laws, Party A or a third party designated by Party A can at any time purchase from Party D’s Shareholders all or part of shares they hold at RMB 1 or the minimum price upon exercise when Chinese laws and regulations permit. Party D hereby agrees that Party D’s Shareholders grant an exclusive call option to Party A.

Aforesaid call option will take effect and be granted to Party A after the Agreement is signed by the parties and once granted, the grant may not be revoked or changed within the term hereof (including any extension according to paragraph 2 of this article).

2. Term

The Agreement was signed by the parties as of the date first written above with immediate effect. The Agreement is valid for ten years, commencing from the effectiveness date hereof. Before the expiration hereof, the parties shall extend the term of the Agreement as required by Party A at the request of Party A and as required by Party A, separately sign the Exclusive Call Option Agreement or continue performing the Agreement.

II. Options and Closing

1. Exercise time

- (1) Party D’s Shareholders agree that when permitted by Chinese laws and regulations, Party A may call option in whole or in part at any time after the Agreement is signed and take effect.

- (2) Party D's Shareholders agree that Party A's exercise frees from limits on times, unless they have acquired and hold all Party D's shares.
- (3) Party D's Shareholders agree that, Party A can designate a third party as its representative to exercise the option, but upon exercise, Party A shall give prior written notice to Party D's Shareholders.

2. Exercise notice

If Party A intends to call option, it shall notify Party D's Shareholders in writing 10 working days before the closing date (as defined below), specifically stating the following terms:

- (1) the effective closing date after the exercise of the option (the "closing date").
- (2) the name of the holder to be registered after the option is exercised.
- (3) Number of shares and the proportion purchased from Party D's Shareholders.
- (4) Exercise price and its terms of payment.
- (5) The power of attorney (if exercised by a third party specified by Party A).

The parties agree that Party A may at any time appoint a third party to exercise the option and register the shares in the name of the third party.

3. Transfer

When Party A exercises the option, within ten working days upon receipt of the exercise notice sent by Party A according to the second paragraph of this article:

- (1) Party D's Shareholders shall cause Party D to promptly convene a shareholders' meeting, at which, a resolution approving the transfer of shares by Party D's Shareholders to Party A and (or) a third party designated by Party A shall be adopted.
- (2) Party D's Shareholders shall sign the Share Transfer Agreement with Party A (or if applicable, with the third party designated by Party A).
- (3) Party D's Shareholders shall sign all other necessary contracts, agreements or documents, obtain all the necessary government approvals and consents, and take all necessary actions, without any attached security interest, transfer the effective ownership of the shares to be purchased to Party A and (or) the third party designated by it and make the same the holder of the shares to be purchased registered with the administrative department for industry and commerce. Moreover, they shall submit to Party A or its designated third party the latest business license, articles of association, certificate of approval (if applicable) and other relevant documents issued by or registered with competent Chinese authorities, reflecting Party D's changes of equity, directors, legal representative, and other matters.

III. Representations and Undertakings

1. Party D's Shareholders respectively and together with Party D represent and undertake that:

- (1) Party D's Shareholders and Party D have complete rights and authorizations to sign and perform the Agreement.
- (2) The performance of the Agreement and obligations hereunder by Party D's Shareholders are not in violation of the laws, regulations and other agreements having binding force on them, and the approval or authorization of the government departments is not required.
- (3) Party D's Shareholders and Party D do not have any pending litigations, arbitrations or other judicial or administrative procedures or those may materially affect the performance of the Agreement.
- (4) Party D's Shareholders and Party D have disclosed to Party A all the possible adverse effects on the performance of the Agreement.
- (5) Party D's Shareholders and Party D are not subject to bankruptcy, and their financial position is strong.
- (6) There are no pledge, security, liability and other third party encumbrances on the equity held by Party D's Shareholders and Party D's Shareholders free from any third party's recourse, excluding the security interest as agreed in the Share Pledge Agreement signed by Party A and Party D's Shareholders.
- (7) Party D's Shareholders will not set any pledge, liabilities and other third party encumbrances on the equity held in Party D and not transfer, gift, pledge or otherwise dispose of their shareholdings to persons other than Party A or a third party designated by Party A.

(8) The option granted by Party D's Shareholders to Party A is exclusive and Party D's Shareholders shall not, in any way, grant any options or similar rights to persons other than Party A or any third party appointed by Party A.

2. Party D represents and undertakes that:

- (1) Within the term hereof, Party D's business comply with laws, regulations, rules and other administrative regulations and guidelines promulgated by the government departments and there is no violation of any of the foregoing provisions, therefore causing significant adverse effects on the company's business or assets.
- (2) In accordance with sound financial and business standards and practices, maintain its existence. Prudently and effectively operate its business and process services; and it will do its best efforts to ensure that the company maintains the license, permit and approval necessary for its operation, and to ensure that such permits, licenses and approvals, etc. will not to be cancelled, withdrawn or declared null and void.
- (3) timely provide Party A on its demand with the information on Party D's operating and financial situation.
- (4) Before Party A (or the third party appointed by Party A) exercises the option and obtains all of Party D's rights and interests, Party D shall not conduct the following acts unless with the written consent of Party A (or the third party appointed by it):
 - (a) it will not sell, transfer, mortgage or otherwise dispose of any assets, business or income, or allow to create any other security interests thereon (except those during normal or daily business course or disclosed to Party A and obtained Party A's prior written consent);
 - (b) reach any transactions materially having adverse effects on its assets, liabilities, operations, equity and other legitimate rights (except those during normal or daily business course or disclosed to Party A and obtained Party A's prior written consent).
 - (c) distribute in any form dividends or bonus to Party D's Shareholders.
 - (d) incur, inherit, provide guarantee for or allow any debts, except the debts (i) other than borrowing during normal or daily business course; (ii) disclosed to Party A and obtained Party A's prior written consent.
 - (e) by the resolutions of shareholders' meeting, increase or reduce Party D's registered capital, or otherwise change the structure of the registered capital.
 - (f) supplement, change or modify in any form Party D's articles of association, or change its business scope.
 - (g) modify or remove any of Party D's director or to replace any senior officers.
 - (h) alter Party D's normal business program or modify any of the company's major internal rules and regulations.
 - (i) make major changes to Party D's business management pattern, marketing strategy, business policy, or customer relations.
 - (j) conduct any activities beyond the normal scope of business or operate any business of Party D by using any manner not consistent with part one or any unusual way.
 - (k) merge or ally with any person, or purchase, or invest in any person.

3. Party D's Shareholders represent and undertake that:

- (1) Before Party A (or the third party appointed by Party A) exercises the option and obtains all of Party D's rights and assets, Party D's Shareholders shall not conduct the following acts, whether jointly or respectively, unless with the written consent of Party A (or the third party appointed by it):
 - (a) supplement, change or modify in any form Party D's charter documents, and such supplements, changes or modification will materially have adverse effects on Party D's assets, liabilities, operations, equity and other legitimate rights (except pro rata investment increase to meet the legal requirements), or may affect the Agreement and the effective performance of other agreements signed by Party A, Party B, Party C and Party D.
 - (b) cause Party D to reach any transactions materially having adverse effects on its assets, liabilities, operations, equity and other legitimate rights (except those during normal or daily business course or disclosed to Party A and obtained Party A's prior written consent).
 - (c) cause Party D to distribute dividends or bonus through the resolutions of the shareholders' meeting.
 - (d) they will not sell, transfer, mortgage or otherwise dispose of any legal or beneficial benefits in equity, or allow to create any other security interests thereon at any time as of the effectiveness hereof.
 - (e) they will not cause through the resolutions of shareholders' meeting Party D to sell, transfer, mortgage or otherwise dispose of any legal or beneficial benefits in equity, or allow to create any other security interests thereon.

- (f) cause Party D through resolutions of shareholders' meeting to merge or ally with any person, or purchase, or invest in any person or involve in any forms of reorganization.
- (g) close business, liquidate or dissolve Party D.
- (2) Before Party A (or the third party appointed by Party A) exercises the option and obtains all of Party D's rights and assets, Party B, Party C and Party D undertake that:
 - (a) forthwith notify Party A of any litigations, arbitrations or administrative proceedings or of any potential ones with respect to the equity held by Party B or any adverse effect on that equity.
 - (b) cause Party D's board of shareholders to consider and deliberate the transfer of the shares to be purchased under the Agreement, cause Party D to amend its articles of association in order to reflect the transfer of the shares from Party D's Shareholders to Party A and (or) its designated third party, as well as other changes described in the Agreement, and immediately apply to the competent Chinese authority for approval (such as those required by law) and handle registration for changes, to cause Party D through the shareholders' meeting to approve the appointment of Party A and (or) the third party appointed by Party A as a new director and a new legal representative.
 - (c) In order to maintain its ownership of the equity, execute all necessary or appropriate documents, take all necessary or appropriate actions and file all necessary or appropriate complaints or claims to make all necessary and appropriate defenses.
 - (d) on Party A's demand at any time, unconditionally and immediately at any time transfer their equity to a third party designated thereby, and give up the right of first refusal available to them with respect to the equity subject to above share transfer of another existing shareholder.
 - (e) strictly abide by the Agreement and other contracts signed by Party D's Shareholders and Party A, earnestly fulfill their obligations thereunder, and will not conduct any actions / omissions sufficient to affect the validity and enforceability thereof.

4. Undertakings

Party D's Shareholders commit to Party A that, Party D's Shareholders will handle all procedures necessary for making Party A and (or) its designated third party become Party D's Shareholders. Procedures include but are not limited to assistance for Party A in obtaining the related and necessary approvals from government departments on the share transfer, and submission of the share transfer agreement, resolutions of shareholders' meeting and other documents to the relevant administrative department for industry and commerce, to modify the articles of association, register of members and other constitutional documents and the related costs are assumed by Party A.

- 5. Party D's Shareholders hereby represent and warrant as follows to Party A on the date of the Agreement and on each closing date:
 - (1) they have the right to sign and deliver the Agreement and any share transfer contract they have signed for the transfer of the shares to be purchased under the Agreement (the "transfer contract"), and have the power and ability to perform the obligations under the Agreement and any transfer contract. Once signed, the Agreement and the transfer contracts to which they are a party constitute legal, valid and binding obligations upon them and can be enforced according to their terms.
 - (2) the signing and delivery of the Agreement or any of the transfer contract and the performance of their obligations under the agreement or any of the transfer contracts will not: (i) result in violation of any relevant Chinese laws and regulations; (ii) conflict with their articles of association or other charter documents; (iii) lead to any violation of any contract or deed, or constitute a breach of any contract or deed to which they are a party or that are binding upon them; (iv) result in violation of any conditions for granting of any permit or approval; or (v) make any license or approval issued to them suspended or withdrew or have any additional conditions;
 - (3) Party D's Shareholders have good and marketable ownership of all their shares in Party D. Party D's Shareholders do not create any security interest in the equity, excluding the security interest as agreed in the Share Pledge Agreement.
 - (4) Party D has no outstanding debts, (i) other than borrowing during normal business course; (ii) disclosed to Party A and obtained Party A's prior written consent.
 - (5) Party D will abide by all laws and regulations applicable to the shares and assets acquisition.
 - (6) currently, there are no ongoing or pending or potential litigations, arbitrations or administrative proceedings with respect to the equity, Party D's assets or Party D.

IV. Special Agreements

Party D's Shareholders undertake that whether their shareholding in Party D changes, all of their equity in Party D shall be subject to the Agreement, and the Agreement applies to all of Party D's shares held by them at that time.

V. Breach

1. Except as otherwise provided in the Agreement, if any party fails to perform or suspend the performance of its obligations under the Agreement, and within thirty days from the receipt of the notice from other parties did not correct the above acts, or its statement and guarantee is not true, it constitutes a breach of contract.
2. In the event that any party breaches the Agreement or any of its statements and guarantees made hereunder, other parties may notify the defaulting party in writing, requiring it to rectify the breach within ten days from the receipt of the notice, to take corresponding measures in a timely and effective manner to avoid damages and continue performing its obligations under the Agreement.
3. If the defaulting party fails to correct its default within ten days based on the above agreement after receiving the notice, other parties are entitled to require the defaulting party to compensate for any costs, liabilities or losses (including but not limited to the interest paid or loss and the legal costs due to breach).

VI. Taxes

Taxes and fees arising from the performance hereof will be respectively borne by the party concerned in accordance with the applicable laws and regulations.

VII. Confidentiality

1. The parties agree to take all reasonable measures to keep confidential the execution, terms and performance the Agreement, and any other party's confidential information and information understood or accessed in the performance hereof (the "Confidential Information"); without the prior written consent of the providing party, the Confidential Information shall not be disclosed, given or transferred to any third party.
2. For the following information, the above restrictions will not apply:
 - (1) materials can be obtained by a general public at the time of disclosure.
 - (2) materials can be obtained by a general public after the disclosure not due to the fault of one party hereto.
 - (3) materials that are not obtained from the other party directly or indirectly and the party hereto can prove that it has already known before disclosure.
 - (4) the party hereto has the duty to make disclosure to the relevant government departments, stock exchanges or other institutions or for its normal operation needs, directly disclose the Confidential Information to the legal and accounting counsel as required by law.
3. The parties agree that this clause will survive changes, revocation or termination of the Agreement.

VIII. Effectiveness

The Agreement will take effect as of the date first written above after sealed by Party A, Party C and Party D and signed by Party B.

IX. Applicable Laws and Dispute Resolution

1. Applicable Laws

Conclusion, validity, performance, interpretation, and disputes resolution of the Agreement shall be governed by the laws of China.

2. Arbitration

If and in the event that the parties hereto have disputes on the interpretation and performance of the terms hereunder, the parties shall solve the same upon negotiations in good faith. Where an agreement fails to be concluded within thirty days after one party requests in writing to settle the disputes through negotiation, either party agrees to submit the said disputes to China International Economic and Trade Arbitration Commission for arbitration under its arbitration rules then in force. Arbitration place is Beijing and the arbitration will be proceeded in Chinese. The arbitral award is final and binding on all parties hereto. This article will survive the termination or revocation of the Agreement.

X. Force Majeure

1. "Force Majeure" means all events that cannot be controlled or predicted by any party hereto, or even predictable but inevitable, and hinder that party from fulfilling its obligations hereunder in whole or in part. Such events include but are not limited to any strike, factories closure, explosion, marine perils, natural disasters or public enemy, fires, floods, sabotage, accidents, war, riot, insurrection, and any other similar events.
2. Where any Force Majeure events occur, leading to the affected party's inability to perform any obligations under the Agreement, during the period when the force majeure event lasts, the obligations hereunder therefore blocked shall be suspended, and the performance date shall be automatically extended to the end of the force majeure event, and the affected party will not be subject to any penalty.
3. In case of any Force Majeure, the affected party shall immediately notify other parties in written form, and provide appropriate evidence proving the occurrence of that Force Majeure and its duration. The affected party shall use all reasonable efforts to terminate the Force Majeure.
4. When any Force Majeure occurs, the parties shall immediately negotiate to find a fair solution, and shall also use all reasonable efforts to minimize the consequences of that Force Majeure.
5. If the Force Majeure event lasts for over ninety days, and the parties failed to agree on a fair solution, either party is entitled to terminate the Agreement. If the Agreement is terminated according to the foregoing provisions, there will be no new rights or obligations, but the rights and obligations incurred before the termination of the Agreement will survive the termination hereof.

XI. Miscellaneous

1. Modifications

The parties hereby confirm that the Agreement is fairly and reasonably made of by and among the parties on the basis of equality and mutual benefit. For all the discussions, negotiations and written agreements by and among the parties with respect to the contents hereof before the conclusion of the Agreement, if inconsistency with the Agreement, the Agreement shall prevail. Any modification, supplement or change of the Agreement shall be made in writing form and may not take effect before sealed by Party A, Party C and Party D and signed by Party B.

2. Notices

All notices or other communications as required in the Agreement shall be in writing in Chinese and delivered by personal delivery (including EMS) or registered airmail. Where the mailing address is changed without written notice, all notices and communications shall be sent to the following address:

Party A: Baina Zhiyuan (Beijing) Technology Co., Ltd.

Address: South 2-1-6, Block A, # 1 Plant, No.5 A Xueyuan Road, Haidian District, Beijing

Zip code: 100000

Party B: YANG Yongzhi

Address: No.14 South Avenue, Chaoyang Gate, Foreign Enterprise Service Company, Chaoyang District, Beijing

Zip code: 100000

Party C: Beijing Changyou Star Digital Technology Co., Ltd.

Address: Room A-1049, 2/F, No.3 Building, No.30 Yard, Shixing Street, Shijingshan District, Beijing

Zip code: 100043

Party D: Baina (Wuhan) Information Technology Co., Ltd.

Address: 3/F, Building A2, Phase 1 Jinronggang, No.77 Optical Valley Avenue, Donghu Development Zone, Wuhan

Zip code: 430000

3. Notice and Service

Notices and communications shall be considered served:

- (1) on the receipt of the receiving party if by personal delivery (including EMS).
- (2) on the third day as of the date shown on the post office's receipt if by registered mail.

4. Severability

Without prejudice to other provisions of the Agreement, if any provision of the Agreement or any part thereof is held invalid, illegal, or unenforceable, or violates public benefits, the validity, legality, and enforceability of the remainder hereof will not be affected or damaged thereby. All parties shall sincerely negotiate a clause to the satisfaction of all parties to replace the invalid one.

5. Successors

The Agreement is binding on the parties' legal successors and assignees.

6. Waiver

Any one party's failure to exercise or timely exercise the rights under the Agreement may not be considered as a waiver of those rights and any single exercise will not affect that party's exercise of any other rights in the future.

7. Language and Counterparts

The Agreement is made in four copies in Chinese of the same legal effect. Each party holds one.

(The remainder of this page is intentionally left blank.)

(Signature Page of the Exclusive Call Option Agreement)

Party A: Baina Zhiyuan (Beijing) Technology Co., Ltd.

(Seal)

Party B: YANG Yongzhi

(Seal)

Party C: Beijing Changyou Star Digital Technology Co., Ltd.

(Seal)

Party D: Baina (Wuhan) Information Technology Co., Ltd.

(Seal)

Exclusive Services Agreement

The Exclusive Services Agreement (hereinafter referred to as the “Agreement”) was entered into on September 30, 2015:

By and between:

Party A: Baina Zhiyuan (Beijing) Technology Co., Ltd.

Party B: Baina (Wuhan) Information Technology Co., Ltd.

For the purpose hereof, Party A and Party B are referred to as the “parties” and each a “party”.

Whereas

- 1 Party A is a wholly foreign-owned limited liability company legally established and validly existing under the laws of the People’s Republic of China and owns the resources for provision of technology consulting and services.
- 2 Party B is a domestic limited liability company legally established under the laws of the People’s Republic of China.
- 3 Party A agrees to provide Party B with technical consulting and related services, and Party B agrees to accept the same provided by Party A.

Therefore, the parties hereto agree as follows for mutual compliance through friendly consultations and in the principles of equality and mutual benefit:

I. Consulting and Services: Exclusive rights

During the term of the Agreement, Party A agrees to provide according to the terms hereof Party B with the related technical consulting and services as Party B’s exclusive technology consulting and service provider and, the parties can otherwise sign an agreement for other specific business upon negotiations.

1. Party B agrees to accept the technical advice and services provided by Party A during the term of the Agreement. Taking into account the value of the technical advice and services provided by Party A and the good cooperative relations between the two parties, Party B further agrees that, without Party A’s prior written consent, Party B shall not accept any technical advice and services provided by any third party in respect of the scope of business involved in the Agreement within the term hereof.
2. With respect to any right, title, interest and intellectual property arising from the performance of the Agreement (including but not limited to copyright, patent, technical secrets, trade secrets and others), whether developed by Party A, or by Party B based on Party A’s intellectual property rights or by Party A based on Party B’s intellectual property rights, Party A shall have exclusive rights and interests, and Party B may not claim any rights or rights to Party A, including but not limited to the ownership and intellectual property rights.
3. But if the development is conducted by Party A based on Party B’s intellectual property rights, Party B shall ensure that such intellectual property rights free from any flaws, or any losses caused to Party A shall be borne by Party B. If Party A thus assumes liability to compensate any third person, after making such compensation, Party A has the right to recover the damages in whole from Party B.
4. Considering the good relations and cooperation between both parties, Party B promises that, if intending to have any business cooperation with other enterprises, Party A’s consent will be secured and that, under the same conditions, it will prefer Party A or its affiliates.

II. Calculation of Technical Consulting and Services Fee (the “service fee”) and Terms of Payment thereof

1. Both parties agree that the service fee under the Agreement is determined and paid in accordance with Attachment 1.
2. If Party B fails to pay the service fee and other expenses in accordance with the Agreement, Party B shall pay party liquidated damages at 0.05% per day to Party A for the amount delayed.

3. Party A shall have the right to, at its own expense, assign its employees or certified public accountants in China or other countries (the "Party A's authorized representative") to verify Party B's accounts so as to review the calculation method and amount of the service fee. For this purpose, Party B shall provide Party A's authorized representative with the documents, accounts, records and data required thereby, so that Party A's authorized representative can audit Party B's accounts and determine the amount of service fee. Unless there is a very serious mistake, the service fee amount shall be subject to that determined by Party A's authorized representative.
4. Except as otherwise agreed by the parties, the service fee paid by Party B to Party A in accordance with the Agreement shall not be deducted or set off (such as bank charges, etc.).
5. In addition, Party B shall pay to Party A the actual expenditures arising from the provision of the consulting services under the Agreement while paying the service fee, including but not limited to the travel, transportation, printing and postage and others.
6. Party A and Party B agree that all economic losses caused by the performance of the Agreement shall be jointly borne by Party A and Party B.

III. Representations and Warranties

1. Party A hereby represents and warrants that:
 - (1) Party A is a wholly foreign-owned limited liability company legally established and validly existing under the laws of China.
 - (2) Party A will perform the Agreement within its corporate power and the scope of its business operations, has taken all necessary corporate actions and proper authorization, and has obtained necessary consent and approvals from the third party and government departments; moreover, it does not violate the legal or contractual restrictions having binding or influential force on it.
 - (3) Once valid, the Agreement constitutes legal, valid and binding legal document upon Party A and can be enforceable according to its terms.
2. Party B hereby represents and undertakes that:
 - (1) Party B is a domestic limited liability company legally established and validly existing under the Chinese laws.
 - (2) Party B will sign and perform the Agreement within its corporate power and the scope of its business operations, has taken all necessary corporate actions and proper authorization, and has obtained necessary consent and approvals from the third party and government departments; moreover, it does not violate the legal or contractual restrictions having binding or influential force on it.
 - (3) Once valid, the Agreement constitutes legal, valid and binding legal document upon Party A and can be enforceable according to its terms.

IV. Liability for Breach

1. Except as otherwise provided in the Agreement, if any party fails to perform or suspend the performance of its obligations under the Agreement, and within thirty days from the receipt of the notice from the other party did not correct the above acts, or its statement and guarantee is not true, accurate or complete, it constitutes a breach of contract.
2. In the event that any party breaches the Agreement or any of its statements and guarantees made hereunder, the observant party may notify the defaulting party in writing, requiring it to rectify the breach within ten days from the receipt of the notice, to take corresponding measures in a timely and effective manner to avoid damages and continue performing its obligations under the Agreement.
3. If any party breaches the Agreement, which thereby makes the other party undertake any costs, liabilities or suffer any losses (including but not limited to the company's profit loss), the defaulting party shall compensate the observant party for the said costs, liabilities or damages (including but not limited to the legal fees and interest paid or lost due to breach). Total compensation paid by the defaulting party to the observant party shall be the same as the losses arising from that breach and the compensation includes the interest obtained by the observant party due to performance, but it shall not exceed the reasonable expectation of both parties.
4. If any person lodges a claim for Party B's failure to follow Party A's instructions or its improper use of Party A's intellectual property rights or improper operation, Party B shall take full responsibility for the claim. When Party B finds that any person uses Party A's relevant intellectual property rights without authorization, it shall promptly notify Party A and provide cooperation with all actions taken by Party A.

5. If both parties are in breach of the Agreement, the parties shall determine the compensation payable in accordance with the extent of their respective defaults.

V. Taxes

Taxes and fees arising from the performance hereof will be respectively borne by the parties in accordance with the applicable laws and regulations.

VI. Confidentiality

1. The parties agree to take all reasonable measures to keep confidential the execution, terms and performance the Agreement, and the other party's confidential information and information understood or accessed in the performance hereof (the "Confidential Information"); without the prior written consent of the providing party, the Confidential Information shall not be disclosed, given or transferred to any third party.
2. For the following information, the above restrictions will not apply:
 - (1) materials can be obtained by a general public at the time of disclosure.
 - (2) materials can be obtained by a general public after the disclosure not due to the fault of one party hereto.
 - (3) materials that are not obtained from the other party directly or indirectly and the party hereto can prove that it has already known before disclosure.
 - (4) the party hereto has the duty to make disclosure to the relevant government departments, stock exchanges or other institutions or for its normal operation needs, disclose the Confidential Information to the legal and accounting counsel as required by law.
3. The parties agree that this clause will survive changes, revocation or termination of the Agreement.

VII. Effectiveness and Term

1. The Agreement will take effect as of the date first written above after sealed by Party A and Party B.
2. Unless Party A early revokes the Agreement, the Agreement is valid for ten years, commencing from the effectiveness date hereof. Before the expiration hereof, the parties shall extend the term of the Agreement as required by Party A at the request of Party A and as required by Party A, separately sign the Exclusive Technology Consulting and Services Agreement or continue performing the Agreement.

VIII. Termination

1. During the term hereof, Party B shall not terminate the Agreement in advance unless Party A is bankrupt or dissolved or terminated in accordance with the law. If Party B terminates the Agreement in advance without reasons, it shall compensate all losses caused to Party A, and pay the related service fee for the services completed.
2. Party A is entitled to terminate the Agreement at any time by sending prior written notice thirty days in advance to Party B and its shareholders.
3. The parties may terminate the Agreement upon negotiations.

IX. Applicable Laws and Dispute Resolution

1. Applicable Laws

Conclusion, validity, performance, interpretation, and disputes resolution of the Agreement shall be governed by the laws of China.

2. Arbitration

If and in the event that the parties hereto have disputes on the interpretation and performance of the terms hereunder, the parties shall solve the same upon negotiations in good faith. Where an agreement fails to be concluded within thirty days after one party requests in writing to settle the disputes through negotiation, either party agrees to submit the said disputes to China International Economic and Trade Arbitration Commission for arbitration under its arbitration rules then in force. Arbitration place is Beijing and the arbitration will be proceeded in Chinese. The arbitral award is final and binding on the parties hereto. This article will survive the termination or revocation of the Agreement.

X. Force Majeure

1. "Force Majeure" means all events that cannot be controlled or predicted by any party hereto, or even predictable but inevitable, and hinder that party from fulfilling its obligations hereunder in whole or in part. Such events include but are not limited to any strike, factories closure, explosion, marine perils, natural disasters or public enemy, fires, floods, sabotage, accidents, war, riot, insurrection, and any other similar events.
2. Where any Force Majeure events occur, leading to the affected party's inability to perform any obligations under the Agreement, during the period when the force majeure event lasts, the obligations hereunder therefore blocked shall be suspended, and the performance date shall be automatically extended to the end of the force majeure event, and the affected party will not be subject to any penalty.
3. In case of any Force Majeure, the affected party shall immediately notify the other party in written form, and provide appropriate evidence proving the occurrence of that Force Majeure and its duration. The affected party shall use all reasonable efforts to terminate the Force Majeure.
4. When any Force Majeure occurs, the parties shall immediately negotiate to find a fair solution, and shall also use all reasonable efforts to minimize the consequences of that Force Majeure.
5. If the Force Majeure event lasts for over ninety days, and the parties failed to agree on a fair solution, either party is entitled to terminate the Agreement. If the Agreement is terminated according to the foregoing provisions, there will be no new rights or obligations, but the rights and obligations incurred before the termination of the Agreement will survive the termination hereof.

XI. Miscellaneous

1. Modification and transfer

- (1) The parties hereby confirm that the Agreement is fairly and reasonably made of by and among the parties on the basis of equality and mutual benefit. For all the discussions, negotiations and written agreements by and among the parties with respect to the contents hereof before the conclusion of the Agreement, if inconsistency with the Agreement, the Agreement shall prevail.
- (2) Any modification, supplement or change of the Agreement shall be made in writing and may not take effect before sealed by Party A and Party B. The modifications and supplements to the Agreement constitute an integral part hereof and bear the same legal effect as the Agreement.
- (3) Party B will not transfer its rights or obligations under the Agreement to any third party, unless with Party A's prior written consent. Party A may transfer its rights and obligations under the Agreement to its affiliated enterprises without Party B's consent, but shall notify Party B of the above assignment.

2. Notices

All notices or other communications as required in the Agreement shall be in writing in Chinese and delivered by personal delivery (including EMS) or registered airmail. Where the mailing address is changed without written notice, all notices and communications shall be sent to the following address:

Party A: Baina Zhiyuan (Beijing) Technology Co., Ltd.

Address: South 2-1-6, Block A, # 1 Plant, No.5 A Xueyuan Road, Haidian District, Beijing

Zip code: 100000

Party B: Baina (Wuhan) Information Technology Co., Ltd.

Address: 3/F, Building A2, Financial Harbor Phase I, No.77 Optics Valley Avenue, East Lake High-tech Development Zone, Wuhan, Hubei

Zip code: 430000

3. Notice and Service

Notices and communications shall be considered served:

- (1) on the receipt of the receiving party if by personal delivery (including EMS).
- (2) on the third day as of the date shown on the post office's receipt if by registered mail.

4. Severability

Without prejudice to other provisions of the Agreement, if any provision of the Agreement or any part thereof is held invalid, illegal, or unenforceable, or violates public benefits, the validity, legality, and enforceability of the remainder hereof will not be affected or damaged thereby. The parties shall sincerely negotiate a clause to the satisfaction of the parties to replace the invalid one.

5. Successors

The Agreement is binding on the parties' legal successors and assignees.

6. Waiver

Any one party's failure to exercise or timely exercise the rights under the Agreement may not be considered as a waiver of those rights and any single exercise will not affect that party's exercise of any other rights in the future.

7. Language and Counterparts

The Agreement is made in two copies in Chinese of the same legal effect. Each party holds one.

(The remainder of this page is intentionally left blank)

(Signature Page of the Exclusive Technology Consulting and Services Agreement)

Party A: Baina Zhiyuan (Beijing) Technology Co., Ltd.

(Seal)

Party B: Baina (Wuhan) Information Technology Co., Ltd.

(Seal)

BUSINESS OPERATION AGREEMENT

The Business Agreement (hereinafter referred to as the “Agreement”) was entered into on September 30, 2015:

By and among:

Party A: Baina Zhiyuan (Beijing) Technology Co., Ltd.

Party B: Baina (Wuhan) Information Technology Co., Ltd.

Party C: YANG Yongzhi ID number: 422123197810104218

Party D: Beijing Changyou Star Digital Technology Co., Ltd.

For the purpose hereof, Party A, Party B, Party C and Party D are referred to each a “party” and collectively herein as the “parties”.

Whereas

- 1 Party A is a wholly foreign-owned limited liability company legally established and validly existing under the laws of the People’s Republic of China.
- 2 Party B is a limited liability company legally established and validly existing under the laws of the People’s Republic of China; Party C and Party D are Party B’s shareholders.
- 3 Party A and Party B have concluded business relationships through the Exclusive Technology Consulting and Services Agreement and other agreements, under which, Party B shall pay all kinds of prices to Party A. Therefore, Party B’s daily operational activities will have substantial impacts on its ability to make corresponding payments to Party A.

Therefore, the parties hereto agree as follows for mutual compliance through friendly consultations and in the principles of equality and mutual benefit:

I. Omissions

In order to guarantee Party B’s performance of various agreements between Party A and Party B and of various obligations to Party A, Party B and its shareholders Party C and Party D hereby agree that, without prior written consent of Party A or other parties designated by Party A, Party B will not undertake any transactions possibly having substantial influence on its assets, operations, personnel, obligations, rights or the company’s operations, including but not limited to the following:

1. it will not sell, transfer, mortgage or otherwise dispose of any assets, business or income, or allow to create any other security interests thereon (except those during normal or daily business course or disclosed to Party A and obtained Party A’s prior written consent);
2. reach any transactions materially having adverse effects on its assets, liabilities, operations, equity and other legitimate rights (except those during normal or daily business course or disclosed to Party A and obtained Party A’s prior written consent).
3. distribute in any form dividends or bonus to Party B’s shareholders.
4. incur, inherit, provide guarantee for or allow any debts, except the debts (1) other than borrowing during normal or daily business course; (ii) disclosed to Party A and obtained Party A’s prior written consent.
5. by the resolutions of shareholders’ meeting, increase or reduce the company’s registered capital, or otherwise change the structure of the registered capital.
6. supplement, change or modify in any form the company’s articles of association, or change its business scope.
7. modify or remove any director or to replace any senior officers.

8. alter the company's normal business program or modify any of the company's major internal rules and regulations.
9. make major changes to the company's business management pattern, marketing strategy, business policy, or customer relations.
10. conduct any activities beyond the normal scope of business or operate any business of the company by using any manner not consistent with part one or any unusual way.
11. merge or ally with any person, or purchase, or invest in any person.

II. Operation Management and Personnel Arrangements

1. Party B and its shareholders Party C and Party D hereby agree to accept advices on the company's policies in terms of the company's staff employment and dismissal, daily management and financial management system and so on provided by Party A from time to time.
2. Party B and its shareholders Party C and Party D hereby agree that, Party C and Party D will elect the candidate designated by Party A as Party B's executive director and appoint the persons designated by Party A as its general manager, chief financial officer and other senior officers according to the procedures stipulated in laws and regulations and the company's articles of association.
3. If the above director or senior officers of Party A leave, whether voluntarily or dismissed by Party A, they will at the same time disqualified for any of Party B's post. In such a case, Party B, Party C and Party D will immediately dismiss the above persons from any post taken in Party B, and immediately elect and employ other persons separately specified by Party A.
4. For the purpose of the third paragraph of this article, Party C and Party D will, in accordance with the laws, the company's articles of association and the Agreement, take all the necessary internal and external programs in order to complete the above dismissal and appointment process.
5. Party C and Party D respectively agree that: at the same time of the Agreement, it will sign a Power of Attorney attached, under which, Party C and Party D will irrevocably authorize the individual appointed by Party A and its executive director (hereinafter referred to as "Party A's Representative"), to exercise its rights as a shareholder on his behalf and all shareholders' voting rights enjoyed by shareholders at Party B's shareholders' meeting in the name of shareholders. Party C and Party D further agree to replace at any time Party A's Representative authorized in the above Power of Attorney as required by Party A.

III. Entire Agreement and Modifications

1. The parties hereby confirm that the Agreement is fairly and reasonably made of by and among the parties on the basis of equality and mutual benefit. For all the discussions, negotiations and written agreements by and among the parties with respect to the contents hereof before the conclusion of the Agreement, if inconsistency with the Agreement, the Agreement shall prevail.
2. Any modification, supplement or change of the Agreement shall be made in writing form and may not take effect before sealed by Party A, Party B and Party D and signed by Party C. The modifications and supplements to the Agreement constitute an integral part hereof and bear the same legal effect as the Agreement.

IV. Confidentiality

1. The parties agree to take all reasonable measures to keep confidential the execution, terms and performance the Agreement, and any other party's confidential information and information understood or accessed in the performance hereof (the "Confidential Information"); without the prior written consent of the providing party, the Confidential Information shall not be disclosed, given or transferred to any third party.
2. For the following information, the above restrictions will not apply:
 - (1) materials can be obtained by a general public at the time of disclosure.
 - (2) materials can be obtained by a general public after the disclosure not due to the fault of one party hereto.
 - (3) materials that are not obtained from the other party directly or indirectly and the party hereto can prove that it has already known before disclosure.
 - (4) the party hereto has the duty to make disclosure to the relevant government departments, stock exchanges or other institutions or for its normal operation needs, directly disclose the Confidential Information to the legal and accounting counsel as required by law.
3. The parties agree that this clause will survive changes, revocation or termination of the Agreement.

V. Validity and Term

1. The Agreement will take effect as of the date first written above after sealed by Party A, Party B and Party D and signed by Party C.
2. Unless Party A early revokes the Agreement, the Agreement is valid for ten years, commencing from the effectiveness date hereof. Before the expiration hereof, the parties shall extend the term of the Agreement as required by Party A at the request of Party A and as required by Party A, separately sign the Business Agreement or continue performing the Agreement.

VI. Termination

1. If any agreement between Party A and Party B terminates or expires, Party A shall have the right to terminate all agreements between them, including but not limited to the Exclusive Technology Consulting and Services Agreement.
2. During the term hereof, Party B and its shareholders, Party C and Party D shall not terminate the Agreement in advance. Party A is entitled to terminate the Agreement at any time by sending prior written notice thirty days in advance to Party B and its shareholders.
3. The parties may terminate the Agreement upon negotiations.

VII. Applicable Laws and Disputes Resolution

1. Applicable Laws

Conclusion, validity, performance, interpretation, and disputes resolution of the Agreement shall be governed by the laws of China.

2. Arbitration

If and in the event that the parties hereto have disputes on the interpretation and performance of the terms hereunder, the parties shall solve the same upon negotiations in good faith. Where an agreement fails to be concluded within thirty days after one party requests in writing to settle the disputes through negotiation, either party agrees to submit the said disputes to China International Economic and Trade Arbitration Commission for arbitration under its arbitration rules then in force. Arbitration place is Beijing and the arbitration will be proceeded in Chinese. The arbitral award is final and binding on all parties hereto. This article will survive the termination or revocation of the Agreement.

VIII. ForceMajeure

1. "Force Majeure" means all events that cannot be controlled or predicted by any party hereto, or even predictable but inevitable, and hinder that party from fulfilling its obligations hereunder in whole or in part. Such events include but are not limited to any strike, factories closure, explosion, marine perils, natural disasters or public enemy, fires, floods, sabotage, accidents, war, riot, insurrection, and any other similar events.
2. Where any Force Majeure events occur, leading to the affected party's inability to perform any obligations under the Agreement, during the period when the force majeure event lasts, the obligations hereunder therefore blocked shall be suspended, and the performance date shall be automatically extended to the end of the force majeure event, and the affected party will not be subject to any penalty.
3. In case of any Force Majeure, the affected party shall immediately notify the other party in written form, and provide appropriate evidence proving the occurrence of that Force Majeure and its duration. The affected party shall use all reasonable efforts to terminate the Force Majeure.
4. When any Force Majeure occurs, the parties shall immediately negotiate to find a fair solution, and shall also use all reasonable efforts to minimize the consequences of that Force Majeure.
5. If the Force Majeure event lasts for over ninety days, and the parties failed to agree on a fair solution, either party is entitled to terminate the Agreement. If the Agreement is terminated according to the foregoing provisions, there will be no new rights or obligations, but the rights and obligations incurred before the termination of the Agreement will survive the termination hereof.

IX. Miscellaneous

1. For any decisions involving in Party A's written consent, proposals, designation and others having important impacts on Party B's day-to-day operations, they shall be made by Party A's executive director.
2. Party C and Party D promise that, regardless of any changes to Party C's or Party D's shareholdings in Party B in the future (except zero), the Agreement shall still be binding upon Party C and Party D, and the Agreement applies to all equity held by Party C and Party D at then time.

3. Notices

All notices or other communications as required in the Agreement shall be in writing in Chinese and delivered by personal delivery (including EMS) or registered airmail. Where the mailing address is changed without written notice, all notices and communications shall be sent to the following address:

Party A: Baina Zhiyuan (Beijing) Technology Co., Ltd.

Address: South 2-1-6, Block A, # 1 Plant, No.5 A Xueyuan Road, Haidian District, Beijing

Zip code: 100000

Party B: Baina (Wuhan) Information Technology Co., Ltd.

Address: 3/F, Building A2, Financial Harbor Phase I, No.77 Optics Valley Avenue, East Lake High-tech Development Zone, Wuhan, Hubei

Zip code: 430000

Party C: YANG Yongzhi

Address: No.14 South Avenue, Chaoyang Gate, Foreign Enterprise Service Company, Chaoyang District, Beijing

Zip code: 100000

Party D: Beijing Changyou Star Digital Technology Co., Ltd.

Address: Room A-1049, 2/F, No.3 Building, No.30 Yard, Shixing Street, Shijingshan District, Beijing

Zip code: 100043

4. Notice and Service

Notices and communications shall be considered served:

- (1) on the receipt of the receiving party if by personal delivery (including EMS).
- (2) on the third day as of the date shown on the post office's receipt if by registered mail.

5. Severability

Without prejudice to other provisions of the Agreement, if any provision of the Agreement or any part thereof is held invalid, illegal, or unenforceable, or violates public benefits, the validity, legality, and enforceability of the remainder hereof will not be affected or damaged thereby. All parties shall sincerely negotiate a clause to the satisfaction of all parties to replace the invalid one.

6. Successors

The Agreement is binding on the parties' legal successors and assignees.

7. Waiver

Any one party's failure to exercise or timely exercise the rights under the Agreement may not be considered as a waiver of those rights and any single exercise will not affect that party's exercise of any other rights in the future.

8. Language and Counterparts

The Agreement is made in four copies in Chinese of the same legal effect. Each party holds one.

(The remainder of this page is intentionally left blank.)

(Signature Page of the Business Agreement)

Party A: Baina Zhiyuan (Beijing) Technology Co., Ltd.
(Seal)

Party B: Baina (Wuhan) Information Technology Co., Ltd.
(Seal)

Party C: YANG Yongzhi
(Seal)

Party D: Beijing Changyou Star Digital Technology Co., Ltd.
(Seal)

Power of Attorney

I, the undersigned, a shareholder of Baina (Wuhan) Information Technology Co., Ltd. (the “Wuhan Baina Information”) holding Wuhan Baina Information’s 40% equity, agree to authorize Baina Zhiyuan (Beijing) Technology Co., Ltd. (the “Beijing Baina Technology” or the “Authorized”) to exercise corresponding shareholders’ rights to 40% equity held by me and irrevocably authorize the Authorized to exercise rights as follows within the term hereof:

the Authorized is entitled to on my behalf and as a holder of Wuhan Baina Information’s 40% equity exercise all shareholders’ rights available to me in accordance with the law and the company’s articles of association, including but not limited to: the right to propose a shareholders’ meeting, accept any notice on the convening and proceedings of a shareholders’ meeting, attend the shareholders’ meeting of Wuhan Baina Information and exercise voting rights at the same as a 40% equity holder (including nomination and appointment of Wuhan Baina Information’s directors, general manager, chief financial officer and other senior officers acting as my authorized representative, decision on dividend, etc.), sell or transfer my 40% equity in Wuhan Baina Information, etc.

The Authorized shall have the right to specify any individual appointed by its executive director to exercise the rights granted by the authorizer hereunder.

Unless the Business Agreement signed by Wuhan Baina Information, Beijing Baina Technology and other Wuhan Baina Information’s shareholders on XX terminates for cause, the Power of Attorney is valid for ten years, commencing on the signing hereof. Before the expiration hereof, I will extend the term hereof as required by Beijing Baina Technology at the request of Beijing Baina Technology.

Authorized by: Yang Yongzhi

(Signature):

Date

Power of Attorney

The Company, a shareholder of Baina (Wuhan) Information Technology Co., Ltd. (the “Wuhan Baina Information”) holding Wuhan Baina Information’s 60% equity, agrees to authorize Baina Zhiyuan (Beijing) Technology Co., Ltd. (the “Beijing Baina Technology” or the “Authorized”) to exercise corresponding shareholders’ rights to 60% equity held by the Company and irrevocably authorize the Authorized to exercise rights as follows within the term hereof:

the Authorized is entitled to on behalf of the Company and as a holder of Wuhan Baina Information’s 60% equity exercise all shareholders’ rights available to the Company in accordance with the law and the company’s articles of association, including but not limited to: the right to propose a shareholders’ meeting, accept any notice on the convening and proceedings of a shareholders’ meeting, attend the shareholders’ meeting of Wuhan Baina Information and exercise voting rights at the same as a 60% equity holder (including nomination and appointment of Wuhan Baina Information’s executive directors, general manager, chief financial officer and other senior officers acting as the Company’s authorized representative, decision on dividend, etc.), sell or transfer the Company’s 60% equity in Wuhan Baina Information, etc.

The Authorized shall have the right to specify any individual appointed by its executive director to exercise the rights granted by the authorizer hereunder.

Unless the Business Agreement signed by Wuhan Baina Information, Beijing Baina Technology and other Wuhan Baina Information’s shareholders as well as the Company on XX terminates for cause, the Power of Attorney is valid for ten years, commencing on the signing hereof. Before the expiration hereof, the Company will extend the term hereof as required by Beijing Baina Technology at the request of Beijing Baina Technology.

Beijing Changyou Star Digital Technology Co., Ltd.

(Seal)

Date

Share Purchase Agreement

The Share Transfer Agreement (hereinafter referred to as the “Agreement”) was entered into on April 16, 2015 in Beijing, China:

By and among:

- (1) **Mr. MENG Shuqi**, a Chinese citizen with his ID number being 231002197811062036 and residing Room 231, 230-231 Building, Zhaoshang Overseas Chinese Town, Xin’an Section, Guangshen Road, Bao’an District, Shenzhen, Guangdong;
- (2) **Shanghai Yong Chong Investment Center LP**, a limited partnership legally established and validly existing under Chinese laws, having the registration number of 310141000136651 and having its main business place at Room 102-111, 1/F, No.2 Building, No. 38 Debao Road, China (Shanghai) Pilot Free Trade Zone (the “Buyer”);
- (3) **Beijing Gamease Age Digital Technology Co., Ltd.**, a limited liability company legally established and validly existing under Chinese laws with a registration No.110107010429510 and having its registered address at 2/F, East Annex, Jingyan Hotel, No.29 Shijingshan Road, Shijingshan District, Beijing (the “Seller”);
- (4) **Shenzhen 7 Road Technology Co., Ltd.**, a limited liability company legally established and validly existing under Chinese laws with a registration No.440306103146330 and having its registered address at 17/F, A Building, Kexing Science Park, Keyuan Road, Nanshan District, Shenzhen (the “Target Company”).

The above parties are collectively referred to the “parties”, and individually, a “party”. Mr. MENG Shuqi and the Buyer are collectively referred to as “Party A” and the Seller and the Target Company, collectively, “Party B”.

Whereas:

- (1) The Target Company is a limited liability company legally established and validly existing according to Chinese laws. On the date hereof, the Target Company’s registered capital and paid-in capital are RMB 10 million and the Seller holds 100% equity of the Target Company.
- (2) The Buyer agrees to, after the conditions precedent stated in Article 3.1 hereof have been fulfilled or exempted by the Buyer, purchase 100% equity of the Target Company and all attached rights and interests from the Seller according to the terms and conditions hereof (the “Underlying Shares”). The Seller agrees to transfer the Underlying Shares to the Buyer after the conditions precedent stated in Article 3.2 of the Agreement have been met or exempted by the Seller.

Now, the parties hereby agree, upon negotiations, as follows with respect to the transactions contemplated hereunder according to the Company Law of the People’s Republic of China and the Contract Law of the People’s Republic of China:

Article 1 Definitions and Interpretations

1.1 Definitions

For the purposes of the Agreement, the following terms have the following meanings respectively ascribed thereto unless the context otherwise requires:

“Financial Statements”	refer to the financial statements regarding the Target Company as at February 28, 2015 provided by Party B to Party A.
“Security Interests”	refer to the hypothecation, pledge, lien, pre-emptive rights or any other forms of third party rights and interests.
“Competent Industrial and Commerce Authority”	refers to Chinese administrative department for industry and commerce, which is entitled to the corporate registration affairs.

“Affiliates”	with respect to any subject, refer to (i) if it is a natural person, the spouse, parents and children of such person and their spouse, brothers and sisters and their spouse, spouse’ parents, spouse’s sisters and brothers and their spouse and the existing trusts established for such persons, or the foregoing affiliates; (ii) if it is a legal entity, unincorporated organization, institution, or other forms of entities, any party directly controlling or indirectly controlling that subject through one or more intermediaries, or any party directly controlled or indirectly controlled by the said entities through one or more intermediaries, or any party directly or indirectly controlled by a party with the subject. “Control” refers to: (i) a body directly or indirectly owns more than 50% voting shares, the registered capital or other equity interests, either by owning securities, by contract or otherwise exercised; or (ii) has the power to appoint the majority of members of the management, board of directors or similar decision-making bodies; or (iii) able to control the management or decision of the other subject by means of contractual arrangements or other means.
“Underlying Assets”	refer to all the assets listed in Attachment I to the Agreement, List of the Assets to be Transferred.
“Transactions”	refer to the transactions concluded according to the Agreement.
“Assets Transfer”	refers to the transfer of the Underlying Assets mentioned in Attachment I hereto by Shenzhen 7Road and Qicai Changxiang to the Target Company based on the Agreement.
“Closing”	refers to the situation that the Conditions Precedent stated in Article 3.1 and Article 3.2 of the Agreement are met or exempted by the Buyer or the Seller if not satisfied, and all of the Underlying Shares are duly transferred to the Buyer by the Seller.
“Working Days”	refer to any calendar days other than Saturdays, Sundays or Chinese legal holidays.
“Yuan”	refers to the lawful currency for the time being of China.
“China”	refers to the People’s Republic of China, excluding Hong Kong SAR, Macao SAR and Taiwan Region only for the purposes of the Agreement.
“Chinese Laws”	refer to the laws and regulations released by National People’s Congress of the People’s Republic of China or its standing committees, administrative regulations released by the State Council of the People’s Republic of China, the normative documents issued by the competent departments of the Central Government under the authorization of the State Council of the People’s Republic of China, the local laws and regulations issued by the People’s Congress or the people’s government at any place, and the normative documents published by local competent authorities at all levels as authorized by their local People’s Congress or the people’s government.
“Significant Adverse Effects”	refer to any events, situations, or changes that, alone or accumulatively, have caused or after reasonable expectations will result in any value loss exceeding RMB 10 million or other negative effects exceeding RMB 10 million in value on the Target Company’s assets, business, operations, finance or other conditions as a whole. But if such loss or negative impact is due to the following reasons, it shall not be regarded as Significant Adverse Effects for the purpose of the Agreement, including: (i) the overall economic changes, industry or market events occur, develop and change, whether these changes are universal, or only for the purposes of the area where the company conducts operations; (ii) changes in Chinese laws or governing regulations; (iii) drastic changes of Chinese Accounting Standards as of the signing hereof; (iv) changes in political environment (including but not limited to acts of war, armed hostilities and acts of terrorism); or (v) caused due to Party A’s reason.
“Entities”	refer to the natural person, partnership, company, limited liability company, company limited by shares, trust, non-incorporated enterprise, joint venture, government agency or other organizations or institutions.
“Primary Business”	refers to the main business operations carried out by the Target Company in accordance with its business license and the legal qualifications granted by the administrative license, i.e. the computer software and hardware design, technology development and sales (excluding audio-visual products), domestic trade, operating import and export business; e-commerce and the internet information services; internet game publishing and operation; and game products over the internet (including issue of virtual currency for network games).

“List of the Assets to be Transferred”	refers to the list of assets to be transferred by Shenzhen 7Road and Qicai Changxiang to the Target Company according to conditions precedent to the Closing. The list details are listed in Attachment I to the Agreement.
“Transaction Documents”	refer to the Agreement, and other documents to be concluded according thereto or in connection therewith.
“Other Current Assets”	refer to the sum of items of “Other Current Assets” in the balance sheet of the Target Company, excluding three items, i.e. cash and cash equivalents, accounts receivable (affiliates) and other receivables (affiliates). Specifically, Other Current Assets refer to the accounting subjects marked attributable to Other Current Assets in column of “category” in the balance sheet of the Target Company as at March 31, 2015 attached in Attachment III.
“Other Current Liabilities”	refer to the sum of items of Other Current Liabilities in the balance sheet of the Target Company, excluding accounts payable (affiliates) and other payables (affiliates). Specifically, Other Current Liabilities refer to the accounting subjects marked attributable to Other Current Liabilities in column of “category” in the balance sheet of the Target Company as at March 31, 2015 attached in Attachment III.
“Employee Incentive Plan”	refers to the payment of incentive bonus to eligible employees of the Target Company by the Seller according to the Bonus Incentive Plan established by 7 Road Group, including two alternative ways, i.e. fixed-amount incentive and profit-linked incentive. For the employees covered by the former, they will be paid the last two fixed incentives in July 2015 and February 2016; for those covered by the latter, they will respectively get corresponding incentive payments during 2015 and 2020 depending on the Target Company’s profit conditions.
“Control Protocol”	refers to a series of agreements signed by and among the Target Company and Shenzhen 7Road and the Seller, including but not limited to: Supplementary Agreement to the Technology Development and Application Service Agreement and Supplementary Agreement to the Operation and Maintenance Service Agreement by and between the Target Company and Shenzhen 7Road on June 5, 2013; and the Amended and Restated Share Purchase Agreement and the Amended and Restated Business Agreement signed by and among the Seller, Shenzhen 7Road and the Target Company and the Power of Attorney signed by the Seller on June 5, 2013.

1.2 Interpretations

- (a) Any reference in the Agreement to an article or a clause, unless otherwise expressly provided shall be the article or clause hereof.
- (b) The term “including” used in the Agreement shall be deemed being followed by “but not limited to”.
- (c) Any reference to a party to the Agreement or any other agreements or documents shall include that party’s successors or permitted assignees.

Article 2 Transaction

2.1 Party B’s commitments before closing

Party B promises that, after the signing of the Agreement and prior to the Closing Date, it will give reasonable efforts to cause Shenzhen 7Road and Qicai Changxiang and the Target Company to complete the following matters:

- (a) Shenzhen 7Road Technology Co., Ltd. (the “Shenzhen 7Road”) and Shenzhen Qicai Changxiang Network Technology Co., Ltd. (the “Qicai Changxiang”) signed an asset transfer agreement in reasonable substance with the Target Company in connection with all the Underlying Assets listed in Attachment I hereto (the “Underlying Assets”), under which, the ownership of the Underlying Assets will be transferred to the Target Company in whole and, after the Target Company pays the consideration in full according to the assets transfer agreement, Shenzhen 7Road and Qicai Changxiang will enjoy no rights;
- (b) The ownership of the Underlying Assets listed in Attachment I to the Agreement has been transferred to the Target Company, and the transfer price of the Assets Transfer stated in this article (a) has been paid in full;

- (c) The Seller, Shenzhen 7Road and Qicai Changxiang shall sign letter of commitment on no intellectual property litigations, mainly including: during the existence of Shenzhen 7Road and Qicai Changxiang as of the Closing Date:
- (i) Shenzhen 7Road and Qicai Changxiang may not transfer the following types of intellectual property rights to any third party or use or dispose of the same for profits: (1) all the intellectual property listed in Attachment II to the Agreement, and (2) the intellectual property under progress or completed under the intellectual property entrusted development or cooperative development agreement signed by Shenzhen 7Road, Qicai Changxiang and a third party before the Closing Date, to the extent that the ownership of such intellectual property rights (collectively, the “Underlying Intellectual Property”) after the development thereof will vest in Shenzhen 7Road and Qicai Changxiang according to the aforementioned agreement;
 - (ii) Shenzhen 7Road and Qicai Changxiang may not lodge any litigation with respect to the Underlying Intellectual Property against the Target Company and its affiliates or partners. Moreover, to the extent of its authority and commitments to the Buyer, it undertakes that any third party will not lodge any litigations with respect to the Underlying Intellectual Property against the Target Company and its affiliates and partners due to reasons directly attributable to Shenzhen 7Road and Qicai Changxiang;
 - (iii) If the Underlying Intellectual Property incurs any disputes, or the Target Company has any capital operations in the future, and the Target Company or its affiliates are required to obtain all rights of the Underlying Intellectual Property as required by the capital operations, the Target Company or its affiliates shall have the right to buy the Underlying Intellectual Property at then fair market price. The foregoing fair market price to be paid by the Target Company or its affiliates for purchase of the Underlying Intellectual Property shall firstly paid by the Target Company or its affiliates to Shenzhen 7Road and / or Qicai Changxiang, which shall provide corresponding written payment certificate to the Seller. The Seller shall, within ten Working Days as of the receipt of such written payment certificate, compensate the Target Company or its affiliates for such amount;
 - (iv) Shenzhen 7Road shall also recognize in the letter of commitment that the technology development result and software copyright listed under the technology development contract in Attachment V are attributable to the Target Company.

Notwithstanding the foregoing provisions, in the case that Shenzhen 7Road and Qicai Changxiang intend to revoke for any reasons after the Closing Date, the Target Company shall conduct friendly negotiation with Shenzhen 7Road and Qicai Changxiang, to determine the related arrangements for the Underlying Intellectual Property, provided however that, such arrangements are not subject to the foregoing section (i);

- (d) Shenzhen 7Road and Qicai Changxiang have terminated employment relationship with their employees and such employees have signed labor contract with the Target Company (the “employees arrangements”). These newly signed labor contracts shall make clear that the employees’ years of working with Shenzhen 7Road and Qicai Changxiang will be continuously accumulated, and Shenzhen 7Road and Qicai Changxiang are not required to pay any economic compensation. The parties agree that, the aforementioned agreement does not constitute Party B’s undertaking that all employees of Shenzhen 7Road and Qicai Changxiang agree to obey the above arrangements. At the same time, Party A shall give maximum reasonable efforts to assist in the employees’ signing of new labor contracts containing foregoing terms with the Target Company;
- (e) Shenzhen 7Road, the Seller and the Target Company revoke the Control Protocols they have signed, and deregister the Target Company’s equity pledge business registration;
- (f) Shenzhen 7Road and the Target Company revoke the technology development contract stated in Attachment V they have signed;
- (g) On or prior to the retention date, the permission of the Target Company’s group online banking account is changed to that when the funds in the Target Company’s account exceed RMB 10 million, no funds will be automatically transferred to the group account.

2.2 Mr. MENG Shuqi’s commitments before closing

Mr. MENG Shuqi undertakes that, for the purpose of maintaining the normal operations of Shenzhen 7Road, Qicai Changxiang, 7Road.com Limited and 7Road.com HK Limited after the Closing Date, Mr. MENG Shuqi shall complete, before the Closing, and shall cause the Target Company to complete the transfer of the relevant maintenance affairs with the Target Company and the Seller, including but not limited to delivery of the following materials to the Seller, and change of the corresponding management authority (if any) under the control of the Seller or its designated affiliates: seal impression, online banking UKey, blank cheques and bills, bank information, accounting information, social security account information, company seals, related intellectual property rights certificates, qualification certificates, contracts, government approval, litigation, arbitration and dispute documents, charter documents, etc.

2.3 Equity transfer

Subject to the terms and conditions under the Agreement, the Seller agrees to sell to the Buyer and the Buyer agrees to buy from the Seller the Underlying Shares in accordance with the Agreement at the consideration specified in Article 2.4.

As of the Closing Date, the Underlying Shares are owned by the Buyer, and the Seller is not entitled to any right to the Underlying Shares.

2.4 Transfer price and payment thereof

- (a) The parties agree that the Purchaser shall, in accordance with the terms and conditions of the Agreement, pay the consideration of the Underlying Shares in cash to the Seller in RMB equivalent to USD 0.1045 billion (the "Consideration"). The exchange rate shall be the average value of the USD-RMB bid price and the selling price announced by the Bank of China on two Working Days prior to the payment date (as stated in Article 2.4(b)). Mr. MENG Shuqi has, according to the Authorization Agreement signed with the Target Company on January 20, 2015, paid USD 1 million and RMB 55.76 million to the Seller as earnest money.
- (b) The Buyer shall, via bank transfer: (1) on or prior to April 24, 2015, pay an amount in RMB equivalent to USD 40 million as the first installment of the Consideration to the account designated by the Seller in writing in advance (the "designated account"); (2) pay an amount in RMB equivalent to RMB 44.5 million to the Designated Account within five Working Days from the Closing Date as the second installment of the Consideration; (3) on or before October 31, 2015, pay an amount in RMB equivalent to USD 20 million to the Designated Account as the third installment of the Consideration and provide the Seller with corresponding bank transfer voucher on the date when each Consideration is paid.
- (c) Subject to the Buyer's performance of the payment obligations of the first installment and the second installment of the consideration mentioned in Article 2.4 (b) in full and on a timely basis, the Seller shall, on the day subsequent to the receipt of the second installment of the consideration, return earnest money to the bank account specified by Mr. MENG Shuqi in writing and in advance.

2.5 Cash retention and financial verification arrangements

- (a) Subject to this Article 2.5(e), the Seller and the Target Company agree that April 1, 2015 is the retention date (the "Retention Date"). The Target Company calculates that the balance shall not be less than RMB 122,804,000 (the "Retained Amount") based on the balance sheet (stated in Attachment IV hereto) for a Working Day prior to the Retention Date (i.e. March 31, 2015). Calculation formula is "cash and cash equivalents + accounts receivable (affiliates) + other receivables (affiliates)" - "accounts payable (affiliates) + other payables (affiliates)". (the calculation result is hereinafter referred to as "Book Cash").
- (b) The Seller and the Target Company confirmed that accounts receivable (affiliates), other receivables (affiliates), accounts payable (affiliates) and other payables (affiliates) in Book Cash are non-cash accounts, and belong to the cash that can be realized immediately, and will be settled by the Target Company with related affiliates before the Closing Date, that is, the "cash and cash equivalents".
- (c) The parties confirm that, the excess of Book Cash over Retained Amount one Working Day before (i.e., the part in excess of RMB 122,804,000, RMB 476,020,199 in total) is attributable to the Seller, and can be freely disposed by the Seller before the Closing Date; the Seller can dispose of such funds before the Closing Date through the following ways, including, but not limited to: profit distribution by the Target Company to the Seller and payment of consideration of assets transfer by the Target Company to Shenzhen 7Road and Qicai Changxiang. The Retained Amount will be reflected and maintained by the Target Company in the form of cash and equivalents on the Closing Date, and the Seller shall not dispose of the same.
- (d) The Seller and the Target Company commit that, as of the Retention Date (included), the Target Company's operating profit (or loss) belongs to Party A and, the carrying amount of cash changes are required to be retained with the Target Company; the Seller shall not be entitled to transfer the same out in any form including profit distribution. For the avoidance of doubt, the parties confirm that, "Other Current Assets - Other Current Liabilities" shown in balance sheet in Attachment III hereto are funds to be realized (the "funds to be realized"), which shall be vested in the Seller. Changes in Book Cash arising from the recovery of the Funds to be Realized as of the Retention Date shall be paid by the Target Company to the Seller according to Article 6.2 hereof.
- (e) According to the authorization agreement, Mr. MENG Shuqi will exercise some of the functions and powers of the general manager of the Target Company since January 20, 2015. The parties agree that, the Seller shall have the right to, within 30 Working Days from the Retention Date, delegate eligible financial personnel to review the Target Company's financial situation during January 20, 2015 (included) and one Working Day prior to the Retention Date (included)). For those expenses other than normal ones required for the Target Company's daily business operations found during the verification (the "abnormal expenditure", if it is confirmed by the Seller by issuing a written document bearing its seal, it is not considered as abnormal expenditure), Party A shall provide the Seller with the relevant certificates of the abnormal expenditure, and the Seller shall have the right to obtain an amount equivalent to the abnormal expenditure before the Closing Date by means of profit distribution of the Target Company or other means. If the amount available for the Target Company's distribution of the profits is less than the abnormal expenditure (the "insufficiency"), the Seller shall have the right to send a written notice to Party A and Party A shall, within seven Working Days from the receipt of such written notice, make full payment to the Seller so as to fully compensate the Seller. For the avoidance of doubt, in the case of abnormal expenditure, the amount entitled to the Seller from the Target Company is equivalent to the amount of the abnormal expenditure, and notwithstanding this Article 2.5 (a), the Seller may deduct such amount from the Retained Amount.

Party A shall fully cooperate with the financial verification arrangements.

2.6 Closing

- (a) The Closing shall take place within 10 Working Days after all the Conditions Precedent to the share transfer stated in Article 3 hereof are met (except exempted by the party concerned in writing according to Article 3.1 and Article 3.2) or other dates agreed by the parties (the "Closing Date") in the time and place as agreed by the parties.
- (b) The Buyer shall submit the following documents to the Seller on the Closing Date:
 - (i) a certificate dated the Closing Date that is sealed and signed by the Buyer and signed by Mr. MENG Shuqi, proving that all the conditions precedent under Article 3.2 of the Agreement have been satisfied, and the representations and warranties in Article 5 hereof are true, accurate and complete in all major aspects on the Closing Date;
 - (ii) copy of the shareholders' resolution and/or the board resolutions of the Buyer duly verified by its legal representative, approving the authorization to execute, delivery and perform the related transaction documents.
- (c) The Seller shall submit the following documents to the Buyer on the Closing Date:
 - (i) the shareholders' resolutions and/or the board resolutions of the Target Company, approving change of the legal representative, appointment of directors, supervisors and general manager, extension of the term of operation, the revised articles of association of the Target Company for the completion of the transaction contemplated under the Agreement, authorized to execute, deliver and perform the related transaction documents.
 - (ii) copy of the shareholders' resolution and/or the board resolutions of the Seller duly verified by its legal representative, approving the authorization to execute, delivery and perform the related transaction documents, including the transfer of the Underlying Shares for the purpose of the Agreement;
 - (iii) a certificate dated the Closing Date that is sealed and signed by the Seller, proving that all the conditions precedent under Article 3.1 of the Agreement have been satisfied, and the representations and warranties in Article 4 hereof made by the Seller are true, accurate and complete in all major aspects on the Closing Date;
 - (iv) copy of related certificates issued by the industrial and commercial administrative departments proving that the changes of shareholders, board members, supervisors and general manager, change of legal representative, amendments to the articles of association and other issues related to the transaction and copy of the business license after the change.

Article 3 Conditions Precedent

3.1 Conditions precedent to the Buyer's closing

The Buyer's consent to the Closing is subject to, unless otherwise exempted by the Buyer in writing, the satisfaction of the conditions mentioned in Article 3.1 (a) to Article 3.1 (k) on or before the Closing Date:

- (a) The representations and warranties made by the Seller in Article 4 of the Agreement are true, correct and have no major omissions in all material respects as at the date hereof and the Closing Date, as if they are made on the Closing Date (but if such representations and warranties are specifically made as at a specific date, they shall be regarded as being made only in respect of the said date, as at which, they are true, correct, and have no major omissions in all material respects, rather than made as at the date hereof and the Closing Date).
- (b) The Seller, Shenzhen 7Road and Qicai Changxiang have completed the relevant matters with the Target Company according to Article 2.1 (a) to (g) hereof.
- (c) Shenzhen 7Road, the Seller and the Target Company have revoked the Control Protocols they have signed, and deregistered the Target Company's equity pledge business registration.
- (d) On the Closing Date, the consent from the Seller's shareholders and/or the board of directors to the transaction, and that from the shareholders and/or the board of directors of the Target Company to the signing and performance of the transaction agreements have been obtained.
- (e) On the Closing Date, the changes of shareholders, the board members, supervisors and general manager, the legal representative, amendment to the articles of association, industrial and commercial registration for the extension of the operation term of the Target Company involved in the transaction have been completed.
- (f) No Chinese government departments or administrative organs have issued or carried out any laws, regulations, rules, orders, or notices prohibiting the transaction; The Seller and the Target Company have no pending litigations, arbitrations, disputes, investigations or other legal proceedings or outstanding matters prohibiting the transaction under the Agreement or resulting the invalidity or inability of performance hereof.

- (g) The Target Company did not incur any significant adverse effects, or is not bankrupt or insolvent or unable to pay its debts fall due.
- (h) The Target Company has signed an agreement with the Seller with respect to the authorization of “Qiao Feng Biography”.
- (i) Terminate the Loan Contract signed by the Target Company and the Seller (contract No. 2014RPT006).
- (j) cancel the authority of the Target Company’s group online banking account; release the management and control relationship between the Seller and the Target Company; return the bank account online banking UKey of the Target Company; and the management authority and authorization scope of all prior functional departments and personnel stop, and will be re-formulated by the Buyer.
- (k) All the amounts to be repaid by the affiliates under Article 2.5 (b) hereof to the Target Company have been repaid in full.

3.2 Conditions precedent to the Seller’s closing

The Seller’s transfer of the Underlying Shares to the Buyer is subject to, unless otherwise exempted by the Seller in writing, the satisfaction of the conditions mentioned in Article 3.2 (a) to Article 3.2 (f) on or before the Closing Date:

- (a) No Chinese government departments or administrative organs have issued, established or carried out any laws, regulations, rules, orders, or notices prohibiting the transaction; and the Buyer has no pending litigations, arbitrations, disputes, investigations or other legal proceedings or outstanding matters prohibiting the transaction under the Agreement or resulting the invalidity or inability of performance hereof.
- (b) All the representations and warranties made by Party A in Article 5 of the Agreement are true, correct and have no major omissions in all material respects as at the date hereof and the Closing Date, as if they are made on the Closing Date.
- (c) Subject to Article 2.5 of the Agreement, the profit distribution made by the Target Company to the Seller has been completed.
- (d) The Seller has been sufficiently compensated for abnormal expenses (if any) under Article 2.5 (e) of the Agreement.
- (e) The Buyer has, under 2.4 (b) of the Agreement, pay the first installment of the Consideration to the account specified by the Seller in time and in full.
- (f) Mr. MENG Shuqi has completed the transfer mentioned in Article 2.2 of the Agreement.

Article 4 The Seller’s and the Target Company’s Representations and Warranties

Except as otherwise specified, the Seller and the Target Company, jointly and severally, make the following statements and guarantees to the Buyer on the date hereof and the Closing Date. If such representations and warranties are made as at a specific date, then the Seller only makes the following representations and warranties to the Buyer on the specific date; provided, however, that, Mr. MENG Shuqi acts as a manager of the Target Company and actually controls its operation during January 20, 2015 and the Closing Date.

4.1 The Seller’s qualification and legitimate rights and interests

- (a) The Seller is a legal person legally established and validly existing under Chinese laws and has the legal rights and capacity to sign the relevant transaction documents and to assume legal obligations according thereto.
- (b) As at the Closing Date, the Seller has complete, exclusive, lawful, effective and disposal ownership of the shares held in the Target Company, and is not subject to any security interest, or indirect holding relationship or similar arrangements.
- (c) As at the Closing Date, the Underlying Shares are beneficially owned by the Seller as recorded owner and no encumbrances have been created thereon. In addition, there are no effective indirect shareholding, voting trust, shareholder agreement, trust, or other agreements or understandings relating to any voting or transfer of the Underlying Shares. Upon the completion of the Closing, the Buyer will have legitimate, effective, complete and exclusive ownership over the Underlying Shares without any encumbrances, and bear no obligation to make any further investment in the Target Company in any law or contract.

4.2 The Seller’s authorization and validity hereof

- (a) After duly signed by the Seller, the related transaction documents constitute legal, valid and binding obligations upon the Seller.
- (b) To the reasonable knowledge of the Seller, its execution and performance of the relevant transaction documents do not violate or conflict with all applicable laws, any agreements, any courts’ decisions, any arbitration organs’ decisions, any administrative organs’ decisions to which it is a party or that have binding force on its assets.

4.3 Qualifications and equity

- (a) The Target Company is a legal person legally established and validly existing under the Chinese laws.
- (b) The registered capital of the Target Company has been fully paid in due course and, there are no illegal divestment or return of the contributed registered capital.
- (c) The Seller, a sole shareholder of the Target Company, holds all shares of the Target Company. All the registered capital of the Target Company has been fully paid, and the registered capital is contributed in line with the law and the articles of association of the company; moreover, the Seller is not obliged to make additional investment. As at the Closing Date, the Seller holds the Target Company's registered capital without any encumbrances.
- (d) As at the Closing Date, there are no option, subscription right, convertible securities or other rights, agreements, arrangements or commitments of any nature that are in connection with the shares of the Target Company, or incur any obligations on the Target Company to sell any equity or any other rights or benefits or make any additional investment (including but not limited to any options granted to or undertaken to be granted to any employees or other personnel of the Target Company or other incentives related to the shares of the Target Company).
- (e) The Target Company has no obligations to repurchase, redeem or otherwise purchase any of the Target Company's shares. The Target Company has no outstanding contractual obligations requiring capital investment from any other entity (whether by loan, capital contribution or otherwise).
- (f) Since May 24, 2011 when the Seller was enrolled as a shareholder of the Target Company until January 19, 2015, the history of the Target Company is in line with Chinese laws in all major aspects.

4.4 Authorization and validity hereof

The Target Company has full power and authority to sign and deliver the relevant transaction documents, and complete the liabilities or obligations under the related transaction documents. The relevant transaction documents, after duly signed and delivered by the Target Company, constitute effective and binding obligations upon the Target Company in accordance with their terms and can be enforceable in accordance with the terms of the relevant transaction documents.

4.5 Financial data

The financial statements of the Target Company are prepared according to applicable Chinese accounting standards, and fairly present the financial position, operating results and cash flows of the Target Company and are real, accurate and complete in all material aspects.

4.6 Suspension of business or insolvency

The Target Company not suspends business or does not enter into liquidation or bankruptcy procedures, and is not insolvent, and its business or asset is not take over or managed by related institutions.

4.7 Business

As at January 19, 2015, The Target Company has obtained all government permits, approvals and qualifications necessary for its conduct of the business for the time being, and such permits, approvals and qualifications are valid in all important respects.

4.8 Taxes

As at January 19, 2015, the tax type, rate and preference adopted by the Target Company are in line with Chinese laws in all major aspects. It does not delay tax, fail to pay tax and incur any other violations may resulting from punishment by the tax authorities and causing Significant Adverse Effects on the Target Company.

4.9 Business contracts

As at January 19, 2015, All the business contracts with more than RMB 1 million that are performed by the Target Company are all valid and effective, and are in the normal state of performance. There are no major legal obstacles to the performance of the related contracts, and there is no default or potential dispute that is reasonably expected to cause Significant Adverse Effects on the Target Company.

4.10 Liabilities

As at January 19, 2015, except those listed in the Financial Statements, the Target Company has no any other borrowings or debts.

4.11 Litigation

As at January 19, 2015, the Target Company does not involve any civil, criminal, arbitration or administrative procedures that may cause Significant Adverse Effects on the Target Company, whether pending or threatening to the reasonable knowledge of the Seller.

4.12 Intellectual property

As at January 19, 2015, with regards to the Intellectual Property required by the Target Company for its business operations, except that listed in Attachment II, List of Intellectual Properties and Attachment V, List of Technology Development Contracts, it is legally owned or licensed by the Target Company, and there are no disputes or claims lodged by any third party may causing Significant Adverse Effects on the Target Company; moreover, there are no any mortgage, pledge or other security rights or restrictions.

4.13 Employees

As at January 19, 2015, the Target Company has paid all the amounts to its employees that are payable to them due to Chinese laws and the contracts, including all wages, bonuses and other compensation payable to them. The Target Company is not involved in any labor disputes or employment disputes and has not been subject to any investigation or punishment by Chinese labor departments. Except the housing provident fund that is contributed by the Target Company for the employees based on their monthly salary rather than their average wage in the last year, which is lower than that as required by law, the Target Company has in all major aspects complied with the existing Chinese laws on the social insurance fund and housing provident fund.

4.14 DDTank's intellectual property

The Target Company enjoys all of DDTank's intellectual property, and the Joint Operation Agreement for Games in China with respect to DDTank game signed by the Seller and the Target Company has been terminated and lost its effectiveness and the Seller no longer owns any rights to DDTank game.

Article 5 Party A's Representations and Warranties

Party A hereby separately and severally represents and warrants as follows to Party B on the date of the Agreement and on each Closing Date:

5.1 Qualification and nature

Mr. MENG Shuqi is a Chinese citizen with full capacity for civil conducts.

The Buyer is a limited partnership legally established and validly existing under the Chinese laws, and its general partners and limited partners are Chinese citizens with full capacity for civil conducts or enterprises legally established and effectively surviving under Chinese laws.

5.2 Authorization and validity hereof

Party A has full power and authority to sign and deliver the relevant transaction documents, and complete the transactions contemplated under the Agreement.

The related transaction documents constitute legal, valid and binding obligations upon Party A.

5.3 Approval of competent decision-making authority

The Buyer's competent decision-making authority has adopted necessary internal decision-making procedures approving the signing and performing of the relevant transaction documents and the relevant acts as well as the transactions under the Agreement.

5.4 No violation

Signing, delivery or performance of the relevant transaction documents, completion of the liabilities or obligations under the relevant transaction documents, or compliance with the relevant transaction documents will not: (i) conflict with any of the Buyer's existing articles of association or lead to any violation thereof; (ii) lead to or constitute violations of the terms, conditions or provisions of any major agreements to which Party A is a party; or (iii) violate the approval document applicable to Party A or any of its assets.

5.5 Capital and capacity guarantee

The Buyer has sufficient funds and capacity, and Mr. MENG Shuqi shall ensure that the Buyer has sufficient funds and capacity to pay the Consideration to the Seller as agreed herein.

5.6 Warranties on litigation

There are no legal proceedings, arbitrations, disputes or other legal proceedings that may cause significant losses to Party A or significantly interfere with Party A's current business operations.

5.7 Consent

To Party A's reasonable knowledge, there are no consents to be made by a third party to Party A without which, the transaction under the Agreement cannot be carried out or all the consents required for the transactions hereunder are obtained.

Article 6 Post-closing Commitments

6.1 Arrangements during the performance

- (a) After the Closing Date, all the business contracts signed by Shenzhen 7Road and Qicai Changxiang as at the Closing Date but not yet performed (the "Contracts under Performance", see Attachment IV for list) are disposed of according to the following pattern: (i) Shenzhen 7Road and Qicai Changxiang revoke the contracts under performance after the Closing Date and the Target Company will re-sign the same with the party concerned; (ii) Shenzhen 7Road and Qicai Changxiang sign a tripartite agreement with the party concerned and the Target Company after the Closing Date, agreeing that all the rights and obligations of Shenzhen 7Road and Qicai Changxiang under the contracts during performance will be inherited by the Target Company; From the Closing Date and before the completion of the arrangements under preceding paragraph (i) and paragraph (ii), the payment of the contract price shall be made based on Article 6.1 (b); (iii) for the contracts under performance that the parties concerned do not agree to make an arrangement by the aforementioned two ways, Shenzhen 7Road and Qicai Changxiang will perform them to maturity and since the Closing Date, the payment arrangements thereunder shall be made based on Article 6.1 (b) of the Agreement.
- (b) The parties agreed that, with respect to the contracts under performance as agreed in Article 6.1 (a) (i) and Article 6.1 (a) (ii), from the Closing Date and before they are inherited by the Target Company, and the contracts under performance as agreed in Article 6.1 (a) (iii), from the Closing Date, all the price to be paid by Shenzhen 7Road and Qicai Changxiang according to such contracts to the other party shall be assumed by the Target Company. After Shenzhen 7Road and Qicai Changxiang pay such price to the other party, Shenzhen 7Road and Qicai Changxiang will issue to the Target Company an invoice, and the Target Company shall, after receiving the corresponding invoice and payment requirements, make payment to Shenzhen 7Road and/or Qicai Changxiang within five Working Days and the turnover tax due to the aforementioned arrangement will be borne by the Target Company.

6.2 Cash to be realized

- (a) The parties confirm that, the Funds to be Realized are vested in the Seller and marked as amounts payable by the Target Company to the Seller. Party A shall, from the Closing Date, make reasonable efforts to cause the Target Company to recover the Funds to be Realized as soon as possible. Changes in Book Cash arising from the recovery of the Funds to be Realized as of the Retention Date shall be paid by the Target Company to the Seller according to the following agreements.
- (b) Funds to be Realized, net of amounts listed in (i) and (iv) below (the "Deductibles"), shall be paid to the Seller in full according to item (c) of this article:
 - (i) For the total compensation to be paid by the Target Company to the employees who select the fixed one from the Employee Incentive Plan, such compensation shall be subject to that actually paid to the employees in July 2015 and February 2016; To avoid doubts, the total compensation to be paid by the Target Company to employees who choose the profit-linked incentive scheme shall not be deducted from the Funds to be Realized.
 - (ii) The depreciation value of the fixed assets of all the servers of the Target Company that the Seller takes up to the Closing Date.

- (iii) Net profit of Shenzhen 7Road and Qicai Changxiang during the Retention Date (included) and the date when the Control Protocol is revoked according to Article 2.1 (e) hereof (included).
 - (iv) The bank interest on the Retained Amount from the Retention Date to the Closing Date (including both days); the formula is: the Retained Amount *3.5%* (total number of days during the Retention Date and the Closing Date/365).
- (c) The parties agree that the Funds to be Realized shall be paid to the Seller according to the following agreements:
- (i) The Seller shall, prior to the Closing Date, declare the dividends of the Target Company to the Seller and list the same as the Target Company's interest payable after adjusting the specific amount of the Funds to be Realized determined in the Target Company's balance sheet in Attachment III hereto according to Article 6.2 (b). After the Closing Date, the Target Company shall, on a quarterly basis, deliver the realized part of the Funds to be Realized to the Seller as repayment of the dividends payable (deducting withholding taxes, if any); Notwithstanding the foregoing provisions, if Party A can provide the Seller with written evidence prior to the Closing, proving that the Funds to be Realized cannot be recovered in whole or in part, the parties may negotiate to correspondingly adjust the specific amount of dividends of the Target Company to be declared by the Seller in accordance with this article.
 - (ii) Subject to the (iii) item, as of full twelve months after the Closing Date, if the Target Company cannot recover the Funds to be Realized in full or in part due to reasons not attributable to Party A, Party A shall submit written evidence to the Seller and, both parties shall settle the same through friendly consultation.
 - (iii) For the loan from the Target Company, RMB 8,380,565 by the employees due to houses purchase as at the date hereof, the above paragraph (ii) on 12 months limit as of the Closing Date shall not apply. In the event that, in this quarter, employees repay any of the foregoing house purchase price to the Target Company, the Target Company shall repay that price to the Seller as repayment of the dividends payable in the current quarter (deducting withholding taxes, if any).

6.3 Cooperation for government matters

With respect to the government subsidies granted by the Economy, Trade and Information of Shenzhen Municipality to Shenzhen 7Road for three projects, i.e. Liar's Dice based on mobile Internet application services, webpage game configuration management service system and virtual server resources management platform for games field, the Seller promises to after the Closing Date do its utmost to cooperate the Buyer and the Target Company with completing the related governmental acceptance affairs.

6.4 Post-closing business arrangements for Shenzhen 7Road and Qicai Changxiang

The Seller promises to, as of the Closing Date, do its utmost to ensure that its affiliates: (i) except as otherwise specified in the Agreement, do not conduct any business substantially the same or similar to the Primary Business of the Target Company in the name of Shenzhen 7Road and Qicai Changxiang; (ii) maintain Shenzhen 7Road and Qicai Changxiang in a normal opening state to the later of (the "Duration"): (1) the date when the contracts have been performed during the performance period as shown in Part II of Attachment IV; (2) full twelve months after the Closing Date.

6.5 Social insurance and housing provident fund

The Seller undertakes to use its best reasonable efforts, to cause Shenzhen 7Road and Qicai Changxiang to, within one month as of the Closing Date, register the employee's social insurance and housing provident fund of Shenzhen 7Road and Qicai Changxiang stated in Article 21(d) under the name of the Target Company.

6.6 Economic compensations

Based on the commitments made by Party A in Article 2.1 (d) hereof, If working years of any employees who terminate employment relationship with Shenzhen 7Road and Qicai Changxiang for the purpose of the transaction are not continuously accumulated in the Target Company, Party A and the Target Company irrevocably acknowledge and agree that, Shenzhen 7Road, Qicai Changxiang and the Seller are not required to pay to the employees any economic compensation; where any disputes occur between employees and Shenzhen 7Road, Qicai Changxiang and/or the Target Company, the Seller and its affiliates are not required to assume any compensation liabilities (if any) to Party A or the Target Company, and Party A shall compensate Shenzhen 7Road and Qicai Changxiang for all losses therefore suffered.

6.7 Network Game Records of Qiao Feng Biography with the Ministry of Culture

The Seller or its affiliates shall, after the Closing, handle the network game filing procedures for Qiao Feng Biography with competent government departments as soon as possible as required by the Target Company and Party A and the Target Company agree to provide full cooperation.

6.8 Changes of Value-added Telecommunications Business License

With respect to the Value-added Telecommunications Business License held by the Target Company, the Seller shall cooperate in obtaining the approval documents regarding changes of the Target Company's shareholders involved in this transaction from the competent telecommunications authority within 3 months after the Closing.

Article 7 Taxes, Costs and Expenses

7.1 Tax liability

Subject to Article 9.2, Shenzhen 7Road, Qicai Changxiang and the Seller shall assume all the adverse consequences, if any, arising from the transaction conducted by them according to applicable laws and in connection with any tax, including but not limited to the assets transfer and equity transfer attributable to any of its tax (including but not limited to corporate income tax, value-added tax, business tax and stamp duty). The Seller shall have the right to obtain the tax refund (if any) of the tax paid for the share transfer hereunder that shall be obtained by the Seller in accordance with Chinese laws and made by the competent taxation departments. The Buyer has no right to obtain and enjoy the tax refund.

The Buyer shall assume at its own discretion all adverse consequences (if any) arising from the share transfer hereunder in accordance with applicable laws, or the Buyer's tax and in connection with the above tax.

Notwithstanding the foregoing provisions, Party A irrevocably agrees that, after the Closing of the transaction contemplated hereunder, if Party A conducts any direct or indirect capital operation related to the Target Company in the future, including but not limited to the listing, equity transfer, asset transfer, merger, separation and other arrangements, incurring any additional tax costs on Party B or its affiliates for this transaction, Party A shall compensate Party B or its affiliates for such tax costs in full. Party A shall pay corresponding price to Party B or its affiliates within 15 Working Days upon receipt of the written payment from Party B or its affiliates on such additional tax costs.

7.2 Cost and expense

Each party shall bear the costs of due diligence and preparation, negotiation and production of all documents relating to the transaction contemplated hereunder, whether paid or to be paid, including the cost of hiring outside lawyers, accountants and other professional consultants, as well as costs for negotiating and preparing for the Agreement and completing the transaction contemplated hereunder.

Article 8 Confidentiality

8.1 Confidentiality

The parties shall make all reasonable efforts and take all necessary measures to keep the following information confidential, and ensure that their respective managers, employees, agents, professional consultants and other persons keep confidential the following information, which, without the prior written consent of other parties, may not be disclosed to any third party (collectively, the "Confidential Information"):

- (a) the terms and conditions of the Agreement, including the existence hereof;
- (b) Negotiations related to the Agreement;
- (c) information on the Underlying Assets, the customer, business, assets or Primary Business of the Target Company and others obtained or available before or after the date hereof, including, but not limited to the information obtained by Party A information during the due diligence process.

8.2 Exceptions

The obligations under Article 8.1 shall not apply:

- (a) disclosed to the affiliates of a party who needs to know the Confidential Information in order to evaluate and implement the reasonable and related purposes of the Agreement;
- (b) disclosed to the officers, employees, agents or professional consultants of a party who needs to know the Confidential Information in order to evaluate and implement the reasonable and related purposes of the Agreement;
- (c) disclosed according to applicable laws, any rules of stock exchange or securities regulators, or any binding judgments, orders, decrees or regulations made by any governmental authority, to the extent that the disclosure is limited to the scope of mandatory disclosure and shall be notified in advance to the other party;

- (d) Has become known to the public (but not due to any party's violation of Article 8 hereof).

The exception in preceding (a) and (b) paragraphs is subject to the undertakings of the person receiving the Confidential Information to abide by the obligation of confidentiality. Each party shall make clear the confidential nature of that information to its affiliates, officers, employees, agents, and professional consultants who receive the Confidential Information, and order them to keep the same confidential, and not to disclose the Confidential Information to any third party (excluding the party disclosing the information according to the Agreement). The parties shall ensure that the foregoing persons perform confidentiality obligations by signing a confidentiality agreement or taking other appropriate measures. If the receiving party is in violation of this article, the disclosing party shall be liable for breach of the confidentiality obligations.

8.3 Public statements

All parties agree that, if applicable laws or the rules of the stock exchange on which any party's shares are listed require to issue any press release or public statement on the Agreement or on the transaction contemplated hereunder, they shall notify the other party before making a public statement and negotiate on the contents thereof.

Article 9 Earnest Money and Compensation

9.1 Earnest money

If before the Seller refunds the earnest money to Mr. MENG Shuqi in accordance with Article 2.4 (c) hereof, (1) Party A is in breach on or prior to the Closing Date and therefore, the transaction cannot be closed; or (2) the Buyer fails to timely and fully perform its obligations to pay the current consideration under Article 2.4 (b) of the Agreement, the earnest money will be vested in the Seller.

9.2 Special compensation

- (a) If the transaction fails to complete in accordance with the Agreement due to any breach of Party A on or before the Closing Date, including but not limited to Party A's refusal of the Closing after the Conditions Precedent are satisfied or can be met on the Closing Date (including duly exempted by a party under Article 3), Party B has the right to request Party A to compensate for actual costs suffered by the parties concerned including Shenzhen 7Road, Qicai Changxiang and the Target Company due to assets transfer, intellectual property rights arrangements, and revocation of the employee arrangement and control protocol, including, but not limited to any tax payments and other expenses on transfer of the Underlying Assets to Shenzhen 7Road and Qicai Changxiang because of assets transfer and the failure of the Closing, actual costs and expenses including economic compensation arising from transfer of the related employees to Shenzhen 7Road and Qicai Changxiang because of employees arrangement and the failure of the Closing, and legal fees paid by Party B and its affiliates for the transaction contemplated hereunder, including but not limited to the assets transfer, intellectual property rights arrangements, employee arrangements, control protocol revocation and the equity transfer.

Party A shall, within ten Working Days as of the receipt of such written payment certificate with respect to the above expenses, compensate Party B or its related affiliates for such amount in full.

For the avoidance of doubts, subject to satisfaction of the conditions stated in Article 9.1 and Article 9.2 hereof, Party B is entitled to obtain the compensation mentioned in Article 9.1 and Article 9.2.

- (b) Subject to Article 9.2(c), within three years as of the Closing Date, in the event that the Target Company suffers from any actual loss due to facts or conditions existed on or prior to January 19, 2015, including actual loss caused by litigation, debt, tax arrears, arrears of wages or the social insurance and housing fund, subject to administrative punishment for violation of Chinese laws and regulations, liability for breach, tort liability and other reasons (the "causes of compensation"), and the actual loss is not reflected in the Target Company's Financial Statements as at the Closing Date, or the Target Company suffers from actual losses since the above case, although occurred before the Closing Date but last after the same, and the actual losses are not reflected in the Target Company's Financial Statements as at the Closing Date, the Seller shall be obliged to compensate the Target Company for such actual losses in full within 10 Working Days as of the receipt of the Buyer's written notice and written certificates corresponding to the actual loss suffered by the Target Company (collectively, the "Actual Loss after the Closing Date"). For the avoidance of doubts, in the event that the representations and warranties made by the Seller in Article 4 hereof are untrue or incorrect due to Party A's or the Target Company's acts on or after January 20, 2015 (including but not limited to breach of the business contracts under performance as at January 20, 2015 due to acts of Party A or the Target Company on or after January 19, 2015), the Seller is not required to assume any losses caused to the Target Company.
- (c) In the case of causes of compensation under Article 9.2 (b):
- (i) Party A and the Target Company shall make reasonable efforts to reduce the losses may be caused by causes of compensation to the Target Company, the Seller will not be liable for the loss that can be reduced with Party A's and the Target Company's reasonable efforts; however, necessary actions are not taken;

- (ii) If any of the Actual Loss after the Closing Date is covered by insurance policy or other third party's indemnity, compensation, damage allocation or other similar obligations, the Buyer and the Target Company shall make reasonable efforts to obtain such insurance benefits, indemnity, compensation, or similar payments (the "Deduction"). If the Deduction is obtained before the Seller pays the Actual Loss after the Closing Date to the Target Company pursuant to Article 9.2 (b), the Seller shall pay amount to the Target Company after deducting the Deduction from the Actual Loss after the Closing Date; If the Deduction is obtained thereafter, the Target Company shall repay within 10 Working Days after obtaining the Deduction to the Seller the lower of: (1) the Deduction; (2) Actual Loss after the Closing Date;
- (iii) The parties confirm that, if due to compensation, the Target Company enjoy any tax benefits (including but not limited to the reduction of tax payables), the actual compensation to be made by the Seller to the Target Company shall be the actual loss after the Closing Date net of such tax benefits;
- (iv) For the avoidance of doubts, the following circumstances arising from facts or conditions existed on or prior to January 19, 2015 will not constitute the losses for which the Seller is held liable after the Closing Date under Article 9.2 (b): any indirect loss, any expected but not actual loss, profit or income loss of the Target Company, or the equity or asset valuation reduction of the Target Company. However, if the compensation makes the aforementioned circumstances and actual loss co-exist, the Seller shall compensate the Target Company for the actual loss according to Article 9.2 (b) and Article 9.2 (c).

9.3 Indemnity for breach

Subject to Article 9.2 hereof, If Party A or Party B fails to perform any of its obligations under the Agreement, or its representations or warranties made hereunder are untrue, inaccurate or misleading, it shall compensate the other party for any expenses, losses, liabilities, damages and costs arising therefrom (collectively, the "loss").

Notwithstanding the foregoing provisions, Party B will not assume compensation liabilities to Party A for any breach of the Target Company from January 20, 2015, provided, however, that, Mr. MENG Shuqi acts as a manager of the Target Company and actually controls its operation during January 20, 2015 and the Closing Date. The Target Company shall separately compensate Party A and the Seller for losses arising from its breach after January 20, 2015. However, if such breach of the Target Company is caused by Party A or the Seller, the fault party shall compensate the other party for the losses suffered or incurred.

Article 10 Termination

10.1 Termination for breach

- (a) Unless otherwise agreed herein, before the Closing hereof, if any of Party A or Party B is in violation of any major obligations hereunder, or its representations and warranties made in the Agreement are in all material respects untrue or inaccurate (these acts and those causing or may causing Significant Adverse Effects on the Target Company will be regarded as major violations hereof), and within fifteen (15) days after receiving the written notice from the non-defaulting party, does not correct the breach (or upon receipt of the notice if the breach cannot be corrected), the non-defaulting party may terminate the Agreement by sending written notice to the defaulting party without affecting any other rights which may exist.
- (b) Any party's termination of the Agreement according to Article 10.1 hereof will not affect the investigation of the defaulting party's liability for breach in accordance with Article 9 hereof and according to the law.

10.2 Termination for failure

Without affecting any of its rights available under the Agreement (including but not limited to the right to investigate the liability for breach of the defaulting party), if within 180 days after the date hereof, any Conditions Precedent are not fulfilled, Party A or Party B can in written form notify the other party to terminate the Agreement, to the extent that the Conditions Precedent are not satisfied due to the party's fault, acts, omissions or breach of its obligations under the Agreement. Termination of the Agreement according to Article 10.2 hereof will not affect the disposal of the earnest money in accordance with Article 9.1 hereof.

10.3 Termination effect

If either party terminates the Agreement in accordance with the terms hereof, all parties shall be relieved of their respective obligations hereunder, except Article 8 (Confidentiality), Article 9 (Earnest Money and Compensation), Article 10 (Termination), Article 11 (Applicable Laws and Disputes Resolution), Article 12.2 (Notices), Article 12.6 (Entire agreement; no other beneficiaries), Article 12.7 (Severability) and Article 12.8 (No waiver) that shall survive the termination of the Agreement.

Article 11 Applicable Laws and Disputes Resolution

11.1 Applicable laws

The effect, interpretation and performance of the Agreement shall be governed by Chinese laws.

11.2 Negotiations

All the disputes arising from the interpretation or performance hereof, if any, shall be amicably settled by the parties through negotiation.

11.3 Arbitration

Unless otherwise agreed herein, if the dispute cannot be resolved in a manner acceptable to all the parties within 60 days after the first consultation, any party can submit the dispute to China International Economic and Trade Arbitration Commission located in Beijing, China (the "CIETAC") for final resolution by arbitration. Arbitration shall be conducted in accordance with CIETAC's arbitration rules in effect, which shall be deemed to be included in this article by quotation. The arbitration tribunal consists of three members; the applicant and the respondent shall respectively designate one member and the third arbitrator (chief arbitrator) will be appointed by the applicant and the respondent jointly. If the applicant and the respondent fail to reach an agreement on the third arbitrator within 15 days after the receipt of the arbitration notice, that arbitrator will be appointed by the director of CIETAC. The arbitral award is final and binding on all parties. The parties hereby irrevocably waive immunity from jurisdiction available or may be available to them during the arbitration procedures and /or enforcement due to or based on the Agreement (including but not limited to sovereign immunity or other exemptions). Arbitration will be proceeded in Chinese.

Article 12 Miscellaneous

12.1 Amendments and supplements

In accordance with the applicable laws, any amendment, revision or supplements to the Agreement or its attachments may not be valid unless made in a written agreement signed by the authorized representatives of the parties hereto (the "supplementary agreement"). If the supplementary agreement is in conflict with the Agreement, the supplementary agreement shall prevail.

12.2 Notices

All notices and other forms of communication under the Agreement shall be in writing, and will be deemed served if sent to the following addresses of the receiving party (or other addresses or emails specified by the parties) by personal delivery, fax (confirmed), a registered letter, EMS (such as express mail) or e-mail.

Mr. MENG Shuqi
Address: 18/F, A1 Building, Kexing Science Park, Keyuan Road, Nanshan District, Shenzhen
Tel.: 13510359191
Zip code: 518007
Email: ben@7road.com

Shanghai Yong Chong Investment Center LP
Contact: MENG Shuqi
Address: Rm. 102-11, 1/F, No.2 Building, No.38 Debao Road, China (Shanghai) Pilot Free Trade Zone
Tel.: 13510359191
Zip code: 200000
Email: ben@7road.com

Beijing Gamease Age Digital Technology Co., Ltd.
Contact: Legal Department
Address: 2/F, East Annex, Jingyan Hotel, No.29 Shijingshan Road, Shijingshan District, Beijing
Tel.: 010-61926002
Email: legal@cyou-inc.com

Shenzhen 7 Road Technology Co., Ltd.
Contact: LIU Tao
Address: 17/F, A Building, Kexing Science Park, Keyuan Road, Nanshan District, Shenzhen
Tel.: 0755-36807777
Email: tao.liu@7road.com

12.3 Attachments

Attachments to the Agreement constitute an integral part hereof and bear the same legal effect as the Agreement.

12.4 Effectiveness

The Agreement will take immediate effect after duly signed by the parties.

12.5 Counterparts

The Agreement is made in five copies in Chinese of the same legal effect. Each party holds one and one will be submitted to the competent industrial and commerce authority.

12.6 Entire agreement; no other beneficiaries

The Agreement: (i) constitutes all and the sole agreement reached by the parties on the share transfer, and will replace all previous oral or written agreements, arrangements or agreements, and (ii) is not intended to grant any right or remedy to any person other than the parties to the Agreement.

12.7 Severability

If any provision of the Agreement is judged invalid or unenforceable after the signing of the Agreement, or because of legislative behavior after the signing hereof, becomes invalid or unenforceable, the remaining provisions hereof will not be affected. The parties shall make every reasonable effort to replace the invalid or unenforceable provisions by valid ones in conformity with the purposes of the invalid or unenforceable provisions.

12.8 No waiver

Any party's failure to or delay in the exercise of any rights or powers under the Agreement may not be regarded as a waiver of such right or power; and separate or partial exercise of any right or power will not impede future exercise of the right or power.

12.9 Transfer

Without the prior written consent of other parties, no party may transfer in any way any or all its rights, interests, liabilities or obligations hereunder.

(The remainder of this page is intentionally left blank)

(Signature page of Share Transfer Agreement)

MENG Shuqi

Signed by:

Shanghai Yong Chong Investment Center LP (seal)

Signed by:

(Signature page of Share Transfer Agreement)

Beijing Gamease Age Digital Technology Co., Ltd. (seal)

Sealed by:

Shenzhen 7 Road Technology Co., Ltd. (seal)

Sealed by:

Principal Subsidiaries and Consolidated Variable Interest Entities of the Registrant

Principal Subsidiaries:

- Changyou.com (HK) Limited, incorporated in Hong Kong.
- Beijing AmazGame Age Internet Technology Co., Ltd., incorporated in the PRC.
- Shanghai Jingmao Culture Communication Co., Ltd, incorporated in the PRC.
- Beijing Changyou Gamespace Software Technology Co., Ltd., incorporated in the PRC.
- Beijing Yang Fan Jing He Information Consulting Co., Ltd, incorporated in the PRC.
- Beijing Changyou Jingmao Film & Culture Communication Co., Ltd., incorporated in the PRC.
- Changyou.com Webgames (HK) Limited, incorporated in Hong Kong.
- 7Road.com Limited, incorporated in the Cayman Islands.
- 7Road.com HK Limited, incorporated in Hong Kong.
- Shenzhen Brilliant Imagination Technologies Co., Ltd., incorporated in the PRC.
- Glory Loop Limited, incorporated in the British Virgin Islands.
- MoboTap Inc., incorporated in the Cayman Islands.
- MoboTap Inc. Limited, in corporate in Hong Kong.
- Baina Zhiyuan (Beijing) Technology Co., Ltd., incorporated in the PRC.

Principal Consolidated Variable Interest Entities:

- Beijing Gamease Age Digital Technology Co., Ltd., incorporated in the PRC.
- Shanghai ICE Information Technology Co., Ltd., incorporated in the PRC.
- Beijing Guanyou Gamespace Digital Technology Co., Ltd., incorporated in the PRC.
- Baina (Wuhan) Information Technology Co., Ltd., incorporated in the PRC.



I, Carol Yu, certify that:

1. I have reviewed this annual report on Form 20-F of Changyou.com Limited;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

- a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal controls over financial reporting.

Date: February 26, 2016

By: /s/ Carol Yu

Name: Carol Yu

Title: Co-Chief Executive Officer



I, Dewen Chen, certify that:

1. I have reviewed this annual report on Form 20-F of Changyou.com Limited;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

- a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal controls over financial reporting.

Date: February 26, 2016

By: /s/ Dewen Chen
 Name: Dewen Chen
 Title: Co-Chief Executive Officer



I, Jasmine Zhou, certify that:

1. I have reviewed this annual report on Form 20-F of Changyou.com Limited;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

- a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal controls over financial reporting.

Date: February 26, 2016

By: /s/ Jasmine Zhou

Name: Jasmine Zhou

Title: Chief Financial Officer



www.changyou.com

CERTIFICATION
PURSUANT TO RULE 13A-14(B) UNDER THE SECURITIES EXCHANGE ACT OF 1934

In connection with the Annual Report on Form 20-F of Changyou.com Limited (the "Company") for the year ended December 31, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Carol Yu, Co-Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition of the Company as of December 31, 2015 and results of operations of the Company for the year ended December 31, 2015.

/s/ Carol Yu

Name: Carol Yu

Title: Co-Chief Executive Officer

Date: February 26, 2016





www.changyou.com

CERTIFICATION
PURSUANT TO RULE 13A-14(B) UNDER THE SECURITIES EXCHANGE ACT OF 1934

In connection with the Annual Report on Form 20-F of Changyou.com Limited (the “Company”) for the year ended December 31, 2015 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Dewen Chen, Co-Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition of the Company as of December 31, 2015 and results of operations of the Company for the year ended December 31, 2015.

/s/ Dewen Chen

Name: Dewen Chen

Title: Co-Chief Executive Officer

Date: February 26, 2016





www.changyou.com

CERTIFICATION
PURSUANT TO RULE 13A-14(B) UNDER THE SECURITIES EXCHANGE ACT OF 1934

In connection with the Annual Report on Form 20-F of Changyou.com Limited (the "Company") for the year ended December 31, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jasmine Zhou, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition of the Company as of December 31, 2015 and results of operations of the Company for the year ended December 31, 2015.

/s/ Jasmine Zhou

Name: Jasmine Zhou

Title: Chief Financial Officer

Date: February 26, 2016





CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-161727 and No. 333-202065) of Changyou.com Limited of our report dated February 26, 2016 relating to the consolidated financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 20-F.

PricewaterhouseCoopers Zhong Tian LLP

Beijing, the People's Republic of China

February 26, 2016



February 26, 2016

Changyou.com Limited
Changyou Creative Industrial Park
65 Bajiao East Road, Shijingshan District
Beijing 100043
People's Republic of China

Subject: Consent of Haiwen & Partners

We hereby consent to the filing of this consent letter as an exhibit to the annual report on Form 20-F of Changyou.com Limited (the "Company") for the Company's fiscal year ended December 31, 2015, to be filed with the U.S. Securities and Exchange Commission (the "SEC") on February 26, 2016 (the "Form 20-F").

We also hereby consent to the use of our firm name and summaries of our firm's opinions under the headings "Business Overview – PRC Regulation" and "Organizational Structure" in the Form 20-F and to the incorporation by reference in the Company's Registration Statements on Form S-8 (File No. 333-161727 and File No. 333-202065), initially filed with the SEC on September 4, 2009 and February 13, 2015, respectively, of such references to our firm and summaries of our firm's opinions included under such headings.

Yours faithfully,

/s/ Haiwen & Partners

Haiwen & Partners

海问律师事务所 HAIWEN & PARTNERS

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