

The9 LTD
Form 20-F
June 28, 2007
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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, 2006

OR

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

For the transition period from _____ to _____.

Commission file number: 000-51053

THE9 LIMITED

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

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Cayman Islands

(Jurisdiction of incorporation or organization)

Building No.3, 690 Bibo Road

Zhang Jiang Hi-Tech Park

Pudong New Area, Pudong

Shanghai 201203, People's Republic of China

(Address of principal executive offices)

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

Name of each exchange and Title of each class on which registered:

American Depositary Shares, each representing one ordinary share, par value

US\$0.01 per share, Nasdaq Global Market

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

[NONE]

(Title of Class)

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

[NONE]

(Title of Class)

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: 24,214,130 ordinary shares, par value US\$0.01 per share.

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which financial statement item the registrant has elected to follow: Item 17 Item 18

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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

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INTRODUCTION

In this annual report, unless otherwise indicated, (1) the terms we, us, our company, our and The9 refer to The9 Limited and its subsidiaries, in the context of describing our operations and risk factors, also include 9Webzen and our other affiliated PRC entities, (2) the term 9Webzen refers to 9Webzen Limited and its subsidiary, 9Webzen (Shanghai) Co., Ltd., (3) the terms shares and ordinary shares refer to our ordinary shares, preferred shares refers to our convertible preferred shares, all of which were converted into our ordinary shares upon the completion of our initial public offering on December 20, 2004, ADSs refers to our American depositary shares, each of which represents one ordinary share, and ADRs refers to the American depositary receipts, which evidence our ADSs, (4) all share numbers reflect the 2.86-for-1 share split of our ordinary shares and preferred shares which became effective on November 25, 2004, (5) China and PRC refer to the People's Republic of China, and solely for the purpose of this annual report, excluding Taiwan, Hong Kong and Macau, (6) all references to RMB and Renminbi are to the legal currency of China and all references to U.S. dollars, dollars, US\$ and \$ are to the legal currency of the United States, (7) all discrepancies in any table between the amounts identified as total amounts and the sum of the amounts listed therein are due to rounding; and (8) all translations from RMB to U.S. dollars and from U.S. dollars to RMB in this annual report were made at a rate of RMB7.8041 to US\$1.00, the noon buying rate in effect as of December 29, 2006.

This annual report on Form 20-F includes our audited consolidated statements of operations for the years ended December 31, 2004, 2005 and 2006, and consolidated balance sheet data as of December 31, 2005 and 2006.

We and certain selling shareholders of our company completed the initial public offering of 6,075,000 ADSs, each representing one ordinary share, par value US\$0.01 per share, on December 20, 2004. On December 15, 2004, we listed our ADSs on the Nasdaq Global Market, or Nasdaq, under the symbol NCTY.

FORWARD-LOOKING INFORMATION

This annual report on Form 20-F contains statements of a forward-looking nature. 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 terminology such as may, will, expects, anticipates, future, intend, plan, believe, estimate, is/are likely to or other and similar expressions. The accuracy of these statements can be impacted by a number of risks and uncertainties that could cause actual results to differ materially from those projected or anticipated. Such risks and uncertainties include, but are not limited to, the following:

our ability to retain existing users and attract new users for the World of Warcraft®, or WoW, game;

our ability to successfully launch and operate additional online games licensed by us in China;

our ability to license, develop or acquire additional online games that are attractive to users;

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the maintenance and expansion of our relationships with online game developers, including our existing licensors;

uncertainties in and the timeliness of obtaining necessary governmental approvals and licenses for operating any new online game;

risks inherent in the online game business;

risks associated with our future acquisitions and investments;

our ability to compete successfully against our competitors;

risks associated with our corporate structure and the regulatory environment in China; and

other risks outlined in our filings with the Securities and Exchange Commission, or the SEC, including this annual report on Form 20-F. These risks are not exhaustive. 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 statements.

We would like to caution you not to place undue reliance on forward-looking statements and you should read these statements in conjunction with the risk factors disclosed in Item 3 of this annual report, Key Information Risk Factors. We do not undertake any obligation to update forward-looking statements except as required under applicable law.

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

A. Selected Financial Data

The following table presents selected consolidated financial information for our company. You should read the following information in conjunction with Item 5, Operating and Financial Review and Prospects, below. The selected consolidated statement of operations data for the years ended December 31, 2004, 2005 and 2006 and the selected consolidated balance sheet data as of December 31, 2005 and 2006 have been derived from our audited consolidated financial statements and should be read in conjunction with those statements, which are included in this annual report beginning on page F-1. The selected consolidated statement of operations data for the years ended December 31, 2002 and 2003 and the selected consolidated balance sheet data as of December 31, 2002, 2003 and 2004 have been derived from our audited consolidated financial statements, which are not included in this annual report.

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	For the Year Ended December 31,					
	2002 RMB	2003 RMB	2004 RMB	2005 RMB	2006 RMB	2006 US\$(¹) (unaudited)
<i>(in thousands, except for per share and per ADS data)</i>						
Consolidated Statement of Operation Data:						
Revenues	3,280	17,268	36,636	489,191	1,038,328	133,049
Sales taxes	(192)	(883)	(1,913)	(24,164)	(52,502)	(6,727)
Net revenues	3,088	16,385	34,723	465,027	985,826	126,322
Cost of services	(3,730)	(6,492)	(9,139)	(240,416)	(524,032)	(67,149)
Gross profit (loss)	(642)	9,893	25,584	224,611	461,794	59,173
Operating expenses	(19,070)	(15,930)	(35,347)	(164,898)	(191,639)	(24,556)
Income (loss) from operations	(19,712)	(6,037)	(9,763)	59,713	270,155	34,617
Interest income (expenses), net	(907)	(1,381)	81	10,022	9,136	1,171
Other income (expense), net	(173)	165	15,792	14,467	28,417	3,641
Income (loss) before income tax benefit (expense), gain on investment disposal, impairment loss on investment, minority interests and profit (loss) on equity investments	(20,792)	(7,253)	6,110	84,202	307,708	39,429
Income tax benefit (expense)	(338)	5,850	(5,073)	(168)	2,670	342
Minority interests			6,871	(4,541)		
Income (loss) before gain on investment disposal, impairment loss on investment and profit (loss) on equity investments	(21,130)	(1,403)	7,908	79,493	310,378	39,771
Gain on investment disposal				6,716	23,409	2,999
Impairment loss on investment					(20,402)	(2,614)
Profit (loss) on equity investments, net of taxes	(5,211)	49,877	16,571	(13,737)	(908)	(116)
Net income (loss)	(26,341)	48,474	24,479	72,472	312,477	40,040
Net income (loss) attributable to shareholders	(28,692)	31,699	12,047	72,472	312,477	40,040
Earnings (loss) per share						
- Basic	(2.91)	3.21	1.17	3.00	12.78	1.64
- Diluted	(2.91)	1.94	0.87	2.92	12.72	1.63
Earnings (loss) per ADS(²)						
- Basic	(2.91)	3.21	1.17	3.00	12.78	1.64
- Diluted	(2.91)	1.94	0.87	2.92	12.72	1.63

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	2002 RMB	2003 RMB	As of December 31,		2006 RMB	2006 US\$(¹) (unaudited)
			2004 RMB	2005 RMB		
<i>(in thousands)</i>						
Consolidated Balance Sheet Data:						
Cash and cash equivalents	5,628	62,766	793,405	488,245	937,846	120,173
Non-current assets	8,817	60,801	171,565	602,744	537,492	68,873
Total assets	20,494	155,798	1,026,595	1,213,735	1,624,585	208,171
Current liabilities	46,982	134,210	149,265	271,750	288,427	36,959
Minority interests			12,165			
Series A convertible preferred shares ⁽³⁾	31,708	34,242				
Total shareholders' equity (deficit)	(58,461)	(12,654)	865,165	941,985	1,336,158	171,212
Total liabilities and shareholders' equity	20,494	155,798	1,026,595	1,213,735	1,624,585	208,171

- (1) Translation from RMB amounts into U.S. dollars was made at a rate of RMB7.8041 to US\$1.00. See Exchange Rate Information.
- (2) Each ADS represents one ordinary share.
- (3) Series A convertible preferred shares were not included as part of shareholders' equity as such shares were redeemable at the option of the holders thereof.

As of December 31, 2006, we and Webzen Inc., or Webzen, owned 30% and 70%, respectively, of 9Webzen Limited, or 9Webzen. Prior to December 2005, we and Webzen owned 51% and 49%, respectively, of 9Webzen. Due to Webzen's right to participate in certain decisions to be made in the ordinary course of business of 9Webzen, we have accounted for our interest in 9Webzen using the equity method. Our equity share of 9Webzen's net income contributed significantly to our net income for our fiscal years ended December 31, 2003 and 2004. In 2005, due to the declining popularity of the MU game, which comprised substantially all of 9Webzen's revenues, and due to our substantial increase in revenues resulting from the commercial launch of WoW in China, the portion of our income attributable to our equity interest in 9Webzen and our share of the total assets of 9Webzen were less than 20% of our operating income and total assets for the year. Because 9Webzen's financial position and results of operations are no longer material to us, audited financial statements for 9Webzen have not been required since 2005. 9Webzen's audited consolidated financial statements for the year ended December 31, 2004 and unaudited consolidated financial statements for the years ended December 31, 2005 and 2006 are included in this annual report beginning on page F-44. For a more detailed discussion of 9Webzen's historical operating and financial information, see our annual report on Form 20-F for fiscal year 2004, filed with the SEC on June 30, 2005.

Exchange Rate Information

Our business is primarily conducted in China and almost all of our revenues are denominated in RMB. This annual report contains translations of RMB amounts into U.S. dollars based on the noon buying rate in the city of New York for cable transfers of RMB, as certified for customs purposes by the Federal Reserve Bank of New York. For your convenience, this annual report contains translations of some RMB or U.S. dollar amounts for 2006 at US\$1.00: RMB7.8041, which was the noon buying rate in effect as of December 29, 2006. The prevailing rate at June 25, 2007 was US\$1.00: RMB7.6187. We make no representation that any RMB or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or RMB, as the case may be, at any particular rate, the rates stated below, or

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at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of RMB into foreign currency and through restrictions on foreign exchange activities.

The following table sets forth information concerning exchange rates between the RMB and the U.S. dollar for the periods indicated. These rates are provided solely for your convenience and are not necessarily the exchange rates that we used in this annual report or will use in the preparation of our other periodic reports or any other information to be provided to you. The source of these rates is the Federal Reserve Bank of New York.

Period	Period End	Noon Buying Rate		
		Average ⁽¹⁾	Low	High
(RMB per US\$1.00)				
2002	8.2800	8.2770	8.2800	8.2669
2003	8.2767	8.2772	8.2800	8.2765
2004	8.2765	8.2768	8.2771	8.2765
2005	8.0702	8.1826	8.2765	8.0702
2006	7.8041	7.9723	8.0702	7.8041
December 2006	7.8041	7.8219	7.8350	7.8041
January 2007	7.7714	7.7876	7.8127	7.7705
February 2007	7.7410	7.7502	7.7632	7.7410
March 2007	7.7232	7.7369	7.7454	7.7232
April 2007	7.7090	7.7247	7.7345	7.7090
May 2007	7.6516	7.6773	7.7065	7.6463
June 2007 (through June 25)	7.6187	7.6370	7.6680	7.6175

(1) Annual averages are calculated from month-end rates. Monthly averages are calculated using the average of the daily rates during the relevant period.

B. Capitalization and Indebtedness

Not Applicable.

C. Reasons for the Offer and Use of Proceeds

Not Applicable.

D. Risk Factors

Risks Related to Our Company

Our limited relevant operating history and the unproven long-term potential of our online game business model make evaluating our business and prospects difficult.

We began to offer our self-developed online virtual community game, the9 City, in 2000 and commenced the distribution and operation of MU, our first massively multiplayer online role playing game, or MMORPG, in China in February 2003. We launched three additional MMORPGs, including Mystina Online, WoW and Joyful Journey West (JJW), in China in February 2005, June 2005 and September 2006, respectively. As a result, we have limited relevant operating history upon which to evaluate our business. It is also difficult to evaluate our prospective business, because we may not have sufficient experience

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to address the risks frequently encountered by early stage companies using new and unproven business models and entering new and rapidly evolving markets, including the online game market. These risks may include our potential failure to:

retain existing customers and attract new customers;

successfully launch and operate new online games licensed by us;

license, acquire or develop additional online games that are appealing to customers;

anticipate and adapt to changing consumer preferences;

adapt to competitive market conditions;

timely respond to technological changes or resolve unexpected network delays or interruptions;

adequately and efficiently operate, upgrade and develop our transaction and service platform; or

maintain adequate control of our expenses.

If we are unsuccessful in addressing any of the risks listed above, our results of operations may be materially and adversely affected.

As we expect that WoW will continue to comprise most of our revenues in the near future, any adverse developments relating to WoW may materially and adversely affect our results of operations.

In February 2004, our subsidiary, China The9 Interactive Limited, or C9I, obtained an exclusive license to operate WoW in China from Vivendi Universal Games Inc., or VUG, and we commercially launched WoW in China in June 2005. In 2006, 99% of our total revenues were attributable to the operation of WoW in China, including game play time, merchandise sales and other related revenues. We expect to continue to depend on WoW for most of our revenues in the near future.

In order to maximize the life span of a game, which we believe is typically four to five years for successful online games or two to three years for most other online games, it is necessary to continuously enhance, expand or upgrade the game with new features. We do not have any control over VUG's product development. As WoW's remaining economic life shortens, we will need to rely on other games to generate more revenues and to develop, license or acquire new games. If we are unable to do so, our future revenues will decline. In addition, any reduction in the user fees we charge to WoW game players as a result of intensifying competition or other factors, any breach of game-related software security, prolonged server delays, interruption due to network failure, illegal server activities, hacking or any other adverse developments relating to WoW, could materially and adversely affect our future results of operations.

We have invested and plan to continue to invest a significant amount of financial and personnel resources in operating WoW in China. While WoW has generated significant

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revenue in 2006 with 6.8 million activated user accounts as of December 31, 2006, we cannot assure you that WoW will continue to attract as many users as are required for our operation on a commercially viable basis. We have made significant financial commitments in connection with the licensing and operating of WoW in China. We are obligated to pay royalties equal to 22% of the face value of WoW prepaid cards and online points and either 37.7% or 39% of the face value of the CD-Keys sold by us by making recoupable advances against royalty payments in an aggregate amount of approximately US\$51.3 million over a four-year period commencing from the game's commercial launch in June 2005. We are also obligated to commit a portion of the revenue from WoW for the marketing and promotion of WoW in China during the four-year license period. If we lose our exclusive WoW license for failing to meet our financial obligations or for other reasons, or if we are unable to generate revenues from WoW exceeding the amount of operating costs and expenses incurred in connection with WoW, our future results of operations will be materially and adversely affected.

If we are unable to maintain a satisfactory relationship with Blizzard or any other online game developer that has licensed a game to us, our future results of operations or the growth of our business may suffer.

If we are unable to maintain a satisfactory relationship with Blizzard or any other online game developer that has licensed a game to us, or if Blizzard or any of our other online game licensors either establishes similar or more favorable relationships with our competitors in violation of its contractual arrangements with us or otherwise, our operating results and our business would be harmed, because our business depends significantly upon our exclusive licenses to operate WoW and other online games in China. While we have obtained from Blizzard a license for the Burning Crusade, an expansion pack for the WoW game, we cannot assure you that Blizzard or any of our other online game licensors will renew its license agreement with us, or grant us an exclusive license for any new online games that it may develop or make expansion packs for existing games available to us in the future. Any deterioration of our relationship with Blizzard or any of our other online game licensors could harm our future results of operations or the growth of our business.

We have incurred net losses in the past and may experience earnings declines or net losses in the future.

We incurred net losses in the first half of 2005. Although we have achieved net profit since the second half of 2005 as a result of the commercial launch of WoW in China, we cannot assure you that we can avoid net losses in the future nor that there will not be any earnings or revenue declines for any future quarterly or other period. We expect that our operating expenses will increase as we incur additional expenditures in connection with our operation of WoW and other new games in China. As a result, any decrease or delay in generating more revenues could result in material operating losses and cause the market price of our ADSs to decline.

Illegal game servers, unauthorized character enhancements and other infringements of our intellectual property rights, as well as theft of in-game goods could harm our business and reputation and materially and adversely affect our results of operation.

With the increase in the number of online game players in China, we have faced the risks of illegal game servers, unauthorized character enhancements and other infringements of our intellectual property rights as well as the risk of theft of in-game goods purchased by

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our customers. Our historical results of operations prior to our commercial launch of WoW in China were materially and adversely affected by illegal game servers. Although we have adopted a number of measures to address illegal server usage, misappropriation of our game server installation software and the establishment of illegal game servers could harm our business and reputation and materially and adversely affect our results of operations.

From time to time, we have detected a number of players who have gained an unfair advantage by installing cheating tools to facilitate character progression. In response to these activities, we have expanded our customer service team dedicated to detecting unauthorized character enhancements. We also require that WoW game players purchase mandatory CD-Keys in order to play the game, which we believe reduces the number of unauthorized characters by preventing players from using cheating tools. In addition, we have installed software patches designed to prevent unauthorized modifications to our execution files. However, we cannot assure you that we will be able to identify and eliminate new illegal game servers, unauthorized character enhancements or other infringements of our intellectual property rights in a timely manner, or at all. The deletion of unauthorized character enhancements requires the affected players to restart with a new character from the starting level, and may result in some of these players ceasing to play the game altogether. In addition, any of our new games may be affected by similar or other infringement of our intellectual property rights. If we are unable to eliminate illegal servers, unauthorized character enhancements or suffer other infringement of our intellectual property rights, our players' perception of the reliability of our games may be negatively impacted, which may reduce the number of players using our games, shorten the life span of our games or adversely affect our results of operations.

Undetected programming errors or flaws in our games could harm our reputation or decrease market acceptance of our games, which would materially and adversely affect our results of operations.

Our games may contain errors or flaws, which may only be discovered after their release, particularly as we launch new games or introduce new features to existing games under tight time constraints. If our games contain programming errors or other flaws, our customers may be less inclined to continue or resume playing our games or recommend our games to other potential customers, and may switch to our competitors' games. Undetected programming errors and game defects can disrupt our operations, adversely affect the game experience of our users, harm our reputation, cause our customers to stop playing our games, divert our resources and delay market acceptance of our games, any of which could materially and adversely affect our results of operations.

We may not be able to prevent others from infringing upon our intellectual property rights, which may harm our business and expose us to litigation.

We regard our proprietary software, domain names, trade names, trade marks and similar intellectual properties as critical to our success. Intellectual property rights and confidentiality protection in China may not be as effective as in the United States or other countries. Monitoring and preventing the unauthorized use of proprietary technology is difficult and expensive. The steps we have taken may be inadequate to prevent the misappropriation of our proprietary technology. Any misappropriation could have a negative effect on our business and operating results. We may need to resort to court proceedings to enforce our intellectual property rights in the future. Litigation relating to our intellectual property might result in substantial costs and diversion of resources and management

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attention away from our business. See Item 3, Key Information Risk Factors Risks Related to Doing Business in China Uncertainties with respect to the PRC legal system could adversely affect us.

If we are unable to license, develop or acquire additional online games, our future revenues and profitability will decline.

In order for our business strategy to succeed over time, we will need to license, acquire or develop new online games that are attractive to users. To achieve this, we will need to anticipate and effectively adapt to rapidly changing consumer tastes and preferences and technological advances. Also, in order to maintain the life span of our new online games, which we believe is typically four to five years for successful online games or two to three years for most other online games, we need to continue to develop and release upgrades to our new online games. We cannot assure you that we will be able to identify appropriate games or enter into arrangements with those game developers to offer these games in China, on terms acceptable to us or at all, or that we can maintain the expected life span of our new online games. We do not have a proven track record in developing proprietary MMORPGs, from which we derive a significant portion of our profits. If we are not able to license, develop or acquire additional attractive online games with lasting appeal to users, our future revenues and profitability will decline.

We face the risks of changing consumer preferences and uncertainty of market acceptance of our new products.

Online games are a new and evolving entertainment concept in Asia, particularly in China. The level of demand and market acceptance of our online games are subject to a high degree of uncertainty. This uncertainty is particularly relevant in our current situation because we are relying on a single MMORPG for substantially all of our revenues. Our future operating results will depend on numerous factors beyond our control. These factors include:

the popularity of WoW and other new online games operated by us;

Blizzard's timely upgrades of WoW to extend WoW's life span and to maintain WoW's competitive position in the online game market in China;

the introduction of new online games, competing with or replacing our existing online games;

general economic conditions, particularly economic conditions adversely affecting discretionary consumer spending;

changes in customer tastes and preferences;

the availability of other forms of entertainment;

critical reviews and public tastes and preferences, all of which change rapidly and cannot be predicted; and

the acceptance by customers of the purchase of in-game items.

Our ability to plan for product development and distribution and promotional

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activities will be significantly affected by our ability to anticipate and adapt to relatively rapid changes in consumer tastes and preferences. Currently, one of the most popular types of online games in China is the MMORPG. However, there is no assurance that MMORPGs will continue to be popular in China or that their popularity will not be replaced by new and different types of online or other games in the future. A decline in the popularity of online games in general or the MMORPGs that we operate, will likely adversely affect our business and prospects.

In addition, we expect that as we introduce new MMORPGs, a certain portion of our existing customers will switch to the new games. If this transfer of players from our existing games exceeds our expectations, we may have to adjust our marketing, pricing and other business plans and, as a result, our growth and profitability could be materially and adversely affected.

We may not be able to maintain our market share and profitability as we operate in a highly competitive industry and compete against many companies.

There are currently over 100 online game operators in China. We expect more companies to enter the online game industry in China and a wider range of online games to be introduced to the Chinese market, given the relatively low entry barriers to the online game industry. Our competitors vary in size and include large companies, many of which have significantly greater financial, marketing and game development resources and name recognition than we have, such as Shanda Interactive Entertainment Limited, Netease.com, Inc. and Sina Corporation. As a result, we may not be able to devote adequate resources to designing, developing or acquiring new games, undertaking extensive marketing campaigns, adopting aggressive pricing policies, paying high compensation to game developers or compensating independent game developers to the same degree as certain of our competitors. Our competitors may introduce new business methods, such as charging customers a flat user fee. If these new business methods are more attractive to customers than the business methods we currently use, our customers may switch to our competitors' games, and we may lose market share. We cannot assure you that we will be able to compete successfully against any new or existing competitors, or against any new business methods implemented by them. In addition, the increased competition we anticipate in the online game industry may also reduce the number of our users or growth rate of our user base, reduce the average number of hours played by our users, or cause us to reduce usage fees. All of these competitive factors could adversely affect our operational success, cash flows, operating margins and profitability.

Future acquisitions may have an adverse effect on our ability to manage our business.

Selective acquisitions form a part of our strategy to further expand our business. As we have yet to make any significant acquisitions other than our acquisition of a 31.1% interest in C9I, we do not have any prior experience integrating any new company into ours. Accordingly, we believe that integration of a new company's operations and personnel into ours will require significant attention of our management. The diversion of our management's attention away from our business and any difficulties encountered in the integration process could have an adverse effect on our ability to manage our business.

We intend to selectively acquire companies, technologies and personnel that are complementary to our existing business. Our ability to grow through future acquisitions, investments or organic means will depend on the availability of suitable acquisition and

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investment candidates at an acceptable cost, our ability to compete effectively to attract these candidates, and the availability of financing to complete larger acquisitions. We may face significant competition in acquiring new businesses or companies, which may hinder the execution of our growth strategy. Future acquisitions or investments could result in potential dilutive issuance of equity securities or incurrence of debt, contingent liabilities or amortization expenses related to goodwill and other intangible assets, any of which could adversely affect our financial condition and results of operations. 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 its intended benefits. Future acquisitions would also expose us to potential risks, including risks associated with the assimilation of new operations, technologies and personnel, unforeseen or hidden liabilities, the diversion of resources from our existing businesses, sites and technologies, the inability to generate sufficient revenue to offset the costs and expenses of acquisitions, and potential loss of, or harm to, our relationships with employees, customers, licensors and other suppliers as a result of integration of new businesses.

We may need additional financing and we may not be able to obtain it on terms acceptable to us, or at all.

We believe that our current cash and cash equivalents and cash flow from operations will be sufficient to meet our anticipated cash needs for the foreseeable future. We may, however, require additional cash resources due to changes in business conditions or other future developments, including any investments or acquisitions we may decide to pursue. We have made significant financial commitments under the license agreements with the licensors of the MMORPGs operated by us. If our resources are insufficient to satisfy our cash requirements, we may seek additional financing in the form of additional sales of our shares, issuance of debt securities or through obtaining a credit facility. These forms of financing may result in dilution to our shareholders or increased debt service obligations, and could result in operating and financing covenants that would restrict our operations. We cannot assure you that any such future financing will be available to us in amounts or on terms acceptable to us, if at all.

Any failure to maintain a stable and efficient distribution network could materially and adversely affect our business and results of operations.

Online payment systems in China are at an early stage of development and are not as widely available or acceptable to consumers in China as in the United States and other developed countries. See Item 3, Key Information Risk Factors Risk Related to Doing Business in China The law and regulations governing the online game industry in China are developing and subject to future changes. If we fail to obtain or maintain all applicable permits and approvals, our business and operations would be materially and adversely affected. As a result, we rely heavily on a distribution network composed of third party distributors for the sale of our game playing time to end users. We do not have long-term agreements with any of our distributors, and cannot assure you that we will continue to maintain favorable relationships with them. If we fail to maintain a stable and efficient distribution network, our business and results of operations could be materially and adversely affected.

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We rely on services from third parties to carry out our businesses and to deliver our prepaid cards to customers, and if there is any interruption or deterioration in the quality of these services, our customers may cease using our products and services.

We rely on distributors throughout China to sell prepaid online playing time for our MMORPGs. Also, we rely on third-party licenses for some of the software underlying our technology platform as well as China Telecom's Internet data centers to host our servers. See Item 4, Information on the Company Business Overview Pricing, Distribution and Marketing. Any interruption in our ability to obtain the services of these or other third parties or deterioration in their performance could impair the timeliness and quality of our services. Furthermore, if our arrangements with any of these third parties are terminated or modified against our interest, we may not be able to find alternative channels of distribution on a timely basis or on terms favorable to us. If any of these events occurs, our customers may cease using our products and services.

We obtain WoW playing time information from a third party and use that information in connection with our recognition of revenues from sale of WoW playing time in China.

We obtain WoW playing time information from a third party and use that information in connection with our recognition of revenues from sale of WoW playing time in China. Since June 2005, substantially all of our revenues have been generated from our sale of WoW playing time in China. We sell game playing time primarily through the sales of prepaid cards and prepaid online points to distributors, who in turn sell them to our customers who play our games. Prepaid fees received from distributors for sales of game cards and online points are recognized as revenue only upon the customer's actual use of game playing time or the expiration of their game cards or online points. VUG maintains the systems that record and track the time that our customers spend playing the WoW game on our behalf. We are provided with data on customers' actual usage of WoW playing time by VUG, and use that data in connection with our recognition of revenues from the sale of WoW playing time in China. We do not have direct access to the systems maintained by VUG. If VUG suffers any data loss or miscalculates the time our customers spend playing the WoW game, our results of operation may be adversely affected.

Unexpected network interruptions caused by system failures or other internal or external factors may lead to user attrition, revenue reductions and may harm our reputation.

Any failure to maintain the satisfactory performance, reliability, security and availability of our network infrastructure may cause significant harm to our reputation and our ability to attract and maintain users. The system hardware for our operations is located in several cities in China. We maintain backup system hardware in Shanghai, Shenzhen, Chengdu and Beijing. Any server interruptions, break-downs or system failures in the cities where we maintain our system hardware, including failures that may be attributable to sustained power shutdowns, or other events within or outside our control that could result in a sustained shutdown of all or a material portion of our services, could adversely impact our ability to service our users.

Our network systems are also vulnerable to damage from computer viruses, fire, flood, power loss, telecommunications failures, computer hacking and similar events. We do not maintain insurance policies covering losses relating to our systems and we do not have business interruption insurance.

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Our business may be harmed if our technology becomes obsolete or if our system infrastructure fails to operate effectively.

The online game industry is subject to rapid technological change. We need to anticipate the emergence of new technologies and games, assess their acceptance and make appropriate investments. If we are unable to do so, new technologies in online game programming or operations could render WoW or other games obsolete or unattractive.

We use internally developed Pass9 and other software systems that support nearly all aspects of our billing and payment transactions. Our business may be harmed if we are unable to upgrade our systems fast enough to accommodate future traffic levels, avoid obsolescence or successfully integrate any newly developed or acquired technology with our existing systems. Capacity constraints could cause unanticipated system disruptions and slower response times, affecting data transmission and game play. These factors could, among other things, cause us to lose existing or potential customers and existing or potential game developer partners.

Our results of operations may be materially and adversely affected if our licensors cannot prevail on future intellectual property rights claims brought against them by third parties.

We expect to continue to derive substantially all of our revenues and profits from WoW and other licensed online games in the near future. Any of our licensors may be subject to intellectual property rights claims with respect to the online game it licensed to us. If any of our licensors cannot prevail on the intellectual property rights claims brought against it, we would lose our license from such licensor and may not be able to obtain the license from the legitimate owner of the game, and our results of operations could be materially and adversely affected.

We may be subject to future intellectual property rights claims or other claims which could result in substantial costs and diversion of our financial and management resources away from our business.

There is no assurance that our online games or other content posted on our websites do not or will not infringe upon patents, valid copyrights or other intellectual property rights held by third parties. We may be subject to legal proceedings and claims from time to time relating to the intellectual property of others in the future. In addition, some of our employees were previously employed at other companies including our current and potential competitors. We also intend to hire additional personnel to expand our product development and technical support teams. To the extent these employees have been involved in research at our company similar to research in which they have been involved at their former employers, we may become subject to claims that such employees may have used or disclosed trade secrets or other proprietary information of their former employers. In addition, our competitors may file lawsuits against us in order to gain an unfair competitive advantage over us. Although we are not aware of any pending or threatened claims, if any such claim arises in the future, litigation or other dispute resolution proceedings may be necessary to retain our ability to offer our current and future games, which could result in substantial costs and diversion of our financial and management resources. Furthermore, if we are found to have violated the intellectual property rights of others, we may be enjoined from using such intellectual property rights, incur additional costs to license or develop alternative games and be forced to pay fines and damages, any of which may materially and adversely affect our business and results of operations.

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We experience fluctuations in quarterly operating results.

Our quarterly operating results have fluctuated in the past and will likely fluctuate in the future. These fluctuations in operating results depend on a variety of factors, including the demand for our products and the products of our competitors, the level of usage of illegal game servers, the level of usage of the Internet, the size and rate of growth of the online game market, development and promotional expenses related to the introduction of new products, network interruptions and other system problems, and the recurrence of SARS or the outbreaks of any other contagious diseases such as avian flu. In addition, because our game software is susceptible to unauthorized character enhancements, we may periodically delete characters that are enhanced with unauthorized modifications. This has caused some affected customers to stop playing the game, which, in the aggregate, may cause our operating results to fluctuate.

As an online game operator, our revenues in any quarter are substantially dependent on the amount of game playing time spent by our customers in that quarter. To a significant degree, our operating expenses are based on planned expenditures and our expectations regarding prospective customer usage. Failure to meet our expectations could disproportionately and adversely affect our operating results in any given quarter. As a result, we believe that period-to-period comparisons of operating results are not necessarily indicative of our future results.

Our business depends substantially on the continuing efforts of our senior executives, and our business may be severely disrupted if we lose their services.

Our future success heavily depends upon the continued services of our senior executives. We rely on their expertise in business operations, technology support and sales and marketing and on their relationships with our shareholders, distributors and relevant government authorities. We do not maintain key-man life insurance for any of our key executives. If one or more of our key executives are unable or unwilling to continue in their present positions, we may not be able to replace them easily or at all. As a result, our business may be severely disrupted, our financial condition and results of operations may be materially adversely affected, and we may incur additional expense to recruit and train personnel.

Each of our executive officers has entered into an employment agreement with us, which contains confidentiality and non-competition provisions. If any disputes arise between our executive officers and us, we cannot assure you the extent to which any of these agreements could be enforced in China, where these executive officers reside and hold most of their assets, in light of uncertainties with the PRC legal system. See Item 3, Key Information Risk Factors Risks Related to Doing Business in China Uncertainties with respect to the PRC legal system could adversely affect us.

If we are unable to attract, train and retain key individuals and highly skilled employees, our business may be adversely affected.

If our business continues to expand, we will need to hire and retain additional qualified employees, including skilled and experienced online game developers. Since our industry is characterized by high demand and intense competition for talent, we may need to offer higher compensation and other benefits in order to retain key personnel in the future. We cannot assure you that we will be able to attract or retain the qualified game developers or other key personnel that we will need to achieve our business objectives. In addition, as we

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are still a relatively young company and our business has grown rapidly since our establishment, our ability to train and integrate new employees into our operations may not meet the increasing demands of our business.

PRC laws and regulations, including the New MII Notice issued in July 2006, restrict foreign ownership of the Internet content provision, Internet culture operation and Internet publishing licenses, and substantial uncertainties exist with respect to the application and implementation of PRC laws and regulations.

We are a Cayman Islands company and, as such, we are classified as a foreign enterprise under PRC laws. Various regulations in China currently restrict foreign or foreign-owned entities from holding certain licenses required in China to provide online games over the Internet, including Internet content provision, or ICP, Internet culture operation and Internet publishing licenses. In light of such restrictions, we rely on Shanghai The9 Information Technology Co., Ltd. (formerly known as Shanghai Jiucheng Information Technology Co., Ltd.), or Shanghai IT, to hold and maintain the licenses necessary for online games in China. Shanghai IT is a PRC company controlled by Jun Zhu and Yong Wang, who are our Chief Executive Officer and Vice President, respectively.

In July 2006, the Ministry of Information Industry, or MII, issued a notice, or the New MII Notice, which prohibits ICP license holders from leasing, transferring or selling a telecommunications business operating license to any foreign investors in any form, or providing any resource, sites or facilities to any foreign investors for their illegal operation of telecommunications business in China. The notice also requires that ICP license holders and their shareholders directly own the domain names and trademarks used by such ICP license holders in their daily operations. The notice further requires each ICP license holder to have the necessary facilities for its approved business operations and to maintain such facilities in the regions covered by its license. In addition, all value-added telecommunication service providers are required to maintain network and information security in accordance with the standards set forth under relevant PRC regulations. The local authorities in charge of telecommunications services are required to ensure that existing ICP license holders will conduct a self-assessment of their compliance with the New MII Notice and to submit status reports to the MII before November 1, 2006. Since the New MII Notice was issued, we have transferred to Shanghai IT almost all of the domain names used in its daily operations and are in the process of transferring to Shanghai IT certain trademarks used in its daily operations, as required under the New MII Notice. As the transfer of registered trademarks requires the approval of the relevant PRC governmental agencies, we have not completed the transfer of relevant trademarks to Shanghai IT, nor can we assure you when we will obtain necessary approvals for such transfer. If we or Shanghai IT are found to be in violation of any existing or future PRC laws or regulations, including the New MII Notice, the relevant governmental authorities, according to the nature of the violation, would have broad discretion to adopt one or more of the following measures against us, including levying fines, confiscating our income or the income of Shanghai IT, revoking our business licenses or the business license and/or other licenses of Shanghai IT, requiring us and Shanghai IT to restructure our ownership structure or operations, and requiring us or Shanghai IT to discontinue any portion or all of our operations related to online games. Any of these actions could cause significant disruption to our business operations and may materially and adversely affect our business and financial condition and results of operations.

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In the opinion of our PRC counsel, Fangda Partners, the ownership structure and the business operation models of our PRC subsidiaries and consolidated affiliated entities comply with all existing PRC laws, rules and regulations, subject to the transfer of certain trademarks to Shanghai IT as required under the New MII Notice. In addition, no consent, approval or license is required under any of the existing laws and regulations of China for their ownership structure, businesses and operations except for those which we have already obtained or which would not have a material adverse effect on our business or operations as a whole. There are, however, substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations. Accordingly, we cannot assure you that PRC government authorities will ultimately take a view that is consistent with the opinion of our PRC legal counsel.

We could also face material and adverse tax consequences if the PRC tax authorities determine that our contractual arrangements with Shanghai IT were not made on reasonable commercial terms or otherwise. If that happens, they may adjust 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 Shanghai IT, which could adversely affect us by (i) increasing Shanghai IT's tax liability without reducing our PRC subsidiaries' tax liability, which could further result in late payment fees and other penalties to Shanghai IT for underpaid taxes; or (ii) limiting Shanghai IT's ability to maintain preferential tax treatments and other financial incentives.

We depend on Shanghai IT to hold certain operating licenses. If Shanghai IT violates our contractual arrangements with it, our business could be disrupted and our reputation may be harmed.

Because the PRC government restricts our ownership of Internet content provision, Internet culture operation and Internet publishing businesses in China, we depend on Shanghai IT, in which we have no ownership interest, to hold and maintain certain licenses necessary for our business operations. Our relationship with Shanghai IT is governed by a series of contractual arrangements that are intended to provide us with effective control over these entities, but these contractual arrangements may not be as effective in providing control as direct ownership of these businesses. For example, Shanghai IT could violate its contractual arrangements with us, go bankrupt, suffer from problems in its business or otherwise become unable to perform its contracts with us and, as a result, we may lose the licenses required for our online game operations and our reputation and business could be harmed.

The principal shareholders of Shanghai IT have potential conflicts of interest with us, which may adversely affect our business.

Our Chief Executive Officer, Jun Zhu, and our Vice President, Yong Wang, are also the principal shareholders of Shanghai IT. Thus, conflicts of interest between their duties to our company and Shanghai IT may arise. We cannot assure you that when conflicts of interest arise, these persons will act completely in our interests or that conflicts of interests will be resolved in our favor. In addition, these persons could violate their non-competition or employment agreements with us or their legal duties by diverting business opportunities from us to others. In any such event, we would have to rely on the PRC legal system to enforce these agreements. Any legal proceeding could result in the disruption of our business, diversion of our resources and the incurrence of substantial costs. See Item 3, Key Information Risk Factors Risks Related to Doing Business in China Uncertainties with respect to the PRC legal system could adversely affect us.

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Our subsidiaries in China are subject to restrictions on paying dividends or making other payments.

We are a holding company incorporated in Cayman Islands, and we rely primarily on dividends and other distributions from our subsidiaries in China, The9 Computer Technology Consulting (Shanghai) Co., Ltd., or The9 China, and The9 Interactive Information Technology (Shanghai) Co., Ltd., or C9I China, for our cash requirements. Current PRC regulations restrict our subsidiaries in China from paying dividends in the following two principal aspects: (i) our subsidiaries in China are only permitted to pay dividends out of their respective accumulated profits, if any, determined in accordance with PRC accounting standards and regulations and (ii) these entities are required to allocate at least 10% of their respective accumulated profits each year, if any, to fund certain capital reserves until the cumulative total of the allocated reserves reaches 50% of registered capital, and these reserves are not distributable as cash dividends. See Item 4, **Information on the Company Business Overview Government regulations**. Further, if these entities incur debt on their behalf in the future, the instruments governing such debt may restrict their ability to pay dividends or make other payments. Our inability to receive dividends or other payments from The9 China or C9I China may adversely affect our ability to continue to grow our business and make cash or other distributions to the holders of our ordinary shares and ADSs. In addition, failure to comply with relevant State Administration of Foreign Exchange, or SAFE, regulations may restrict the ability of our subsidiaries to make dividend payments to us. See Item 3, **Key Information Risk Factors Risks Related to Doing Business in China Recent PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident shareholders or us to penalties and limit our ability to inject capital into our PRC subsidiary, limit our subsidiary's ability to increase its registered capital, distribute profits to us, or otherwise adversely affect us.**

The aggregate net assets of all of our PRC subsidiaries and VIE subsidiaries not distributable in the form of advances, loans or dividends to us as a result of applicable PRC regulations and due to our organizational structure were RMB78.6 million, or 8.3%, and RMB 47.1 million, or 3.5%, of our total consolidated net assets as of December 31, 2005 and 2006, respectively. Our subsidiaries in the PRC or VIE subsidiaries, however, may use such net assets to make payments to the Company or its shareholders, including payments through royalty and license fees under the trademark license agreements or certain other contractual arrangements, subject to the terms and conditions of such agreements and applicable regulations. We have not currently entered into any such arrangements with our subsidiaries in the PRC or with our VIE subsidiaries.

Our business could suffer if we do not successfully manage current growth and potential future growth.

Our current and anticipated growth has placed and will continue to place a significant strain on our management, operational, financial and other resources as we expand our operations and workforce. For example, the total number of our employees increased from 100 as of December 31, 2001 to approximately 960 as of December 31, 2006. In addition, certain of our directors, officers and employees have begun to serve our company recently. These new personnel will have to learn our business and successfully integrate themselves into our company. In addition, we will need to continue to develop and improve our financial and management controls and our reporting systems and procedures. We cannot assure you that we will be able to efficiently or effectively manage the growth of our operations, and any failure to do so may limit our future growth and hamper our business strategy.

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We may not be able to successfully implement our growth strategies.

Our objective is to become a leading provider and developer of multi-platform games in China. In order to achieve this objective, we are pursuing a number of growth strategies, including offering additional MMORPGs, casual games, and games that can be operated on different platforms such as PCs, consoles and hand-held devices. Some of these strategies relate to new services and products for which there are no established markets in China or in which we lack experience and expertise. As a result, we cannot assure you that we will be able to deliver new products or services on a commercially viable basis or in a timely manner, or at all, or that we will be able to successfully implement our other growth strategies. If any of these happens, our competitiveness may be harmed and our business, financial condition and results of operations may be materially and adversely affected.

The recurrence of SARS, or similar adverse public health developments in China, may materially and adversely affect our business and operating results.

In early 2003, several countries in Asia, including China, were affected by the outbreak of severe acute respiratory syndrome, or SARS. During the height of the SARS epidemic in the second quarter of 2003, we experienced a decline in the number of concurrent users of our licensed game MU in China, which we believe resulted largely from the PRC government's decision to close Internet cafés in Beijing and elsewhere to prevent the spread of SARS. Most of our online game players can only access games at Internet cafés. If there is a recurrence of an outbreak of SARS or any outbreaks of other contagious diseases such as avian flu, it may adversely affect our business and operating results. Our operations may be impacted by a number of health-related factors, including, among other things, quarantines or closures of our offices, which could severely disrupt our operations, the sickness or death of our key officers and employees, closure of Internet cafés and other public areas where people access the Internet, and a general slowdown in China's economy. Any of the foregoing events or other unforeseen consequences of public health problems could adversely affect our business and results of operations. We have not adopted any preventive measures or contingency plans to ensure the safety of employees and minimize disruptions or other adverse effects on our operations that may occur due to any outbreaks of contagious diseases such as SARS or avian flu in China.

We could be liable for breaches of security on our websites and fraudulent transactions by users of our websites.

Currently, a portion of our transactions are conducted through our websites. In such 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 to maintain consumer confidence. Our current security measures may not be adequate. Security breaches could expose us to litigation and possible liability for failing to secure confidential customer information and could harm our reputation and ability to attract customers.

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Existing major shareholders have substantial control over us and could delay or prevent a change in corporate control.

Incsight Limited, or Incsight, a company wholly owned by Jun Zhu, our Chairman and Chief Executive Officer, and Bosma Limited, the two largest shareholders of our company, currently own, in the aggregate, a majority of our outstanding ordinary shares. Incsight and Bosma have entered into a voting agreement to vote together with respect to election of our directors. See Item 6, Directors, Senior Management and Employees Board Practices Voting Agreement. As a result, these shareholders will continue to exert significant control over all matters requiring shareholder approval, including but not limited to, the election of directors and approval of significant corporate transactions. This voting power could delay or prevent an acquisition of our company on terms that other shareholders may desire. In addition, the rights of minority shareholders and the fiduciary obligations of directors and majority shareholders in the Cayman Islands may not be as extensive as those in the United States or elsewhere, and the ability to assert shareholder rights may be comparatively limited.

If tax benefits currently available to The9 China, C9I China and Shanghai IT or to us are reduced or repealed, our business could suffer.

The National People's Congress of PRC adopted the new Enterprise Income Tax Law (New Tax Law) on March 16, 2007, which imposes a single unified EIT rate of 25% for most domestic enterprises and foreign-invested enterprises and will become effective as of January 1, 2008. The New Tax Law contemplates various transition periods and measures for existing preferential tax policies, including a grace period for as long as 5 years for foreign-invested enterprises that are currently entitled to a lower income tax rate and continued implementation of preferential tax treatment with a fixed term until the expiration of such fixed term. Moreover, unlike the tax regulations currently in effect, which specifically exempt withholding taxes on dividends payable to non-PRC investors from foreign-invested enterprises in the PRC, the New Tax Law provides that an income tax rate of 20% will normally be applicable to dividends payable by Chinese companies to non-PRC-resident enterprises. In addition, the new law deems an enterprise established offshore but having its management organ in the PRC as a resident enterprise that will be subject to PRC tax on its global income. The term management organ has not yet been defined by the PRC government. High/new-tech enterprises that are specified as strongly supported by the PRC government will be entitled to an income tax rate of 15%. Our subsidiaries that are located in the Pudong New District of Shanghai are currently entitled to a preferential tax rate of 15%. We are currently exempted from withholding taxes on dividends from our subsidiaries. The New Tax Law empowers the PRC State Council to enact appropriate implementing rules and measures and there is no guarantee that we or our subsidiaries will continue to be entitled to this preferential rate. If our subsidiaries are no longer entitled to preferential tax rates, they may be subject to the unified EIT rate of 25%. Any significant increase of EIT rate applicable to The9 China, C9I China and Shanghai IT or imposing of withholding taxes on dividends payable by our subsidiaries to us, or EIT levy on us or any of our subsidiaries or affiliate entities registered outside PRC as a resident enterprise under the New Tax Law will have a material adverse impact on our results of operations and financial conditions.

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We may become a passive foreign investment company, which could result in adverse United States federal income tax consequences to U.S. Holders.

Based on the price of the ADSs and our ordinary shares and the composition of our income and assets, we believe we were not a passive foreign investment company, or PFIC, for United States federal income tax purposes for our taxable year ended December 31, 2006. However, we must make a separate determination each year as to whether we are a PFIC (after the close of each taxable year) and we cannot assure you that we will not be a PFIC for our current taxable year ending December 31, 2007 or any future taxable year. A non-U.S. corporation will be considered a PFIC for any taxable year if either (1) at least 75% of its gross income is passive income or (2) 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 market value of our assets is generally determined largely by reference to the market price of our ADSs and ordinary shares, which may fluctuate considerably. In addition, the composition of our income and assets will be affected by how, and how quickly, we spend the cash we raise in any offering. If we were treated as a PFIC for any taxable year during which a U.S. Holder held an ADS or an 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*.

Our articles of association contain anti-takeover provisions that could adversely affect the rights of holders of our ordinary shares and ADSs.

Our current articles of association contain provisions that could limit the ability of others to acquire control of our company or cause us to engage in change-of-control transactions. These provisions could have the effect of depriving our shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging third parties from seeking to obtain control of our company in a tender offer or similar transaction. For example, our board of directors is divided into three classes with different terms, each of which will expire each year. The staggered nature of our board would delay the replacement of a majority of our directors and would make changes to the board of directors more difficult than if such a feature were not in place. In addition, our board of directors has the authority, without further action by our shareholders, to issue preferred shares in one or more series and to fix their designations, powers, preferences, privileges, relative participating, optional or special rights and any qualifications, limitations or restrictions, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, any or all of which may be greater than the rights associated with our ordinary shares, in the form of ADS or otherwise. Preferred shares could be issued quickly with terms calculated to delay or prevent a change in control of our company or make removal of management more difficult. If our board of directors issues preferred shares, the price of our ADSs may fall and the voting and other rights of the holders of our ordinary shares and ADSs may be adversely affected.

We have limited business insurance coverage in China.

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

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Some of our subsidiaries and affiliated entities in China engaged in certain business activities beyond the authorized scope of their respective licenses, and if they are subject to administrative penalties or fines, our operating results may be adversely affected.

Some of our subsidiaries and affiliated entities in China engaged in business activities that were not within the authorized scope of their respective licenses. For example, in 2006, The9 China was engaged in the distribution of WoW-related accessories, souvenirs and other merchandise. The total sales in 2006 related to such merchandise was approximately RMB0.2 million (US\$0.03 million). The distribution of such merchandise, however, was not within the The9 China's authorized business scope. In addition, in 2005, Shanghai IT was issued a new ICP license with national coverage issued by the Ministry of Information Industry, or the 2005 License, and returned the old ICP license issued in 2003 to the Shanghai Communication Administration. However, the 2005 License does not cover the online bulletin board service that was included in the old ICP license. Shanghai IT is in the process of applying to the Ministry of Information Industry for specific approval for the online bulletin board service. While all of these companies are in the process of obtaining relevant licenses, the relevant PRC authorities have the authority to impose administrative fines or other penalties for their violations, which may in turn adversely affect our operating results.

Failure to achieve and maintain effective internal controls could have a material adverse effect on our business, results of operations and the trading price of our ADSs.

We are subject to the reporting obligations under U.S. securities laws. The Securities and Exchange Commission, or the SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, has adopted rules requiring public companies to include a report of management in its annual report that contains an assessment by management of the effectiveness of such company's internal control over financial reporting. In addition, beginning with the year ended December 31, 2007, an independent registered public accounting firm for a public company must attest to and report on the effectiveness of the company's internal control over financial reporting.

Our management has conducted an evaluation of the effectiveness of our internal control over financial reporting and concluded that our internal control over financial reporting was effective as of December 31, 2006. If we fail to maintain the effectiveness of our internal control over financial reporting, we may not be able to conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with the Sarbanes-Oxley Act. Effective internal controls are necessary for us to produce reliable financial reports. As a result, any failure to achieve and maintain effective internal controls over financial reporting could result in the loss of investor confidence in the reliability of our financial statements, which in turn could negatively impact the trading price of our ADSs. Furthermore, we may need to incur additional costs and use additional management and other resources in an effort to comply with Section 404 of the Sarbanes-Oxley Act and other requirements going forward.

Risks Related to Doing Business in China

Our business may be adversely affected by public opinion and government policies in China.

Currently, most of our recurring users are young males, including students. Due to the higher degree of user loyalty to MMORPGs, easy access to PCs and Internet cafés, and lack of more appealing forms of entertainment in China, many teenagers frequently play online

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games. This may result in these teenagers spending less time on, or refraining from, other activities, including education and sports. Internet cafés, which are currently the most important outlets for online games, have been criticized by the general public in China as exerting a negative influence on young people. Due primarily to such adverse public reaction, some local governments in China have tightened their regulation of Internet café operations through, among other things, limiting the number of the new operating licenses to be issued and further reducing the hours during which the Internet cafés are permitted to open for business. Also, local and higher-level governmental authorities may from time to time decide to more strictly enforce the customers' age limit and other requirements relating to Internet cafés as a result of the occurrence of, and the media attention on, gang fights, arson or other incidents in or related to Internet cafés. As a significant portion of our customers access our games from Internet cafés, any restrictions on Internet café operations could result in a reduction of the amount of time our customers spend on our online games or a reduction or slowdown in the growth of our customer base, thus adversely affecting our business and results of operations.

More recently, in April 2007, various governmental authorities, including GAPP, the Ministry of Information Industry, the Ministry of Education, the Ministry of Public Security, and other relevant authorities jointly issued a circular concerning the mandatory implementation of an anti-fatigue system in online games, which is aimed at protecting the physical and psychological health of minors. This circular requires that all online games incorporate an anti-fatigue system and an identity verification system, both of which may limit the amount of time that a minor or other user may continuously spend playing an online game. For online games currently in operation or in open beta testing, the development of these systems must be completed and made effective prior to July 16, 2007. We will be required to implement such anti-fatigue and identification systems on all of our online games. The implementation of these systems, or enactment by the PRC government of any additional laws to further tighten its administration over the Internet and online games or its supervision of Internet cafés may result in less time spent by customers or fewer customers playing our online games, which may materially and adversely affect our business results and prospects for future growth.

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

Substantially all of our operations are conducted in China and substantially all of our revenues are sourced from China. Accordingly, our results of operations, financial condition and prospects are subject to a significant degree to the economic, political and legal developments of China. Since the late 1970s, the PRC government has been reforming the economic system in China. These reforms have resulted in significant economic growth. However, we cannot predict the future direction of economic reforms or the effects such measures may have on our business, financial position or results of operations. Furthermore, while the economy of China has experienced significant growth in the past twenty years, growth has been uneven, both geographically and among various sectors of the economy. Any adverse change in the economic conditions in China, in policies of the PRC government or in laws and regulations in China, could have a material adverse effect on the overall economic growth of China and investment in the online game industry. Such developments could adversely affect our businesses, lead to reduction in demand for our services and adversely affect our competitive position.

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The laws and regulations governing the online game industry in China are developing and subject to future changes. If we fail to obtain or maintain all applicable permits and approvals, our business and operations would be materially and adversely affected.

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 Ministry of Information Industry, the GAPP, the Ministry of Culture and the Ministry of Public Security, are empowered to issue and implement regulations governing various aspects of the online games industry.

We are required to obtain applicable permits or approvals from different regulatory authorities in order to provide online games. For example, an Internet content provider, or ICP, must obtain an ICP license in order to engage in any commercial ICP operations within China. In addition, an online games operator must also obtain a license from the Ministry of Culture and a license from the GAPP in order to distribute games through the Internet. Furthermore, online games, as a form of software products, are required to be registered with the Ministry of Information Industry or its local counterparts and obtain software products registration numbers and software products registration certificates. However, as the Ministry of Information Industry has not been strictly implementing this requirement, we have not applied for registration for some of our online games, including WoW. If the Ministry of Information Industry begins to tighten its administration on online games and strictly require online games to be registered, and if we fail to make timely registration for our games as required, we may be subject to fines or penalties, including being ordered to cease operation of unregistered online games.

If we fail to maintain any of these required permits or approvals, we may be subject to various penalties, including fines and the discontinuation or restriction of our operations. Any such disruption in our business operations would materially and adversely affect our financial condition and results of operations.

As the online games industry is at an early stage of development in China, new laws 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 from time to time. As a result, substantial uncertainties exist regarding the interpretation and implementation of current and any future PRC laws and regulations applicable to the online gaming industry. However, we cannot assure you that we will be able to timely obtain this license or any other new license required in the future, or at all. While we believe that we are in compliance in all material respects with all applicable PRC laws and regulations currently in effect, we cannot assure you that we will not be found in violation of any current or future PRC laws and regulations.

Intensified government regulation of Internet cafés could limit our ability to maintain or increase our revenues and expand our customer base.

In April 2001, the PRC government began tightening its supervision of Internet cafés, closing unlicensed Internet cafés, requiring those remaining open to install software to prevent access to sites deemed subversive and requiring web portals to sign a pledge not to host subversive sites. Furthermore, the PRC government's policy, which encourages the development of a limited number of national and regional Internet café chains and discourages the establishment of independent Internet cafés, may slow down the growth of Internet cafés. Currently, the issuance of Internet café licenses is subject to the overall

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planning of the Ministry of Culture and the local governments in respect of total number and locations of Internet cafés. Since 2004, the grant of new Internet café licenses has been suspended from time to time, and was again suspended in 2007. As Internet cafés are the primary venue for users to play our games, any reduction in the number, or any slowdown in the growth, of Internet cafés in China will limit our ability to maintain or increase our revenues and expand our customer base, which will in turn materially and adversely affect our business and results of operations.

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 Internet websites.

The PRC government has adopted certain 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 content that, among other things, violates PRC laws and regulations, impairs the national dignity of China, or is obscene, superstitious, fraudulent or defamatory. Failure to comply with these requirements could result in the revocation of ICP and other required licenses and the closure of the concerned websites. The website operator may also be held liable for such prohibited information displayed on, retrieved from or linked to such website.

The Ministry of Culture has issued a notice reiterating the government's policies to prohibit the distribution of games with violence, terror, cruelty or other elements that are believed to have the potential effect of instigating crimes, and to prevent the influx of harmful cultural products from overseas. The notice requires, among other things, the review and prior approval of all the new online games licensed from foreign game developers and related license agreements and the filing of domestically developed online games. We have obtained the necessary approvals from the Ministry of Culture for operating WoW and MU in China, and completed the relevant filing requirement with respect to Joyful Journey West, or JJW. We will submit new games for the required review or filing in due course. The Ministry of Culture may find the content of our new licensed games objectionable, and we may otherwise be unable to obtain the approvals for these games in a timely manner, or at all. If this happens, we will not be able to launch our new licensed games within the expected timeframe or at all, and our business and results of operations could be materially adversely affected.

In addition, the Ministry of Information Industry has published regulations that subject website operators to potential liability for content included on their websites and the actions of users and others using their websites, including liability for violations of PRC laws prohibiting the dissemination of content deemed to be socially destabilizing. The Ministry of Public Security has the authority to order any local Internet service provider, or ISP, to block any Internet website maintained outside China at its sole discretion. Periodically, the Ministry of Public Security has stopped the dissemination over the Internet of information which it believes to be socially destabilizing. The State Secrecy Bureau, which is directly responsible for the protection of State secrets of the PRC government, is authorized to block any website it deems to be leaking State secrets or failing to meet the relevant regulations relating to the protection of State secrets in the dissemination of online information.

As these regulations are relatively new and subject to interpretation by the relevant authorities, it may not be possible for us to determine in all cases the type of content that could result in liability for us as a website operator. In addition, we may not be able to control or restrict the content of other Internet content providers linked to or accessible through our

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websites, or content generated or placed on our websites by our users, 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 limit or eliminate the dissemination of such information or otherwise curtail the nature of such content on our websites, which may reduce our user traffic and have a material adverse effect on our financial condition and results of operations. In addition, we may be subject to significant penalties for violations of those regulations arising from information displayed on, retrieved from or linked to our websites, including a suspension or shutdown of our operations.

Future movements in exchange rates between the U.S. dollar and RMB may adversely affect the value of our ADSs.

We are exposed to foreign exchange risk arising from various currency exposures. Our payments to Webzen and VUG and a significant portion of our financial assets are denominated in U.S. dollars while almost all of our revenues are denominated in RMB, the legal currency in China. We have not used any forward contracts or currency borrowings to hedge our exposure to foreign currency risk. The value of RMB against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in political and economic conditions. The conversion of RMB into foreign currencies, including U.S. dollars, has been based on rates set 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 Renminbi to the U.S. dollar. Under the new policy, 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 an approximately 5.7% appreciation of RMB against the U.S. dollar by the end of 2006. Additionally, in May 2007, the PRC government increased the daily trading band of RMB against a basket of certain foreign currencies from 0.3% to 0.5%. While the international reaction to these RMB revaluations have 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.

Any significant revaluation of RMB may adversely affect our cash flows and financial position, and the value of, and any dividends payable on, our ADSs in U.S. dollars. For example, an appreciation of RMB against the U.S. dollar would make any new RMB denominated investments or expenditures more costly to us, to the extent that we need to convert U.S. dollars into RMB for such purposes. An appreciation of RMB against the U.S. dollar would also result in foreign currency translation losses for financial reporting purposes when we translate our U.S. dollar denominated financial assets into RMB, as RMB is our reporting currency.

Restrictions on currency exchange in China limit our ability to utilize our revenues effectively, make dividend payments and meet our foreign currency denominated obligations.

Because substantially all of our revenues are in RMB, restrictions on currency exchange in China limit our ability to utilize revenue generated in RMB to fund our business activities outside China, make dividend payments in U.S. dollars, or obtain and remit sufficient foreign currency to satisfy our foreign currency-denominated obligations, such as license fees and royalty payments. The principal regulation governing foreign currency exchange in China is the Foreign Currency Administration Rules (1996), as amended. Under such rules, RMB is freely convertible for trade and service-related foreign exchange transactions, but not for direct investment, loan or investment in securities outside China

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unless the prior approval of SAFE is obtained. Although the PRC government regulations now allow greater convertibility of RMB for current account transactions, significant restrictions still remain. For example, foreign exchange transactions under our PRC subsidiaries' capital account, including principal payments in respect of foreign currency-denominated obligations, remain subject to significant foreign exchange controls and the approval of SAFE. These limitations could affect our ability to obtain foreign exchange for capital expenditures. We cannot be certain that the PRC regulatory authorities will not impose more stringent restrictions on the convertibility of RMB, especially with respect to foreign exchange transactions.

Recent PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident shareholders or us to penalties and fines, and limit our ability to inject capital into our PRC subsidiary, limit our subsidiary's ability to increase its registered capital, distribute profits to us, or otherwise adversely affect us.

On October 21, 2005, SAFE issued the Notice on Issues Relating to the Administration of Foreign Exchange in Fund-raising and Reverse Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies, or SAFE Circular Notice 75, which became effective as of November 1, 2005. According to Notice 75, prior registration with the local SAFE branch is required for PRC residents to establish or to control an offshore company for the purposes of financing that offshore company with assets or equity interests in an onshore enterprise located in the PRC. An amendment to registration or filing with the local SAFE branch by such PRC resident is also required for the injection of equity interests or assets of an onshore enterprise in the offshore company or overseas fund raised by such offshore company, or any other material change involving a change in the capital of the offshore company.

Moreover, Notice 75 applies retroactively. As a result, PRC residents who have established or acquired control of offshore companies that have made onshore investments in the PRC in the past are required to complete the relevant registration procedures with the local SAFE branch by March 31, 2006. Under the relevant rules, failure to comply with the registration requirements set forth in Notice 75 or the rules implementing Notice 75 may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including the increase of its registered capital, the payment of dividends and other distributions to its offshore parent or affiliate and the capital inflow from the offshore entity, and may also subject the relevant onshore companies and PRC residents to penalties under PRC foreign exchange administration regulations.

We have requested all of our shareholders who, based on our knowledge, are PRC residents or whose ultimate beneficial owners are PRC residents to comply with any applicable SAFE registration requirements; however we have no control over our shareholders. We have been informed that our major shareholders, who are PRC residents and subject to the above registration requirements, have made the required SAFE registrations in respect of their investments in us. The failure or inability of such relevant PRC residents to comply with such SAFE registration requirements may subject us or such PRC residents to fines and legal sanctions and may also limit our ability to contribute additional capital into our PRC subsidiary, limit our subsidiary's ability to distribute profits or other distributions to us, or otherwise adversely affect us.

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Uncertainties with respect to the PRC legal system could adversely affect us.

We conduct our business primarily through our subsidiaries and affiliated entities incorporated in China. These entities are generally subject to laws and regulations applicable to foreign investment in China and, in particular, laws applicable to wholly-foreign owned enterprises. In addition, we depend on Shanghai IT to honor its service agreement with us. Almost all of these agreements are governed by PRC law and disputes arising out of these agreements are expected to be decided by arbitration in China. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, since the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties, which 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.

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

Although the use of personal computers in China has increased in recent years, the penetration rate for personal computers in China is significantly lower than in the United States and other developed countries. Furthermore, despite a decrease in the cost of Internet access in China due to a decrease in the cost of personal computers and the introduction and expansion of broadband access, the cost of Internet access still remains relatively high compared to the average per capita income in China. 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 is no assurance that there will not be any increase in Internet access or telecommunication fees in China. If that happens, the number of our users may decrease and the growth of our user base may be materially impeded.

The continued growth of China's Internet market depends on the establishment of an adequate telecommunications infrastructure.

Although private sector Internet service providers currently exist in China, almost all access to the Internet is maintained through state-owned telecommunication operators under the administrative control and regulatory supervision of China's Ministry of Information Industry. In addition, the national networks in China connect to the Internet through government-controlled international gateways. These government-controlled international gateways are the only channel through which a domestic PRC user can connect to the international Internet network. We rely on this infrastructure to provide data communications capacity primarily through local telecommunications lines. Although the government has announced plans to develop aggressively the national information infrastructure, we cannot assure you that this infrastructure will 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 the continued growth in Internet usage.

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Risks Related to Our Shares and ADSs

The future sales or issuance of a substantial number of our ADSs or ordinary shares could adversely affect the price of our ADSs.

If our shareholders sell substantial amounts of our ADSs, including those issued upon the exercise of outstanding options, in the public market, the market price of our ADSs could fall. Such sales also might make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate. If any existing shareholder or shareholders sell a substantial amount of ordinary shares, the prevailing market price for our ADSs could be adversely affected.

In addition, we may issue additional ordinary shares or ADSs for future acquisitions. If we pay for our future acquisitions in whole or in part with additionally issued ordinary shares or ADSs, your ownership interests in our company would be diluted and this, in turn, could have a material adverse effect on the price of our ADSs.

The market price for our ADSs may be volatile.

The market price for our ADSs is likely to be highly volatile and subject to wide fluctuations in response to factors including the following:

actual or anticipated fluctuations in our quarterly operating results;

announcements of new games by us or our competitors;

changes in financial estimates by securities analysts;

price fluctuations of publicly traded securities of other China-based companies engaging in Internet-related services or other similar businesses;

conditions in the Internet or online game industries;

changes in the economic performance or market valuations of other Internet or online game companies;

announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments;

addition or departure of key personnel; and

pending and potential litigation.

In addition, the securities market has from time to time experienced significant price and volume fluctuations that are not related to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our ADSs.

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You may face difficulties in protecting your interests, and our ability to protect our rights through the U.S. federal courts may be limited, because we are incorporated under Cayman Islands law.

Our corporate affairs are governed by our memorandum and articles of association and by the Companies Law (2004 Revision) and common law of 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 precedents in the United States. In particular, the Cayman Islands has a less developed body of securities laws as compared to the United States, and provides significantly less protection to investors. Therefore, our public shareholders may have more difficulties in protecting their interests in the face of actions by our management, directors or controlling shareholders than would shareholders of a corporation incorporated in a jurisdiction in the United States. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action before the federal courts of the United States. As a result, we may not be able to protect our interests if we are harmed in a manner that would otherwise enable us to sue in a United States federal court.

Your ability to bring an action against us or against our directors and officers, or to enforce a judgment against us or them, will be limited because we are incorporated in the Cayman Islands, because we conduct a substantial portion of our operations in China and because the majority of our directors and officers reside outside of the United States.

We are incorporated in the Cayman Islands, and we conduct a substantial portion of our operations in China through our wholly-owned subsidiaries and several affiliated entities in China. Most of our directors and officers reside outside of the United States and most of the assets of those persons are located outside of the United States. As a result, it may be difficult or impossible for you to bring an action against us or against these individuals in the Cayman Islands or in China in the event that you believe that your rights have been infringed under the securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of China may render you unable to enforce a judgment against our assets or the assets of our directors and officers.

You may not be able to exercise your right to vote.

As a holder of ADSs, you may instruct the depository of our ADSs to vote the shares underlying your ADSs but only if we ask the depository to ask for your instructions. Otherwise, you will not be able to exercise your right to vote unless you withdraw the shares. However, you may not know about the meeting enough in advance to withdraw the shares and, in this regard, pursuant to our articles of association, a shareholders meeting may be convened by us on seven business days' notice. If we ask for your instructions, the depository will notify you of the upcoming vote and arrange to deliver our voting materials to you. We cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depository to vote your shares. In addition, the depository and its agents are not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions, if any such action or nonaction is in good faith. This means that you may not be able to exercise your right to vote and there may be nothing you can do if the shares underlying your ADSs are not voted as you requested.

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Your right to participate in any future rights offerings may be limited, which may cause dilution to your holdings.

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. However, we cannot make rights available to you in the United States unless we register the rights and the securities to which the rights relate under the Securities Act of 1933, as amended, or the Securities Act, or an exemption from the registration requirements is available. Also, under the deposit agreement, the depositary bank will not make rights available to you unless the distribution to ADS holders of both the rights and any related securities are either registered under the Securities Act, or exempt 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. The depositary may, but is not required to, sell such undistributed rights to third parties in this situation. Accordingly, you may be unable to participate in our rights offerings and may experience dilution in your holdings.

You may not receive distributions on ordinary shares or any value for them if it is illegal or impractical to make them available to you.

The depositary of our ADSs has agreed to pay to you the cash dividends or other distributions it or the custodian receives on ordinary shares or other deposited securities after deducting its fees and expenses. You will receive these distributions in proportion to the number of ordinary shares your ADSs represent. However, the depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any holders of ADSs. We have no obligation to register ADSs, ordinary shares, rights or other securities under U.S. securities laws. We also have no obligation to take any other action to permit the distribution of ADSs, ordinary shares, rights or anything else to holders of ADSs. This means that you may not receive the distribution we make on our ordinary shares or any value for them if it is illegal or impractical for us to make them available to you. These restrictions may have a material adverse effect on the value of your ADSs.

You may be subject to limitations on transfer of your ADSs.

Your ADSs represented by the ADRs are transferable on the books of the depositary. However, the depositary may close its transfer books at any time or from time to time when it deems expedient in connection with the performance of its duties. In addition, the depositary may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depositary are closed, or at any time if we or the depositary 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.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

We were incorporated in the Cayman Islands in December 1999 under the name GameNow.net Limited and were renamed to The9 Limited in February 2004. We formed GameNow.net (Hong Kong) Limited, or GameNow, on January 17, 2000, as a wholly-owned subsidiary. We have historically conducted our operations in large part through The9 China, a direct wholly-owned subsidiary of GameNow in China.

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In October 2002, we and Webzen formed 9Webzen to launch and operate the MU game in China. 9Webzen established 9Webzen Shanghai as its wholly-owned subsidiary in China on January 29, 2003 to operate MU in China. Prior to December 2005, we held a 51% ownership interest in 9Webzen. In December 2005, we sold and transferred 21% of 9Webzen's issued share capital to Webzen, thus reducing our ownership interest in 9Webzen from 51% to 30%.

In July 2003, we and China Interactive (Singapore) Pte. Ltd., or China Interactive, a privately-held Singaporean company, formed a joint venture, C9I, to acquire an exclusive license from VUG to localize and operate the WoW game in China. We have had effective control over C9I's management and operations since its inception. In February 2005, C9I established a wholly-owned subsidiary, C9I China, to operate WoW in China. We initially owned 54% of C9I and through a series of transactions with China Interactive, C9I became our wholly-owned subsidiary in August 2005.

Due to the current restrictions on foreign ownership of the Internet content provision, Internet culture operation and advertising businesses in China, we rely on the following two affiliated PRC entities in holding certain licenses and approvals necessary for our business operations through a series of contractual arrangements with them and their shareholders:

Shanghai IT, which holds Internet content provision, Internet culture operation and Internet publishing licenses, and

Shanghai Jiucheng Advertisement Co., Ltd., or Shanghai Advertisement, whose business license permits it to conduct advertisement operations.

Shanghai IT is owned by Jun Zhu, our Chairman and Chief Executive Officer and shareholder, and Yong Wang, our Vice President. Shanghai Advertisement is owned by Shanghai IT and Xudong He, our Vice President. We do not have any ownership interest in Shanghai IT and Shanghai Advertisement. However, each of the individual shareholders of Shanghai IT and Shanghai Advertisement has entered into a shareholder voting proxy agreement with us, under which each such shareholder has irrevocably granted us the power to exercise voting rights on all matters to which he is entitled to vote. Each such shareholder has also entered into a call option agreement with us, pursuant to which we and/or any other parties designated by us would be entitled to acquire all or part of the equity interests in Shanghai IT or Shanghai Advertisement, as the case may be, to the extent permitted by the then-effective PRC laws and regulations, for the minimum amount of consideration permissible under applicable PRC laws and regulations. From 2001 to May 2005, we extended interest-free loans in an aggregate amount of RMB23.0 million to the shareholders of Shanghai IT, solely in connection with capitalizing and increasing the registered capital of Shanghai IT. These loans are repayable upon demand. The existing shareholders of Shanghai IT, Jun Zhu and Yong Wang, have pledged all of their equity interests in Shanghai IT in favor of us under an equity pledge agreement. In the event of a breach of any term in the loan agreement or any other agreement by either Shanghai IT or its shareholders, we will be entitled to enforce our rights as a pledgee under the agreement.

Our principal executive office is located at Building No. 3, 690 Bibo Road, Zhangjiang Hi-tech Park, Pudong New Area, Shanghai 201203, People's Republic of China, and our telephone number is (8621) 5172-9999. In addition to our operational headquarters in Shanghai, we currently have small branch offices in Beijing, Chengdu, Nanjing, Shenyang, Wuhan and Xi'an, China.

Table of Contents**Recent Developments****Developments Relating to Our Business***License of New Games*

During the first five months of 2007, we obtained licenses to operate the following games in mainland China:

Game	Developer	Description	Status
Emil Chronicle Online	Gravity Co., Ltd.	2.5D MMORPG	Commercial launch in Japan and preparing for beta testing in China
Ragnarok Online 2	Gravity Co., Ltd.	3D MMORPG	In open beta testing in Korea and preparing for beta testing in China
Huxley	Webzen	3D first-person shooting MMORPG	Preparing for beta testing
EA Sports FIFA Online	Electronic Arts Inc.	Casual soccer game	Commercial launch in Korea and preparing for beta testing in China
Audition 2			