Voya PRIME RATE TRUST
Form N-2/A
June 22, 2018

As filed with the Securities and Exchange Commission on June 22, 2018

Securities Act File No. 333-224419

Investment Company Act File No. 811-05410

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-2

(Check Appropriate box or boxes)

Registration Statement Under The Securities Act Of 1933	**x**
Pre-Effective Amendment No. 1	**x**
Post-Effective Amendment No.	**o**
and/or	
Registration Statement Under The Investment Company Act Of 1940	**x**
Amendment No. 118	**x**

(Check appropriate box or boxes)

VOYA PRIME RATE TRUST

(Exact Name of Registrant Specified in Charter)

7337 E. Doubletree Ranch Road, Suite 100

Scottsdale, AZ 85258

(Address of Principal Executive Offices)

Registrant s Telephone Number, Including Area Code: **(800) 992-0180**

Huey P. Falgout, Jr.
Voya Investments, LLC
7337 East Doubletree Ranch Road, Suite 100
Scottsdale, AZ 85258
(Name and Address of Agent for Service)

With copies to:
Elizabeth J. Reza
Ropes & Gray LLP
Prudential Tower
800 Boylston Street
Boston, MA 02199-3600

Approximate Date of Proposed Offering:

As soon as practical after the effective date of this Registration Statement.

If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box. x

It is proposed that this filing will become effective:

x When declared effective pursuant to Section 8(c) of the Securities Act of 1933.

Calculation of Registration Fee Under the Securities Act of 1933

Title of Securities Being Registered	**Amount Being Registered (1)**	**Proposed Maximum Offering Price Per Share(2)**	**Proposed Maximum Aggregate Offering Price(1)**	**Amount of Registration Fee(3)**
Shares of Beneficial Interest, without par value	25,000,000	$5.90	$1	$0

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(1) This Registration Statement carries forward (a) 24,328,692 shares of common stock (the 2012 Shares) that were previously registered pursuant to Registrant s Registration Statement on Form N-2 (File No. 333-180985) filed on June 27, 2012 (the 2012 Registration Statement) and carried forward on the Registrant s Registration Statement on Form N-2 (File No. 333-203653) filed on June 26, 2015 (the Prior Registration Statement) and (b) 671,308 shares of common stock (the 2015 Shares) that were previously registered pursuant to the Prior Registration Statement, and which remain unsold as of the filing date of this Registration Statement (the 2012 Shares, together with the 2015 Shares, the Unsold Securities).

(2) Estimated solely for the purpose of calculating the registration fee applicable to the 2015 Shares pursuant to Rule 457(d) under the Securities Act of 1933, as amended (the Securities Act) in connection with the 2015 Registration Statement, based on net asset value per share as of June 19, 2015.

(3) Pursuant to Rule 415(a)(6) of the Securities Act, the Unsold Securities are included in this Registration Statement. A registration fee of $16,059.27 was paid with respect to the 2012 Shares and a registration fee of $1,080.23 was paid with respect to the 2015 Shares (together, the Prior Fees). The Prior Fees are being applied to offset the registration fee that would otherwise be due on the Unsold Securities pursuant to Rule 415(a)(6) under the Securities Act.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment that specifically states this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such dates as the Commission, acting pursuant to said Section 8(a), may determine.

VOYA PRIME RATE TRUST

(the Registrant)

25,000,000 Common Shares

CONTENTS OF REGISTRATION STATEMENT

This Registration Statement consists of the following papers and documents:

* Cover Sheet

* Contents of Registration Statement

* Voya Prime Rate Trust 25,000,000 Common Shares Prospectus dated June 29, 2018

* Voya Prime Rate Trust 5,000,000 and 25,000,000 Common Shares Statement of Additional Information dated June 29, 2018

* Part C

* Signature Page

Prospectus
June 29, 2018

- Voya Prime Rate Trust
- 25,000,000 Common Shares

PPR

This Prospectus sets forth concisely the information about Voya Prime Rate Trust ("Trust") that a prospective investor ought to know before investing. You should read it carefully before you invest and keep it for future reference. The Trust has filed with the U.S. Securities and Exchange Commission ("SEC") a Statement of Additional Information ("SAI") dated June 29, 2018 containing additional information about the Trust. The SAI is incorporated by reference in its entirety into this Prospectus. You may make shareholder inquiries or obtain a free copy of the SAI, annual shareholder report, and unaudited semi-annual shareholder report by contacting the Trust at 1-800-336-3436 or by writing to the Trust at 7337 East Doubletree Ranch Road, Suite 100, Scottsdale, Arizona 85258-2034. The Trust's SAI, annual shareholder report, and unaudited semi-annual shareholder report are also available free of charge on the Trust's website at www.voyainvestments.com. The Prospectus, SAI, and other information about the Trust are also available on the SEC's website (www.sec.gov). The table of contents for the SAI appears in the back of this Prospectus.

Common Shares of the Trust trade on the New York Stock Exchange ("NYSE") under the symbol PPR.

The Trust's investment objective is to provide investors with as high a level of current income as is consistent with the preservation of capital. Market fluctuations and general economic conditions can adversely affect the Trust. There is no guarantee that the Trust will achieve its investment objective. Investment in the Trust involves certain risks and special considerations, including risks associated with the Trust's use of leverage. See "Risk Factors and Special Considerations" later in this Prospectus for a discussion of any factors that make an investment in the Trust speculative or high risk.

Neither the SEC nor any state securities commission has approved or disapproved these securities, or determined that this Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

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Voya Prime Rate Trust
The following synopsis is qualified in its entirety by reference to the more detailed information appearing elsewhere in this Prospectus.
DESCRIPTION OF THE TRUST
The Trust
The Trust is a diversified, closed-end management investment company registered under the Investment Company Act of 1940, as amended, and the rules, regulations, and applicable exemptive orders thereunder ("1940 Act"). It was organized as a Massachusetts business trust on December 2, 1987. As of June 8, 2018 the Trust's net asset value ("NAV") per Common Share was $5.65.
NYSE Listed
As of June 8, 2018 the Trust had 147,787,566.329 Common Shares outstanding, which are traded on the NYSE under the symbol PPR. At that date, the last reported sales price of a Common Share of the Trust was $5.10.
Investment Objective
To provide investors with as high a level of current income as is consistent with the preservation of capital. There is no assurance that the Trust will achieve its investment objective. The investment objective is fundamental and may not be changed without a majority vote of the shareholders of the Trust. See "Description of the Trust – Fundamental and Non-Fundamental Investment Policies of the Trust" later in this Prospectus.
Adviser/Sub-Adviser
Voya Investments, LLC ("Voya Investments" or "Adviser"), an Arizona limited liability company, serves as the investment adviser to the Trust. Voya Investments has overall responsibility for the management of the Trust. Voya Investments oversees all investment advisory and portfolio management services and assists in managing and supervising all aspects of the general day-to-day business activities and operations of the Trust, including custodial, transfer agency, dividend disbursing, accounting, auditing, compliance and related services. Voya Investments is registered with the SEC as an investment adviser.
The Adviser is an indirect, wholly-owned subsidiary of Voya Financial, Inc. Voya Financial, Inc. is a U.S.-based financial institution whose subsidiaries operate in the retirement, investment, and insurance industries.
The Adviser receives an annual fee, payable monthly, in an amount equal to 1.05% of the Trust's average daily gross asset value, minus the sum of the Trust's accrued and unpaid dividends on any outstanding preferred shares and accrued liabilities (other than liabilities for the principal amount of any borrowings incurred, commercial paper, or notes issued by the Trust and the liquidation preference of any outstanding preferred shares) ("Managed Assets"). This definition includes assets acquired through the Trust's use of leverage.
Voya Investment Management Co. LLC ("Voya IM" or "Sub-Adviser") serves as sub-adviser to the Trust. Voya IM is an affiliate of the Adviser.
See "Investment Management and Other Service Providers - Sub-Adviser and Portfolio Managers" later in this Prospectus.
Voya Investments' principal office is located at 7337 East Doubletree Ranch Road, Suite 100, Scottsdale, Arizona 85258. As of March 31, 2018, Voya Investments managed approximately $87.7 billion in assets.
Distributions
Income dividends on Common Shares accrue, are declared, and are paid monthly. Income dividends may be distributed in cash or reinvested in additional full and fractional shares of the Trust through the Trust's Shareholder Reinvestment Program.
Principal Investment Strategies
The Trust seeks to achieve its investment objective by investing, under normal market conditions, at least 80% of its net assets (plus borrowings for investment purposes) in U.S. dollar-denominated floating rate secured senior loans ("Senior Loans"). The Trust will provide shareholders with at least 60 days' prior notice of any change in this investment policy. Under normal market conditions, the Trust invests at least 80% of its assets in Senior Loans made to corporations or other business entities organized under U.S. or Canadian law and that are domiciled in the United States and in U.S. territories and possessions or Canada. These Senior Loans are typically rated below investment-grade quality. Investments rated below investment-grade (or of similar quality if unrated) are commonly known as high-yielding, high risk investments or as "junk" investments.

The Senior Loans in which the Trust invests either hold the most senior position in the capital structure of the borrower, hold an equal ranking with other senior debt, or have characteristics (such as a senior position secured by liens on a borrower's assets) that the Adviser or Sub-Adviser believes justify treatment as senior debt.

The Trust typically makes its investments in Senior Loans by purchasing a portion of the overall loan, i.e., the Trust becomes one of a number of lenders investing in the loan. The Trust may also make its investments in Senior Loans through the use of derivative instruments such as participations, credit-linked notes, credit default swaps, and total return swaps as long as the reference obligation for any such instrument is a Senior Loan. Investments through the use of such derivative instruments involve counterparty risk, i.e., the risk that the party from which such instrument is purchased will not perform as agreed. The Trust seeks to minimize such counterparty risk by purchasing such investments from large, well established and highly rated counterparties.

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Other Investment Strategies and Policies

Loans in which the Trust invests typically have multiple interest rate reset periods at the same time, with each reset period applicable to a designated portfolio of the loan. The maximum duration of an interest rate reset on any loan in which the Trust may invest is one year. In order to achieve overall reset balance, the Trust will ordinarily maintain a dollar-weighted average time until the next interest rate adjustment on its loans of 90 days or less.

Normally at least 80% of the Trust's portfolio will be invested in Senior Loans with maturities of one to ten years. The maximum maturity on any loan in which the Trust may invest is ten years.

To seek to increase the yield on the Common Shares, the Trust may engage in lending its portfolio securities. Such lending will be fully secured by investment-grade collateral held by an independent agent.

The Trust may engage in executing repurchase and reverse repurchase agreements.

The Trust may invest up to 20% of its total assets, measured at the time of investment, in a combination of one or more of the following types of investments: loans to borrowers organized or located in countries outside the United States and outside U.S. territories and possessions or Canada; unsecured floating rate loans, notes, and other debt instruments; floating rate subordinated loans; tranches of floating rate asset-backed securities, including structured notes; corporate debt securities; and equity securities incidental to investment in loans. See “Investment Objective and Policies” later in this Prospectus.

The Trust may invest up to 15% of its total assets, measured at the time of investment, in investments denominated in the Organization for Economic Co-operation and Development (“OECD”) currencies (including the euro), other than the U.S. dollar. The Trust will engage in currency exchange transactions to seek to hedge, as closely as practicable, 100% of the economic impact to the Trust arising from foreign currency fluctuations. The Trust may not be entirely successful in implementing this hedging strategy, resulting in the Trust being adversely affected by foreign currency fluctuations.

Leverage

To seek to increase the yield on the Common Shares, the Trust employs financial leverage by borrowing money and may also issue preferred shares. The timing and terms of leverage will be determined by the Adviser or Sub-Adviser under the supervision of the Trust's Board of Trustees (“Board”). See “Risk Factors and Special Considerations - Leverage” later in this Prospectus.

Borrowings

The Trust may borrow money in an amount permitted under the 1940 Act, including the rules, regulations, interpretations thereunder and any exemptive or other relief provided by the SEC. The Trust's obligations to holders of its debt are senior to its ability to pay dividends on, or repurchase, Common Shares and preferred shares, or to pay holders of Common Shares and preferred shares in the event of liquidation.

Preferred Shares

The Trust is authorized to issue an unlimited number of shares of a class of preferred stock in one or more series (“Preferred Shares”). The Trust's obligations to holders of any outstanding Preferred Shares will be senior to its ability to pay dividends on, or repurchase, Common Shares, or to pay holders of Common Shares in the event of liquidation.

Under the 1940 Act, the Trust may issue Preferred Shares so long as immediately after any issuance of Preferred Shares the value of the Trust's total assets (less all Trust liabilities and indebtedness that is not senior indebtedness) is at least twice the amount of the Trust's senior indebtedness plus the involuntary liquidation preference of all outstanding Preferred Shares.

The 1940 Act also requires that the holders of any Preferred Shares of the Trust, voting as a separate class, have the right to:

- elect at least two trustees at all times; and
- elect a majority of the trustees at any time when dividends on any series of Preferred Shares are unpaid for two full years.

As of June 8, 2018 the Trust had no Preferred Shares outstanding. The Trust may consider issuing Preferred Shares during the current fiscal year or in the future.

Diversification

The Trust maintains a diversified investment portfolio through an investment strategy which seeks to limit exposure to any one issuer or industry.

The Trust is diversified, as such term is defined in the 1940 Act. A diversified fund may not, as to 75% of its total assets, invest more than 5% of its total assets in any one issuer and may not purchase more than 10% of the outstanding voting securities of any one issuer (other than securities issued or guaranteed by the U.S. government or any of its agencies or instrumentalities, or other investment companies). The Trust will consider a borrower on a loan, including a loan participation, to be the issuer of that loan. In addition, with respect to a loan under which the Trust does not have privity with the borrower or would not have a direct cause of action against the borrower in the event of the failure of the borrower to make payment of scheduled principal or interest, the Trust will separately meet the foregoing requirements and consider each interpositioned bank (a lender from which the Trust acquires a loan) to be an issuer of the loan. This investment strategy is a fundamental policy that may not be changed without shareholder approval. With respect to no more than 25% of its total assets, the Trust may make investments that are not subject to the foregoing restrictions.

Concentration

In addition, a maximum of 25% of the Trust's total assets, measured at the time of investment, may be invested in any one industry. This investment strategy is also a fundamental policy that may not be changed without shareholder approval.

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Plan of Distribution

The Common Shares are offered by the Trust through the Trust's Shareholder Reinvestment Program. The Shareholder Reinvestment Program allows participating shareholders to reinvest all dividends in additional shares of the Trust, and also allows participants to purchase additional Common Shares through optional cash investments in amounts ranging from a minimum of $100 to a maximum of $100,000 per month. The Trust and Voya Investments Distributor, LLC ("Distributor") reserve the right to reject any purchase order. Please note that cash, traveler's checks, third-party checks, money orders, and checks drawn on non-U.S. banks (even if payment may be effected through a U.S. bank) generally will not be accepted. Common Shares may be issued by the Trust under the Shareholder Reinvestment Program only if the Trust's Common Shares are trading at a premium to NAV. If the Trust's Common Shares are trading at a discount to NAV, Common Shares purchased under the Shareholder Reinvestment Program will be purchased on the open market. See "Plan of Distribution" later in this Prospectus.

Shareholders may elect to participate in the Shareholder Reinvestment Program by telephoning the Trust or submitting a completed Participation Form to BNY Mellon Investment Servicing (US) Inc.

Common Shares also may be offered pursuant to privately negotiated transactions between the Trust or the Distributor and individual investors. Common Shares of the Trust issued in connection with privately negotiated transactions will be issued at the greater of: (i) NAV per Common Share of the Trust's Common Shares; or (ii) at a discount ranging from 0% to 5% of the average daily market price of the Trust's Common Shares at the close of business on the two business days preceding the date upon which Common Shares are sold pursuant to the privately negotiated transaction. See "Plan of Distribution" later in this Prospectus.

Principal Risks

Credit Default Swaps: The Trust may enter into credit default swaps, either as a buyer or a seller of the swap. A buyer of a swap pays a fee to buy protection against the risk that a security will default. If no default occurs, the Trust will have paid the fee, but typically will recover nothing under the swap. A seller of a swap receives payment(s) in return for an obligation to pay the counterparty the full notional value of a security in the event of a default of the security issuer. As a seller of a swap, the Trust would effectively add leverage to its portfolio because, in addition to its total net assets, the Trust would be subject to investment exposure on the full notional value of the swap. Credit default swaps are particularly subject to counterparty, credit, valuation, liquidity and leveraging risks and the risk that the swap may not correlate with its underlying asset as expected. Certain standardized swaps are subject to mandatory central clearing. Central clearing is expected to reduce counterparty credit risk and increase liquidity; however, there is no assurance that central clearing will achieve that result, and in the meantime, central clearing and related requirements expose the Trust to new kinds of costs and risks. In addition, credit default swaps expose the Trust to the risk of improper valuation.

Credit (Loans): Prices of the Trust's investments are likely to fall if the actual or perceived financial health of the borrowers on, or issuers of, such investments deteriorates, whether because of broad economic or issuer-specific reasons, or if the borrower or issuer is late (or defaults) in paying interest or principal. The Trust invests a substantial portion of its assets in below investment-grade Senior Loans and other below investment-grade assets. Below investment-grade loans commonly known as high-yielding, high risk investments or as "junk" investments involve a greater risk that borrowers may not make timely payment of the interest and principal due on their loans and are subject to greater levels of credit and liquidity risks. They also involve a greater risk that the value of such loans could decline significantly. If borrowers do not make timely payments of the interest due on their loans, the yield on the Common Shares will decrease. If borrowers do not make timely payment of the principal due on their loans, or if the value of such loans decreases, the net asset value will decrease.

Demand for Loans: An increase in demand for loans may benefit the Trust by providing increased liquidity for such loans and higher sales prices, but it may also adversely affect the rate of interest payable on such loans and the rights provided to the Trust under the terms of the applicable loan agreement, and may increase the price of loans in the secondary market. A decrease in the demand for loans may adversely affect the price of loans in the Trust's portfolio, which could cause the Trust's net asset value to decline and reduce the liquidity of the Trust's loan holdings.

Derivative Instruments: Derivative instruments are subject to a number of risks, including the risk of changes in the market price of the underlying securities, credit risk with respect to the counterparty, risk of loss due to changes in market interest rates and liquidity and volatility risk. The amounts required to purchase certain derivatives may be

small relative to the magnitude of exposure assumed by the Trust. Therefore, the purchase of certain derivatives may have an economic leveraging effect on the Trust and exaggerate any increase or decrease in the net asset value. Derivatives may not perform as expected, so the Trust may not realize the intended benefits. When used for hedging purposes, the change in value of a derivative may not correlate as expected with the currency, security or other risk being hedged. When used as an alternative or substitute for direct cash investments, the return provided by the derivative may not provide the same return as direct cash investment. In addition, given their complexity, derivatives expose the Trust to the risk of improper valuation.

Impact of Shareholder Reinvestment Program and Privately Negotiated Transactions: The issuance of Common Shares through the Shareholder Reinvestment Program and/or through privately negotiated transactions may have an adverse effect on the secondary market for the Common Shares. The increase in the number of the outstanding Common Shares resulting

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from issuances pursuant to the Shareholder Reinvestment Program or pursuant to privately negotiated transactions, and the discount to the market price at which such Common Shares may be issued, may put downward pressure on the market price for Common Shares. Common Shares will not be issued pursuant to the Shareholder Reinvestment Program at any time when Common Shares are trading at a price lower than the net asset value per Common Share.

Interest Rate: Changes in short-term market interest rates will directly affect the yield on Common Shares. If short-term market interest rates fall, the yield on Common Shares will also fall. To the extent that the interest rate spreads on loans in the Trust's portfolio experience a general decline, the yield on the Common Shares will fall and the value of the Trust's assets may decrease, which will cause the Trust's net asset value to decrease. Conversely, when short-term market interest rates rise, because of the lag between changes in such short-term rates and the resetting of the floating rates on assets in the Trust's portfolio, the impact of rising rates will be delayed to the extent of such lag. In the case of inverse securities, the interest rate paid by such securities generally will decrease when the market rate of interest to which the inverse security is indexed increases. With respect to investments in fixed rate instruments, a rise in market interest rates generally causes values of such instruments to fall. The values of fixed rate instruments with longer maturities or duration are more sensitive to changes in market interest rates.

As of the date of this Prospectus, market interest rates in the United States are at or near historic lows, which may increase the Trust's exposure to risks associated with rising market interest rates. Rising market interest rates could have unpredictable effects on the markets and may expose fixed-income and related markets to heightened volatility, which could reduce liquidity for certain investments, adversely affect values, and increase costs. If dealer capacity in fixed-income and related markets is insufficient for market conditions, it may further inhibit liquidity and increase volatility in the fixed-income and related markets. Further, recent and potential changes in government policy may affect interest rates.

Leverage: The use of leverage through borrowings or the issuance of Preferred Shares can adversely affect the yield on the Common Shares. To the extent that the Trust is unable to invest the proceeds from the use of leverage in assets which pay interest at a rate which exceeds the rate paid on the leverage, the yield on the Common Shares will decrease. In addition, in the event of a general market decline in the value of assets such as those in which the Trust invests, the effect of that decline will be magnified in the Trust because of the additional assets purchased with the proceeds of the leverage. Further, because the fee paid to the Adviser will be calculated on the basis of Managed Assets, the fee will be higher when leverage is utilized, giving the Adviser an incentive to utilize leverage. The Trust is subject to certain restrictions imposed by lenders to the Trust and may be subject to certain restrictions imposed by guidelines of one or more rating agencies which may issue ratings for debt or the Preferred Shares issued by the Trust. These restrictions are expected to impose asset coverage, fund composition requirements and limits on investment techniques, such as the use of financial derivative products that are more stringent than those imposed on the Trust by the 1940 Act. These restrictions could impede the manager from fully managing the Trust's portfolio in accordance with the Trust's investment objective and policies. As of June 8, 2018 the Trust had $326.5 million in outstanding borrowings under one credit facility.

Limited Secondary Market for Loans: Because of the limited secondary market for loans, the Trust may be limited in its ability to sell loans in its portfolio in a timely fashion and/or at a favorable price. Furthermore, transactions in loans typically settle on a delayed basis and may take longer than 7 days to settle. As a result the Trust may not receive the proceeds from a sale of a floating rate loan for a significant period of time which may affect the Trust's ability to repay debt, to pay dividends, to pay expenses, or to take advantage of new investment opportunities.

Market Discount: Shares of closed-end investment companies frequently trade at a discount from their net asset value. The possibility that Common Shares will trade at a discount from their net asset value is a risk separate and distinct from the risk that the net asset value may decrease.

Non-U.S. and Non-Canadian Issuers: Investment in foreign borrowers involves special risks, including that foreign borrowers may be subject to: less rigorous regulatory, accounting, and reporting requirements than U.S. borrowers; differing legal systems and laws relating to creditors' rights; the potential inability to enforce legal judgments; economic adversity that would result if the value of the borrower's non-U.S. dollar denominated revenues and assets were to fall because of fluctuations in currency values; and the potential for political, social, and economic adversity in the foreign borrower's country.

Temporary Defensive Positions: When market conditions make it advisable, the Trust may hold a portion of its assets in cash and short-term interest bearing instruments. Moreover, in periods when, in the opinion of the manager, a temporary defensive position is appropriate, up to 100% of the Trust's assets may be held in cash, short-term interest bearing instruments and/or any other securities the manager considers consistent with a temporary defensive position. The Trust may not achieve its investment objective when pursuing a temporary defensive position.

Valuation of Loans: The Trust values its assets daily. However, because the secondary market for floating rate loans is limited, it may be difficult to value loans, exposing the Trust to the risk that the price at which it sells loans will be less than the price at which they were valued when held by the Trust. Reliable market value quotations may not be readily available for some loans and determining the fair valuation of such loans may require more research than for securities that trade in a more active secondary market. In addition, elements of judgment may play a greater role in the valuation of loans than for more securities that trade in a more developed secondary market

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because there is less reliable, objective market value data available. If the Trust purchases a relatively large portion of a loan, the limitations of the secondary market may inhibit the Trust from selling a portion of the loan and reducing its exposure to a borrower when the manager deems it advisable to do so. Even if the Trust itself does not own a relatively large portion of a particular loan, the Trust, in combination with other similar accounts under management by the same portfolio managers, may own large portions of loans. The aggregate amount of holdings could create similar risks if and when the portfolio managers decide to sell those loans. These risks could include, for example, the risk that the sale of an initial portion of the loan could be at a price lower than the price at which the loan was valued by the Trust, the risk that the initial sale could adversely impact the price at which additional portions of the loan are sold, and the risk that the foregoing events could warrant a reduced valuation being assigned to the remaining portion of the loan still owned by the Trust.

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WHAT YOU PAY TO INVEST - TRUST EXPENSES

The cost you pay to invest in the Trust includes the expenses incurred by the Trust. In accordance with SEC requirements, the table below shows the expenses of the Trust, including interest expense on borrowings, as a percentage of the average net assets of the Trust and not as a percentage of gross assets or Managed Assets. By showing expenses as a percentage of the average net assets, expenses are not expressed as a percentage of all of the assets that are invested for the Trust. The table below assumes that the Trust has borrowed an aggregate amount equal to 30% of its Managed Assets. For information about the Trust's expense ratios if the Trust had not borrowed, see "Risk Factors and Special Considerations - Annual Expenses Without Borrowings."

Fees and Expenses of the Trust

Shareholder Transaction Expenses:	
Shareholder Reinvestment Program Fees	None
Privately Negotiated Transactions:	
Sales Load (as a percentage of offering price)	3.00%
Annual Expenses (as a percentage of average net assets attributable to Common Shares):	
Management Fees[1]	1.50%
Interest Expense on Borrowed Funds	0.96%
Other Operating Expenses[2]	0.16%
Total Annual Expenses	2.62%
Fee Waivers/Reimbursements/Recoupment[3]	None
Net Annual Expenses	2.62%

1 Pursuant to the investment management agreement with the Trust, the Adviser is paid a fee of 1.05% of the Trust's Managed Assets. For the description of "Managed Assets," please see "Description of the Trust – Adviser/Sub-Adviser" earlier in this Prospectus.

2 Other Operating Expenses are estimated amounts for the current fiscal year and do not include the expenses of borrowing.

3 The Adviser is contractually obligated to limit expenses of the Trust at a rate of 1.05% of average daily Managed Assets plus 0.15% of average daily net assets through July 1, 2019. The limitation does not extend to interest, taxes, investment-related costs, leverage expenses, extraordinary expenses, and Acquired Fund Fees and Expenses. The limitation is subject to possible recoupment by the adviser within 36 months of the waiver or reimbursement and the amount of the recoupment is limited to the lesser of the amounts that would be recoupable under: (i) the expense cap in effect at the time of the waiver or reimbursement; or (ii) the expense cap in effect at the time of recoupment. Termination or modification of this obligation requires approval by the Trust's Board.

Example

The following Example shows the amount of the expenses that an investor in the Trust would bear on a $1,000 investment that is held for the different time periods in the table. The Example assumes that all dividends and other distributions are reinvested at NAV and that the percentage amounts listed under Total Annual Expenses in the table above remain the same in the years shown. The table and the assumption in the Example of a 5% annual return are required by regulations of the SEC applicable to all investment companies. The assumed 5% annual return is not a prediction of, and does not represent, the projected or actual performance of the Trust's Common Shares. For more complete descriptions of certain of the Trust's costs and expenses, see "Investment Management and Other Service Providers."

The following Example applies to shares issued in connection with privately negotiated transactions, which have the maximum front-end sales load of 3%.

	1 Year	3 Years	5 Years	10 Years

You would pay the following expenses on a $1,000 investment, assuming a 5% annual return and borrowings by the Trust in an aggregate amount equal to 30% of its Managed Assets.	$56	111	172	346

The purpose of the table is to assist you in understanding the various costs and expenses that an investor in the Trust will bear directly or indirectly.

The foregoing Example should not be considered a representation of future expenses and actual expenses may be greater or less than those shown.

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FINANCIAL HIGHLIGHTS

The financial highlights table is intended to help you understand the Trust's financial performance for the periods shown. Certain information reflects the financial results for a single share. The total returns in the table represent the rate of return that an investor would have earned or lost on an investment in the Trust (assuming reinvestment of all dividends and/or distributions). The information has been audited by KPMG LLP, whose report, along with the Trust’s financial statements, is included in the Trust’s Annual Report, which is available upon request.

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FINANCIAL HIGHLIGHTS (continued)

Selected data for a share of beneficial interest outstanding throughout each year or period.

	Per Share Operating Performance								
Year or period ended	Net asset value, beginning of year or period ($)	Net investment income (loss) ($)	Net realized and unrealized gain (loss) ($)	Distribution to Preferred Shareholders ($)	Change in net asset value from Share offerings ($)	Total from investment operations ($)	Distributions to Common Shareholders from net investment income ($)	Distributions from return of capital ($)	Total distributions ($)
02-28-18	5.80	0.30	(0.12)	—	—	0.18	(0.25)	(0.04)	(0.29)
02-28-17	5.36	0.31	0.45	—	—	0.76	(0.32)	—	(0.32)
02-29-16	5.93	0.32	(0.56)	—	—	(0.24)	(0.33)	—	(0.33)
02-28-15	6.08	0.33	(0.13)	—	—	0.20	(0.35)	—	(0.35)
02-28-14	6.02	0.40	0.07	—	—	0.47	(0.40)	(0.01)	(0.41)
02-28-13	5.79	0.46	0.19	—	—	0.65	(0.42)	—	(0.42)
02-29-12	6.08	0.35	(0.32)	(0.00)*	—	0.03	(0.32)	—	(0.32)
02-28-11	5.72	0.30	0.38	(0.00)*	—	0.68	(0.30)	(0.02)	(0.32)
02-28-10	3.81	0.28	1.95	(0.00)*	—	2.23	(0.32)	—	(0.32)
02-28-09	6.11	0.46	(2.29)	(0.06)	—	(1.89)	(0.41)	—	(0.47)

(1) Total investment return calculations are attributable to common shares.

(2) Total investment return at net asset value has been calculated assuming a purchase at net asset value at the beginning of each period and a sale at net asset value at the end of each period and assumes reinvestment of dividends, capital gain distributions and return of capital distributions/allocations, if any, in accordance with the provisions of the dividend reinvestment plan.

(3) Total investment return at market value has been calculated assuming a purchase at market value at the beginning of each period and a sale at market value at the end of each period and assumes reinvestment of dividends, capital gain distributions, and return of capital/allocations, if any, in accordance with the provisions of the dividend reinvestment plan.

(4) The Adviser has agreed to limit expenses excluding interest, taxes, brokerage commission, leverage expenses, other investment related costs and extraordinary expenses, subject to possible recoupment by the Adviser within three years to 1.05% of Managed Assets plus 0.15% of average daily net assets.

(5) There was no impact on total return due to payments by affiliates.

(6) Includes excise tax fully reimbursed by the Adviser.

* Amount is less than $0.005 or more than $(0.005).

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FINANCIAL HIGHLIGHTS (continued)

Selected data for a share of beneficial interest outstanding throughout each year or period.

	Ratios to average to average net assets plus borrowings				Supplemental data					
	Expenses (before interest and other fees related to revolving credit facility)	Expenses, prior to fee waivers and/or recoupments, if any	Expenses, net of fee waivers and/or recoupments, if any	Net investment income (loss)	Preferred Shares - Aggregate amount outstanding	Liquidation and market value per share of Preferred Shares	Asset coverage inclusive of Preferred Shares and debt per share[(a)]	Borrowings at end of period	Asset coverage per $1,000 of debt[(a)]	Av bo
Year or period ended	(%)	(%)	(%)	(%)	($000's)	($)	($)	($000's)	($)	($0
02-28-18	1.16	1.81	1.80	3.25	—	—	4	322,100	3,610	34
02-28-17	1.16	1.60	1.60	3.88	—	—	4	331,100	3,589	33
02-29-16	1.15	1.50	1.50	3.98	—	—	3	324,300	3,443	33
02-28-15	1.16	1.49	1.48	3.95	—	—	4	323,500	3,709	36
02-28-14	1.15	1.50	1.50	4.51	—	—	3	407,000	3,207	38
02-28-13	1.17	1.53	1.53	5.55	—	—	3	370,600	3,394	34
02-29-12	1.24	1.64	1.64	4.51	—	—	3	364,000	3,339	29
02-28-11	1.39	1.68	1.68	4.26	100,000	25,000	102,850	187,000	6,314	12
02-28-10	1.67[(1)]	1.87[(1)]	1.81	5.23	200,000	25,000	98,400	83,000	13,419	46
02-28-09	1.54	2.37	2.37	6.21	225,000	25,000	70,175	81,000	10,603	22

(a) Asset coverage ratios, for fiscal year periods beginning after 2011, is presented to represent the coverage availability to each $1,000 of borrowings. Asset coverage ratios, for periods prior to fiscal 2009, represented the coverage available for both the borrowings and Preferred Shares expressed in relation to each $1,000 of borrowings and Preferred Shares liquidation value outstanding. The Asset coverage ratio per $1,000 of debt for periods subsequent to fiscal 2008, is presented to represent the coverage available

to each $1,000 of borrowings before consideration of any Preferred Shares liquidation price, while the Asset coverage inclusive of Preferred Shares, presents the coverage available to both borrowings and Preferred Shares, expressed in relation to the per share liquidation price of the Preferred Shares.

(1) Includes excise tax fully reimbursed by the Investment Adviser.

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TRADING AND NAV INFORMATION

The following table shows for the Trust's Common Shares for the periods indicated: (1) the high and low closing prices as shown on the NYSE Composite Transaction Tape; (2) the NAV per Common Share represented by each of the high and low closing prices as shown on the NYSE Composite Transaction Tape; and (3) the discount from or premium to NAV per Share (expressed as a percentage) represented by these closing prices. The table also sets forth the aggregate number of shares traded as shown on the NYSE Composite Transaction Tape during the respective quarter.

	Price($)		NAV($)		Premium/(Discount) To NAV(%)		Reported NYSE Volume
Calendar Quarter Ended	High	Low	High	Low	High	Low	
March 31, 2015	5.60	5.22	5.95	5.82	(5.88)	(10.43)	28,446,500
June 30, 2015	5.68	5.25	5.99	5.90	(4.86)	(11.02)	22,422,000
September 30, 2015	5.43	5.06	5.91	5.74	(7.97)	(12.89)	23,624,300
December 31, 2015	5.14	4.75	5.74	5.47	(7.66)	(13.95)	27,161,400
March 31, 2016	5.07	4.58	5.54	5.34	(7.65)	(14.23)	27,825,700
June 30, 2016	5.22	4.96	5.68	5.53	(7.77)	(11.59)	24,032,900
September 30, 2016	5.28	5.09	5.74	5.61	(7.54)	(9.56)	22,464,600
December 31, 2016	5.57	5.20	5.80	5.72	(3.80)	(9.41)	28,654,800
March 31, 2017	5.61	5.41	5.81	5.76	(3.28)	(6.24)	27,074,900
June 30, 2017	5.47	5.27	5.77	5.70	(4.87)	(7.54)	23,390,800
September 30, 2017	5.38	5.14	5.72	5.65	(5.78)	(9.33)	21,891,800
December 31, 2017	5.25	5.01	5.68	5.63	(7.24)	(11.33)	33,105,200
March 31, 2018	5.21	5.06	5.71	5.63	(8.27)	(11.03)	23,146,200

On June 8, 2018 the last reported sale price of a Common Share of the Trust's Common Shares on the NYSE was $5.10. The Trust's NAV on June 8, 2018 was $5.65. See “How Shares Are Priced.” This represented a (9.73)% discount from the NAV $5.65 as of that date.

The Trust's Common Shares have traded in the market above, at, and below NAV since March 9, 1992, when the Trust's Common Shares were listed on the NYSE. The Trust cannot predict whether its Common Shares will trade in the future at a premium or discount to NAV, and if so, the level of such premium or discount. Shares of closed-end investment companies frequently trade at a discount from NAV.

INVESTMENT OBJECTIVE AND POLICIES

Investment Objective

The Trust's investment objective is to provide investors with as high a level of current income as is consistent with the preservation of capital. The investment objective is fundamental and may not be changed without a majority vote of the shareholders of the Trust. See “Description of the Trust – Fundamental and Non-Fundamental Investment Policies of the Trust” later in this Prospectus. The Trust seeks to achieve this investment objective by investing in the types of assets described below:

1. Senior Loans. Under normal market conditions, at least 80% of the Trust's net assets (plus borrowings for investment purposes) will be invested in Senior Loans. This investment policy may be changed without shareholder approval so long as the Trust provides its shareholders with at least 60 days' prior notice of any changes in this investment policy. Under normal market conditions, the Trust invests at least 80% of its assets in Senior Loans made to corporations or other business entities organized under U.S. or Canadian law and that are domiciled in the United States and in U.S. territories and possessions or Canada.

   The Senior Loans in which the Trust invests either hold the most senior position in the capital structure of the borrower, hold an equal ranking with other senior debt, or have characteristics (such as a senior position secured by liens on a borrower's assets) that the Adviser or Sub-Adviser believes justify treatment as senior debt. These Senior Loans are typically rated below investment-grade credit quality. Investments rated below investment-grade (or of similar quality if unrated) are commonly known as high-yielding, high risk investments or as “junk” investments.

   The Trust typically makes its investments in Senior Loans by purchasing a portion of the overall loan, i.e., the Trust becomes one of a number of lenders investing in the loan. The Trust may also make its investments in Senior Loans through the use of derivative instruments such as participations, credit-linked notes, credit default swaps, and total return swaps as long as the reference obligation for any such instrument is a Senior Loan. Investments through the use of such derivative instruments involve counterparty risk, i.e., the risk that the party from which such instrument is purchased will not perform as agreed. The Trust seeks to minimize such counterparty risk by purchasing such investments only from large, well established and highly rated counterparties.

2. Other Investments. Under normal market conditions, the Trust may invest up to 20% of its total assets, measured at the time of investment, in a combination of one or more of the following types of investments (“Other Investments”):

- loans to borrowers organized or located in countries outside the United States and outside U.S. territories and possessions or Canada;
- unsecured floating rate loans, notes, and other debt instruments;
- floating rate subordinated loans;
- tranches of floating rate asset-backed securities, including structured notes;
- corporate debt securities;
- executing repurchase and reverse repurchase agreements; and
- equity securities incidental to investments in loans.

3. Cash and Short-Term Instruments. Under normal market conditions, the Trust may invest in cash and/or short-term instruments. During periods when, in the opinion of the Adviser or Sub-Adviser, a temporary defensive posture in

the market is appropriate, the Trust may hold up to 100% of its assets in cash and/or short-term instruments.

4. Other Investment Strategies. The Trust may lend its portfolio securities, on a short-term or long-term basis, in an amount up to 33 ⁄3% of its total assets.

Fundamental Policies

1. Industry Concentration. The Trust may invest in any industry. The Trust may not invest more than 25% of its total assets, measured at the time of investment, in any single industry.

2. Borrower Diversification. The Trust is diversified, as such term is defined in the 1940 Act. A diversified fund may not, as to 75% of its total assets, invest more than 5% of its total assets in any one issuer and may not purchase more than 10% of the outstanding voting securities of any one issuer (other than securities issues or guaranteed

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by the U.S. government or any of its agencies or instrumentalities, or other investment companies). The Trust will consider the borrower on a loan, including a loan participation, to be the issuer of such loan. With respect to no more than 25% of its total assets, the Trust may make investments that are not subject to the foregoing restrictions.

These fundamental policies may only be changed with approval by a majority of all shareholders. See "Description of the Trust – Fundamental and Non-Fundamental Investment Policies of the Trust" later in this Prospectus.

Investment Policies

The Adviser and Sub-Adviser follow certain investment policies set by the Trust's Board. Some of those policies are set forth below. Please refer to the SAI for additional information on these and other investment policies.

1. Limitations on currencies. The Trust's investments must be denominated in U.S. dollars, provided that the Trust may invest up to 15% of its total assets in investments denominated in the OECD currencies (including the euro), other than the U.S. dollar. The Trust will engage in currency exchange transactions to seek to hedge, as closely as practicable, 100% of the economic impact to the Trust arising from foreign currency fluctuations.

2. Maturity. Although the Trust has no restrictions on portfolio maturity, under normal market conditions, at least 80% of the Trust's total assets will be invested in assets with remaining maturities of one to ten years. The maximum maturity on any loan in which the Trust can invest is ten years.

3. Limitations on Other Investments. The Trust may also invest up to 20% of its total assets, measured at the time of investment, in Other Investments. The following additional limitations apply to Other Investments:

- Unsecured Debt Instruments. The Trust may not invest in unsecured floating rate loans, notes, and other debt instruments, in an aggregate amount that exceeds 20% of the Trust's total assets, measured at the time of investment.
- Equities. The Trust may acquire equity securities only as an incident to the purchase or ownership of a loan or in connection with a reorganization of a borrower or its debt.
- Subordinated Loans. The Trust may not invest in floating rate subordinated loans, whether or not secured, in an aggregated amount that exceeds 5% of its total assets, measured at the time of investment.

4. Investment Quality; Credit Analysis. Loans in which the Trust invests generally are rated below investment-grade credit quality or are unrated. In acquiring a loan, the Adviser or Sub-Adviser will consider some or all of the following factors concerning the borrower: ability to service debt from internally generated funds; adequacy of liquidity and working capital; appropriateness of capital structure; leverage consistent with industry norms; historical experience of achieving business and financial projections; the quality and experience of management; and adequacy of collateral coverage. The Adviser or Sub-Adviser performs its own independent credit analysis of each borrower. In so doing, the Adviser or Sub-Adviser may utilize information and credit analyses from agents that originate or administer loans, other lenders investing in a loan, and other sources. The Adviser or Sub-Adviser also may communicate directly with management of the borrowers. These analyses continue on a periodic basis for any Senior Loan held by the Trust. See "Risk Factors and Special Considerations - Credit for Loans."

5. Use of Leverage. The Trust may borrow money and issue Preferred Shares to the fullest extent permitted by the 1940 Act. See "Investment Objective and Policies - Policy on Borrowing" and "Investment Objective and Policies - Policy on Issuance of Preferred Shares."

6. Short-term Instruments. Short-term instruments in which the Trust invests may include: (i) commercial paper rated A-1 by S&P Global Ratings ("S&P") or P-1 by Moody's Investors Service, Inc. ("Moody's"), or of

comparable quality as determined by the Adviser or Sub-Adviser; (ii) certificates of deposit, bankers' acceptances, and other bank deposits and obligations; and (iii) securities issued or guaranteed by the U.S. government, its agencies, or instrumentalities.

Policy on Borrowing

The Trust has a policy of borrowing for investment purposes. The Trust seeks to use proceeds from borrowing to acquire loans and other investments which pay interest at a rate higher than the rate the Trust pays on borrowings. Accordingly, borrowing has the potential to increase the Trust's total income available to holders of its Common Shares.

The Trust may issue notes, commercial paper, or other evidences of indebtedness and may be required to secure repayment by mortgaging, pledging, or otherwise granting a security interest in the Trust's assets. The terms of any such borrowings will be subject to the provisions of the 1940 Act and they will also be subject to the more restrictive

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terms of any credit agreements relating to borrowings and, to the extent the Trust seeks a rating for borrowings, to additional guidelines imposed by rating agencies, which are expected to be more restrictive than the provisions of the 1940 Act. The Trust may borrow money in an amount permitted under the 1940 Act, including the rules, regulations, interpretations thereunder, and any exemptive or other relief provided by the SEC. See "Risk Factors and Special Considerations - Leverage" and "Risk Factors and Special Considerations - Restrictive Covenants and 1940 Act Restrictions."

Policy on Issuance of Preferred Shares

The Trust has a policy which permits it to issue Preferred Shares for investment purposes. The Trust seeks to use the proceeds from Preferred Shares to acquire loans and other investments which pay interest at a rate higher than the dividends payable on Preferred Shares. The terms of the issuance of Preferred Shares are subject to the 1940 Act and to additional guidelines imposed by rating agencies, which are more restrictive than the provisions of the 1940 Act. Under the 1940 Act, the Trust may issue Preferred Shares so long as immediately after any issuance of Preferred Shares the value of the Trust's total assets (less all Trust liabilities and indebtedness that is not senior indebtedness) is at least twice the amount of the Trust's senior indebtedness plus the involuntary liquidation preference of all outstanding Preferred Shares. See "Risk Factors and Special Considerations - Leverage." As of June 8, 2018 the Trust had no Preferred Shares outstanding.

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THE TRUST'S INVESTMENTS

As stated under "Investment Objective and Policies," the Trust will invest primarily in Senior Loans. This section contains a discussion of the characteristics of Senior Loans and the manner in which those investments are made.

Senior Loan Characteristics

Senior Loans are loans that are typically made to business borrowers to finance leveraged buy-outs, recapitalizations, mergers, stock repurchases, and internal growth. Senior Loans generally hold the most senior position in the capital structure of a borrower and are usually secured by liens on the assets of the borrowers; including tangible assets such as cash, accounts receivable, inventory, property, plant and equipment, common and/or preferred stocks of subsidiaries; and intangible assets including trademarks, copyrights, patent rights, and franchise value. The Trust may also receive guarantees as a form of collateral.

Senior Loans are typically structured to include two or more types of loans within a single credit agreement. The most common structure is to have a revolving loan and a term loan. A revolving loan is a loan that can be drawn upon, repaid fully or partially, and then the repaid portions can be drawn upon again. A term loan is a loan that is fully drawn upon immediately and once repaid, it cannot be drawn upon again. Sometimes there may be two or more term loans and they may be secured by different collateral, have different repayment schedules and maturity dates. In addition to revolving loans and term loans, Senior Loan structures can also contain facilities for the issuance of letters of credit and may contain mechanisms for lenders to pre-fund letters of credit through credit-linked deposits.

The Trust typically invests only in the term loan portions of Senior Loan structures, although it does sometimes invest in the revolving loan portions and the pre-funded letters of credit portions.

By virtue of their senior position and collateral, Senior Loans typically provide lenders with the first right to cash flows or proceeds from the sale of a borrower's collateral if the borrower becomes insolvent (subject to the limitations of bankruptcy law, which may provide higher priority to certain claims such as employee salaries, employee pensions, and taxes). This means Senior Loans are generally repaid before unsecured bank loans, corporate bonds, subordinated debt, trade creditors, and preferred or common stockholders.

Senior Loans typically pay interest at least quarterly at rates which equal a fixed percentage spread over a base rate such as the London Inter-Bank Offered Rate ("LIBOR"). For example, if LIBOR were 3% and the borrower were paying a fixed spread of 2.50%, the total interest rate paid by the borrower would be 5.50%. Base rates, and therefore the total rates paid on Senior Loans, float, i.e., they change as market rates of interest change.

Although a base rate such as LIBOR can change every day, loan agreements for Senior Loans typically allow the borrower the ability to choose how often the base rate for its loan will change. A single loan may have multiple reset periods at the same time, with each reset period applicable to a designated portion of the loan. Such periods can range from one day to one year, with most borrowers choosing monthly or quarterly reset periods. During periods of rising interest rates, borrowers will tend to choose longer reset periods, and during periods of declining interest rates, borrowers will tend to choose shorter reset periods. The fixed spread over the base rate on a Senior Loan typically does not change.

Senior Loans generally are arranged through private negotiations between a borrower and several financial institutions represented by an agent who is usually one of the originating lenders. In larger transactions, it is common to have several agents; however, generally only one such agent has primary responsibility for ongoing administration of a Senior Loan. Agents are typically paid fees by the borrower for their services. The agent is primarily responsible for negotiating the loan agreement which establishes the terms and conditions of the Senior Loan and the rights of the borrower and the lenders. The agent also is responsible for monitoring collateral and for exercising remedies available to the lenders such as foreclosure upon collateral.

Loan agreements may provide for the termination of the agent's agency status in the event that it fails to act as required under the relevant loan agreement, becomes insolvent, enters Federal Deposit Insurance Corporation ("FDIC") receivership or, if not FDIC insured, enters into bankruptcy. Should such an agent, lender, or assignor with respect to an assignment interpositioned between the Trust and the borrower become insolvent or enter FDIC receivership or bankruptcy, any interest in the Senior Loan of such person and any loan payment held by such person for the benefit

of the Trust should not be included in such person's or entity's bankruptcy estate. If, however, any such amount were included in such person's or entity's bankruptcy estate, the Trust would incur certain costs and delays in realizing payment or could suffer a loss of principal or interest. In this event, the Trust could experience a decrease in the NAV.

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THE TRUST'S INVESTMENTS (continued)

The Trust acquires Senior Loans from lenders such as commercial and investment banks, insurance companies, finance companies, other investment companies, and private investment funds.

Investment by the Trust

The Trust typically invests in Senior Loans primarily by purchasing an assignment of a portion of a Senior Loan from a third party, either in connection with the original loan transaction (i.e., in the primary market) or after the initial loan transaction (i.e., in the secondary market). When the Trust purchases a Senior Loan in the primary market, it may share in a fee paid to the original lender. When the Trust purchases a Senior Loan in the secondary market, it may pay a fee to, or forego a portion of interest payments from, the lender making the assignment. The Trust may also make its investments in Senior Loans through the use of derivative instruments such as participations, credit-linked notes, credit default swaps, and total return swaps as long as the reference obligation for any such instrument is a Senior Loan. Investments through the use of such derivative instruments involve counterparty risk, i.e., the risk that the party from which such instrument is purchased will not perform as agreed. Unlike an assignment as described below, the Trust does not have a direct contractual relationship with the borrower. The Trust seeks to minimize such counterparty risk by purchasing such investments only from large, well-established, and highly-rated counterparties.

There is no minimum rating or other independent evaluation of a borrower limiting the Trust's investments and most Senior Loans that the Trust may acquire, if rated, will be rated below investment-grade credit quality. See "Risk Factors and Special Considerations - Credit for Loans."

Assignments. When the Trust is a purchaser of an assignment, it succeeds to all the rights and obligations under the loan agreement of the assigning lender and becomes a lender under the loan agreement with the same rights and obligations as the assigning lender. These rights include the ability to vote along with the other lenders on such matters as enforcing the terms of the loan agreement (e.g., declaring defaults, initiating collection action, etc.). Taking such actions typically requires at least a vote of the lenders holding a majority of the investment in the loan and may require a vote by lenders holding two-thirds or more of the investment in the loan. Because the Trust usually does not hold a majority of the investment in any loan, it will not be able by itself to control decisions that require a vote by the lenders.

Acquisition Costs. When the Trust acquires an interest in a Senior Loan in the primary market, it typically acquires the loan at par value less its portion of the fee paid to all originating lenders. When the Trust acquires an interest in a Senior Loan in the secondary market, it may be at par value but typically the Trust will do so at premium or discount to par value.

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RISK FACTORS AND SPECIAL CONSIDERATIONS

Risk is inherent in all investing. The following discussion summarizes some of the risks that you should consider before deciding whether to invest in the Trust. For additional information about the risks associated with investing in the Trust, please see the SAI.

Asset-Backed Securities: Defaults on, or low credit quality or liquidity of the underlying assets of the asset-backed securities may impair the value of these securities and result in losses. There may be limitations on the enforceability of any security interest or collateral granted with respect to those underlying assets and the value of collateral may not satisfy the obligation upon default. These securities also present a higher degree of prepayment and extension risk and interest rate risk than do other types of debt instruments. Because of prepayment risk and extension risk, small movements in interest rates (both increases and decreases) may quickly and significantly reduce the value of certain asset-backed securities. The value of longer-term securities generally changes more in response to changes in market interest rates than shorter term securities.

These securities may be significantly affected by government regulation, market interest rates, market perception of the creditworthiness of an issuer servicer, and loan-to-value ratio of the underlying assets. During an economic downturn, the mortgages, commercial or consumer loans, trade or credit card receivables, installment purchase obligations, leases, or other debt obligations underlying an asset-backed security may experience an increase in defaults as borrowers experience difficulties in repaying their loans which may cause the valuation of such securities to be more volatile and may reduce the value of such securities. These risks are particularly heightened for investments in asset-backed securities that contain sub-prime loans which are loans made to borrowers with weakened credit histories and often have higher default rates.

Bank Instruments: Bank instruments include certificates of deposit, fixed time deposits, bankers' acceptances, and other debt and deposit-type obligations issued by banks. Changes in economic, regulatory or political conditions, or other events that affect the banking industry may have an adverse effect on bank instruments or banking institutions that serve as counterparties in transactions with the Trust.

Corporate Debt Instruments: Corporate debt instruments are subject to the risk of the issuer's inability to meet principal and interest payments on the obligation. The value of corporate debt instruments may be subject to price volatility due to such factors as market interest rates, market perception of the creditworthiness of the issuer, and general market liquidity. When market interest rates decline, the value of corporate debt instruments can be expected to rise, and when market interest rates rise, the value of those securities can be expected to decline. Corporate debt instruments with longer maturities tend to be more sensitive to market interest rate movements than those with shorter maturities.

Credit Default Swaps: The Trust may enter into credit default swaps, either as a buyer or a seller of the swap. A buyer of a swap pays a fee to buy protection against the risk that a security will default. If no default occurs, the Trust will have paid the fee, but typically will recover nothing under the swap. A seller of a swap receives payment(s) in return for an obligation to pay the counterparty the full notional value of a security in the event of a default of the security issuer. As a seller of a swap, the Trust would effectively add leverage to its portfolio because, in addition to its total net assets, the Trust would be subject to investment exposure on the full notional value of the swap. Credit default swaps are particularly subject to counterparty, credit, valuation, liquidity and leveraging risks and the risk that the swap may not correlate with its underlying asset as expected. Certain standardized swaps are subject to mandatory central clearing. Central clearing is expected to reduce counterparty credit risk and increase liquidity; however, there is no assurance that central clearing will achieve that result, and in the meantime, central clearing and related requirements expose the Trust to new kinds of costs and risks. In addition, credit default swaps expose the Trust to the risk of improper valuation.

Credit Facility: The Trust has a policy of borrowing to acquire income-producing investments. The Trust currently is a party to a credit facility with State Street Bank and Trust Company and The Bank of Nova Scotia that permits the Trust to borrow up to an aggregate amount of $414 million. Interest is payable on the amounts borrowed under the credit facility as well as a benchmark rate such as LIBOR or the federal funds rate, plus a facility fee on unused commitments. The lender under the credit facility has a security interest in all assets of the Trust. As of June 8, 2018

the Trust had $326.5 million in outstanding borrowings under one credit facility.

Under the credit facility, the lender has the right to liquidate Trust assets in the event of default by the Trust, and the Trust may be prohibited from paying dividends in the event of a material adverse event or condition regarding the Trust, the Adviser, or Sub-Adviser until outstanding debts are paid or until the event or condition is cured.

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Credit (Loans): Prices of the Trust's investments are likely to fall if the actual or perceived financial health of the borrowers on, or issuers of, such investments deteriorates, whether because of broad economic or issuer-specific reasons, or if the borrower or issuer is late (or defaults) in paying interest or principal. The Trust invests a substantial portion of its assets in below investment-grade Senior Loans and other below investment-grade assets. Below investment-grade loans commonly known as high-yielding, high risk investments or as "junk" investments involve a greater risk that borrowers may not make timely payment of the interest and principal due on their loans and are subject to greater levels of credit and liquidity risks. They also involve a greater risk that the value of such loans could decline significantly. If borrowers do not make timely payments of the interest due on their loans, the yield on the Common Shares will decrease. If borrowers do not make timely payment of the principal due on their loans, or if the value of such loans decreases, the net asset value will decrease.

The Trust generally invests in loans that are senior in the capital structure of the borrower or issuer, hold an equal ranking with other senior debt, or have characteristics (such as a senior position secured by liens on a borrower's assets) that the manager believes justify treatment as senior debt. Loans that are senior and secured generally involve less risk than unsecured or subordinated debt and equity instruments of the same borrower because the payment of principal and interest on senior loans is an obligation of the borrower that, in most instances, takes precedence over the payment of dividends or the return of capital to the borrower's shareholders, and payments to bond holders; and because of the collateral supporting the repayment of the debt instrument. However, the value of the collateral may not equal the Trust's investment when the debt instrument is acquired or may decline below the principal amount of the debt instrument subsequent to the Trust's investment. Also, to the extent that collateral consists of stocks of the borrower, or its subsidiaries or affiliates, the Trust bears the risk that the stocks may decline in value, be relatively illiquid, or may lose all or substantially all of their value, causing the Trust's investment to be undercollateralized. Therefore, the liquidation of the collateral underlying a loan in which the Trust has invested, may not satisfy the borrower's obligation to the Trust in the event of non-payment of scheduled interest or principal, and the collateral may not be able to be readily liquidated.

In the event of the bankruptcy of a borrower or issuer, the Trust could experience delays and limitations on its ability to realize the benefits of the collateral securing the investment. Among the risks involved in a bankruptcy are assertions that the pledge of collateral to secure a loan constitutes a fraudulent conveyance or preferential transfer that would have the effect of nullifying or subordinating the Trust's rights to the collateral.

The Senior Loans in which the Trust invests are generally rated lower than investment-grade credit quality, i.e., rated lower than Baa by Moody's Investors Service, Inc. or BBB by S&P Global Ratings, or have been issued by issuers who have issued other debt instruments which, if unrated, would be rated lower than investment-grade credit quality. Lower quality securities (including securities that have fallen below investment-grade and are classified as "junk bonds" or "high yield securities") have greater credit risk and liquidity risk than higher quality (investment-grade) securities, and their issuers' long-term ability to make payments is considered speculative. Prices of lower quality bonds or other debt instruments are also more volatile, are more sensitive to negative news about the economy or the issuer, and have greater liquidity and price volatility risk. Investment decisions are based largely on the credit analysis performed by the manager, and not on rating agency evaluation. This analysis may be difficult to perform. Information about a loan and its borrower generally is not in the public domain. Investors in loans may not be afforded the protections of the anti-fraud provisions of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, because loans may not be considered "securities" under such laws. In addition, many borrowers have not issued securities to the public and are not subject to reporting requirements under federal securities laws. Generally, however, borrowers are required to provide financial information to lenders and information may be available from other loan market participants or agents that originate or administer loans.

Demand for Loans: An increase in demand for loans may benefit the Trust by providing increased liquidity for such loans and higher sales prices, but it may also adversely affect the rate of interest payable on such loans and the rights provided to the Trust under the terms of the applicable loan agreement, and may increase the price of loans in the

secondary market. A decrease in the demand for loans may adversely affect the price of loans in the Trust's portfolio, which could cause the Trust's net asset value to decline and reduce the liquidity of the Trust's loan holdings.
Derivative Instruments: Derivative instruments are subject to a number of risks, including the risk of changes in the market price of the underlying securities, credit risk with respect to the counterparty, risk of loss due to changes in market interest rates and liquidity and volatility risk. The amounts required to purchase certain derivatives may be

small relative to the magnitude of exposure assumed by the Trust. Therefore, the purchase of certain derivatives may have an economic leveraging effect on the Trust and exaggerate any increase or decrease in the net asset value. Derivatives may not perform as expected, so the Trust may not realize the intended benefits. When used for hedging purposes, the change in value of a derivative may not correlate as expected with the currency, security or other risk being hedged. When used as an alternative or substitute for direct cash investments, the return provided by the derivative may not provide the same return as direct cash investment. In addition, given their complexity, derivatives expose the Trust to the risk of improper valuation. Generally, derivatives are sophisticated financial instruments whose performance is derived, at least in part, from the performance of an underlying asset or assets. Derivatives include, among other things, swap agreements, options, forward foreign currency exchange contracts, and futures. Investments in derivatives are generally negotiated over-the-counter with a single counterparty and as a result are subject to credit risks related to the counterparty's ability or willingness to perform its obligations; any deterioration in the counterparty's creditworthiness could adversely affect the value of the derivative. In addition, derivatives and their underlying securities may experience periods of illiquidity which could cause the Trust to hold a security it might otherwise sell, or to sell a security it otherwise might hold at inopportune times or at an unanticipated price. A manager might imperfectly judge the direction of the market. For instance, if a derivative is used as a hedge to offset investment risk in another security, the hedge might not correlate to the market's movements and may have unexpected or undesired results such as a loss or a reduction in gains. The U.S. government has enacted legislation that provides for new regulation of the derivatives market, including clearing, margin, reporting, and registration requirements. The European Union is (and other countries outside of the European Union are) implementing similar requirements, which will affect the Trust when it enters into a derivatives transaction with a counterparty organized in that country or otherwise subject to that country's derivatives regulations. Because these requirements are new and evolving (and some of the rules are not yet final), their ultimate impact remains unclear. Central clearing is expected to reduce counterparty risk and increase liquidity, however, there is no assurance that it will achieve that result, and in the meantime, central clearing and related requirements expose the Trust to new kinds of costs and risks.

Equity Securities Incidental to Investments in Loans: Investments in equity securities incidental to investment in loans entail certain risks in addition to those associated with investments in loans. The value of such equity securities may change more rapidly, and to a greater extent, than fixed-income debt instruments issued by the same issuer in response to company-specific developments and general market conditions. The Trust's holdings of equity securities may increase fluctuations in the Trust's net asset value. The Trust may frequently possess material non-public information about a borrower as a result of its ownership of a loan of such borrower. Because of prohibitions on trading in securities of issuers while in possession of such information, the Trust might be unable to enter into a transaction in a security of such a borrower when it would otherwise be advantageous to do so.

Impact of Shareholder Reinvestment Program and Privately Negotiated Transactions: The issuance of Common Shares through the Shareholder Reinvestment Program and/or through privately negotiated transactions may have an adverse effect on the secondary market for the Common Shares. The increase in the number of the outstanding Common Shares resulting from issuances pursuant to the Shareholder Reinvestment Program or pursuant to privately negotiated transactions, and the discount to the market price at which such Common Shares may be issued, may put downward pressure on the market price for Common Shares. Common Shares will not be issued pursuant to the Shareholder Reinvestment Program at any time when Common Shares are trading at a price lower than the net asset value per Common Share.

Interest Rate: Changes in short-term market interest rates will directly affect the yield on Common Shares. If short-term market interest rates fall, the yield on Common Shares will also fall. To the extent that the interest rate spreads on loans in the Trust's portfolio experience a general decline, the yield on the Common Shares will fall and the value of the Trust's assets may decrease, which will cause the Trust's net asset value to decrease. Conversely, when short-term market interest rates rise, because of the lag between changes in such short-term rates and the resetting of the floating rates on assets in the Trust's portfolio, the impact of rising rates will be delayed to the extent of such lag. In

the case of inverse securities, the interest rate paid by such securities generally will decrease when the market rate of interest to which the inverse security is indexed increases. With respect to investments in fixed rate instruments, a rise in market interest rates generally causes values of such instruments to fall. The values of fixed rate instruments with longer maturities or duration are more sensitive to changes in market interest rates.

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As of the date of this Prospectus, market interest rates in the United States are at or near historic lows, which may increase the Trust's exposure to risks associated with rising market interest rates. Rising market interest rates could have unpredictable effects on the markets and may expose fixed-income and related markets to heightened volatility, which could reduce liquidity for certain investments, adversely affect values, and increase costs. If dealer capacity in fixed-income and related markets is insufficient for market conditions, it may further inhibit liquidity and increase volatility in the fixed-income and related markets. Further, recent and potential changes in government policy may affect interest rates.

Market interest rate changes also may cause the Trust's net asset value to experience moderate volatility. This is because the value of a loan asset held by the Trust is partially a function of whether it is paying what the market perceives to be a market rate of interest for the particular loan, given its individual credit and other characteristics. If market interest rates change, a loan's value could be affected to the extent the interest rate paid on that loan does not reset at the same time. As discussed above, the Trust will ordinarily maintain a dollar-weighted average time until the next interest rate adjustment on its loans of 90 days or less. Therefore, the impact of the lag between a change in market interest rates and the change in the overall rate on the portfolio is expected to be minimal.

To the extent that changes in market rates of interest are reflected not in a change to a base rate such as LIBOR but in a change in the spread over the base rate which is payable on loans of the type and quality in which the Trust invests, the Trust's net asset value could also be adversely affected. However, unlike changes in market rates of interest for which there is only a temporary lag before the portfolio reflects those changes, changes in a loan's value based on changes in the market spread on loans in the Trust's portfolio may be of longer duration.

Finally, substantial increases in interest rates may cause an increase in loan defaults as borrowers may lack the resources to meet higher debt service requirements. In the case of inverse securities, the interest rate paid by the securities is a floating rate, which generally will decrease when the market rate of interest to which the inverse security is indexed increases and will increase when the market rate of interest to which the inverse security is indexed decreases.

Leverage: The use of leverage through borrowings or the issuance of Preferred Shares can adversely affect the yield on the Common Shares. To the extent that the Trust is unable to invest the proceeds from the use of leverage in assets which pay interest at a rate which exceeds the rate paid on the leverage, the yield on the Common Shares will decrease. In addition, in the event of a general market decline in the value of assets such as those in which the Trust invests, the effect of that decline will be magnified in the Trust because of the additional assets purchased with the proceeds of the leverage. Further, because the fee paid to the Adviser will be calculated on the basis of Managed Assets, the fee will be higher when leverage is utilized, giving the Adviser an incentive to utilize leverage. The Trust is subject to certain restrictions imposed by lenders to the Trust and may be subject to certain restrictions imposed by guidelines of one or more rating agencies which may issue ratings for debt or the Preferred Shares issued by the Trust. These restrictions are expected to impose asset coverage, fund composition requirements and limits on investment techniques, such as the use of financial derivative products that are more stringent than those imposed on the Trust by the 1940 Act. These restrictions could impede the manager from fully managing the Trust's portfolio in accordance with the Trust's investment objective and policies. As of June 8, 2018 the Trust had $326.5 million in outstanding borrowings under one credit facility.

The Trust is permitted to borrow an amount up to 33 ⅓%, or such other percentage permitted by law, of its total assets (including the amount borrowed) less all liabilities other than borrowings. The Trust may also issue Preferred Shares so long as immediately after any issuance of Preferred Shares, the value of the Trust's total assets (less all Trust liabilities and indebtedness that is not senior indebtedness for 1940 Act purposes) is at least twice the amount of the Trust's senior indebtedness plus the involuntary liquidation preference of all outstanding shares. As of the date of this Prospectus, the Trust had no Preferred Shares outstanding. Borrowings and the issuance of Preferred Shares are referred to in this Prospectus collectively as "leverage." The Trust may use leverage for investment purposes, to finance the repurchase of its Common Shares, and to meet other cash requirements. The use of leverage for investment

purposes increases both investment opportunity and investment risk.

Capital raised through leverage will be subject to interest and other costs, and these costs could exceed the income earned by the Trust on the proceeds of such leverage. There can be no assurance that the Trust's income from the proceeds of leverage will exceed these costs. The manager seeks to use leverage for the purposes of making additional investments only if they believe, at the time of using leverage, that the total return on the assets purchased with such funds will exceed interest payments and other costs on the leverage.

The Trust currently uses leverage by borrowing money on a floating rate basis. The current rate on borrowings as of June 8, 2018 is 2.92%.

The Trust's leveraged capital structure creates special risks not associated with unleveraged funds having similar investment objectives and policies. The funds borrowed pursuant to the credit facilities or obtained through any issuance of Preferred Shares may constitute a substantial lien and burden by reason of their prior claim against the income of the Trust and against the net assets of the Trust in liquidation.

The Trust is not permitted to declare dividends or other distributions, including dividends and distributions with respect to Common Shares or Preferred Shares, or to purchase Common Shares or Preferred Shares unless: (i) at the time thereof the Trust meets certain asset coverage requirements; and (ii) there is no event of default under any credit facility program that is continuing. See "Risk Factors and Special Considerations - Restrictive Covenants and 1940 Act Restrictions" later in this Prospectus. In the event of a default under a credit facility program, the lenders have the right to cause a liquidation of the collateral (i.e., sell assets of the Trust) and, if any such default is not cured, the lenders may be able to control the liquidation as well.

In addition, the Trust is not permitted to pay dividends on, or redeem or repurchase, Common Shares unless all accrued dividends on any Preferred Shares and all accrued interest on borrowings have been paid or set aside for payment.

Annual Expenses Without Borrowings

If the Trust were not to have borrowed, the remaining expenses, as a percentage of the net assets of the Trust, would be as follows:

Annual Expenses Without Borrowings (as a percentage of net assets attributable to Common Shares)	
Management Fees (as a percentage of Managed Assets)[1]	1.05%
Other Operating Expenses[2]	0.16%
Total Annual Expenses	1.21%
Fee Waivers/Reimbursements/Recoupment[3]	None
Net Annual Expenses	1.21%

1 Pursuant to the investment management agreement with the Trust, the Adviser is paid a fee of 1.05% of the Trust's Managed Assets. For the description of "Managed Assets," please see "Description of the Trust – Adviser/Sub-Adviser" earlier in this Prospectus.

2 Other Operating Expenses are estimated amounts for the current fiscal year and do not include the expenses of borrowing.

3 The Adviser is contractually obligated to limit expenses of the Trust at a rate of 1.05% of average daily Managed Assets plus 0.15% of average daily net assets through July 1, 2019. The limitation does not extend to interest, taxes, investment-related costs, leverage expenses, extraordinary expenses, and Acquired Fund Fees and Expenses. The limitation is subject to possible recoupment by the adviser within 36 months of the waiver or reimbursement and the amount of the recoupment is limited to the lesser of the amounts that would be recoupable under: (i) the expense cap in effect at the time of the waiver or reimbursement; or (ii) the expense cap in effect at the time of recoupment. Termination or modification of this obligation requires approval by the Trust's Board.

Effect of Leverage

To cover the annual interest payments on the borrowings for the current fiscal year (assuming that the current rate remains in effect for the entire fiscal year and assuming that the Trust borrows an amount equal to 30% of its Managed Assets as of June 8, 2018) the Trust would need to experience an annual return of 0.89% on its portfolio (including the assets purchased with the assumed leverage) to cover such annual interest.

The following table is designed to illustrate the effect on return to a holder of the Trust's Common Shares of the leverage created by the Trust's use of borrowing, using the average annual interest rate of 2.23% for the fiscal year

ended February 28, 2018, assuming the Trust has used leverage by borrowing an amount equal to 30% of the Trust's Managed Assets and assuming hypothetical annual returns on the Trust's portfolio of minus 10% to plus 10%. As can be seen, leverage generally increases the return to shareholders when portfolio return is positive and decreases return when the portfolio return is negative. Actual returns may be greater or less than those appearing in the table.

Assumed Portfolio Return, net of expenses[1]	-10%	-5%	0%	5%	10%
Corresponding Return to Common Shareholders[2]	-15.24%	-8.10%	-0.96%	6.19%	13.33%

1 The Assumed Portfolio Return is required by regulation of the SEC and is not a prediction of, and does not represent, the projected or actual performance of the Trust.

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2 In order to compute the Corresponding Return to Common Shareholders, the Assumed Portfolio Return is multiplied by the total value of the Trust's assets at the beginning of the Trust's fiscal year to obtain an assumed return to the Trust. From this amount, all interest accrued during the year is subtracted to determine the return available to shareholders. The return available to shareholders is then divided by the total value of the Trust's net assets attributable to Common Shares as of the beginning of the fiscal year to determine the Corresponding Return to Common Shareholders.

Limited Secondary Market for Loans: Because of the limited secondary market for loans, the Trust may be limited in its ability to sell loans in its portfolio in a timely fashion and/or at a favorable price. Furthermore, transactions in loans typically settle on a delayed basis and may take longer than 7 days to settle. As a result the Trust may not receive the proceeds from a sale of a floating rate loan for a significant period of time which may affect the Trust’s ability to repay debt, to pay dividends, to pay expenses, or to take advantage of new investment opportunities. Although the re-sale, or secondary market for loans has grown substantially over the past decade, both in overall size and number of market participants, there is no organized exchange or board of trade on which loans are traded. Instead, the secondary market for loans is a private, unregulated inter-dealer or inter-bank re-sale market.

Loans usually trade in large denominations and trades can be infrequent and the market for loans may experience volatility. The market has limited transparency so that information about actual trades may be difficult to obtain. Accordingly, some loans will be relatively illiquid.

In addition, loans may require the consent of the borrower and/or the agent prior to sale or assignment. These consent requirements can delay or impede the Trust’s ability to sell loans and can adversely affect the price that can be obtained.

These considerations may cause the Trust to sell assets at lower prices than it would otherwise consider to meet cash needs or cause the Trust to maintain a greater portion of its assets in cash equivalents than it would otherwise, which could negatively impact performance. The Trust may seek to avoid the necessity of selling assets to meet such needs by the use of borrowings.

From time to time, the occurrence of one or more of the factors described above may create a cascading effect where the market for debt instruments (including the market for loans) first experiences volatility and then decreased liquidity. Such conditions, or other similar conditions, may then adversely affect the value of loans and other instruments, widening spreads against higher-quality debt instruments, and making it harder to sell loans at prices at which they have historically or recently traded, thereby further reducing liquidity. For example, during the global liquidity crisis in the second half of 2008, the average price of loans in the S&P/LSTA Leveraged Loan Index (which includes loans of the type in which the Trust invests) declined by 32% (which included a decline of 3.06% on a single day).

Manager: The Trust is subject to manager risk because it is an actively managed investment portfolio. The adviser, the sub-adviser or each individual portfolio manager will make judgments and apply investment techniques and risk analyses in making investment decisions, but there can be no guarantee that these decisions will produce the desired results.

Market Discount: Shares of closed-end investment companies frequently trade at a discount from their net asset value. The possibility that Common Shares will trade at a discount from their net asset value is a risk separate and distinct from the risk that the net asset value may decrease. The reasons for the Common Shares trading from time to time at a premium to or discount from net asset value are not known to the Trust, and the Trust cannot predict whether its Common Shares will trade in the future at a premium to or discount from net asset value, and if so, the level of such premium or discount.

Non-U.S. and Non-Canadian Issuers: Investment in foreign borrowers involves special risks, including that foreign borrowers may be subject to: less rigorous regulatory, accounting, and reporting requirements than U.S. borrowers; differing legal systems and laws relating to creditors’ rights; the potential inability to enforce legal judgments; economic adversity that would result if the value of the borrower’s non-U.S. dollar denominated revenues and assets

were to fall because of fluctuations in currency values; and the potential for political, social, and economic adversity in the foreign borrower's country. The Trust may invest up to 15% of its total assets in investments denominated in OECD currencies (including the euro), other than the U.S. dollar.

The Trust will engage in currency exchange transactions to seek to hedge, as closely as practicable, 100% of the economic impact to the Trust arising from foreign currency fluctuations.

Operational: The Trust, its service providers, and other market participants increasingly depend on complex information technology and communications systems to conduct business functions. These systems are subject to a number of different threats or risks that could adversely affect the Trust and its shareholders, despite the efforts of the Trust

and its service providers to adopt technologies, processes, and practices intended to mitigate these risks.
Cyber-attacks, disruptions, or failures that affect the Trust's service providers, counterparties, market participants, or issuers of securities held by the Trust may adversely affect the Trust and its shareholders, including by causing losses or impairing the Trust's operations.

Prepayment and Extension: Many types of debt instruments are subject to prepayment and extension risk. Prepayment risk is the risk that the issuer of a debt instrument will pay back the principal earlier than expected. This may occur when interest rates decline. Prepayment may expose the Trust to a lower rate of return upon reinvestment of principal. Also, if a debt instrument subject to prepayment has been purchased at a premium, the value of the premium would be lost in the event of prepayment. Extension risk is the risk that the issuer of a debt instrument will pay back the principal later than expected. This may occur when interest rates rise. This may negatively affect performance, as the value of the debt instrument decreases when principal payments are made later than expected. Additionally, the Trust may be prevented from investing proceeds it would have received at a given time at the higher prevailing interest rates. Loans typically do not have call protection and may be prepaid partially or in full at any time without penalty.

Ranking of Senior Indebtedness: The rights of lenders to receive payments of interest and repayments of principal of any borrowings made by the Trust under the credit facility program are senior to the rights of holders of Common Shares and Preferred Shares with respect to the payment of dividends or upon liquidation.

Repurchase Agreements: In the event that the other party to a repurchase agreement defaults on its obligations, the Trust would generally seek to sell the underlying security serving as collateral for the repurchase agreement. However, the value of collateral may be insufficient to satisfy the counterparty's obligation and/or the Trust may encounter delay and incur costs before being able to sell the security. Such a delay may involve loss of interest or a decline in price of the security, which could result in a loss. In addition, if the Trust is characterized by a court as an unsecured creditor, it would be at risk of losing some or all of the principal and interest involved in the transaction.

Restrictive Covenants and 1940 Act Restrictions: The credit agreements governing the credit facility program ("Credit Agreements") include usual and customary covenants for this type of transaction, including limits on the Trust's ability to: (i) issue Preferred Shares; (ii) incur liens or pledge portfolio securities; (iii) change its investment objective or fundamental investment restrictions without the approval of lenders; (iv) make changes in any of its business objectives, purposes, or operations that could result in a material adverse effect; (v) make any changes in its capital structure; (vi) amend the Trust documents in a manner which could adversely affect the rights, interests, or obligations of any of the lenders; (vii) engage in any business other than the businesses currently engaged in; (viii) create, incur, assume, or permit to exist certain debt except for certain specified types of debt; and (ix) permit any of its Employee Retirement Income Security Act of 1974 ("ERISA") affiliates to cause or permit to occur an event that could result in the imposition of a lien under the Internal Revenue Code of 1986 or ERISA. In addition, the Credit Agreements do not permit the Trust's asset coverage ratio (as defined in the Credit Agreements) to fall below 300% at any time ("Credit Agreement Asset Coverage Test"). These covenants or guidelines could impede the manager from fully managing the Trust's portfolio in accordance with the investment objectives and policies.

Under the requirements of the 1940 Act, the Trust must have asset coverage of at least 300% immediately after any borrowing under a credit facility program. For this purpose, asset coverage means the ratio which the value of the total assets of the Trust, less liabilities and indebtedness not represented by senior securities, bears to the aggregate amount of borrowings represented by senior securities issued by the Trust.

The Credit Agreements limit the Trust's ability to pay dividends or make other distributions on the Common Shares, or purchase or redeem Common Shares, unless the Trust complies with the Credit Agreement Asset Coverage Test. In addition, the Credit Agreements do not permit the Trust to declare dividends or other distributions or purchase or redeem Common Shares: (i) at any time that an event of default under the credit agreement has occurred and is continuing; or (ii) if, after giving effect to such declaration, the Trust would not meet the Credit Agreement Asset Coverage Test set forth in the Credit Agreements.

Securities Lending: To generate additional income, the Trust may lend portfolio securities, on a short- or long-term

basis, in an amount up to 33 ⅓% of the Trust's total assets, to broker-dealers, major banks, or other recognized domestic institutional borrowers of securities. When the Trust lends its securities, it is responsible for investing the cash collateral it receives from the borrower of the securities, and the Trust could incur losses in connection with the

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investment of such cash collateral. As with other extensions of credit, there are risks of delay in recovery or even loss of rights in the collateral should the borrower default or fail financially. The Trust intends to engage in lending portfolio securities only when such lending is fully secured by investment-grade collateral held by an independent agent.

Short-Term Debt Instruments: Short-term debt instruments are subject to the risk of the issuer's inability to meet principal and interest payments on the obligation and also may be subject to price volatility due to such factors as market interest rates, market perception of the creditworthiness of the issuer, and general market liquidity. Because short-term debt instruments typically pay interest at a fixed-rate, when market interest rates decline, the value of the Trust's short-term debt instruments can be expected to rise, and when market interest rates rise, the value of those securities can be expected to decline.

Temporary Defensive Positions: When market conditions make it advisable, the Trust may hold a portion of its assets in cash and short-term interest bearing instruments. Moreover, in periods when, in the opinion of the manager, a temporary defensive position is appropriate, up to 100% of the Trust's assets may be held in cash, short-term interest bearing instruments and/or any other securities the manager considers consistent with a temporary defensive position. The Trust may not achieve its investment objective when pursuing a temporary defensive position.

Unsecured Debt Instruments and Subordinated Loans: Unsecured loans and subordinated loans share the same credit risks as those discussed under "Risk Factors and Special Considerations - Credit for Loans" except that unsecured loans are not secured by any collateral of the borrower and subordinated loans are not the most senior debt in a borrower's capital structure. Unsecured loans do not enjoy the security associated with collateralization and may pose a greater risk of nonpayment of interest or loss of principal than do secured loans. The primary additional risk in a subordinated loan is the potential loss in the event of default by the issuer of the loan. Subordinated loans in an insolvency bear an increased share, relative to senior secured lenders, of the ultimate risk that the borrower's assets are insufficient to meet its obligations to its creditors.

Valuation of Loans: The Trust values its assets daily. However, because the secondary market for floating rate loans is limited, it may be difficult to value loans, exposing the Trust to the risk that the price at which it sells loans will be less than the price at which they were valued when held by the Trust. Reliable market value quotations may not be readily available for some loans and determining the fair valuation of such loans may require more research than for securities that trade in a more active secondary market. In addition, elements of judgment may play a greater role in the valuation of loans than for more securities that trade in a more developed secondary market because there is less reliable, objective market value data available. If the Trust purchases a relatively large portion of a loan, the limitations of the secondary market may inhibit the Trust from selling a portion of the loan and reducing its exposure to a borrower when the manager deems it advisable to do so. Even if the Trust itself does not own a relatively large portion of a particular loan, the Trust, in combination with other similar accounts under management by the same portfolio managers, may own large portions of loans. The aggregate amount of holdings could create similar risks if and when the portfolio managers decide to sell those loans. These risks could include, for example, the risk that the sale of an initial portion of the loan could be at a price lower than the price at which the loan was valued by the Trust, the risk that the initial sale could adversely impact the price at which additional portions of the loan are sold, and the risk that the foregoing events could warrant a reduced valuation being assigned to the remaining portion of the loan still owned by the Trust.

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HOW SHARES ARE PRICED

The Trust is open for business every day the NYSE opens for regular trading (each such day, a “Business Day”). The net asset value (“NAV”) per Common Share of the Trust is determined each Business Day as of the close of the regular trading session (“Market Close”), as determined by the Consolidated Tape Association (“CTA”), the central distributor of transaction prices for exchange-traded securities (normally 4:00 p.m. Eastern time unless otherwise designated by the CTA). The data reflected on the consolidated tape provided by the CTA is generated by various market centers, including all securities exchanges, electronic communications networks, and third-market broker-dealers. The NAV per Common Share of the Trust is calculated by dividing the value of the Trust’s loan assets plus all cash and other assets (including accrued expenses but excluding capital and surplus) attributable to the Common Shares by the number of Common Shares outstanding. The NAV per Common Shares is made available for publication. On days when the Trust is closed for business, Trust Common Shares will not be priced and the Trust does not transact purchase and redemption orders. To the extent the Trust’s assets are traded in other markets on days when the Trust does not price its Common Shares, the value of the Trust’s assets will likely change and you will not be able to purchase or redeem shares of the Trust.

Assets for which market quotations are readily available are valued at market value. A security listed or traded on an exchange is valued at its last sales price or official closing price as of the close of the regular trading session on the exchange where the security is principally traded or, if such price is not available, at the last sale price as of the Market Close for such security provided by the CTA. Bank loans are valued at the average of the averages of the bid and ask prices provided to an independent loan pricing service by brokers. Futures contracts are valued at the final settlement price set by an exchange on which they are principally traded. Listed options are valued at the mean between the last bid and ask prices from the exchange on which they are principally traded. Investments in open-end registered investment companies that do not trade on an exchange are valued at the end of day NAV per share. Investments in registered investment companies that trade on an exchange are valued at the last sales price or official closing price as of the close of the regular trading session on the exchange where the security is principally traded.

When a market quotation is not readily available or is deemed unreliable, the Trust will determine a fair value for the relevant asset in accordance with procedures adopted by the Trust’s Board. Such procedures provide, for example, that:

- Exchange-traded securities are valued at the mean of the closing bid and ask.
- Debt obligations are valued using an evaluated price provided by an independent pricing service. Evaluated prices provided by the pricing service may be determined without exclusive reliance on quoted prices, and may reflect factors such as institution-size trading in similar groups of securities, developments related to specific securities, benchmark yield, quality, type of issue, coupon rate, maturity individual trading characteristics and other market data.
- Securities traded in the over-the-counter market are valued based on prices provided by independent pricing services or market makers.
- Options not listed on an exchange are valued by an independent source using an industry accepted model, such as Black-Scholes.
- Centrally cleared swap agreements are valued using a price provided by the central counterparty clearinghouse.
- Over-the-counter swap agreements are valued using a price provided by an independent pricing service.
- Forward foreign currency exchange contracts are valued utilizing current and forward rates obtained from an independent pricing service. Such prices from the third party pricing service are for specific settlement periods and the Trust’s forward foreign currency exchange contracts are valued at an interpolated rate between the closest preceding and subsequent period reported by the independent pricing service.
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Securities for which market prices are not provided by any of the above methods may be valued based upon quotes furnished by brokers.

The prospectuses of the open-end registered investment companies in which the Trust may invest explain the circumstances under which they will use fair value pricing and the effects of using fair value pricing.
Foreign securities' (including forward foreign currency exchange contracts) prices are converted into U.S. dollar amounts using the applicable exchange rates as of Market Close. If market quotations are available and believed to be reliable for foreign exchange-traded equity securities, the securities will be valued at the market quotations. Because trading hours for certain foreign securities end before Market Close, closing market quotations may become unreliable. An
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independent pricing service determines the degree of certainty, based on historical data, that the closing price in the principal market where a foreign security trades is not the current value as of Market Close. Foreign securities' prices meeting the approved degree of certainty that the price is not reflective of current value will be valued by the independent pricing service using pricing models designed to estimate likely changes in the values of those securities between the times in which the trading in those securities is substantially completed and Market Close. Multiple factors may be considered by the independent pricing service in determining the value of such securities and may include information relating to sector indices, American Depositary Receipts and domestic and foreign index futures. All other assets for which market quotations are not readily available or became unreliable (or if the above fair valuation methods are unavailable or determined to be unreliable) are valued at fair value as determined in good faith by or under the supervision of the Board following procedures approved by the Board. Issuer specific events, transaction price, position size, nature and duration of restrictions on disposition of the security, market trends, bid/ask quotes of brokers and other market data may be reviewed in the course of making a good faith determination of a security's fair value. Valuations change in response to many factors including the historical and prospective earnings of the issuer, the value of the issuer's assets, general economic conditions, interest rates, investor perceptions and market liquidity. Because of the inherent uncertainties of fair valuation, the values used to determine the Trust's NAV may materially differ from the value received upon actual sale of those investments. Thus, fair valuation may have an unintended dilutive or accretive effect on the value of shareholders' investments in the Trust.

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ACCOUNT POLICIES

Account Access

Unless your Trust Common Shares are held through a third-party fiduciary or in an omnibus registration at your bank or brokerage firm, you will be able to access your account information over the Internet at www.voyainvestments.com or via a touch tone telephone by calling 1-800-336-3436. Should you wish to speak with a Shareholder Services Representative, you may call the toll-free number listed above.

Privacy Policy

The Trust has adopted a policy concerning investor privacy. To review the privacy policy, contact a Shareholder Services Representative at 1-800-336-3436, obtain a policy over the Internet at www.voyainvestments.com, or see the privacy promise that accompanies any Prospectus obtained by mail.

Householding

To reduce expenses, we may mail only one copy of the Trust's Prospectus and each annual and semi-annual shareholder report to those addresses shared by two or more accounts. If you wish to receive individual copies of these documents, please call a Shareholder Services Representative at 1-800-336-3436 or speak to your investment professional. We will begin sending you individual copies 30 days after receiving your request.

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INVESTMENT MANAGEMENT AND OTHER SERVICE PROVIDERS

The business and affairs of the Trust, including supervision of the duties performed by the Trust's Adviser and Sub-Adviser, are managed under the direction of the Board. The names and business addresses of the Trustees and Officers of the Trust and their principal occupations and other affiliations during the past five years are set forth under "Management of the Trust" in the SAI.

The Investment Adviser

Voya Investments, an Arizona limited liability company, serves as the investment adviser to the Trust. Voya Investments has overall responsibility for the management of the Trust. Voya Investments oversees all investment advisory and portfolio management services and assists in managing and supervising all aspects of the general day-to-day business activities and operations of the Trust, including custodial, transfer agency, dividend disbursing, accounting, auditing, compliance and related services. Voya Investments is registered with the SEC as an investment adviser.

The Adviser is an indirect, wholly-owned subsidiary of Voya Financial, Inc. Voya Financial, Inc. is a U.S.-based financial institution whose subsidiaries operate in the retirement, investment, and insurance industries.

Voya Investments' principal office is located at 7337 East Doubletree Ranch Road, Suite 100, Scottsdale, Arizona 85258. As of March 31, 2018, Voya Investments managed approximately $87.7 billion in assets.

Management Fee

The Adviser bears the expenses of providing the services described above. The Adviser currently receives from the Trust an annual fee of 1.05% of the Trust's Managed Assets.

The Adviser is responsible for all of its own costs, including costs of its personnel required to carry out its duties.

For information regarding the basis for the Board's approval of the investment advisory and investment sub-advisory relationships, please refer to the Trust's annual shareholder report dated February 28, 2018.

The Sub-Adviser and Portfolio Managers

The Adviser has engaged a sub-adviser to provide the day-to-day management of the Trust's portfolio. The sub-adviser is an affiliate of the Adviser. The Adviser is responsible for monitoring the investment program and performance of the sub-adviser. Under the terms of the sub-advisory agreement, the agreement can be terminated by either the Adviser or the Board. In the event the sub-advisory agreement is terminated, the sub-adviser may be replaced subject to any regulatory requirements or the Adviser may assume day-to-day investment management of the Trust.

Voya Investment Management Co. LLC

Voya IM, a Delaware limited liability company, was founded in 1972 and is registered with the SEC as an investment adviser. Voya IM is an indirect, wholly-owned subsidiary of Voya Financial, Inc. and is an affiliate of the Adviser. Voya IM has acted as adviser or sub-adviser to mutual funds since 1994 and has managed institutional accounts since 1972. Voya IM's principal office is located at 230 Park Avenue, New York, New York, 10169. As of March 31, 2018, Voya IM managed approximately $96 billion in assets.

The Sub-Adviser currently receives an annual fee, paid by the Adviser, of 0.36% of the Trust's Managed Assets.

Portfolio Management. The following individuals jointly share responsibility for the day-to-day management of the Trust's portfolio and have co-managed the Trust since 2000.

Jeffrey A. Bakalar, Portfolio Manager, Managing Director and Group Head of the Voya IM Senior Loan Group, since January 2000.

Daniel A. Norman, Portfolio Manager, Managing Director and Group Head of the Voya IM Senior Loan Group, since January 2000.

Additional Information Regarding the Portfolio Managers

The SAI provides additional information about each portfolio manager's compensation, other accounts managed by each portfolio manager, and each portfolio manager's ownership of securities in the Trust.

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The Transfer Agent, Dividend Disbursing Agent, and Registrar

BNY Mellon Investment Servicing (US) Inc. (“Transfer Agent”) serves as the transfer agent, dividend disbursing agent, and registrar for the Common Shares of the Trust. Its principal office is located at 301 Bellevue Parkway, Wilmington, Delaware 19809.

The Custodian

The Trust's securities and cash are held and maintained under a Custody Agreement with State Street Bank and Trust Company (“Custodian”). Its principal office is located at 801 Pennsylvania Avenue, Kansas City, Missouri 64105.

The Distributor

Pursuant to the terms of a distribution agreement (“Distribution Agreement”), Voya Investments Distributor, LLC will act as the Trust's distributor for the optional cash investments under the Trust's Shareholder Reinvestment Program and for privately negotiated transactions. The Distribution Agreement provides that the Distributor does not receive compensation or commissions from the Trust for such services. In addition, no fees or commissions will be paid by the Trust or its shareholders in connection with the reinvestment of dividends and capital gains distributions. The Distributor is a Delaware limited liability company with its principal offices at 7337 East Doubletree Ranch Road, Suite 100, Scottsdale, Arizona 85258. The Distributor is an indirect, wholly-owned subsidiary of Voya Financial, Inc. and is an affiliate of the Adviser. See “Principal Underwriter” in the SAI.

The Trust bears the expenses of issuing the Common Shares. These expenses include, but are not limited to, the expense of preparation and printing of the Prospectus and SAI, the expense of counsel and independent registered public accounting firm, and others.

The Distributor is a member of the Financial Industry Regulatory Authority, Inc. (“FINRA”). To obtain information about FINRA member firms and their associated persons, you may contact FINRA at www.finra.org or the Public Disclosure Hotline at 800-289-9999.

Contractual Arrangements

The Trust has contractual arrangements with various service providers, which may include, among others, investment advisers, distributors, custodians and fund accounting agents, shareholder service providers, and transfer agents, who provide services to the Trust. Shareholders are not parties to, or intended (“third-party”) beneficiaries of, any of those contractual arrangements, and those contractual arrangements are not intended to create in any individual shareholder or group of shareholders any right to enforce them against the service providers or to seek any remedy under them against the service providers, either directly or on behalf of the Trust. This paragraph is not intended to limit any rights granted to shareholders under federal or state securities laws.

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DIVIDENDS AND DISTRIBUTIONS

Distribution Policy

Income dividends are declared and paid monthly. Income dividends consist of interest accrued and amortization of fees earned, less any amortization of premiums paid and the estimated expenses of the Trust, including fees payable to the Adviser. Income dividends are calculated monthly under guidelines approved by the Trustees. Each dividend is payable to shareholders of record on the 10th day of the following month (unless it is a holiday, in which case the next business day is the record date). Accrued amounts of fees received, including facility fees, will be taken in as income and passed on to shareholders as part of dividend distributions. Any fees or commissions paid to facilitate the sale of portfolio Senior Loans in connection with tender offers or other portfolio transactions may reduce the dividend yield. Capital gains, if any, are declared and paid annually. Because the Trust currently has capital loss carryforwards, it is not anticipated that distributions of net realized capital gains, which may be short- or long-term, will be made for the foreseeable future.

Dividend Reinvestment

Unless you instruct the Trust to pay you dividends in cash, dividends and distributions paid by the Trust will be reinvested in additional Common Shares of the Trust. You may request to receive dividends in cash at any time by giving the Transfer Agent written notice or by contacting the Voya's Shareholder Services Department at 1-800-336-3436.

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PLAN OF DISTRIBUTION

Shareholder Reinvestment Program

The following is a summary of the Shareholder Reinvestment Program ("Program"). Shareholders are advised to review a fuller explanation of the Program contained in the Trust's SAI.

Common Shares are offered by the Trust through the Program. The Program allows participating shareholders to reinvest all dividends ("Dividends") in additional Common Shares of the Trust and also allows participants to purchase additional Common Shares through optional cash investments in amounts ranging from a minimum of $100 to a maximum of $100,000 per month.

The Trust and the Distributor reserve the right to reject any purchase order. Please note that cash, traveler's checks, third-party checks, money orders, and checks drawn on non-U.S. banks (even if payment may be effected through a U.S. bank) generally will not be accepted.

Common Shares will be issued by the Trust under the Program when the Trust's Common Shares are trading at a premium to NAV. If the Trust's Common Shares are trading at a discount to NAV, Common Shares issued under the Program will be purchased on the open market. Common Shares issued under the Program directly from the Trust will be acquired at the greater of: (i) NAV at the close of business on the day preceding the relevant investment date; or (ii) the average of the daily market price of the Common Shares during the pricing period minus a discount of 5% for reinvested Dividends and 0% to 5% for optional cash investments. Common Shares issued under the Program, when shares are trading at a discount to NAV, will be purchased in the market by the Transfer Agent at market price. Shares issued by the Trust under the Program will be issued without a fee or a commission.

Shareholders may elect to participate in the Program by telephoning the Trust or submitting a completed Participation Form to the Transfer Agent, the Program administrator. The Transfer Agent will credit to each participant's account funds it receives from: (i) Dividends paid on Trust shares registered in the participant's name; and (ii) optional cash investments. The Transfer Agent will apply all Dividends and optional cash investments received to purchase Common Shares as soon as practicable beginning on the relevant investment date (as described below) and not later than six business days after the relevant investment date, except when necessary to comply with applicable provisions of the federal securities laws. For more information on the Trust's distribution policy, see "Dividends and Distributions."

In order for participants to purchase shares through the Program in any month, the Program administrator must receive from the participant any optional cash investment by the relevant investment date. The relevant investment date will be set in advance by the Trust, upon which optional cash investments are first applied by the Transfer Agent to the purchase of Common Shares. Participants may obtain a schedule of relevant dates, including investments dates, the dates by which optional cash investment payments must be received and the dates in which shares will be paid, by calling Voya's Shareholder Services Department at 1-800-336-3436.

Participants will pay a pro rata share of brokerage commissions with respect to the Transfer Agent's open market purchases in connection with the reinvestment of Dividends or purchases made with optional cash investments.

The Program is intended for the benefit of investors in the Trust. The Trust reserves the right to exclude from participation, at any time: (i) persons or entities who attempt to circumvent the Program's standard $100,000 maximum by accumulating accounts over which they have control; or (ii) any other persons or entities as determined in the sole discretion of the Trust.

Currently, persons who are not shareholders of the Trust may not participate in the Program. The Board may elect to change this policy at a future date and permit non-shareholders to participate in the Program. Shareholders may request to receive their Dividends in cash at any time by giving the Transfer Agent written notice or by contacting Voya's Shareholder Services Department at 1-800-336-3436. Shareholders may elect to close their account at any time by giving the Transfer Agent written notice. When a participant closes their account, the participant, upon request, will receive a certificate for full Common Shares in the account. Fractional Common Shares will be held and aggregated with other fractional Common Shares being liquidated by the Transfer Agent as agent of the Program and paid for by check when actually sold.

The automatic reinvestment of Dividends does not affect the tax characterization of the Dividends (i.e., capital gain

distributions and income distributions are subject to tax even though cash is not received). A shareholder whose Dividends are reinvested in shares under the Program will be treated as having received a Dividend equal to either: (i) if shares are issued under the Program directly by the Trust, generally the fair market value of the shares issued to the shareholder;

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or (ii) if reinvestment is made through open market purchases, the amount of cash allocated to the shareholder for the purchase of shares on its behalf in the open market. If a shareholder purchases additional shares for cash at a discount, the shareholder's basis in the shares will be the price he or she paid.

Additional information about the Program may be obtained by contacting Voya's Shareholder Services Department at 1-800-336-3436.

Privately Negotiated Transactions

The Common Shares may also be offered pursuant to privately negotiated transactions between the Trust and the Distributor and specific investors. Generally, such investors will be sophisticated institutional investors. The terms of such privately negotiated transactions will be subject to the discretion of the management of the Trust. In determining whether to sell Common Shares pursuant to a privately negotiated transaction, the Trust will consider relevant factors including, but not limited to, the attractiveness of obtaining additional funds through the sale of Common Shares, the purchase price to apply to any such sale of Common Shares and the person seeking to purchase the Common Shares. Common Shares issued by the Trust in connection with privately negotiated transactions will be issued at the greater of: (i) NAV per Common Share of the Trust's Common Shares; or (ii) at a discount ranging from 0% to 5% of the average of the daily market price of the Trust's Common Shares at the close of business on the two business days preceding the date upon which Common Shares are sold pursuant to the privately negotiated transaction. The discount to apply to such privately negotiated transactions will be determined by the Trust with regard to each specific transaction. The Trust will not pay any commissions with regard to privately negotiated transactions, but an investor may be subject to a front-end sales load of up to 3% paid to or retained by a third party broker-dealer through which such transaction may be effected.

Use of Proceeds

It is expected that 100% of the net proceeds of Common Shares issued pursuant to the Program and privately negotiated transactions will be invested in accordance with the Trust's investment objective and policies within a period of three months. Pending such investment, all or a material portion of the proceeds may be used to pay down the Trust's outstanding borrowings under its credit facilities. See "Investment Objective and Policies - Policy on Borrowing."

As of June 8, 2018 the Trust had $326.5 million in outstanding borrowings under one credit facility. The interest rate on the Trust's borrowings through this credit facility is LIBOR +0.90% and the maturity date of such borrowings is July 18, 2018. By paying down the Trust's borrowings, the Trust can avoid adverse impacts on yields pending investment of such proceeds in Senior Loans. As investment opportunities are subsequently identified, it is expected that the Trust will reborrow amounts previously repaid and invest such amounts in additional Senior Loans.

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DESCRIPTION OF THE TRUST

The Trust is an unincorporated business trust established under the laws of the Commonwealth of Massachusetts by an Agreement and Declaration of Trust dated December 2, 1987, as amended ("Declaration of Trust"). The Board is responsible for protecting the interests of shareholders. The Trustees are experienced executives who oversee the Trust's activities, review contractual arrangements with companies that provide services to the Trust, and review the Trust's performance.

The Declaration of Trust provides that the Trustees of the Trust may authorize separate classes of shares of beneficial interest. The Trustees have authorized an unlimited number of shares of beneficial interest, without par value, all of which were initially classified as Common Shares. The Declaration of Trust also authorizes the creation of an unlimited number of shares of beneficial interest with preference rights, including preferred shares, without par value, in one or more series, with rights as determined by the Board, by action of the Board without the approval of the shareholders. The following table shows the number of: (i) shares authorized; (ii) shares held by the Trust for its own account; and (iii) shares outstanding, for each class of authorized securities of the Trust as of June 8, 2018.

Title of Class	Number Authorized	Number Held By the Trust for its Own Account	Number Outstanding
Common Shares	Unlimited	0	147,787,566.329

The Common Shares outstanding are fully paid and nonassessable by the Trust. Holders of Common Shares are entitled to share equally in Dividends declared by the Board payable to holders of Common Shares and in the net assets of the Trust available for distribution to holders of Common Shares after payment of the preferential amounts payable to holders of any outstanding Preferred Shares. Neither holders of Common Shares nor holders of Preferred Shares have pre-emptive or conversion rights and Common Shares are not redeemable. Upon liquidation of the Trust, after paying or adequately providing for the payment of all liabilities of the Trust and the liquidation preference with respect to any outstanding Preferred Shares and, upon receipt of such releases, indemnities and refunding agreements as they deem necessary for their protection, the Trustees may distribute the remaining assets of the Trust among the holders of the Common Shares. Under the rules of the NYSE applicable to listed companies, the Trust is required to hold an annual meeting of shareholders in each year. If the Trust is converted to an open-end investment company or if for any other reason Common Shares are no longer listed on the NYSE (or any other national securities exchange the rules of which require annual meetings of shareholders), the Trust does not intend to hold annual meetings of shareholders.

The Trust is responsible for paying all the expenses of its operations, including, without limitation, the management fee payable and extraordinary expenses, such as litigation expenses.

Under Massachusetts law, shareholders, including holders of Preferred Shares could, under certain circumstances, be held personally liable for the obligations of the Trust. However, the Declaration of Trust disclaims shareholder liability based solely on his or her being or having been a shareholder of the Trust and requires that notice of such disclaimer be given in each agreement, obligation, or instrument entered into or executed by the Trust or the Trustees. The Declaration of Trust provides for indemnification, out of Trust property, for all loss and expense of any shareholder held personally liable for the obligations of the Trust. Thus, the risk of a shareholder incurring financial loss on account of shareholder liability is limited to circumstances in which the Trust would be unable to meet its obligations.

Holders of Common Shares are entitled to one vote for each share held and will vote with the holders of any outstanding Preferred Shares on each matter submitted to a vote of holders of Common Shares, except as described under "Description of the Capital Structure - Preferred Shares."

Shareholders are entitled to one vote for each share held. The Common Shares and Preferred Shares do not have cumulative voting rights, which means that the holders of more than 50% of the shares of Common Shares and Preferred Shares voting for the election of Trustees can elect all of the Trustees standing for election by such holders and, in such event, the holders of the remaining shares of Common Shares and Preferred Shares will not be able to

elect any of such Trustees.

So long as any Preferred Shares are outstanding, holders of Common Shares will not be entitled to receive any dividends of, or other distributions from, the Trust, unless at the time of such declaration: (i) all accrued dividends on preferred shares or accrued interest on borrowings has been paid; and (ii) the value of the Trust's total assets (determined after deducting the amount of such dividend or other distribution), less all liabilities and indebtedness of the Trust

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not represented by senior securities, is at least 300% of the aggregate amount of such securities representing indebtedness and at least 200% of the aggregate amount of securities representing indebtedness plus the aggregate liquidation value of the outstanding preferred shares (expected to equal the aggregate original purchase price of the outstanding preferred shares plus redemption premium, if any, together with any accrued and unpaid dividends thereon, whether or not earned or declared and on a cumulative basis). In addition to the requirements of the 1940 Act, the Trust is required to comply with other asset coverage requirements as a condition of the Trust obtaining a rating of the Preferred Shares from a rating agency. These requirements include an asset coverage test more stringent than under the 1940 Act.

The Trust will send unaudited reports at least semi-annually and audited financial statements annually to all of its shareholders.

The Declaration of Trust further provides that obligations of the Trust are not binding upon Trustees individually, but only upon the property of the Trust and that the Trustees will not be liable for any neglect or wrongdoing of any officer, agency, employee, manager or principal underwriter of the Trust, nor shall any Trustee be responsible for the act or omission of any other Trustee, but nothing in the Declaration of Trust protects a Trustee against any liability to which he or she would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence, or reckless disregard of the duties involved in the conduct of his or her office.

Conversion to Open-End Fund

The Trustees may at any time propose conversion of the Trust to an open-end management investment company depending upon their judgment as to the advisability of such action in light of circumstances then prevailing. In considering whether to submit an open-ending proposal to shareholders, the Trustees might consider, among other factors, the differences in operating expenses between open-end and closed-end funds (due to the expenses of continuously selling shares and of standing ready to effect redemptions), the potentially adverse tax consequences to non-redeeming shareholders once a fund is open-ended, and the impact of open-ending on portfolio management policies. Such a conversion would require the approval of both a majority of the Trust's outstanding Common Shares and Preferred Shares voting together as a single class and a majority of the outstanding Preferred Shares voting as a separate class on such conversion. Conversion of the Trust to an open-end investment company would require the redemption of all outstanding Preferred Shares, which would eliminate the leveraged capital structure of the Trust with respect to the Common Shares. A delay in conversion could result following shareholder approval due to the Trust's inability to redeem the Preferred Shares. Shareholders of an open-end investment company may require the company to redeem their shares at any time (except in certain circumstances as authorized by or under the 1940 Act) at their next computed NAV less any redemption charge as might be in effect at the time of redemption. If the Trust is converted to an open-end management investment company, it could be required to liquidate portfolio securities to meet requests for redemption and its shares would no longer be listed on the NYSE. If the Trust were to experience significant redemptions as an open-end fund, the decrease in total assets could result in a higher expense ratio and inefficiencies in portfolio management. In this regard, the Trust could reserve the right to effect redemptions in-kind with portfolio securities, which would subject redeeming shareholders to transaction costs in liquidating those securities.

Repurchase of Common Shares

In recognition of the possibility that the Trust's Common Shares may trade at a discount to their NAV, the Trust may, from time to time, take action to attempt to reduce or eliminate a market value discount from NAV by repurchasing its Common Shares in the open market or by tendering its Common Shares at NAV. So long as any Preferred Shares are outstanding, the Trust may not purchase, redeem, or otherwise acquire any Common Shares unless: (i) all accumulated dividends on the Preferred Shares have been paid or set aside for payment through the date of such purchase, redemption, or other acquisition; and (ii) at the time of such purchase, redemption, or acquisition, asset coverage requirements set forth in the Declaration of Trust and the Trust's Certificate of Designation for Preferred Shares are met. Repurchases of Common Shares may result in the Trust being required to redeem Preferred Shares to satisfy

asset coverage requirements.

Fundamental and Non-Fundamental Policies of the Trust

The investment objective of the Trust, certain policies of the Trust specified herein as fundamental, and the investment restrictions of the Trust described in the SAI are fundamental policies of the Trust and may not be changed without a majority vote of the shareholders of the Trust. The term majority vote means the affirmative vote of: (i) more than

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50% of the outstanding shares of the Trust; or (ii) 67% or more of the shares present at a meeting if more than 50% of the outstanding shares of the Trust are represented at the meeting in person or by proxy, whichever is less. All other policies of the Trust may be modified by resolution of the Board.

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DESCRIPTION OF THE CAPITAL STRUCTURE

Common Shares

The Trust's Declaration of Trust authorizes the issuance of an unlimited number of Common Shares of beneficial interest, without par value. All Common Shares have equal rights to the payment of dividends and the distribution of assets upon liquidation. Common Shares will, when issued, be fully paid and non-assessable and will have no pre-emptive or conversion rights or rights to cumulative voting.

Whenever Preferred Shares are outstanding, holders of Common Shares will not be entitled to receive any distributions from the Trust, unless at the time of such declaration: (i) all accrued dividends on Preferred Shares or accrued interest on borrowings have been paid; and (ii) the value of the Trust's total assets (determined after deducting the amount of such dividend or other distribution), less all liabilities and indebtedness of the Trust not represented by senior securities, is at least 300% of the aggregate amount of such securities representing indebtedness and at least 200% of the aggregate amount of securities representing indebtedness plus the aggregate liquidation value of the outstanding Preferred Shares. In addition to the requirements of the 1940 Act, the Trust would be required to comply with other asset coverage requirements as a condition of the Trust obtaining a rating of the Preferred Shares from a rating agency. These requirements include asset coverage tests more stringent than under the 1940 Act. See "Description of the Capital Structure - Preferred Shares."

Borrowings

The Trust's Declaration of Trust authorizes the Trust, without the prior approval of holders of Common Shares, to borrow money. In this connection, the Trust may issue notes or other evidence of indebtedness (including bank borrowings or commercial paper) and may secure any such borrowings by mortgaging, pledging, or otherwise granting a security interest in the Trust's assets. See "Risk Factors and Special Considerations."

Preferred Shares

The Trust's Declaration of Trust authorizes the issuance of an unlimited number of shares of a class of beneficial interest with preference rights, including Preferred Shares as may be authorized from time to time by the Trustees, in one or more series, with rights as determined by the Board, by action of the Board without the approval of the holders of Common Shares or other series of outstanding Preferred Shares. The Preferred Shares will have such preferences, voting powers, terms of redemption, if any, and special or relative rights or privileges (including conversion rights, if any) as the Board may determine and would be set forth in the Trust's Certificate of Designation establishing the terms of the Preferred Shares.

Any decision to offer Preferred Shares is subject to market conditions and to the Board and the Adviser's or Sub-Adviser's continuing belief that leveraging the Trust's capital structure through the issuance of Preferred Shares is likely to achieve the benefits to the Common Shares described in this Prospectus for long-term investors. The terms of the Preferred Shares will be determined by the Board in consultation with the Adviser or Sub-Adviser (subject to applicable law and the Trust's Declaration of Trust) if and when it authorizes a Preferred Shares offering.

Under the 1940 Act, the Trust is permitted to have outstanding, more than one series of Preferred Shares as long as no single series has priority over another series nor holders of Preferred Shares have pre-emptive rights to purchase any other Preferred Shares that might be issued.

The Preferred Shares would have complete priority over the Common Shares as to distribution of assets. In the event of any voluntary or involuntary liquidation, dissolution, or winding up of the affairs of the Trust, holders of Preferred Shares would be entitled to receive a preferential liquidating distribution (expected to equal the original purchase price per share plus accumulated and unpaid dividends thereon, whether or not earned or declared) before any distribution of assets is made to holders of Common Shares.

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TAX MATTERS

The following information is meant as a general summary for U.S. shareholders. Please see the SAI for additional information. Investors should rely on their own tax adviser for advice about the particular federal, state, and local tax consequences to them of investing in the Trust.

The Trust will distribute all or substantially all of its net investment income and net realized capital gains, if any, to its shareholders each year. Although the Trust will not be taxed on amounts it distributes, most shareholders will be taxed on amounts they receive. A particular distribution generally will be taxable as either ordinary income or long-term capital gain. It generally does not matter how long a shareholder has held the Trust's Common Shares or whether the shareholder elects to receive distributions in cash or reinvest them in additional Common Shares. For example, if the Trust properly reports a particular distribution as a capital gain dividend, it will be taxable to a shareholder at his or her long-term capital gains rate.

Dividends from the Trust are not expected to be eligible for the reduced rate of tax that may apply to distributions attributable to certain qualifying dividends on corporate stocks. Distributions attributable to non-qualifying dividends, interest income, other types of ordinary income, and short-term capital gains will be taxed at the ordinary income tax rate applicable to the shareholder.

Dividends declared by the Trust and payable to shareholders of record in October, November, or December and paid during the following January will be treated as having been received by shareholders in the year the distributions were declared.

Each shareholder will receive an annual statement summarizing the shareholder's dividend and capital gains distributions.

If a shareholder invests through a tax-advantaged account such as a retirement plan, the shareholder generally will not have to pay tax on dividends, at least until they are distributed from the account. These accounts are subject to complex tax rules and shareholders should consult a tax adviser about investment through a tax-advantaged account.

There may be tax consequences to a shareholder if the shareholder sells the Trust's Common Shares. A shareholder will generally have a capital gain or loss, which will be long-term or short-term, generally depending on how long the shareholder has held those Common Shares. If a shareholder exchanges shares, the shareholder may be treated as if he or she sold them. Any capital loss incurred on the sale or exchange of Trust shares held for six months or less will be treated as long-term loss to the extent of capital gain dividends received with respect to such shares. Additionally, any loss realized on a sale, redemption, or exchange of shares of the Trust may be disallowed under “wash sale” rules to the extent the shares disposed of are replaced with other shares of the Trust within a period of 61 days beginning 30 days before and ending 30 days after the shares are disposed of, including pursuant to the Program. If disallowed, the loss will be reflected as an adjustment to the tax basis of the shares acquired. You are responsible for any tax liabilities generated by your transactions.

The Trust generally is required to withhold U.S. federal income tax on all taxable distributions payable to a shareholder if the shareholder fails to provide the Trust with his or her correct taxpayer identification number or to make required certifications, or if the shareholder has been notified by the Internal Revenue Service (“IRS”) that he or she is subject to backup withholding. Backup withholding is not an additional tax; rather, it is a way in which the IRS ensures it will collect taxes otherwise due. Any amounts withheld may be credited against a shareholder's U.S. federal income tax liability.

The IRS requires mutual fund companies and brokers to report on Form 1099-B the cost basis on the sale or exchange of Trust shares acquired on or after January 1, 2012 (“covered shares”). If you acquire and hold shares directly through the Trust and not through a financial intermediary, the Trust will use an average cost single category methodology for tracking and reporting your cost basis on covered shares, unless you request, in writing, another cost basis reporting methodology. Information regarding the methods available for cost basis reporting is included in the SAI.

An additional 3.8% Medicare tax is imposed on certain net investment income (including ordinary dividends and capital gain distributions received from the Trust and net gains from redemptions, sales, exchanges or other taxable dispositions of Trust shares) of U.S. individuals, estates and trusts to the extent that such person’s “modified adjusted

gross income" (in the case of an individual) or "adjusted gross income" (in the case of an estate or trust) exceeds certain threshold amounts.

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MORE INFORMATION ABOUT THE TRUST

Legal Matters

The validity of the Common Shares offered hereby will be passed upon for the Trust by Ropes & Gray LLP, Prudential Tower, 800 Boylston Street, Boston MA 02199-3600, counsel to the Trust.

Independent Registered Public Accounting Firm

KPMG LLP serves as the independent registered public accounting firm for the Trust. The principal address of KPMG LLP is Two Financial Center, 60 South Street, Boston, Massachusetts 02111.

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Voya Prime Rate Trust - 25,000,000 Common Shares of Beneficial Interest
7337 East Doubletree Ranch Road, Suite 100
Scottsdale, AZ 85258-2034
1-800-336-3436

TRUST ADVISERS AND SERVICE PROVIDERS

Adviser
Voya Investments, LLC
7337 East Doubletree Ranch Road, Suite 100
Scottsdale, AZ 85258

Sub-Adviser
Voya Investment Management Co. LLC
230 Park Avenue
New York, NY 10169

Custodian
State Street Bank and Trust Company
801 Pennsylvania Avenue
Kansas City, MO 64105

Independent Registered Public Accounting Firm
KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

Distributor
Voya Investments Distributor, LLC
7337 East Doubletree Ranch Road, Suite 100
Scottsdale, AZ 85258

Transfer Agent
BNY Mellon Investment Servicing (US) Inc.
301 Bellevue Parkway
Wilmington, DE 19809

Legal Counsel
Ropes & Gray LLP
Prudential Tower
800 Boylston Street
Boston MA 02199-3600

Institutional Investors and Analysts
Call 1-800-336-3436

The Trust has not authorized any person to provide you with any information or to make any representations other than those contained in this Prospectus in connection with this offer. You should rely only on the information in this Prospectus or other information to which we have referred you. This Prospectus is not an offer to sell, or the solicitation of any offer to buy, any security other than the Common Shares offered by this Prospectus; nor does it constitute an offer to sell, or a solicitation of any offer to buy, the Common Shares by anyone in any jurisdiction in which such offer or solicitation is not authorized, or in which the person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such an offer or solicitation. The delivery of this Prospectus or any sale made pursuant to this Prospectus does not imply that the information contained in this Prospectus is correct as of any time after the date of this Prospectus. However, if any material change occurs while this Prospectus is required by law to be delivered, this Prospectus will be amended or supplemented.

This information may also be reviewed or obtained from the SEC. In order to review the information in person, you will need to visit the SEC's Public Reference Room in Washington, D.C. or call 202-551-8090 for information on the

operation of the Public Reference Room. Otherwise, you may obtain the information for a fee, by contacting the SEC at:
U.S. Securities and Exchange Commission
Public Reference Section
100 F Street, N.E.
Washington, D.C. 20549
or at the e-mail address: publicinfo@sec.gov
Or obtain the information at no cost by visiting the SEC's Internet website at: www.sec.gov.
When contacting the SEC, you will want to refer to the Trust's SEC file number. The file number is as follows:
1940 Act File No. 811-05410
163279(0618-062918)

STATEMENT OF ADDITIONAL INFORMATION
June 29, 2018
Voya Prime Rate Trust
7337 East Doubletree Ranch Road, Suite 100
Scottsdale, AZ 85258-2034
1-800-336-3436
This Statement of Additional Information ("SAI") contains additional information about the Fund listed above. This SAI is not a prospectus and should be read in conjunction with the Prospectus dated June 29, 2018, as supplemented or revised from time to time. The Fund's financial statements for the fiscal year ended February 28, 2018, including the independent registered public accounting firm's report thereon found in the Fund's most recent annual report to shareholders, are incorporated into this SAI by reference. The Fund's Prospectus and annual or unaudited semi-annual shareholder reports may be obtained free of charge by contacting the Fund at the address and phone number written above or by visiting our website at www.voyainvestments.com.

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INTRODUCTION AND GLOSSARY

This SAI is designed to elaborate upon information contained in the Fund's Prospectus, including the discussion of certain securities and investment techniques. The more detailed information contained in this SAI is intended for investors who have read the Prospectus and are interested in a more detailed explanation of certain aspects of some of the Fund's securities and investment techniques. Some investment techniques are described only in the Prospectus and are not repeated here.

Capitalized terms used, but not defined, in this SAI have the same meaning as in the Prospectus and some additional terms are defined particularly for this SAI.

Following are definitions of general terms that may be used throughout this SAI:

1933 Act: Securities Act of 1933, as amended
1934 Act: Securities Exchange Act of 1934, as amended
1940 Act: Investment Company Act of 1940, as amended
Administrator: Voya Funds Services, LLC
Adviser: Voya Investments, LLC or Voya Investments (formerly, ING Investments, LLC)
Affiliated Fund: A fund within the Voya family of funds
Board: The Board of Trustees for the Trust
Business Day: Each day the NYSE opens for regular trading
Capital One: Capital One Investing, LLC
CDSC: Contingent deferred sales charge
CFTC: United States Commodity Futures Trading Commission
Code: Internal Revenue Code of 1986, as amended
Distributor: Voya Investments Distributor, LLC (formerly, ING Investments Distributor, LLC)
Distribution Agreement: The Distribution Agreement for the Fund, as described herein
ETF: Exchange Traded Fund
EU: European Union
Expense Limitation Agreement: The Expense Limitation Agreement(s) for the Fund, as described herein
FDIC: Federal Deposit Insurance Corporation
FHLMC: Federal Home Loan Mortgage Corporation
FINRA: Financial Industry Regulatory Authority, Inc.
Fiscal Year End of the Fund: February 28 or 29, as applicable
Fitch: Fitch Ratings
FNMA: Federal National Mortgage Association
Fund: One or more of the investment management companies listed on the front cover of this SAI
GNMA: Government National Mortgage Association
Independent Trustees: The Trustees of the Board who are not "interested persons" (as defined in the 1940 Act) of the Fund
Interested Trustees: The Trustees of the Board who are currently treated as "interested persons" (as defined in the 1940 Act) of the Fund
Investment Management Agreement: The Investment Management Agreement for the Fund, as described herein
IPO: Initial Public Offering
IRA: Individual Retirement Account
IRS: United States Internal Revenue Service
LIBOR: London Interbank Offered Rate
MLPs: Master Limited Partnerships
Moody's: Moody's Investors Service, Inc.
NAV: Net Asset Value

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NRSRO: Nationally Recognized Statistical Rating Organization
NYSE: New York Stock Exchange
OTC: Over-the-counter
Principal Underwriter: Voya Investments Distributor, LLC or the “Distributor”
Prospectus: One or more prospectuses for the Fund
REIT: Real Estate Investment Trust
REMICs: Real Estate Mortgage Investment Conduits
RIC: A “Regulated Investment Company,” pursuant to the Code
Rule 12b-1: Rule 12b-1 (under the 1940 Act)
Rule 12b-1 Plan: A distribution and/or Shareholder Service Plan adopted under Rule 12b-1
S&L: Savings & Loan Association
S&P: S&P Global Ratings
SEC: United States Securities and Exchange Commission
Sub-Adviser: One or more sub-advisers for a Fund, as described herein
Sub-Advisory Agreement: The Sub-Advisory Agreement(s) for the Fund, as described herein
Underlying Funds: Unless otherwise stated, other mutual funds or ETFs in which the Fund may invest
Voya family of funds or the “funds”: All of the RICs managed by Voya Investments
Voya IM: Voya Investment Management Co. LLC (formerly, ING Investment Management Co. LLC)
The Trust: Voya Prime Rate Trust

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HISTORY OF the Trust

The Trust changed its name from Pilgrim Prime Rate Trust to Pilgrim America Prime Rate Trust in April 12, 1996, and then changed its name back to Pilgrim Prime Rate Trust on November 16, 1998. Effective March 1, 2002, the Trust changed its name to ING Prime Rate Trust. Effective May 1, 2014, the Trust changed its name to Voya Prime Rate Trust.

SUPPLEMENTAL DESCRIPTION OF Fund INVESTMENTS AND RISKS

Some of the different types of securities in which the Fund may invest, subject to its investment objective, policies, and restrictions, are described in the Prospectuses under "Investment Objective and Policies." Additional information concerning certain of the Fund's investments and investment techniques is set forth below.

DERIVATIVES

Generally, derivatives can be characterized as financial instruments whose value is derived, at least in part, from the value of an underlying asset or assets. Types of derivatives include swaps, options, futures contracts, options on futures, and forward contracts. Derivative instruments may be used for a variety of reasons, including enhancing return, hedging certain market risks, or providing a substitute for purchasing or selling particular securities. Derivatives may provide a cheaper, quicker, or more specifically focused way for the Fund to invest than "traditional" securities would.

Derivatives can be volatile and involve various types and degrees of risk, depending upon the characteristics of the particular derivative and the portfolio as a whole. Derivatives permit the Fund to increase or decrease the level of risk, or change the character of the risk, to which its portfolio is exposed in much the same way as the Fund can increase or decrease the level of risk, or change the character of the risk, of its portfolio by making investments in specific securities.

Derivatives may be purchased on established exchanges or through privately negotiated transactions referred to as over-the-counter derivatives. Exchange-traded derivatives generally are guaranteed by the clearing agency, which is the issuer or counterparty to such derivatives. This guarantee usually is supported by a daily payment system (i.e., margin requirements) operated by the clearing agency in order to reduce overall credit risk. As a result, unless the clearing agency defaults, there is relatively little counterparty credit risk associated with derivatives purchased on an exchange. By contrast, no clearing agency guarantees over-the-counter derivatives. Therefore, each party to an over-the-counter derivative bears the risk that the counterparty will default. Accordingly, the Fund will consider the creditworthiness of counterparties to over-the-counter derivatives in the same manner as they would review the credit quality of a security to be purchased by the Fund. Over-the-counter derivatives are less liquid than exchange-traded derivatives since the other party to the transaction may be the only investor with sufficient understanding of the derivative to be interested in bidding for it.

The Fund has claimed an exclusion from the definition of a Commodity Pool Operator ("CPO") under the Commodity Exchange Act and therefore is not subject to registration or regulation as a CPO. In February 2012, the CFTC adopted regulatory changes that impact the Fund by subjecting the Fund's adviser to registration with the CFTC as a CPO of the Fund, unless the Fund is able to comply with certain trading and marketing limitations on its investments in futures, many over-the-counter derivatives and certain other instruments. A related CFTC proposal to harmonize applicable CFTC and SEC regulations could, if adopted, mitigate certain disclosure and operational burdens where CPO registration is required for an adviser. Compliance with these additional CFTC regulatory requirements may increase Fund expenses.

EQUITY SECURITIES

In connection with its purchase or holding of interests in loans, the Fund may acquire (and subsequently sell) equity securities or exercise warrants that it receives. The Fund will acquire such interests only as an incident to the intended purchase or ownership of loans or in connection with a reorganization of a borrower or its debt. The Fund normally will not hold more than 20% of its total assets in equity securities. Equity securities will not be treated as Senior Loans; therefore, an investment in such securities will not count toward the 80% of the Fund's net assets (plus borrowings for investment purposes) that normally will be invested in Senior Loans. Equity securities are subject to financial and market risks and can be expected to fluctuate in value.

DEBT INSTRUMENTS

Interest Rates and Portfolio Maturity

Interest rates on loans in which the Fund invests adjust periodically. The interest rates are adjusted based on a base rate plus a premium or spread over the base rate. The base rate usually is London Inter-Bank Offered Rate ("LIBOR"), the Federal Reserve federal funds rate, the Prime Rate, or other base lending rates used by commercial lenders. LIBOR usually is an average of the interest rates quoted by several designated banks as the rates at which they pay interest to major depositors in the London interbank market on U.S. dollar-denominated deposits. The Adviser and Sub-Adviser believe that changes in short-term LIBOR rates are closely related to changes in the Federal Reserve federal funds rate, although the two are not technically linked. The Prime Rate quoted by a major U.S. bank is generally the interest rate at which that bank is willing to lend U.S. dollars to its most creditworthy borrowers, although it may not be the bank's lowest available rate.

Loans in which the Fund invests typically have multiple reset periods at the same time, with each reset period applicable to a designated portion of the loan. The maximum duration of an interest rate reset on any loan in which the Fund can invest is one year. The maximum maturity on any loan in which the Fund can invest is ten years. The Fund's portfolio of loans will ordinarily have a dollar-weighted average time until the next interest rate adjustment of ninety (90) days or less, although the time may exceed 90 days. The Fund may find it possible and appropriate to use interest rate swaps and other investment practices to shorten the effective interest rate adjustment

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period of loans. If the Fund does so, it will consider the shortened period to be the adjustment period of the loan. As short-term interest rates rise, interest payable to the Fund should increase. As short-term interest rates decline, interest payable to the Fund should decrease. The amount of time that will pass before the Fund experiences the effects of changing short-term interest rates will depend on the dollar-weighted average time until the next interest rate adjustment on the Fund's portfolio of loans.

Loans usually have mandatory and optional prepayment provisions. Because of prepayments, the actual remaining maturity of a loan may be considerably less than its stated maturity. If a loan is prepaid, the Fund will have to reinvest the proceeds in other loans or securities which may have a lower fixed spread over its base rate. In such a case, the amount of interest paid to the Fund would likely decrease.

In the event of a change in the benchmark interest rate on a loan, the rate payable to lenders under the loan will, in turn, reset as the applicable reset period reaches its next scheduled reset date. If the benchmark rate goes up, the Fund as lender would earn interest at a higher rate, but only on and after such reset date. If the benchmark rate goes down, the Fund as lender would earn interest at a lower rate, but only on and after such reset date.

During normal market conditions, changes in market interest rates will affect the Fund in certain ways. The principal effect will be that the yield on the Fund's Common Shares will tend to rise or fall as market interest rates rise and fall. This is because almost all of the assets in which the Fund invests pay interest at rates which float in response to changes in market rates. However, because the interest rates on the Fund's assets reset over time, there will be an imperfect correlation between changes in market rates and changes to rates on the portfolio as a whole. This means that changes to the rate of interest paid on the portfolio as a whole, will tend to lag behind changes in market rates.

Market interest rate changes may also cause the Fund's NAV to experience volatility. This is because the value of a loan asset in the Fund is partially a function of whether it is paying what the market perceives to be a market rate of interest for the particular loan given its individual credit and other characteristics. If market interest rates change, a loan's value could be affected to the extent the interest rate paid on that loan does not reset at the same time. As discussed above, the rates of interest paid on the loans in which the Fund invests have a weighted average reset period that typically is less than 90 days. Therefore, the impact of the lag between a change in market interest rates and the change in the overall rate on the portfolio is expected to be minimal.

Finally, to the extent that changes in market rates of interest are reflected, not in a change to a base rate such as LIBOR, but in a change in the spread over the base rate which is payable on loans of the type and quality in which the Fund invests, the Fund's NAV could be adversely affected. Again, this is because the value of a loan asset in the Fund is partially a function of whether it is paying what the market perceives to be a market rate of interest for the particular loan given its individual credit and other characteristics. However, unlike changes in market rates of interest for which there is only a temporary lag before the portfolio reflects those changes, changes in a loan's value based on changes in the market spread on loans in the Fund's portfolio may be of longer duration.

Interest Rate Hedging Transactions

The Fund has the ability, pursuant to its investment objective and policies, to engage in certain hedging transactions including interest rate swaps and the purchase or sale of interest rate caps and floors. The Fund may undertake these transactions primarily for the following reasons: to preserve a return on or value of a particular investment or portion of the Fund's portfolio; to protect against decreases in the anticipated rate of return on floating or variable rate financial instruments which the Fund owns or anticipates purchasing at a later date; or for other risk management strategies such as managing the effective dollar-weighted average duration of the Fund's portfolio. Market conditions will determine whether and in what circumstances the Fund would employ any of the hedging techniques described below.

Interest rate swaps involve the exchange by the Fund with another party of their respective commitments to pay or receive interest, e.g., an exchange of an obligation to make floating rate payments on a specified dollar amount, referred to as the "notional" principal amount, for an obligation to make fixed-rate payments. For example, the Fund may seek to shorten the effective interest rate re-determination period of a Senior Loan in its portfolio that has an interest rate re-determination period of one year. The Fund could exchange its right to receive fixed income payments for one year from a borrower for the right to receive payments under an obligation that readjusts monthly. In such an event, the Fund would consider the interest rate re-determination period of such Senior Loan to be the shorter period.

The purchase of an interest rate cap entitles the purchaser, to the extent that a specified index exceeds a predetermined interest rate, to receive payments of interest on a notional principal amount from the party selling such interest rate

cap. The purchase of an interest rate floor entitles the purchaser, to the extent that a specified index falls below a predetermined interest rate, to receive payments of interest on a notional principal amount from the party selling such interest rate floor. The Fund will not enter into swaps, caps, or floors if, on a net basis, the aggregate notional principal amount with respect to such agreements exceeds the net assets of the Fund or to the extent the purchase of swaps, caps, or floors would be inconsistent with the Fund’s other investment restrictions.

The Fund will usually enter into interest rate swaps on a net basis, i.e., where the two parties make net payments with the Fund receiving or paying, as the case may be, only the net amount of the two payments. The net amount of the excess, if any, of the Fund’s obligations over its entitlement with respect to each interest rate swap will be accrued and an amount of cash or liquid securities having an aggregate NAV at least equal to the accrued excess will be maintained in a segregated account. If the Fund enters into a swap on other than a net basis, the Fund will maintain in the segregated account the full amount of the Fund’s obligations under each such swap. The Fund may enter into swaps, caps and floors with member banks of the Federal Reserve System, members of the NYSE or other entities determined

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by Voya Investments. If a default occurs by the other party to such transaction, the Fund will have contractual remedies pursuant to the agreements related to the transaction but such remedies may be subject to bankruptcy and insolvency laws which could materially and adversely affect the Fund's rights as a creditor. The Fund will not treat swaps covered in accordance with applicable regulatory guidance as senior securities.

The swap, cap, and floor market has grown substantially in recent years with a large number of banks and financial services firms acting both as principals and as agents utilizing standardized swap documentation. As a result, this market has become relatively liquid. There can be no assurance, however, that the Fund will be able to enter into interest rate swaps or to purchase interest rate caps or floors at prices or on terms the Adviser or Sub-Adviser believes are advantageous to the Fund. In addition, although the terms of interest rate swaps, caps and floors may provide for termination, there can be no assurance that the Fund will be able to terminate an interest rate swap or to sell or offset interest rate caps or floors that it has purchased.

The successful utilization of hedging and risk management transactions requires skills different from those needed in the selection of the Fund's portfolio securities and depends on the Adviser's or Sub-Adviser's ability to predict correctly the direction and degree of movements in interest rates. Although the Fund believes that use of the hedging and risk management techniques described above will benefit the Fund, if the Adviser's or Sub-Adviser's judgment about the direction or extent of the movement in interest rates is incorrect, the Fund's overall performance would be worse than if it had not entered into any such transactions. The Fund will incur brokerage and other costs in connection with its hedging transactions.

Lease Participations

Senior Loans that the Fund may acquire include participation interests in lease financings ("Lease Participations") where the collateral quality, credit quality of the borrower, and the likelihood of payback are believed by the Adviser or Sub-Adviser to be the same as those applied to conventional Senior Loans. A Lease Participation is also required to have a floating interest rate that is indexed to a benchmark indicator of prevailing interest rates, such as LIBOR or the Prime Rate.

The credit quality standards and general requirements that the Fund applies to Lease Participations including collateral quality, the credit quality of the borrower and the likelihood of payback are substantially the same as those applied to conventional Senior Loans. A Lease Participation is also required to have a floating interest rate that is indexed to the federal funds rate, LIBOR, or Prime Rate in order to be eligible for investment.

The Office of the Comptroller of the Currency has established regulations which set forth circumstances under which national banks may engage in lease financings. Among other things, the regulation requires that a lease be a net-full payout lease representing the non-cancelable obligation of the lessee and that the bank make certain determinations with respect to any estimated residual value of leased property relied upon by the bank to yield a full return on the lease. The Fund may invest in lease financings only if the Lease Participation meets these banking law requirements.

Lending Loan Interests and Other Portfolio Instruments

To generate additional income, the Fund may lend its portfolio securities, including interests in Senior Loans, in an amount up to 33 ⅓% of the Fund's total assets to broker-dealers, major banks, or other recognized domestic institutional borrowers of securities. No lending may be made to any companies affiliated with the Adviser or Sub-Adviser. During the time portfolio securities are on loan, the borrower pays the Fund any dividends or interest paid on such securities and the Fund may invest the cash collateral and earn additional income, or it may receive an agreed-upon amount of interest income from the borrower who has delivered equivalent collateral or a letter of credit. As with other extensions of credit, there are risks of delay in recovery or even loss of rights in the collateral should the borrower fail financially.

The Fund may seek to increase its income by lending financial instruments in its portfolio in accordance with present regulatory policies, including those of the Board of Governors of the Federal Reserve System and the SEC. The lending of financial instruments is a common practice in the securities industry. The loans are required to be secured continuously by collateral, consistent with the requirements of the 1940 Act discussed below, maintained on a current basis at an amount at least equal to the market value of the portfolio instruments loaned. The Fund has the right to call a loan and obtain the portfolio instruments loaned at any time on such notice as specified in the transaction documents. For the duration of the loan, the Fund will continue to receive the equivalent of the interest paid by the issuer on the portfolio instruments loaned and may also receive compensation for the loan of the financial instrument.

Any gain or loss in the market price of the instruments loaned that may occur during the term of the loan will be for the account of the Fund.

The Fund may lend its portfolio instruments so long as the terms and the structure of such loans are not inconsistent with the requirements of the 1940 Act, which currently require that: (a) the borrower pledge and maintain with the Fund collateral consisting of cash, a letter of credit issued by a domestic U.S. bank, or securities issued or guaranteed by the U.S. government having a value at all times not less than 100% of the value of the instruments loaned; (b) the borrowers add to such collateral whenever the price of the instruments loaned rises (i.e., the value of the loan is marked-to-market on a daily basis); (c) the loan be made subject to termination by the Fund at any time; and (d) the Fund receives reasonable interest on the loan (which may include the Fund's investing any cash collateral in interest bearing short-term investments), any distributions on the loaned instruments and increase in their market value. The Fund may lend its portfolio instruments to member banks of the Federal Reserve System, members of the NYSE or other entities determined by the Adviser or Sub-Adviser to be creditworthy. All relevant facts and circumstances, including the creditworthiness of the qualified institution, will be monitored by the Adviser or Sub-Adviser, and will be considered in making decisions with respect to the lending of portfolio instruments.

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The Fund may pay reasonable negotiated fees in connection with loaned instruments. In addition, voting rights may pass with loaned securities but if a material event were to occur affecting such a loan, the Fund will retain the right to call the loan and vote the securities. If a default occurs by the other party to such transaction, the Fund will have contractual remedies pursuant to the agreements related to the transaction but such remedies may be subject to bankruptcy and insolvency laws which could materially and adversely affect the Fund's rights as a creditor. However, the loans will be made only to firms deemed by the Adviser or Sub-Adviser to be of good financial standing and when, in the judgment of the Adviser or Sub-Adviser, the consideration which can be earned currently from loans of this type justifies the attendant risk.

Originating Senior Loans – Reliance on Agents

The Fund has the ability to act as an agent in originating and administering a loan on behalf of all lenders or as one of a group of co-agents in originating Senior Loans. However, the Fund has not acted as agent or co-agent on any loans, and has no present intention of doing so in the future. An agent for a loan is required to administer and manage the Senior Loan and to service or monitor the collateral. The agent is also responsible for the collection of principal, interest, and fee payments from the borrower and the apportionment of these payments to the credit of all lenders which are parties to the loan agreement. The agent is charged with the responsibility of monitoring compliance by the borrower with the restrictive covenants in the loan agreement and of notifying the lenders of any adverse change in the borrower's financial condition. In addition, the agent generally is responsible for determining that the lenders have obtained a perfected security interest in the collateral securing the Senior Loan.

Lenders generally rely on the agent to collect their portion of the payments on a Senior Loan and to use the appropriate creditor remedies against the borrower. Typically under loan agreements, the agent is given broad discretion in enforcing the loan agreement and is obligated to use the same care it would use in the management of its own property. The borrower compensates the agent for these services. Such compensation may include special fees paid on structuring and funding the Senior Loan and other fees on a continuing basis. The precise duties and rights of an agent are defined in the loan agreement.

When the Fund is an agent, it has as a party to the loan agreement, a direct contractual relationship with the borrower and, prior to allocating portions of the loan to lenders, if any, assumes all risks associated with the loan. The agent may enforce compliance by the borrower with the terms of the loan agreement. Agents also have voting and consent rights under the applicable loan agreement. Action subject to agent vote or consent generally requires the vote or consent of the holders of some specified percentage of the outstanding principal amount of the Senior Loan, which percentage varies depending on the relative loan agreement. Certain decisions, such as reducing the amount or increasing the time for payment of interest on or repayment of principal of a Senior Loan, or relating collateral therefore, frequently require the unanimous vote or consent of all lenders affected.

Pursuant to the terms of a loan agreement, the agent typically has sole responsibility for servicing and administering a loan on behalf of the other lenders. Each lender in a Senior Loan is generally responsible for performing its own credit analysis and its own investigation of the financial condition of the borrower. Generally, loan agreements will hold the agent liable for any action taken or omitted that amounts to gross negligence or willful misconduct. In the event of a borrower's default on a loan, the loan agreements provide that the lenders do not have recourse against the Fund for its activities as agent. Instead, lenders will be required to look to the borrower for recourse.

In a typical interest in a Senior Loan, the agent administers the loan and has the right to monitor the collateral. The agent is also required to segregate the principal and interest payments received from the borrower and to hold these payments for the benefit of the lenders. The Fund normally looks to the agent to collect and distribute principal of and interest on a Senior Loan. Furthermore, the Fund looks to the agent to use normal credit remedies, such as to foreclose on collateral, monitor credit loan covenants, and notify the lenders of any adverse changes in the borrower's financial condition or declarations of insolvency. At times the Fund may also negotiate with the agent regarding the agent's exercise of credit remedies under a Senior Loan. The agent is compensated for these services by the borrower as set forth in the loan agreement. Such compensation may take the form of a fee or other amount paid upon the making of the Senior Loan and/or an ongoing fee or other amount.

The loan agreements in connection with Senior Loans set forth the standard of care to be exercised by the agents on behalf of the lenders and usually provide for the termination of the agent's agency status in the event that it fails to act properly, becomes insolvent, enters FDIC receivership, or if not FDIC insured, enters into bankruptcy or if the agent

resigns. In the event an agent is unable to perform its obligations as agent, another lender would generally serve in that capacity.

Additional Information on Senior Loans

Senior Loans are direct obligations of corporations or other business entities and are arranged by banks or other commercial lending institutions and made generally to finance internal growth, mergers, acquisitions, stock repurchases, and leveraged buyouts. Senior Loans usually include restrictive covenants which must be maintained by the borrower. Such covenants, in addition to the timely payment of interest and principal, may include mandatory prepayment provisions arising from free cash flow and restrictions on dividend payments, and usually state that a borrower must maintain specific minimum financial ratios as well as establishing limits on total debt. A breach of covenant, which is not waived by the agent, is normally an event of acceleration, i.e., the agent has the right to call the outstanding Senior Loan. In addition, loan covenants may include mandatory prepayment provisions stemming from free cash flow. Free cash flow is cash that is in excess of capital expenditures plus debt service requirements of principal and interest. The free cash flow shall be applied to prepay the Senior Loan in an order of maturity described in the loan documents. Under certain interests in Senior Loans, the Fund may have an obligation to make additional loans upon demand by the borrower. The Fund intends to ensure its ability to satisfy such demands by segregating sufficient assets in high-quality, short-term liquid investments or by sufficiently maintaining unused borrowing capacity.

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The Fund believes that the principal credit risk associated with acquiring loans from another lender is the credit risk associated with the borrower of the underlying loan. The Fund may incur additional credit risk; however, when the Fund acquires a participation in a loan from another lender because the Fund must assume the risk of insolvency or bankruptcy of the other lender from which the loan was acquired. However, in acquiring loans, the Fund conducts an analysis and evaluation of the financial condition of each such lender. In this regard, if the lenders have a long-term debt rating, the long-term debt of all such participants is rated "BBB" or better by S&P or "Baa" or better by Moody's, or has received a comparable rating by another nationally recognized rating service. In the absence of rated long-term debt, the lenders or, with respect to a bank, the holding company of such lenders have commercial paper outstanding which is rated at least "A-1" by S&P or "P-1" by Moody's. In the absence of such rated long-term debt or rated commercial paper, the Fund may acquire participations in loans from lenders whose long-term debt and commercial paper is of comparable quality to the foregoing rating standards as determined by the Adviser under the supervision of the Trustees. The Fund also diversifies its portfolio with respect to lenders from which the Fund acquires loans. (See, "Fundamental and Non-Fundamental Investment Restrictions.")

Senior Loans, unlike certain bonds, usually do not have call protection. This means that investments comprising the Fund's portfolio, while having a stated one to ten-year term, may be prepaid, often without penalty. The Fund generally holds Senior Loans to maturity unless it becomes necessary to sell them to adjust the Fund's portfolio in accordance with the Adviser's or Sub-Adviser's view of current or expected economic or specific industry or borrower conditions.

Senior Loans frequently require full or partial prepayment of a loan when there are asset sales or a securities issuance. Prepayments on Senior Loans may also be made by the borrower at its election. The rate of such prepayments may be affected by, among other things, general business and economic conditions, as well as the financial status of the borrower. Prepayment would cause the actual duration of a Senior Loan to be shorter than its stated maturity. Prepayment may be deferred by the Fund. This should, however, allow the Fund to reinvest in a new loan and recognize as income any unamortized loan fees. In many cases this will result in a new facility fee payable to the Fund.

Because interest rates paid on these Senior Loans fluctuate periodically with the market, it is expected that the prepayment and a subsequent purchase of a new Senior Loan by the Fund will not have a material adverse impact on the yield of the portfolio. (See, "Portfolio Transactions.")

Under a Senior Loan, the borrower generally must pledge as collateral, assets which may include one or more of the following: cash, accounts receivable, inventory, property, plant and equipment, both common and preferred stocks in its subsidiaries, trademarks, copyrights, patent rights, and franchise value. The Fund may also receive guarantees as a form of collateral. In some instances, a Senior Loan may be secured only by stocks in a borrower or its affiliates. However, there is no assurance that the liquidation of the existing collateral would satisfy the borrower's obligation in the event of nonpayment of scheduled interest or principal, or that such collateral could be readily liquidated.

Loan Participation and Assignments

The Fund's investment in loan participations typically will result in the Fund having a contractual relationship only with the lender and not with the borrower. The Fund will have the right to receive payments of principal, interest, and any fees to which it is entitled only from the lender selling the participation and only upon receipt by the lender of the payments from the borrower. In connection with purchasing participation, the Fund generally will have no right to enforce compliance by the borrower with the terms of the loan agreement relating to the loan, nor any right of set-off against the borrower, and the Fund may not directly benefit from any collateral supporting the loan in which it has purchased the participation. As a result, the Fund may be subject to the credit risk of both the borrower and the lender that is selling the participation. In the event of the insolvency of the lender selling a participation, the Fund may be treated as a general creditor of the lender and may not benefit from any set-off between the lender and the borrower.

When the Fund purchases a loan assignment from lenders, it will acquire direct rights against the borrowers on the loan. Because assignments are arranged through private negotiations between potential assignees and potential assignors; however, the rights and obligations acquired by the Fund as the purchaser of an assignment may differ from, and be more limited than, those held by the assigning lender. Because there is no liquid market for such securities, the Fund anticipates that such securities could be sold only to a limited number of institutional investors. The lack of a liquid secondary market may have an adverse impact on the value of such securities and the Fund's

ability to dispose of particular assignments or participation when necessary to meet redemption of Fund shares, to meet the Fund's liquidity needs or when necessary in response to a specific economic event, such as deterioration in the creditworthiness of the borrower. The lack of a liquid secondary market for assignments and participation also may make it more difficult for the Fund to value these securities for purposes of calculating its NAV.

The Fund may be required to pay and receive various fees and commissions in the process of purchasing, selling and holding loans. The fee component may include any, or a combination of, the following elements: arrangement fees, assignment fees, non-use fees, facility fees, letter of credit fees, and ticking fees. Arrangement fees are paid at the commencement of a loan as compensation for the initiation of the transaction. A non-use fee is paid based upon the amount committed but not used under the loan. Facility fees are on-going annual fees paid in connection with a loan. Letter of credit fees are paid if a loan involves a letter of credit. Ticking fees are paid from the initial commitment indication until loan closing if for an extended period. The amount of fees is negotiated at the time of transaction.

OTHER RISKS

Cyber Security Issues

The Voya family of funds, and their service providers, may be prone to operational and information security risks resulting from cyber-attacks. Cyber-attacks include, among other behaviors, stealing or corrupting data maintained online or digitally, denial of service attacks on websites, the unauthorized release of confidential information or various other forms of cyber security breaches. Cyber-attacks affecting the Fund

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or its service providers may adversely impact the Fund. For instance, cyber-attacks may interfere with the processing of shareholder transactions, impact the Fund's ability to calculate its NAV, cause the release of private shareholder information or confidential business information, impede trading, subject the Fund to regulatory fines or financial losses and/or cause reputational damage. The Fund may also incur additional costs for cyber security risk management purposes. Similar types of cyber security risks are also present for issuers of securities in which the Fund may invest, which could result in material adverse consequences for such issuers and may cause the Fund's investment in such companies to lose value. In addition, substantial costs may be incurred in order to prevent any cyber-attacks in the future. While the Fund has established a business continuity plan in the event of, and risk management systems to prevent, such cyber-attacks, there are inherent limitations in such plans and systems including the possibility that certain risks have not been identified. Furthermore, the Fund cannot control the cyber security plans and systems put in place by service providers to the Fund and issuers in which the Fund invests. The Fund and its shareholders could be negatively impacted as a result.

Other Investments

Assets not invested in Senior Loans will generally consist of other instruments, including loans to borrowers organized or located in countries outside the United States and outside U.S. territories and possessions or Canada; unsecured floating rate loans, notes and other debt instruments; floating rate subordinated loans (up to a maximum of 5% of the Fund's total assets); tranches of floating rate asset-backed securities, including structured notes, corporate debt securities, cash or short-term debt securities, with remaining maturities of 120 days or less (which may have yields tied to the Prime Rate, commercial paper rates, the federal funds rate or LIBOR); and equity securities acquired in connection with investments in loans. Short-term debt instruments may include: (i) commercial paper rated A-1 by S&P or P-1 by Moody's, or of comparable quality as determined by the Adviser or Sub-Adviser; (ii) certificates of deposit, bankers' acceptances, and other bank deposits and obligations; and (iii) securities issued or guaranteed by the U.S. government, its agencies or instrumentalities. Under normal circumstances, the Fund may invest in cash and/or short-term instruments. During periods when, in the judgment of the Adviser or Sub-Adviser, a temporary defensive posture in the market is appropriate, the Fund may hold up to 100% of its assets in cash and/or in short-term debt instruments.

Asset-Backed Securities

Defaults on, or low credit quality or liquidity of the underlying assets of the asset-backed securities may impair the value of these securities and result in losses. There may be limitations on the enforceability of any security interest or collateral granted with respect to those underlying assets and the value of collateral may not satisfy the obligation upon default. These securities also present a higher degree of prepayment and extension risk and interest rate risk than do other types of debt instruments.

Because of prepayment risk and extension risk, small movements in interest rates (both increases and decreases) may quickly and significantly reduce the value of certain asset-backed securities. The value of longer-term securities generally changes more in response to changes in market interest rates than shorter term securities.

These securities may be significantly affected by government regulation, market interest rates, market perception of the creditworthiness of an issuer servicer, and loan-to-value ratio of the underlying assets. During an economic downturn, the mortgages, commercial or consumer loans, trade or credit card receivables, installment purchase obligations, leases, or other debt obligations underlying an asset-backed security may experience an increase in defaults as borrowers experience difficulties in repaying their loans which may cause the valuation of such securities to be more volatile and may reduce the value of such securities. These risks are particularly heightened for investments in asset-backed securities that contain sub-prime loans which are loans made to borrowers with weakened credit histories and often have higher default rates.

Repurchase Agreements

The Fund has the ability, pursuant to its investment objective and policies, to enter into repurchase agreements if the asset which is the subject of the repurchase is a loan. Such agreements may be considered to be loans by the Fund for purposes of the 1940 Act. Each repurchase agreement must be collateralized fully, in accordance with the provisions of Rule 5b-3 under the 1940 Act, at all times. Pursuant to such repurchase agreements, the Fund acquires securities from financial institutions such as brokers, dealers, and banks, subject to the seller's agreement to repurchase and the Fund's agreement to resell such securities at a mutually agreed upon date and price. The term of such an agreement is

generally quite short, possibly overnight or for a few days, although it may extend over a number of months (up to one year) from the date of delivery. The repurchase price generally equals the price paid by the Fund plus interest negotiated on the basis of current short-term rates (which may be more or less than the rate on the underlying portfolio security). The securities underlying a repurchase agreement will be marked-to-market every business day so that the value of the collateral is at least equal to the value of the loan, including the accrued interest thereon, and the Adviser or Sub-Adviser will monitor the value of the collateral. Securities subject to repurchase agreements will be held by the custodian or in the Federal Reserve/Treasury Book Entry System. If the seller defaults on its repurchase obligation, the Fund will suffer a loss to the extent that the proceeds from a sale of the underlying securities are less than the repurchase price under the agreement. Bankruptcy or insolvency of such a defaulting seller may cause the Fund's rights with respect to such securities to be delayed or limited. To mitigate this risk, the Fund only enters into repurchase agreements with highly-rated, large financial institutions. The Fund may only enter into repurchase agreements that qualify for an exclusion from any automatic stay of creditors' rights against the counterparty under applicable insolvency law in the event of the counterparty's insolvency.

Reverse Repurchase Agreements

The Fund has the ability, pursuant to its investment objective and policies, to enter into reverse repurchase agreements. A reverse repurchase agreement is a contract under which the Fund may sell and simultaneously obtain the commitment of the purchaser to sell the security back to the Fund at an agreed upon price on an agreed upon date. Reverse repurchase agreements will be considered borrowings by the

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Fund and as such, are subject to the restrictions on borrowing. Borrowings by the Fund create an opportunity for greater total return but at the same time increase exposure to capital risk. The Fund will maintain in a segregated account with its custodian cash or liquid high grade portfolio securities in an amount sufficient to cover its obligations with respect to the reverse repurchase agreements. The Fund will receive payment for such securities only upon physical delivery or evidence of book entry transfer by its custodian. Regulations of the SEC require either that securities sold by the Fund under a reverse repurchase agreement be segregated pending repurchase or that the proceeds be segregated on the Fund's books and records pending repurchase. Reverse repurchase agreements may involve certain risks in the event of default or insolvency of the other party, including possible loss from delays or restrictions upon the Fund's ability to dispose of the underlying securities.

Other Investment Companies

An investment company is a company engaged in the business of pooling investors' money and trading in securities for them. Examples include face-amount certificate companies, unit investment trusts and management companies. When the Fund invests in other investment companies, shareholders of the Fund bear their proportionate share of the underlying investment companies' fees and expenses.

The Fund may invest in other investment companies to the extent permitted under the 1940 Act and the rules, regulations, and exemptive orders thereunder. For so long as shares of the Fund are purchased by another fund in reliance on Section 12(d)(1)(G) of the 1940 Act, the Fund will not purchase securities of a registered open-end investment company or registered unit investment trust in reliance on Section 12(d)(1)(F) or Section 12(d)(1)(G) of the 1940 Act.

There are some potential disadvantages associated with investing in other investment companies. In addition to the advisory and operational fees, the Fund bears directly in connection with its own operation, the Fund would also bear its pro-rata portions of each other investment company's advisory and operational expenses.

When the Fund invests in other investment companies, you indirectly pay a proportionate share of the expenses of that other investment company (including management fees, administration fees, and custodial fees) in addition to the expenses of the Fund.

PORTFOLIO TURNOVER

A change in securities held in a Fund's portfolio is known as portfolio turnover and may involve the payment by the Fund of dealer mark-ups or brokerage or underwriting commissions and other transaction costs associated with the purchase or sale of securities.

The Fund may sell a portfolio investment soon after its acquisition if the Adviser or Sub-Adviser believes that such a disposition is consistent with the Fund's investment objective. Portfolio investments may be sold for a variety of reasons, such as a more favorable investment opportunity or other circumstances bearing on the desirability of continuing to hold such investments. Portfolio turnover rate for a fiscal year is the percentage determined by dividing (i) the lesser of the cost of purchases or sales of portfolio securities by (ii) the monthly average of the value of portfolio securities owned by the Fund during the fiscal year. Securities with maturities at acquisition of one year or less are excluded from this calculation. A Fund cannot accurately predict its turnover rate; however, the rate will be higher when the Fund finds it necessary or desirable to significantly change its portfolio to adopt a temporary defensive position or respond to economic or market events.

A portfolio turnover rate of 100% or more is considered high, although the rate of portfolio turnover will not be a limiting factor in making portfolio decisions. A high rate of portfolio turnover involves correspondingly greater brokerage commission expenses and transaction costs which are ultimately borne by a Fund's shareholders. High portfolio turnover may result in the realization of substantial capital gains.

The Fund's historical turnover rates are included in the Financial Highlights tables in the Prospectus.

To the extent the Fund invests in affiliated Underlying Funds, the discussion above relating to investment decisions made by the Adviser or the Sub-Adviser with respect to the Fund also includes investment decisions made by an Adviser or a Sub-Adviser with respect to those Underlying Funds.

FUNDAMENTAL AND NON-FUNDAMENTAL INVESTMENT RESTRICTIONS

Unless otherwise noted, whenever an investment policy or limitation states a maximum percentage of a Fund's assets that may be invested in any security or other asset, or sets forth a policy regarding quality standards, such percentage limitation or standard will be determined immediately after and as a result of the Fund's acquisition of such security or

other asset, except in the case of borrowing (or other activities that may be deemed to result in the issuance of a "senior security" under the 1940 Act). Accordingly, any subsequent change in value, net assets or other circumstances will not be considered when determining whether the investment complies with the Fund's investment policies and limitations. There is no limitation on the percentage of the Fund's total assets that may be invested in instruments which are not readily marketable or subject to restrictions on resale and to the extent the Fund invests in such instruments, the Fund's portfolio should be considered illiquid. The extent to which the Fund invests in such instruments may affect its ability to realize the NAV of the Fund in the event of the voluntary or involuntary liquidation of its assets.

FUNDAMENTAL INVESTMENT RESTRICTIONS

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The Fund has adopted the following investment restrictions as fundamental policies which means they cannot be changed without the approval of the holders of a "majority" of the Fund's outstanding voting securities, as that term is defined in the 1940 Act. The term "majority" is defined in the 1940 Act as the lesser of: (i) 67% or more of the Fund's voting securities present at a meeting of shareholders at which the holders of more than 50% of the outstanding voting securities of the Fund are present in person or represented by proxy; or (ii) more than 50% of the Fund's outstanding voting securities.

As a matter of fundamental policy, the Fund will not:

1. issue senior securities, except insofar as the Fund may be deemed to have issued a senior security by reason of: (i) entering into certain interest rate hedging transactions; (ii) entering into reverse repurchase agreements; (iii) borrowing money in an amount permitted under the 1940 Act, including the rules, regulations, interpretations thereunder, and any exemptive relief provided by the SEC; or (iv) issuing a class or classes of preferred shares in an amount not exceeding 50%, or such other percentage permitted by law, of the Fund's total assets less all liabilities and indebtedness not represented by senior securities;

2. invest more than 25% of its total assets in any industry;

3. invest in marketable warrants other than those acquired in conjunction with Senior Loans and such warrants will not constitute more than 5% of its assets;

4. make investments in any one issuer other than U.S. government securities if, immediately after such purchase or acquisition, more than 5% of the value of the Fund's total assets would be invested in such issuer, or the Fund would own more than 25% of any outstanding issue, except that up to 25% of the Fund's total assets may be invested without regard to the foregoing restrictions. For the purpose of the foregoing restriction, the Fund will consider the borrower of a Senior Loan to be the issuer of such Senior Loan. In addition, with respect to a Senior Loan under which the Fund does not have privity with the borrower or would not have a direct cause of action against the borrower in the event of the failure of the borrower to pay scheduled principal or interest, the Fund will also separately meet the foregoing requirements and consider each interpositioned bank (a lender from which the Fund acquires a Senior Loan) to be an issuer of the Senior Loan;

5. act as an underwriter of securities, except to the extent that it may be deemed to act as an underwriter in certain cases when disposing of its portfolio investments or acting as an agent or one of a group of co-agents in originating Senior Loans;

6. purchase or sell equity securities (except that the Fund may, incidental to the purchase or ownership of an interest in a Senior Loan, or as part of a borrower reorganization, acquire, sell and exercise warrants and/or acquire or sell other equity securities), real estate, real estate mortgage loans, commodities, commodity futures contracts, or oil or gas exploration or development programs; or sell short, purchase or sell straddles, spreads, or combinations thereof, or write put or call options;

7. make loans of money or property to any person, except that the Fund: (i) may make loans to corporations or other business entities, or enter into leases or other arrangements that have the characteristics of a loan; (ii) may lend portfolio instruments; and (iii) may acquire securities subject to repurchase agreements;

8. purchase shares of other investment companies, except in connection with a merger, consolidation, acquisition or reorganization; or

9. make investments on margin or hypothecate, mortgage, or pledge any of its assets except for the purpose of securing borrowings as described above in connection with the issuance of senior securities and then only in an amount up to 33 1/3% (50% in the case of the issuance of a preferred class of shares), or such other percentage permitted by law, of the value of the Fund's total assets (including, with respect to borrowings, the amount

borrowed) less all liabilities other than borrowings (or, in the case of the issuance of senior securities, less all liabilities and indebtedness not represented by senior securities).

With regard to paragraph number 2 above, the Fund will consider the borrower on a loan, including a loan participation, to be the issuer of that loan. In addition, with respect to a loan under which the Fund does not have privity with the borrower or would not have a direct cause of action against the borrower in the event of the failure of the borrower to pay scheduled principal or interest, the Fund will also consider each interpositioned bank (a lender from which the Fund acquires a loan) to be an issuer of the loan.

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MANAGEMENT OF the Trust

The business and affairs of the Trust are managed under the direction of the Trust's Board according to the applicable laws of the Commonwealth of Massachusetts.

The Board governs the Fund and is responsible for protecting the interests of shareholders. The Trustees are experienced executives who oversee the Fund's activities, review contractual arrangements with companies that provide services to the Fund, and review the Fund's performance.

Set forth in the table below is information about each Trustee of the Fund.

Name, Address and Age	Position(s) Held with the Trust	Term of Office and Length of Time Served[1]	Principal Occupation(s) During the Past 5 Years	Number of Funds in the Fund Complex Overseen by Trustees[2]	Other Board Positions Held by Trustees
Independent Trustees					
Colleen D. Baldwin 7337 East Doubletree Ranch Road, Suite 100 Scottsdale, AZ 85258-2034 Age: 58	Trustee	October 2007 – Present	President, Glantuam Partners, LLC, a business consulting firm (January 2009 – Present).	151	DSM/Dentaquest, Boston MA (February 2014 – Present).
John V. Boyer 7337 East Doubletree Ranch Road, Suite 100 Scottsdale, AZ 85258-2034 Age: 64	Chairperson Trustee	January 2014 – Present January 2005 – Present	President and Chief Executive Officer, Bechtler Arts Foundation, an arts and education foundation (January 2008 – Present).	151	None.
Patricia W. Chadwick 7337 East Doubletree Ranch Road, Suite 100 Scottsdale, AZ 85258-2034 Age: 69	Trustee	January 2006 – Present	Consultant and President, Ravengate Partners LLC, a consulting firm that provides advice regarding financial markets and the global economy (January 2000 – Present).	151	Wisconsin Energy Corporation (June 2006 – Present); The Royce Funds (23 funds) (December 2009 – Present); and AMICA Mutual Insurance Company (1992 – Present).
Martin J. Gavin 7337 East Doubletree Ranch Road, Suite 100 Scottsdale, AZ 85258-2034 Age: 68	Trustee	August 2015 – Present	Retired. Formerly, President and Chief Executive Officer, Connecticut Children's Medical Center (May 2006 – November 2015).	151	None.
	Trustee		Retired.	151	None.

Russell H. Jones 7337 East Doubletree Ranch Road, Suite 100 Scottsdale, AZ 85258-2034 Age: 74		May 2013 – Present			
Patrick W. Kenny 7337 East Doubletree Ranch Road, Suite 100 Scottsdale, AZ 85258-2034 Age: 75	Trustee	January 2005 – Present	Retired.	151	Assured Guaranty Ltd. (April 2004 – Present).

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Name, Address and Age	Position(s) Held with the Trust	Term of Office and Length of Time Served[1]	Principal Occupation(s) During the Past 5 Years	Number of Funds in the Fund Complex Overseen by Trustees[2]	Other Board Positions Held by Trustees
Joseph E. Obermeyer 7337 East Doubletree Ranch Road, Suite 100 Scottsdale, AZ 85258-2034 Age: 60	Trustee	May 2013 – Present	President, Obermeyer & Associates, Inc., a provider of financial and economic consulting services (November 1999 – Present).	151	None.
Sheryl K. Pressler 7337 East Doubletree Ranch Road, Suite 100 Scottsdale, AZ 85258-2034 Age: 67	Trustee	January 2006 – Present	Consultant (May 2001 – Present).	151	None.
Christopher P. Sullivan 7337 East Doubletree Ranch Road, Suite 100 Scottsdale, AZ 85258-2034 Age: 64	Trustee	October 2015 – Present	Retired.	151	None.
Roger B. Vincent 7337 East Doubletree Ranch Road, Suite 100 Scottsdale, AZ 85258-2034 Age: 72	Trustee	February 2002 – Present	Retired.	151	None.

1 Trustees serve until their successors are duly elected and qualified. The tenure of each Trustee who is not an "interested person" as defined in the 1940 Act, of the Fund (as defined below, "Independent Trustee") is subject to the Board's retirement policy, which states that each duly elected or appointed Independent Trustee shall retire from and cease to be a member of the Board of Trustees at the close of business on December 31 of the calendar year in which the Independent Trustee attains the age of 75. A majority vote of the Board's other Independent Trustees may extend the retirement date of an Independent Trustee if the retirement would trigger a requirement to hold a meeting of shareholders of the Trust under applicable law, whether for the purposes of appointing a successor to the Independent Trustee or otherwise complying under applicable law, in which case the extension would apply until such time as the shareholder meeting can be held or is no longer required (as determined by a vote of a majority of the other Independent Trustees).

2 For the purposes of this table, "Fund Complex" means the Voya family of funds, including the following investment companies: Voya Asia Pacific High Dividend Equity Income Fund; Voya Balanced Portfolio, Inc.; Voya Emerging Markets High Dividend Equity Fund; Voya Equity Trust; Voya Funds Trust; Voya Global Advantage and Premium Opportunity Fund; Voya Global Equity Dividend and Premium Opportunity Fund; Voya Government Money Market Portfolio; Voya Infrastructure, Industrials and Materials Fund; Voya Intermediate Bond Portfolio; Voya International High Dividend Equity Income Fund; Voya Investors Trust; Voya Mutual Funds; Voya Natural

Resources Equity Income Fund; Voya Partners, Inc.; Voya Prime Rate Trust; Voya Senior Income Fund; Voya Separate Portfolios Trust; Voya Series Fund, Inc.; Voya Strategic Allocation Portfolios, Inc.; Voya Variable Funds; Voya Variable Insurance Trust; Voya Variable Portfolios, Inc.; and Voya Variable Products Trust. The number of funds in the Fund Complex is as of May 31, 2018.

Information Regarding Officers of the Trust

Set forth in the table below is information for each Officer of the Trust.

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Name, Address and Age	Position(s) Held with the Trust	Term of Office and Length of Time Served[1]	Principal Occupation(s) During the Past 5 Years
Michael Bell One Orange Way Windsor, CT 06095 Age: 49	Chief Executive Officer	March 2018 - Present	Chief Executive Officer and Director, Voya Investments, LLC, Voya Capital, LLC, and Voya Funds Services, LLC (March 2018 – Present); Senior Vice President and Treasurer, Voya Investments Distributor, LLC (November 2015 – Present); Chief Financial Officer, Voya Investment Management (September 2014 – Present). Formerly, Senior Vice President, Chief Financial Officer, and Treasurer, Voya Investments, LLC (November 2015 – March 2018); Chief Financial Officer and Chief Accounting Officer, Hartford Investment Management (September 2003 – September 2014).
Dina Santoro 230 Park Avenue New York, NY 10169 Age: 45	President	March 2018 - Present	President and Director, Voya Investments, LLC and Voya Capital, LLC (March 2018 – Present); Director Voya Funds Services, LLC (March 2018 – Present); Director and Senior Vice President, Voya Investments Distributor, LLC (April 2018 – Present); Managing Director, Head of Product and Marketing Strategy, Voya Investment Management (September 2017 – Present). Formerly, Managing Director, Quantitative Management Associates, LLC (January 20014 – August 2017).
Stanley D. Vyner 230 Park Avenue New York, New York 10169 Age: 68	Executive Vice President Chief Investment Risk Officer	August 2003 - Present September 2009 - Present	Executive Vice President, Voya Investments, LLC (July 2000 – Present) and Chief Investment Risk Officer, Voya Investments, LLC (January 2003 – Present).

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Name, Address and Age	Position(s) Held with the Trust	Term of Office and Length of Time Served[1]	Principal Occupation(s) During the Past 5 Years
James M. Fink 5780 Powers Ferry Rd. NW Atlanta, GA 30327 Age: 60	Executive Vice President	March 2018 - Present	Managing Director, Voya Investments, LLC, Voya Capital, LLC, and Voya Funds Services, LLC (March 2018 – Present); Senior Vice President, Voya Investments Distributor, LLC (April 2018 – Present); Chief Administrative Officer, Voya Investment Management (September 2017 – Present). Formerly, Managing Director, Operations, Voya Investment Management (March 1999 – September 2017).
Kevin M. Gleason 7337 East Doubletree Ranch Road, Suite 100 Scottsdale, AZ 85258-2034 Age: 51	Chief Compliance Officer	February 2012 - Present	Senior Vice President Voya Investment Management, LLC and Chief Compliance Officer, Voya Family of Funds (February 2012- Present).
Todd Modic 7337 East Doubletree Ranch Road, Suite 100 Scottsdale, AZ 85258-2034 Age: 50	Senior Vice President, Chief/Principal Financial Officer and Assistant Secretary	March 2005 - Present	President, Voya Funds Services, LLC (March 2018 – Present) and Senior Vice President, Voya Investments, LLC (April 2005 – Present).
Daniel A. Norman 7337 East Doubletree Ranch Road, Suite 100 Scottsdale, AZ 85258-2034 Age: 60	Senior Vice President and Treasurer	April 1995 - Present	Managing Director and Group Head, Voya Investment Management Co. LLC (January 2012 – Present)
Kimberly A. Anderson 7337 East Doubletree Ranch Road, Suite 100 Scottsdale, AZ 85258-2034 Age: 53	Senior Vice President	November 2003 - Present	Senior Vice President, Voya Investments, LLC (September 2003 – Present).
Jeffrey A. Bakalar 7337 East Doubletree	Senior Vice President	November 1999 - Present	Managing Director and Group Head, Voya Investment Management Co. LLC (January 2012 – Present)

Ranch Road, Suite 100 Scottsdale, AZ 85258-2034 Age: 58			
Elliot A. Rosen 7337 East Doubletree Ranch Road, Suite 100 Scottsdale, AZ 85258-2034 Age: 65	Senior Vice President	May 2002 - Present	Senior Vice President, Voya Investment Management Co. LLC (February 1999 – Present)
Robert Terris 5780 Powers Ferry Rd. NW Atlanta, GA 30327 Age: 48	Senior Vice President	May 2006 - Present	Senior Vice President, Voya Investments Distributor, LLC (April 2018 – Present); Senior Vice President, Head of Division Operations, Voya Investments, LLC (October 2015 – Present) and Voya Funds Services, LLC (March 2006 – Present).

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Name, Address and Age	Position(s) Held with the Trust	Term of Office and Length of Time Served[1]	Principal Occupation(s) During the Past 5 Years
Fred Bedoya 7337 East Doubletree Ranch Road, Suite 100 Scottsdale, AZ 85258-2034 Age: 45	Vice President	September 2012 - Present	Vice President, Voya Investments, LLC (October 2015 – Present) and Voya Funds Services, LLC (July 2012 – Present).
Maria M. Anderson 7337 East Doubletree Ranch Road, Suite 100 Scottsdale, AZ 85258-2034 Age: 60	Vice President	September 2004 - Present	Vice President, Voya Investments, LLC (October 2015 – Present) and Voya Funds Services, LLC (September 2004 – Present).
Sara M. Donaldson 7337 East Doubletree Ranch Road, Suite 100 Scottsdale, AZ 85258-2034 Age: 58	Vice President	September 2014 - Present	Vice President, Voya Investments, LLC (October 2015 – Present). Formerly, Vice President, Voya Funds Services, LLC (April 2014 – October 2015). Formerly, Director, Compliance, AXA Rosenberg Global Services, LLC (September 1997 – March 2014).
Micheline S. Faver 7337 East Doubletree Ranch Road, Suite 100 Scottsdale, AZ 85258-2034 Age: 41	Vice President	September 2016 - Present	Vice President, Head of Fund Compliance, Chief Compliance Officer for Voya Investments, LLC (June 2016 – Present). Formerly, Vice President Mutual Fund Compliance (March 2014 – June 2016); Assistant Vice President, Mutual Fund Compliance (May 2013 – March 2014); Assistant Vice President, Senior Project Manager (May 2008 – May 2013).
Robyn L. Ichilov 7337 East Doubletree Ranch Road, Suite 100 Scottsdale, AZ 85258-2034 Age: 50	Vice President	November 1997 - Present	Vice President, Voya Funds Services, LLC (November 1995 – Present) and Voya Investments, LLC (August 1997 – Present).
Jason Kadavy 7337 East Doubletree Ranch Road,	Vice President	September 2012 - Present	Vice President, Voya Investments, LLC (October 2015 – Present) and Voya Funds Services, LLC (July 2007 – Present).

Suite 100 Scottsdale, AZ 85258-2034 Age: 42			
Andrew K. Schlueter 7337 East Doubletree Ranch Road, Suite 100 Scottsdale, AZ 85258-2034 Age: 42	Vice President	March 2018 - Present	Vice President, Voya Investments, LLC and Voya Funds Services, LLC (March 2018 – Present); Vice President, Voya Investments Distributor, LLC (April 2018 – Present); Vice President, Head of Mutual Fund Operations, Voya Investment Management (February 2018 – Present). Formerly, Vice President, Voya Investment Management (March 2014 – February 2018); Assistant Vice President, Voya Investment Management (March 2011 – March 2014).

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Name, Address and Age	Position(s) Held with the Trust	Term of Office and Length of Time Served[1]	Principal Occupation(s) During the Past 5 Years
Kimberly K. Springer 7337 East Doubletree Ranch Road, Suite 100 Scottsdale, AZ 85258-2034 Age: 61	Vice President	March 2006 - Present	Vice President – Mutual Fund Product Development, Voya Investments, LLC (July 2012 – Present); Vice President, Voya Family of Funds (March 2010 – Present) and Vice President, Voya Funds Services, LLC (March 2006 - Present).
Craig Wheeler 7337 East Doubletree Ranch Road, Suite 100 Scottsdale, AZ 85258-2034 Age: 49	Vice President	May 2013 - Present	Vice President – Director of Tax, Voya Investments, LLC (October 2015 – Present). Formerly, Vice President – Director of Tax Voya Funds Services, LLC (March 2013 – October 2015). Formerly, Assistant Vice President – Director of Tax, Voya Funds Services, LLC (March 2008 – February 2013).
Monia Piacenti One Orange Way Windsor, CT 06095 Age: 41	Anti-Money Laundering Officer	June 2018 - Present	Anti-Money Laundering Officer, Voya Investments Distributor, LLC, Voya Investment Management, and Voya Investment Management Trust Co. (June 2018 – Present); Senior Compliance Officer, Voya Investment Management (December 2009 – Present).
Huey P. Falgout, Jr. 7337 East Doubletree Ranch Road, Suite 100 Scottsdale, AZ 85258-2034 Age: 54	Secretary	August 2003 - Present	Senior Vice President and Chief Counsel, Voya Investment Management – Mutual Fund Legal Department (March 2010 – Present).
Paul A. Caldarelli 7337 East Doubletree Ranch Road, Suite 100 Scottsdale, AZ 85258-2034 Age: 66	Assistant Secretary	June 2010 - Present	Vice President and Senior Counsel, Voya Investment Management – Mutual Fund Legal Department (March 2010 – Present).
Theresa K. Kelety 7337 East Doubletree Ranch Road, Suite 100 Scottsdale, AZ 85258-2034 Age: 55	Assistant Secretary	August 2003 - Present	Vice President and Senior Counsel, Voya Investment Management – Mutual Fund Legal Department (March 2010 – Present).

[1] The Officers hold office until the next annual meeting of the Board of Trustees and until their successors shall have been elected and qualified.

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The Board of Trustees

The Trust and the Fund are governed by the Board, which oversees the Trust's business and affairs. The Board delegates the day-to-day management of the Trust and the Fund to the Trust's Officers and to various service providers that have been contractually retained to provide such day-to-day services. The Voya entities that render services to the Trust and the Fund do so pursuant to contracts that have been approved by the Board. The Trustees are experienced executives who, among other duties, oversee the Trust's activities, review contractual arrangements with companies that provide services to the Fund, and review the Fund's investment performance.

The Board Leadership Structure and Related Matters

The Board is comprised of ten (10) members who are independent or disinterested persons, which means that they are not "interested persons" of the Fund as defined in Section 2(a)(19) of the 1940 Act ("Independent Trustees").

The Trust is one of 24 registered investment companies (with a total of approximately 151 separate series) in the Voya family of funds and all of the Trustees serve as members of, as applicable, each investment company's Board of Directors or Board of Trustees. The Board employs substantially the same leadership structure with respect to each of these investment companies.

One of the Independent Trustees, currently John V. Boyer, serves as the Chairperson of the Board of the Trust. The responsibilities of the Chairperson of the Board include: coordinating with management in the preparation of agendas for Board meetings; presiding at Board meetings; between Board meetings, serving as a primary liaison with other Trustees, officers of the Trust, management personnel, and legal counsel to the Independent Trustees; and such other duties as the Board periodically may determine. Mr. Boyer does not hold a position with any firm that is a sponsor of the Trust. The designation of an individual as the Chairperson does not impose on such Independent Trustee any duties, obligations or liabilities greater than the duties, obligations or liabilities imposed on such person as a member of the Board, generally.

The Board performs many of its oversight and other activities through the committee structure described below in the "Board Committees" section. Each Committee operates pursuant to a written Charter approved by the Board. The Board currently conducts regular meetings eight (8) times a year. Six (6) of these regular meetings consist of sessions held over a three-day period, and two (2) of these meetings consist of a one-day session. In addition, during the course of a year, the Board and many of its Committees typically hold special meetings by telephone or in person to discuss specific matters that require action prior to the next regular meeting. The Independent Trustees have engaged independent legal counsel to assist them in performing their oversight responsibilities.

The Board believes that its committee structure is an effective means of empowering the Trustees to perform their fiduciary and other duties. For example, the Board's committee structure facilitates, as appropriate, the ability of individual Board members to receive detailed presentations on topics under their review and to develop increased familiarity with respect to such topics and with key personnel at relevant service providers. At least annually, with guidance from its Nominating and Governance Committee, the Board analyzes whether there are potential means to enhance the efficiency and effectiveness of the Board's operations.

Board Committees

Audit Committee. The Board has established an Audit Committee whose functions include, among other things: (i) meeting with the independent registered public accounting firm of the Trust to review the scope of the Trust's audit, the Trust's financial statements and accounting controls; (ii) meeting with management concerning these matters, internal audit activities and other matters; and (iii) overseeing the implementation of the Voya funds' valuation procedures and the fair value determinations made with respect to securities held by the Voya funds for which market value quotations are not readily available. The Audit Committee currently consists of five (5) Independent Trustees. The following Trustees currently serve as members of the Audit Committee: Ms. Baldwin and Messrs. Gavin, Kenny, Obermeyer, and Vincent. Mr. Gavin currently serves as the Chairperson of the Audit Committee. All Committee members have been designated as Audit Committee Financial Experts under the Sarbanes-Oxley Act of 2002. The Audit Committee currently meets regularly five (5) times per year, and may hold special meetings by telephone or in person to discuss specific matters that may require action prior to the next regular meeting. The Audit Committee held five (5) meetings during the fiscal year ended February 28, 2018.

Compliance Committee. The Board has established a Compliance Committee for the purpose of, among other things: (i) providing oversight with respect to compliance by the funds in the Voya family of funds and their service providers

with applicable laws, regulations, and internal policies and procedures affecting the operations of the funds; (ii) receiving reports of evidence of possible material violations of applicable U.S. federal or state securities laws and breaches of fiduciary duty arising under U.S. federal or state laws; (iii) coordinating activities between the Board and the Chief Compliance Officer ("CCO") of the funds; (iv) facilitating information flow among Board members and the CCO between Board meetings; (v) working with the CCO and management to identify the types of reports to be submitted by the CCO to the Compliance Committee and the Board; (vi) making recommendations regarding the role, performance and oversight of the CCO; (vii) overseeing the cybersecurity practices of the funds and their key service providers; (viii) overseeing management's administration of proxy voting; and (ix) overseeing the effectiveness of brokerage usage by the Trust's advisers or sub-advisers, as applicable, and compliance with regulations regarding the allocation of brokerage for services.

The Compliance Committee currently consists of five (5) Independent Trustees: Mses. Chadwick and Pressler, and Messrs. Boyer, Jones, and Sullivan. Mr. Jones currently serves as the Chairperson of the Compliance Committee. The Compliance Committee currently meets regularly four (4) times per year, and may hold special meetings by telephone or in person to discuss specific matters that may require action prior to the next regular meeting. The Compliance Committee held four (4) meetings during the fiscal year ended February 28, 2018.

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Contracts Committee. The Board has established a Contracts Committee for the purpose of overseeing the annual renewal process relating to investment advisory and sub-advisory agreements and, at the discretion of the Board, other agreements or plans involving the Voya funds (including the Fund). The responsibilities of the Contracts Committee include, among other things: (i) identifying the scope and format of information to be provided by service providers in connection with applicable contract approvals or renewals; (ii) providing guidance to independent legal counsel regarding specific information requests to be made by such counsel on behalf of the Trustees; (iii) evaluating regulatory and other developments that might have an impact on applicable approval and renewal processes; (iv) reporting to the Trustees its recommendations and decisions regarding the foregoing matters; (v) assisting in the preparation of a written record of the factors considered by Trustees relating to the approval and renewal of advisory and sub-advisory agreements; (vi) recommending to the Board specific steps to be taken by it regarding the contracts approval and renewal process, including, for example, proposed schedules of meetings of the Trustees; and (vii) otherwise providing assistance in connection with Board decisions to renew, reject, or modify agreements or plans.

The Contracts Committee currently consists of all ten (10) of the Independent Trustees of the Board. Ms. Pressler currently serves as the Chairperson of the Contracts Committee. It is expected that the Contracts Committee will meet regularly six (6) times per year and may hold special meetings by telephone or in person to discuss specific matters that may require action prior to the next regular meeting. The Contracts Committee held six (6) meetings during the fiscal year ended February 28, 2018.

Investment Review Committees. The Board has established, for all of the funds under its direction, the following three Investment Review Committees (each an "IRC" and collectively the "IRCs"): (i) the Joint Investment Review Committee ("Joint IRC"); (ii) the Investment Review Committee E (formerly known as the Domestic Equity Funds Investment Review Committee) ("IRC E"); and (iii) the Investment Review Committee F (formerly known as the International/Balanced/Fixed Income Funds Investment Review Committee) ("IRC F"). The funds are allocated among IRCs periodically by the Board as the Board deems appropriate to balance the workloads of the IRCs and to have similar types of funds or funds with the same investment sub-adviser or the same portfolio management team assigned to the same IRC. Each IRC performs the following functions, among other things: (i) monitoring the investment performance of the funds in the Voya family of funds that are assigned to that Committee; and (ii) making recommendations to the Board with respect to investment management activities performed by the advisers and/or sub-advisers on behalf of such Voya funds, and reviewing and making recommendations regarding proposals by management to retain new or additional sub-advisers for these Voya funds. The Fund is monitored by the IRCs, as indicated below. Each committee is described below.

	Joint IRC	IRC E	IRC F
Voya Prime Rate Trust	X		

The Joint IRC currently consists of ten (10) Independent Trustees. Ms. Chadwick currently serves as the Chairperson of the Joint IRC. The Joint IRC currently meets regularly six (6) times per year. The Joint IRC held six (6) meetings during the fiscal year ended February 28, 2018.

The IRC E currently consists of five (5) Independent Trustees. The following Trustees serve as members of the IRC E: Mses. Baldwin and Pressler, and Messrs. Jones, Obermeyer, and Vincent. Ms. Baldwin currently serves as the Chairperson of the IRC E. The IRC E currently meets regularly six (6) times per year. The IRC E held six (6) meetings during the fiscal year ended February 28, 2018.

The IRC F currently consists of five (5) Independent Trustees. The following Trustees serve as members of the IRC F: Ms. Chadwick and Messrs. Boyer, Gavin, Kenny, and Sullivan. Mr. Sullivan currently serves as the Chairperson of the IRC F. The IRC F currently meets regularly six (6) times per year. The IRC F held six (6) meetings during the fiscal year ended February 28, 2018.

Nominating and Governance Committee. The Board has established a Nominating and Governance Committee for the purpose of, among other things: (i) identifying and recommending to the Board candidates it proposes for nomination to fill Independent Trustee vacancies on the Board; (ii) reviewing workload and capabilities of Independent Trustees and recommending changes to the size or composition of the Board, as necessary; (iii) monitoring regulatory developments and recommending modifications to the Committee's responsibilities; (iv) considering and, if appropriate, recommending the creation of additional committees or changes to Trustee policies and procedures based on rule changes and "best practices" in corporate governance; (v) conducting an annual review of the membership and

chairpersons of all Board committees and of practices relating to such membership and chairpersons; (vi) undertaking a periodic study of compensation paid to independent board members of investment companies and making recommendations for any compensation changes for the Independent Trustees; (vii) overseeing the Board's annual self-evaluation process; (viii) developing (with assistance from management) an annual meeting calendar for the Board and its committees; (ix) overseeing actions to facilitate attendance by Independent Trustees at relevant educational seminars and similar programs; and (x) overseeing insurance arrangements for the funds.

In evaluating potential candidates to fill Independent Trustee vacancies on the Board, the Nominating and Governance Committee will consider a variety of factors, but it has not at this time set any specific minimum qualifications that must be met. Specific qualifications of candidates for Board membership will be based on the needs of the Board at the time of nomination. The Nominating and Governance Committee will consider nominations received from shareholders and shall assess shareholder nominees in the same manner as it reviews nominees that it identifies as potential candidates. A shareholder nominee for Trustee should be submitted in writing to the Trust's Secretary at 7337 East Doubletree Ranch Road, Suite 100, Scottsdale, Arizona 85258-2034. Any such shareholder nomination should include at least the following information as to each individual proposed for nomination as Trustee: such person's written consent to be named in a proxy statement as a nominee (if nominated) and to serve as a Trustee (if elected), and all information relating to such individual that is required to be disclosed in the solicitation of proxies for election of Trustees, or is otherwise required, in each case under applicable federal securities laws, rules, and regulations, including such information as the Board may reasonably deem necessary to satisfy its oversight and due diligence duties.

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The Secretary shall submit all nominations received in a timely manner to the Nominating and Governance Committee. To be timely in connection with a shareholder meeting to elect Trustees, any such submission must be delivered to the Trust's Secretary not earlier than the 90th day prior to such meeting and not later than the close of business on the later of the 60th day prior to such meeting or the 10th day following the day on which public announcement of the date of the meeting is first made, by either the disclosure in a press release or in a document publicly filed by the Trust with the SEC.

The Nominating and Governance Committee currently consists of six (6) Independent Trustees. The following Trustees serve as members of the Nominating and Governance Committee: Mses. Baldwin and Chadwick, and Messrs. Boyer, Jones, Kenny, and Obermeyer. Mr. Obermeyer currently serves as the Chairperson of the Nominating and Governance Committee. The Nominating and Governance Committee typically meets three (3) times per year and on an as-needed basis. The Nominating and Governance Committee held three (3) meetings during the fiscal year ended February 28, 2018.

The Board's Risk Oversight Role

The day-to-day management of various risks relating to the administration and operation of the Trust and the Fund is the responsibility of management and other service providers retained by the Board or by management, most of whom employ professional personnel who have risk management responsibilities. The Board oversees this risk management function consistent with and as part of its oversight duties. The Board performs this risk management oversight function directly and, with respect to various matters, through its committees. The following description provides an overview of many, but not all, aspects of the Board's oversight of risk management for the Fund. In this connection, the Board has been advised that it is not practicable to identify all of the risks that may impact the Fund or to develop procedures or controls that are designed to eliminate all such risk exposures, and that applicable securities law regulations do not contemplate that all such risks be identified and addressed.

The Board, working with management personnel and other service providers, has endeavored to identify the primary risks that confront the Fund. In general, these risks include, among others: (i) investment risks; (ii) credit risks; (iii) liquidity risks; (iv) valuation risks; (v) operational risks; (vi) reputational risks; (vii) regulatory risks; (viii) risks related to potential legislative changes; (ix) the risk of conflicts of interest affecting Voya affiliates in managing the Fund; and (x) cybersecurity risks. The Board has adopted and periodically reviews various policies and procedures that are designed to address these and other risks confronting the Fund. In addition, many service providers to the Fund have adopted their own policies, procedures, and controls designed to address particular risks to the Fund. The Board and persons retained to render advice and service to the Board periodically review and/or monitor changes to, and developments relating to, the effectiveness of these policies and procedures.

The Board oversees risk management activities in part through receipt and review by the Board or its committees of regular and special reports, presentations and other information from Officers of the Trust, including the CCOs for the Trust and the Adviser and the Trust's Chief Investment Risk Officer ("CIRO"), and from other service providers. For example, management personnel and the other persons make regular reports and presentations to: (i) the Compliance Committee regarding compliance with regulatory requirements and oversight of cybersecurity practices by the Fund and key service providers; (ii) the IRCs regarding investment activities and strategies that may pose particular risks; (iii) the Audit Committee with respect to financial reporting controls and internal audit activities; (iv) the Nominating and Governance Committee regarding corporate governance and best practice developments; and (v) the Contracts Committee regarding regulatory and related developments that might impact the retention of service providers to the Trust. The CIRO oversees an Investment Risk Department ("IRD") that provides an independent source of analysis and research for Board members in connection with their oversight of the investment process and performance of portfolio managers. Among its other duties, the IRD seeks to identify and, where practicable, measure the investment risks being taken by the Fund's portfolio managers. Although the IRD works closely with management of the Trust in performing its duties, the CIRO is directly accountable to, and maintains an ongoing dialogue with, the Independent Trustees.

Qualifications of the Trustees

The Board believes that each of its Trustees is qualified to serve as a Trustee of the Trust based on its review of the experience, qualifications, attributes, and skills of each Trustee. The Board bases this conclusion on its consideration of various criteria, no one of which is controlling. Among others, the Board has considered the following factors with

respect to each Trustee: strong character and high integrity; an ability to review, evaluate, analyze, and discuss information provided; the ability to exercise effective business judgment in protecting shareholder interests while taking into account different points of views; a background in financial, investment, accounting, business, regulatory, or other skills that would be relevant to the performance of a Trustee's duties; the ability and willingness to commit the time necessary to perform his or her duties; and the ability to work in a collegial manner with other Board members. Each Trustee's ability to perform his or her duties effectively is evidenced by his or her: experience in the investment management business; related consulting experience; other professional experience; experience serving on the boards of directors/trustees of other public companies; educational background and professional training; prior experience serving on the Board, as well as the boards of other investment companies in the Voya family of funds and/or of other investment companies; and experience as attendees or participants in conferences and seminars that are focused on investment company matters and/or duties that are specific to board members of registered investment companies.

Information indicating certain of the specific experience and qualifications of each Trustee relevant to the Board’s belief that the Trustee should serve in this capacity is provided in the table above that provides information about each Trustee. That table includes, for each Trustee, positions held with the Trust, the length of such service, principal occupations during the past five (5) years, the number of series within the Voya family of funds for which the Trustee serves as a Board member, and certain directorships held during the past five (5) years. Set forth below are certain additional specific experiences, qualifications, attributes, or skills that the Board believes support a conclusion that each Trustee should serve as a Board member in light of the Trust’s business and structure.

Independent Trustees

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Colleen D. Baldwin has been a Trustee of the Trust and a board member of other investment companies in the Voya family of funds since 2007. She also has served as the Chairperson of the Trust's IRC E since January 23, 2014 and, prior to that, as the Chairperson of the Trust's Nominating and Governance Committee since 2009. Ms. Baldwin is currently an Independent Board Director of DSM/Dentaquest and is currently the Chairperson of its Audit Committee and a member of its Finance/Investment Review Committee. Ms. Baldwin has been President of Glantuam Partners, LLC, a business consulting firm, since 2009. Prior to that, she served in senior positions at the following financial services firms: Chief Operating Officer for Ivy Asset Management, Inc. (2002-2004), a hedge fund manager; Chief Operating Officer and Head of Global Business and Product Development for AIG Global Investment Group (1995-2002), a global investment management firm; Senior Vice President at Bankers Trust Company (1994-1995); and Senior Managing Director at J.P. Morgan & Company (1987-1994). Ms. Baldwin began her career in 1981 at AT&T/Bell Labs as a systems analyst. Ms. Baldwin holds a B.S. from Fordham University and an M.B.A. from Pace University.

John V. Boyer has been a Trustee of the Trust and a board member of other investment companies in the Voya family of funds since 1997. He also has served as the Chairperson of the Trust's Board of Trustees since January 23, 2014 and, prior to that, as the Chairperson of the Trust's IRC F since 2006. Prior to that, he served as the Chairperson of the Compliance Committee for other funds in the Voya family of funds. Since 2008, Mr. Boyer has been President and CEO of the Bechtler Arts Foundation for which, among his other duties, Mr. Boyer oversees all fiduciary aspects of the Foundation and assists in the oversight of the Foundation's endowment fund. Previously, he served as President and Chief Executive Officer of the Franklin and Eleanor Roosevelt Institute (2006-2007) and as Executive Director of The Mark Twain House & Museum (1989-2006) where he was responsible for overseeing business operations, including endowment funds. He also served as a board member of certain predecessor mutual funds of the Voya family of funds (1997-2005). Mr. Boyer holds a B.A. from the University of California, Santa Barbara and an M.F.A. from Princeton University.

Patricia W. Chadwick has been a Trustee of the Trust and a board member of other investment companies in the Voya family of funds since 2006. She also has served as the Chairperson of the Trust's Joint IRC since January 1, 2018 and, prior to that, as the Chairperson of the Trust's IRC F since January 23, 2014. Since 2000, Ms. Chadwick has been the Founder and President of Ravengate Partners LLC, a consulting firm that provides advice regarding financial markets and the global economy. She also is a director of The Royce Funds (since 2009), Wisconsin Energy Corp. (since 2006), and AMICA Mutual Insurance Company (since 1992). Previously, she served in senior roles at several major financial services firms where her duties included the management of corporate pension funds, endowments, and foundations, as well as management responsibilities for an asset management business. Ms. Chadwick holds a B.A. from Boston University and is a Chartered Financial Analyst.

Martin J. Gavin has been a Trustee of the Trust since August 1, 2015. He also has served as the Chairperson of the Trust's Audit Committee since January 1, 2018. Mr. Gavin previously served as a Trustee of the Trust from May 21, 2013 until September 12, 2013, and as a board member of other investment companies in the Voya family of funds from 2009 until 2010 and from 2011 until September 12, 2013.Mr. Gavin was the President and Chief Executive Officer of the Connecticut Children's Medical Center from 2006 to 2015. Prior to his position at Connecticut Children's Medical Center, Mr. Gavin worked in the insurance and investment industries for more than 27 years. Mr. Gavin served in several senior executive positions with The Phoenix Companies during a 16 year period, including as President of Phoenix Trust Operations, Executive Vice President and Chief Financial Officer of Phoenix Duff & Phelps, a publicly-traded investment management company, and Senior Vice President of Investment Operations at Phoenix Home Life. Mr. Gavin holds a B.A. from the University of Connecticut.

Russell H. Jones has been a Trustee of the Trust since May 21, 2013, and a board member of other investment companies in the Voya family of funds since December 2007. He also has served as the Chairperson of the Trust's Compliance Committee since January 23, 2014. From 1973 until his retirement in 2008, Mr. Jones served in various positions at Kaman Corporation, an aerospace and industrial distribution manufacturer, including Senior Vice President, Chief Investment Officer and Treasurer, Principal Investor Relations Officer, Principal Public Relations Officer and Corporate Parent Treasurer. Mr. Jones served as an Independent Director and Chair of the Contracts Committee for CIGNA Mutual Funds from 1995 until 2005. Mr. Jones also served as President of the Hartford Area Business Economists from 1986 until 1987. Mr. Jones holds a B.A. from the University of Connecticut and an M.A.

from the Hartford Seminary.
Patrick W. Kenny has been a Trustee of the Trust and a board member of other investment companies in the Voya family of funds since 2002. He previously served as the Chairperson of the Trust's Nominating and Governance Committee from January 23, 2014 to December 31, 2017. He previously served as President and Chief Executive Officer (2001-2009) of the International Insurance Society (insurance trade association), Executive Vice President (1998-2001) of Frontier Insurance Group (property and casualty insurance company), Senior Vice President (1995-1998) of SS&C Technologies (software and technology company), Chief Financial Officer (1988-1994) of Aetna Life & Casualty Company (multi-line insurance company), and as Partner (until 1988) of KPMG LLP (accounting firm). Mr. Kenny currently serves (since 2004) on the board of directors of Assured Guaranty Ltd. (provider of financial guaranty insurance) and previously served on the boards of Odyssey Re Holdings Corporation (multi-line reinsurance company) (2006-2009) and of certain predecessor mutual funds of the Voya family of funds (2002-2005). Mr. Kenny holds a B.B.A. from the University of Notre Dame and an M.A. from the University of Missouri and is a Certified Public Accountant.
Joseph E. Obermeyer has been a Trustee of the Trust since May 21, 2013, and a board member of other investment companies in the Voya family of funds since 2003. He also has served as the Chairperson of the Trust's Nominating and Governance Committee since January 1, 2018 and, prior to that, as the Chairperson of the the Trust's Joint IRC since January 23, 2014. Mr. Obermeyer is the founder and President of Obermeyer & Associates, Inc., a provider of financial and economic consulting services since 1999. Prior to founding Obermeyer & Associates, Mr. Obermeyer had more than 15 years of experience in accounting, including serving as a Senior Manager at Arthur Andersen LLP from 1995 until 1999. Previously, Mr. Obermeyer served as a Senior Manager at Coopers & Lybrand LLP from 1993 until 1995, as a Manager at Price Waterhouse from 1988 until 1993, Second Vice President from 1985 until 1988 at Smith Barney, and

as a consultant with Arthur Andersen & Co. from 1984 until 1985. Mr. Obermeyer holds a B.A. in Business Administration from the University of Cincinnati, an M.B.A. from Indiana University, and post graduate certificates from the University of Tilburg and INSEAD.

Sheryl K. Pressler has been a Trustee of the Trust and a board member of other investment companies in the Voya family of funds since 2006. She also has served as the Chairperson of the Trust's Contracts Committee since 2007. Ms. Pressler has served as a consultant on financial matters since 2001. Previously, she held various senior positions involving financial services, including as Chief Executive Officer (2000-2001) of Lend Lease Real Estate Investments, Inc. (real estate investment management and mortgage servicing firm), Chief Investment Officer (1994-2000) of California Public Employees' Retirement System (state pension fund), Director of Stillwater Mining Company (May 2002 – May 2013), and Director of Retirement Funds Management (1981-1994) of McDonnell Douglas Corporation (aircraft manufacturer). Ms. Pressler holds a B.A. from Webster University and an M.B.A. from Washington University.

Christopher P. Sullivan has been a Trustee of the Trust since October 1, 2015. He also has served as the Chairperson of the Trust's IRC F since January 1, 2018. He retired from Fidelity Management & Research in October 2012, following three years as first the President of the Bond Group and then the Head of Institutional Fixed Income. Previously, Mr. Sullivan served as Managing Director and Co-Head of U.S. Fixed Income at Goldman Sachs Asset Management (2001-2009) and prior to that, Senior Vice President at PIMCO (1997-2001). He currently serves as a Director of Rimrock Funds (since 2013), a fixed income hedge fund. He is also a Senior Advisor to Asset Grade (since 2013), a private wealth management firm, and serves as a Trustee of the Overlook Foundation, a foundation that supports Overlook Hospital in Summit, New Jersey. In addition to his undergraduate degree from the University of Chicago, Mr. Sullivan holds an M.A. degree from the University of California at Los Angeles and is a Chartered Financial Analyst.

Roger B. Vincent has been a Trustee of the Trust and a board member of other investment companies in the Voya family of funds since 1994. He also has served as the Chairperson of the Trust's Board of Trustees from 2007 – January 23, 2014 and, prior to that, as the Chairperson of the Trust's Contracts Committee and the IRC E. Mr. Vincent retired as President of Springwell Corporation (a corporate finance firm) in 2011 where he had worked since 1989. He previously worked for 20 years at Bankers Trust Company where he was a Managing Director and a member of the bank's senior executive partnership. He also previously served as a Director of UGI Corporation and UGI Utilities, Inc. (2006-2018), AmeriGas Partners, L.P. (1998-2006), Tatham Offshore, Inc. (1996-2000), and Petrolane, Inc. (1993-1995), and as a board member of certain predecessor funds of the Voya family of funds (1993-2002). Mr. Vincent is a member of the board of the Mutual Fund Directors Forum and a past Director of the National Association of Corporate Directors. Mr. Vincent holds a B.S. from Yale University and an M.B.A. from Harvard University.

Trustee Ownership of Securities

In order to further align the interests of the Independent Trustees with shareholders, it is the policy of the Board for Independent Trustees to own, beneficially, shares of one or more funds in the Voya family of funds at all times ("Ownership Policy"). For this purpose, beneficial ownership of shares of a Voya fund include, in addition to direct ownership of Voya fund shares, ownership of a variable contract whose proceeds are invested in a Voya fund within the Voya family of funds, as well as deferred compensation payments under the Board's deferred compensation arrangements pursuant to which the future value of such payments is based on the notional value of designated funds within the Voya family of funds.

The Ownership Policy requires the initial value of investments in the Voya family of funds that are directly or indirectly owned by the Trustees to equal or exceed the annual retainer fee for Board services (excluding any annual retainers for service as chairpersons of the Board or its committees or as members of committees), as such retainer shall be adjusted from time to time.

The Ownership Policy provides that existing Trustees shall have a reasonable amount of time from the date of any recent or future increase in the minimum ownership requirements in order to satisfy the minimum share ownership requirements. In addition, the Ownership Policy provides that a new Trustee shall satisfy the minimum share ownership requirements within a reasonable amount of time of becoming a Trustee. For purposes of the Ownership Policy, a reasonable period of time will be deemed to be, as applicable, no more than three years after a Trustee has assumed that position with the Voya family of funds or no more than one year after an increase in the minimum share

ownership requirement due to changes in annual Board retainer fees. A decline in value of any fund investments will not cause a Trustee to have to make any additional investments under this Policy.

Investment in mutual funds of the Voya family of funds by the Trustees pursuant to this Ownership Policy is subject to: (i) policies, applied by the mutual funds of the Voya family of funds to other similar investors, that are designed to prevent inappropriate market timing trading practices; and (ii) any provisions of the Code of Ethics for the Voya family of funds that otherwise apply to the Trustees.

Trustees' Fund Equity Ownership Positions

The following table sets forth information regarding each Trustee's beneficial ownership of equity securities of the Fund and the aggregate holdings of shares of equity securities of all the funds in the Voya family of funds for the calendar year ended December 31, 2017.

Fund	Dollar Range of Equity Securities in the Fund as of December 31, 2017				
	Colleen D. Baldwin	John V. Boyer	Patricia W. Chadwick	Martin J. Gavin	Russell H. Jones
Voya Prime Rate Trust	None	None	None	None	None

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Fund	Dollar Range of Equity Securities in the Fund as of December 31, 2017				
	Colleen D. Baldwin	John V. Boyer	Patricia W. Chadwick	Martin J. Gavin	Russell H. Jones
Aggregate Dollar Range of Equity Securities in All Registered Investment Companies Overseen by Trustee in the Voya family of funds	Over $100,000[1]	Over $100,000 Over $100,000[1]	Over $100,000	Over $100,000[1]	Over $100,000[1]

Fund	Dollar Range of Equity Securities in the Fund as of December 31, 2017				
	Patrick W. Kenny	Joseph E. Obermeyer	Sheryl K. Pressler	Christopher P. Sullivan	Roger B. Vincent
Voya Prime Rate Trust	None	None	None	None	None
Aggregate Dollar Range of Equity Securities in All Registered Investment Companies Overseen by Trustee in the Voya family of funds	Over $100,000 Over $100,000[1]	Over $100,000[1]	Over $100,000[1]	Over $100,000	Over $100,000 Over $100,000[1]

1 Includes the value of shares in which a Trustee has an indirect interest through a deferred compensation plan and/or a 401(K) plan.

Independent Trustee Ownership of Securities of the Adviser, Underwriter, and their Affiliates

The following table sets forth information regarding each Independent Trustee's (and his/her immediate family members) share ownership, beneficially or of record, in securities of the Fund's Adviser or Principal Underwriter, and the ownership of securities in an entity controlling, controlled by or under common control with the Adviser or Principal Underwriter of the Fund (not including registered investment companies) as of December 31, 2017.

Name of Trustee	Name of Owners and Relationship to Trustee	Company	Title of Class	Value of Securities	Percentage of Class
Colleen D. Baldwin	N/A	N/A	N/A	N/A	N/A
John V. Boyer	N/A	N/A	N/A	N/A	N/A
Patricia W. Chadwick	N/A	N/A	N/A	N/A	N/A
Martin J. Gavin	N/A	N/A	N/A	N/A	N/A
Russell H. Jones	N/A	N/A	N/A	N/A	N/A
Patrick W. Kenny	N/A	N/A	N/A	N/A	N/A
Joseph Obermeyer	N/A	N/A	N/A	N/A	N/A
Sheryl K. Pressler	N/A	N/A	N/A	N/A	N/A
Christopher P. Sullivan	N/A	N/A	N/A	N/A	N/A
Roger B. Vincent	N/A	N/A	N/A	N/A	N/A

Trustee Compensation

Each Trustee is reimbursed for reasonable expenses incurred in connection with each meeting of the Board or any of its Committee meetings attended. Each Independent Trustee is compensated for his or her services, on a quarterly basis, according to a fee schedule adopted by the Board. The Board may from time to time designate other meetings as subject to compensation.

The Fund pays each Trustee who is not an interested person of the Fund his or her pro rata share, as described below, of: (i) an annual retainer of $250,000; (ii) Mr. Boyer, as the Chairperson of the Board, receives an additional annual retainer of $100,000; (iii) Mses. Baldwin, Chadwick, and Pressler and Messrs. Gavin, Jones, Obermeyer, and Sullivan as the Chairpersons of Committees of the Board, each receive an additional annual retainer of $30,000, $30,000, $65,000, $30,000, $30,000, $30,000, and $30,000, respectively; (iv) $10,000 per attendance at any of the regularly scheduled meetings (four (4) quarterly meetings, two (2) auxiliary meetings, and two (2) annual contract review

meetings); and (v) out-of-pocket expenses. The Board at its discretion may from time to time designate other special meetings as subject to an attendance fee in the amount of $5,000 for in-person meetings and $2,500 for special telephonic meetings.

The pro rata share paid by the Fund is based on the Fund's average net assets as a percentage of the average net assets of all the funds managed by the Adviser or its affiliate for which the Trustees serve in common as Trustees.

Future Compensation Payment

Certain future payment arrangements apply to certain Trustees. More particularly, each non-interested Trustee, with the exception of Messrs. Jones and Obermeyer, who was a Trustee on or before May 9, 2007, and who will have served as a non-interested Trustee for five or more years for one or more funds in the Voya family of funds is entitled to a future payment ("Future Payment"), if such Trustee:

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(i) retires in accordance with the Board's retirement policy; (ii) dies; or (iii) becomes disabled. The Future Payment shall be made promptly to, as applicable, the Trustee or the Trustee's estate, in an amount equal to two (2) times the annual compensation payable to such Trustee, as in effect at the time of his or her retirement, death or disability if the Trustee had served as Trustee for at least five years as of May 9, 2007, or in a lesser amount calculated based on the proportion of time served by such Trustee (as compared to five years) as of May 9, 2007. The annual compensation determination shall be based upon the annual Board membership retainer fee in effect at the time of that Trustee's retirement, death or disability (but not any separate annual retainer fees for chairpersons of committees and of the Board), provided that the annual compensation used for this purpose shall not exceed the annual retainer fees as of May 9, 2007. This amount shall be paid by the Voya fund or Voya funds on whose Board the Trustee was serving at the time of his or her retirement, death, or disability. Each applicable Trustee may elect to receive payment of his or her benefit in a lump sum or in three substantially equal payments.

Compensation Table

The following table sets forth information provided by the Fund's Adviser regarding compensation of Trustees by the Fund and other funds managed by the Adviser and its affiliates for the fiscal year ended February 28, 2018. Officers of the Trust and Trustees who are interested persons of the Trust do not receive any compensation from the Trust or any other funds managed by the Adviser or its affiliates.

	Aggregate Compensation				
Fund	Colleen D. Baldwin	John V. Boyer	Patricia W. Chadwick	Peter S. Drotch[1]	Martin J. Gavin
Voya Prime Rate Trust	$2,991.42	$3,573.93	$2,991.42	$2,991.42	$2,741.78
Pension or Retirement Benefits Accrued as Part of Fund Expenses	N/A	N/A	N/A	N/A	N/A
Estimated Annual Benefits Upon Retirement	N/A	N/A	N/A	N/A	N/A
Total Compensation from the Fund and the Voya family of funds Paid to Trustees	$360,000.00[2]	$430,000.00[2]	$360,000.00	$360,000.00	$330,000.00[2]

	Aggregate Compensation					
Fund	Russell H. Jones	Patrick W. Kenny	Joseph E. Obermeyer	Sheryl K. Pressler	Christopher P. Sullivan	Roger B. Vincent
Voya Prime Rate Trust	$2,991.42	$2,991.42	$2,991.42	$3,282.67	$2,741.78	$2,741.78
Pension or Retirement Benefits Accrued as Part of Fund Expenses	N/A	N/A	N/A	N/A	N/A	N/A
Estimated Annual Benefits Upon Retirement	N/A	N/A	N/A	N/A	N/A	N/A
Total Compensation from the Fund and the Voya family of funds Paid to Trustees	$360,000.00[2]	$360,000.00[2]	$360,000.00[2]	$395,000.00[2]	$330,000.00	$330,000.00

1 Mr. Drotch retired as a Trustee effective December 31, 2017.

2 During the fiscal year ended February 28, 2018, Ms. Baldwin, Mr. Boyer, Mr. Gavin, Mr. Jones, Mr. Kenny, Mr. Obermeyer, and Ms. Pressler deferred $50,000.00, $20,000.00, $165,000.00, $160,000.00, $90,000.00, $36,000.00, and $48,000.00, respectively, of their compensation from the Voya family of funds.

CODE OF ETHICS

The Fund, the Adviser, the Sub-Adviser, and the Distributor have adopted a code of ethics ("Code of Ethics") governing personal trading activities of all Trustees, Officers of the Trust and persons who, in connection with their regular functions, play a role in the recommendation of or obtain information pertaining to any purchase or sale of a security by the Fund. The Code of Ethics is intended to prohibit fraud against a Fund that may arise from the personal trading of securities that may be purchased or held by that Fund or of the Fund's shares. The Code of Ethics prohibits short-term trading of a Fund's shares by persons subject to the Code of Ethics. Personal trading is permitted by such

persons subject to certain restrictions; however, such persons are generally required to pre-clear all security transactions with the Fund's Adviser or its affiliates and to report all transactions on a regular basis.

The Code of Ethics can be reviewed and copied at the SEC's Public Reference Room located at 100 F Street, NE, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at (202) 551-8090. The Code of Ethics is available on the SEC's website at www.sec.gov and copies may also be obtained at prescribed rates by electronic request at publicinfo@sec.gov, or by writing the SEC's Public Reference Section at the address listed above.

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PRINCIPAL SHAREHOLDERS AND CONTROL PERSONS

Control is defined by the 1940 Act as the beneficial ownership, either directly or through one or more controlled companies, of more than 25% of the voting securities of a company. A control person may have a significant impact on matters submitted to a shareholder vote.

Trustee and Officer Holdings

As of June 8, 2018, the Trustees and officers of the Trust as a group owned less than 1% of any class of the Fund's outstanding Common Shares.

Principal Shareholders

As of June 8, 2018, to the best knowledge of management, no person owned beneficially or of-record more than 5% of the outstanding Common Shares of the Fund except as set forth in the table below. The Trust has no knowledge as to whether all or any portion of shares owned of-record are also owned beneficially.

Name of Fund	Class	Name and Address	Percentage of Class	Percentage of Fund
Voya Prime Rate Trust	Beneficial Owner	Cede & Co PO Box 20 Bowling Green Station New York, NY 10274-0020	81.37%	81.37%
Voya Prime Rate Trust	Beneficial Owner	Voya Prime Rate Trust Treasury Account Attn: Voya Control Dept 4400 Computer Dr Westborough, MA 01581-1755	15.63%	15.63%

PROXY VOTING PROCEDURES AND GUIDELINES

The Board has adopted proxy voting procedures and guidelines to govern the voting of proxies relating to the Fund's portfolio securities. The proxy voting procedures and guidelines delegate to the Adviser the authority to vote proxies relating to portfolio securities, and provide a method for responding to potential conflicts of interest. In delegating voting authority to the Adviser, the Board has also approved the Adviser's proxy voting procedures, which require the Adviser to vote proxies in accordance with the Fund's proxy voting procedures and guidelines. An independent proxy voting service has been retained to assist in the voting of Fund proxies through the provision of vote analysis, implementation and recordkeeping and disclosure services. In addition, the Compliance Committee oversees the implementation of the Fund's proxy voting procedures and guidelines. A copy of the proxy voting procedures and guidelines of the Fund, including procedures of the Adviser, is attached hereto as Appendix A. No later than August 31st of each year, information regarding how the Fund voted proxies relating to portfolio securities for the one-year period ending June 30th is available online without charge at www.voyainvestments.com or by accessing the SEC's EDGAR database at www.sec.gov.

ADVISER

The investment adviser for the Fund is Voya Investments, LLC. The Adviser, subject to the authority of the Board, has the overall responsibility for the management of the Fund's portfolio.

The Adviser is registered with the SEC as an investment adviser and serves as an investment adviser to registered investment companies (or series thereof). The Adviser is an indirect, wholly-owned subsidiary of Voya Financial, Inc. Voya Financial, Inc. is a U.S.-based financial institution with subsidiaries operating in the retirement, investment, and insurance industries.

Investment Management Agreement

The Adviser serves pursuant to an Investment Management Agreement between the Adviser and the Trust on behalf of the Fund. Under the Investment Management Agreement, the Adviser oversees, subject to the authority of the Board, the provision of all investment advisory and portfolio management services for the Fund. In addition, the Adviser provides administrative services reasonably necessary as of January 1, 2015 for the ordinary operation of the Fund. The Adviser has delegated certain management responsibilities to one or more Sub-Advisers.

Investment Management Services

Among other things, the Adviser: (i) provides general investment advice and guidance with respect to the Fund and provides advice and guidance to the Fund's Board; (ii) provides the Board with any periodic or special reviews or reporting it requests, including any reports regarding a Sub-Adviser and its investment performance; (iii) oversees management of the Fund's investments and portfolio composition including supervising any Sub-Adviser with respect to the services that such Sub-Adviser provides; (iv) makes available its officers and employees to the Board and officers of the Trust; (v) designates and compensates from its own resources such personnel as the Adviser may consider necessary or appropriate to the performance of its services hereunder; (vi) periodically monitors and evaluates the performance of any Sub-Adviser with respect to the investment objectives and policies of the Fund and performs periodic detailed analysis and review of the Sub-Adviser's investment performance; (vii) reviews, considers and reports on any changes in the personnel of the Sub-Adviser responsible for performing the Sub-Adviser's obligations or any changes in the ownership or senior management of the Sub-Adviser; (viii) performs periodic in-person or telephonic diligence meetings with the Sub-Adviser; (ix) assists the Board and management of the Fund in

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developing and reviewing information with respect to the initial and subsequent annual approval of the Sub-Advisory Agreement; (x) monitors the Sub-Adviser for compliance with the investment objective or objectives, policies and restrictions of the Fund, the 1940 Act, Subchapter M of the Code, and, if applicable, regulations under these provisions, and other applicable law; (xi) if appropriate, analyzes and recommends for consideration by the Board termination of a contract with a Sub-Adviser; (xii) identifies potential successors to or replacements of a Sub-Adviser or potential additional Sub-Adviser, performs appropriate due diligence, and develops and presents recommendations to the Board; and (xiii) is authorized to exercise full investment discretion and make all determinations with respect to the day-to-day investment of a Fund's assets and the purchase and sale of portfolio securities for one or more Funds in the event that at any time no sub-adviser is engaged to manage the assets of such Fund.

In addition, the Adviser assists in managing and supervising all aspects of the general day-to-day business activities and operations of the Fund, including custodial, transfer agency, dividend disbursing, accounting, auditing, compliance, and related services. The Adviser also reviews the Fund for compliance with applicable legal requirements and monitors the Sub-Adviser for compliance with requirements under applicable law and with the investment policies and restrictions of the Fund.

Limitation of Liability

The Adviser is not subject to liability to the Fund for any act or omission in the course of, or in connection with, rendering services under the Investment Management Agreement, except by reason of willful misfeasance, bad faith, gross negligence, or reckless disregard of its obligations and duties under the Investment Management Agreement.

Continuation and Termination of the Investment Management Agreement

After an initial term of two years, the Investment Management Agreement continues in effect from year to year with respect to the Fund so long as such continuance is specifically approved at least annually by: (i) the Board of Trustees; or (ii) the vote of a "majority" of a Fund's outstanding voting securities (as defined in Section 2(a)(42) of the 1940 Act); and provided that such continuance is also approved by a vote of at least a majority of the Independent Trustees who are not parties to the agreement by a vote cast in person at a meeting called for the purpose of voting on such approval.

The Investment Management Agreement may be terminated as to a particular Fund at any time without penalty by: (i) the vote of the Board; (ii) the vote of a majority of the Fund's outstanding voting securities (as defined in Section 2(a)(42) of the 1940 Act) of that Fund; or (iii) the Adviser, on sixty (60) days' prior written notice to the other party. The notice provided for herein may be waived by either party, as a single class, or upon notice given by the Adviser. The Investment Management Agreement will terminate automatically in the event of its "assignment" (as defined in Section 2(a)(4) of the 1940 Act).

Management Fees

The Adviser pays all of its expenses arising from the performance of its obligations under the Investment Management Agreement, including executive salaries and expenses of the Trustees and officers of the Trust who are employees of the Adviser or its affiliates, except the CCO and the CIRO.The Adviser pays the fees of the Sub-Adviser.

At a meeting held on March 12, 2015, the Board approved amending and restating the Investment Management Agreement so that, effective May 1, 2015, the terms of the Investment Management Agreement and a previously separate administration agreement were combined under a single Amended and Restated Investment Management Agreement with a single management fee. The single management fee rate under the Amended and Restated Investment Management Agreement does not exceed the former combined investment management and administrative services fee rates and, under the Amended and Restated Investment Management Agreement, there was no change to the investment management or administrative services provided or the fees charged.

The Adviser receives an annual management fee, payable monthly, in an amount equal to 1.05% of the Fund's average daily gross asset value, minus the sum of the Fund's accrued and unpaid dividends on any outstanding preferred shares and accrued liabilities (other than liabilities for the principal amount of any borrowings incurred, commercial paper or notes issued by the Fund and the liquidation preference of any outstanding preferred shares) ("Managed Assets"). This definition includes the assets acquired through the Fund's use of leverage.

Total Investment Management Fees Paid by the Fund

During the past three fiscal years, the Fund paid the following investment management fees to the Adviser or its affiliates.

Fund	February 28 or 29, as applicable		
	2018	2017	2016
Voya Prime Rate Trust			
Management Fee (Prior to May 1, 2015)	None	None	$1,634,695.75
Administrative Services Fee (Prior to May 1, 2015)	None	None	$510,842.00
Management Fee including Administrative Services (effective May 1, 2015)	$12,443,442.00	$12,361,772.00	$10,264,450.25

EXPENSES

The Fund's assets may decrease or increase during its fiscal year and the Fund's operating expense ratios may correspondingly increase or decrease.

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In addition to the management fee and other fees described previously, the Fund pays other expenses, such as legal, audit, transfer agency and custodian out-of-pocket fees, proxy solicitation costs, and the compensation of Trustees who are not affiliated with the Adviser.

EXPENSE LIMITATIONS

As described in the Prospectus, the Adviser, Distributor, and/or Sub-Adviser may have entered into one or more expense limitation agreements with the Fund pursuant to which they have agreed to waive or limit their fees. In connection with such an agreement, the Adviser, Distributor, or Sub-Adviser, as applicable, will assume expenses (excluding certain expenses as discussed below) so that the total annual ordinary operating expenses of a Fund do not exceed the amount specified in that Fund's Prospectus.

Exclusions

Expense limitations do not extend to interest, taxes, other investment-related costs, leverage expenses (as defined below), extraordinary expenses such as litigation and expenses of the CCO and CIRO, other expenses not incurred in the ordinary course of the Fund's business, and expenses of any counsel or other persons or services retained by the Independent Trustees. Leverage expenses shall mean fees, costs, and expenses incurred in connection with a Fund's use of leverage (including, without limitation, expenses incurred by a Fund in creating, establishing, and maintaining leverage through borrowings or the issuance of preferred shares). In addition, expense limitations do not extend to investor relations services. Acquired Fund Fees and Expenses are not covered by any expense limitation agreement.

If an expense limitation is subject to recoupment (as indicated in the Prospectus), the Adviser, Distributor, or Sub-Adviser, as applicable, may recoup any expenses reimbursed within 36 months of the waiver or reimbursement and the amount of the recoupment is limited to the lesser of the amounts that would be recoupable under: (i) the expense cap in effect at the time of the waiver or reimbursement; or (ii) the expense cap in effect at the time of recoupment. Reimbursement for fees waived or expenses assumed will only apply to amounts waived or expenses assumed after the effective date of the expense limitation.

NET FUND FEES WAIVED, REIMBURSED, OR RECOUPED

The table below shows the net fund expenses reimbursed, waived, and any recoupment, if applicable, by the Adviser, Administrator and Distributor for the last three fiscal years. Effective May 1, 2015, the Administrator no longer serves as administrator to the Fund.

Fund	February 28 or 29, as applicable		
	2018	2017	2016
Voya Prime Rate Trust	($75,154.00)	($3,385.00)	$0.00

SUB-ADVISER

The Adviser has engaged the services of one or more Sub-Advisers to provide sub-advisory services to the Fund and, pursuant to a Sub-Advisory Agreement, has delegated certain management responsibilities to a Sub-Adviser. The Adviser monitors and evaluates the performance of any Sub-Adviser.

A Sub-Adviser provides, subject to the supervision of the Board and the Adviser, a continuous investment program for the Fund and determines the composition of the assets of the Fund, including determination of the purchase, retention, or sale of the securities, cash and other investments for the Fund, in accordance with the Fund's investment objectives, policies and restrictions and applicable laws and regulations.

Limitation of Liability

A Sub-Adviser is not subject to liability to a Fund for any act or omission in the course of, or in connection with, rendering services under the Sub-Advisory Agreement, except by reason of willful misfeasance, bad faith, gross negligence, or reckless disregard of its obligations and duties under the Sub-Advisory Agreement.

Continuation and Termination of the Sub-Advisory Agreement

After an initial term of two years, the Sub-Advisory Agreement continues in effect from year-to-year so long as such continuance is specifically approved at least annually by: (i) the Board; or (ii) the vote of a majority of the Fund's outstanding voting securities (as defined in Section 2(a)(42) of the 1940 Act); provided, that the continuance is also approved by a majority of the Independent Trustees who are not parties to the agreement by a vote cast in person at a meeting called for the purpose of voting on such approval.

The Sub-Advisory Agreement may be terminated as to a particular Fund without penalty upon sixty (60) days' written notice by: (i) the Board; (ii) the majority vote of the outstanding voting securities of the relevant Fund; (iii) the Adviser; or (iv) the Sub-Adviser upon 60-90 days' written notice, depending on the terms of the Sub-Advisory Agreement. The Sub-Advisory Agreement terminates automatically in the event of its assignment or in the event of the termination of the Investment Management Agreement.

Sub-Advisory Fees

The Sub-Adviser receives compensation from the Adviser at the annual rate of a specified percentage of the Fund's average daily Managed Assets, as indicated below. The fee is accrued daily and paid monthly. The Sub-Adviser pays all of its expenses arising from the performance of its obligations under the Sub-Advisory Agreement.

Sub-Adviser	Annual Sub-Advisory Fee
Voya Investment Management Co. LLC ("Voya IM")	0.3600%

Total Sub-Advisory Fees Paid

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The following table sets forth the sub-advisory fees paid by the Adviser for the last three fiscal years.

Fund	February 28 or 29, as applicable		
	2018	2017	2016
Voya Prime Rate Trust	$4,266,341.77	$4,238,321.94	$4,255,204.57

Portfolio Management

Other Accounts Managed

The following table sets forth the number of accounts and total assets in the accounts managed by each portfolio manager as of February 28, 2017:

Portfolio Manager	Registered Investment Companies		Other Pooled Investment Vehicles		Other Accounts	
	Number of Accounts	Total Assets	Number of Accounts	Total Assets	Number of Accounts	Total Assets
Jeffrey A. Bakalar	3	$3,815,914,709	56	$8,431,753,322	8	$2,051,217,508
Daniel A. Norman	3	$3,815,914,709	56	$8,431,753,322	8	$2,051,217,508

Potential Material Conflicts of Interest

A portfolio manager may be subject to potential conflicts of interest because the portfolio manager is responsible for other accounts in addition to the Fund. These other accounts may include, among others, other mutual funds, separately managed advisory accounts, commingled trust accounts, insurance separate accounts, wrap fee programs, and hedge funds. Potential conflicts may arise out of the implementation of differing investment strategies for the portfolio manager's various accounts, the allocation of investment opportunities among those accounts or differences in the advisory fees paid by the portfolio manager's accounts.

A potential conflict of interest may arise as a result of the portfolio manager's responsibility for multiple accounts with similar investment guidelines. Under these circumstances, a potential investment may be suitable for more than one of the portfolio manager's accounts, but the quantity of the investment available for purchase is less than the aggregate amount the accounts would ideally devote to the opportunity. Similar conflicts may arise when multiple accounts seek to dispose of the same investment.

Sale or Other Disposition of Ordinary Shares or ADSs. Subject to the passive foreign investment company rules described above, for U.S. federal income tax purposes, gain or loss realized on the sale or other disposition of Class A ordinary shares or ADSs will be capital gain or loss, and will be long-term capital gain or loss if the U.S. Holder held the Class A ordinary shares or ADSs for more than one year. The amount of the gain or loss will equal the difference between the U.S. Holder's tax basis in the relevant Class A ordinary shares or ADSs and the amount realized on the disposition, in each case as determined in U.S. dollars. This gain or loss will generally be U.S.-source gain or loss for foreign tax credit purposes. The deductibility of capital losses is subject to limitations.

As described in "Taxation—PRC Taxation—PRC taxation of us and our corporate group," if we were deemed to be a tax resident enterprise under PRC tax law, gains from dispositions of our Class A ordinary shares or ADSs may be subject to PRC tax. In that case, a U.S. Holder's amount realized would include the gross amount of the proceeds of the sale or disposition before deduction of the PRC tax. Although any such gain of a U.S. Holder would generally be characterized as U.S.-source income, a U.S. Holder that is eligible for the benefits of the income tax treaty between the United States and the PRC may be able to elect to treat the disposition gain as foreign-source gain for foreign tax credit purposes. U.S. Holders should consult their tax advisers regarding their eligibility for benefits under the income tax treaty between the United States and the PRC and the creditability of any PRC tax on dispositions in their particular circumstances.

Information Reporting and Backup Withholding. Payments of dividends with respect to our Class A ordinary shares or ADSs and sales proceeds from the sale, exchange or redemption of our Class A ordinary shares or ADSs that are made within the United States or through certain U.S.-related financial intermediaries generally are subject to information reporting, and may be subject to backup withholding, unless (i) the U.S. Holder is an exempt recipient or (ii) in the case of backup withholding, the U.S. Holder provides a correct taxpayer identification number and certifies that it is not subject to backup withholding.

Backup withholding is not an additional tax. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the holder's U.S. federal income tax liability, if any, and may entitle it to a refund, provided that the required information is timely furnished to the Internal Revenue Service.

Certain U.S. Holders who are individuals may be required to report information relating to securities of a non-U.S. person, subject to certain exceptions (including an exception for securities held in certain accounts maintained by U.S. financial institutions). U.S. Holders are urged to consult their tax advisers regarding the effect, if any, of these rules on their reporting obligations.

F. DIVIDENDS AND PAYING AGENTS

Not applicable.

G. STATEMENTS BY EXPERTS

Not applicable.

H. DOCUMENTS ON DISPLAY

We have filed with the SEC a registration statement on Form F-1, a registration statement on Form F-6, a registration statement on Form S-8, and a registration statement on Form 8-A, including relevant exhibits and schedules under the Securities Act, covering the Class A ordinary shares represented by the ADSs, as well as the ADSs. You should refer to our registration statements and their exhibits and schedules if you would like to find out more about us and about the ADSs and the Class A ordinary shares represented by the ADSs. This annual report summarizes material provisions of contracts and other documents to which we refer you. Since the annual report may not contain all the information that you may find important, you should review a full text of these documents.

The SEC also maintains a website that contains reports, proxy statements and other information about issuers, such as us, who file electronically with the SEC. The address of that site is http://www.sec.gov. The information on that website is not a part of this annual report.

We will furnish to JPMorgan Chase Bank, or JPMorgan, as depositary of our ADSs, copies of our annual report. When the depositary receives these reports, it will upon our request promptly provide them to all holders of record of ADSs. We will also furnish the depositary with all notices of shareholders’ meetings and other reports and communications in English that we make available to our shareholders. The depositary will make these notices, reports and communications available to holders of ADSs and will upon our request mail to all holders of record of ADSs the information contained in any notice of a shareholders’ meeting it receives.

We are subject to periodic reporting and other informational requirements of the Exchange Act as applicable to foreign private issuers. Accordingly, we will be required to file reports, including annual reports on Form 20-F, and other information with the SEC. As a foreign private issuer, we are exempt from the rules of the Exchange Act prescribing the furnishing and content of proxy statements to shareholders. The registration statements, reports and other information so filed can be inspected and copied at the public reference facilities maintained by the SEC at Room 1580, 100 F Street, N.E., Washington D.C. 20549. You can request copies of these documents upon payment of a duplicating fee, by writing to the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference rooms.

I.SUBSIDIARY INFORMATION

Not applicable.

Item 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Our exposure to interest rate risk primarily relates to the interest income generated by excess cash invested in demand deposits, investments in fixed deposits with maturities of over three months and PRC government and PRC corporate bonds. We have not used derivative financial instruments in our investment portfolio. Interest earning instruments carry a degree of interest rate risk. However, our future interest income may fall short of expectations due to changes in market interest rates. Based on our interest earning instruments in 2012, a 10% change in the interest rate would result in an increase or decrease of RMB 22.7 million (US$ 3.6 million) of our total amount of interest income in 2012.

Foreign Currency Risk

Substantially all our revenues and expenses are denominated in Renminbi, with a portion in U.S. dollar and Korean Won. We have not had any material foreign exchange gains or losses. Although in general, our exposure to foreign exchange risks should be limited, the value of your investment in our ADSs will be affected by the foreign exchange rate between U.S. dollars and Renminbi because the value of our business is effectively denominated in Renminbi, while the ADSs will be traded in U.S. dollars. Furthermore, a decline in the value of the Renminbi could reduce the U.S. dollar equivalent of the value of the earnings from, and our investments in, our PRC subsidiaries and VIEs. Based on the amount of our cash and cash equivalents as of December 31, 2012, a 10% change in the exchange rates between the Renminbi and the U.S. dollar would result in an increase or decrease of RMB35.3 million (US$5.7 million) of our total amount of cash and cash equivalents.

In China, very limited hedging transactions are available to reduce our exposure to exchange rate fluctuations. In the second quarter of 2012, we entered into several foreign currency forward contracts with certain domestic banks by fixing the exchange rates of U.S. dollars to Renminbi at the contract maturity dates. As of December 31, 2012, the total notional value amounted to US$196 million with a weighted average forward exchange rate of US$1.00 to RMB6.31. While we may decide to enter into other hedging transactions in the future, the availability and effectiveness of these hedges may be limited and we may not be able to successfully hedge our exposure at all. See Item 10.D. "Exchange Controls."

Item 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

According to our deposit agreement with the ADS depositary, JPMorgan, holders of our ADSs may have to pay to JPMorgan, either directly or indirectly, fees or charges up to the amounts set forth below:

Service	**Fee**
Issuance or delivery of an ADR, including issuances against deposit of shares, issuances in respect of distributions, rights or other distributions, surrendering of an ADR for delivery of a Class A ordinary share, cancellation of an ADR, including issuance, delivery, surrendering or cancellation in connection with share distributions, stock splits, rights and mergers.	US$5.00 for each 100 ADRs (or portion thereof), to be paid to the depositary.
Any cash distribution (other than cash dividend).	Up to US$0.05 per ADS.
Depositary services	US$0.02 per ADS.

A fee equivalent to the fee that would have been payable if securities distributed to you had been shares and the shares had been deposited for issuance of ADSs	Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to ADS holders
Registration or transfer fees	Transfer and registration of shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw shares
Expenses of the depositary	Cable, telex and facsimile transmissions Converting foreign currency to U.S. dollars

JPMorgan, as depositary, has agreed to reimburse certain reasonable expenses related to our ADR program and incurred by us in connection with the program, subject to a limit based upon the amount of fees collected by JPMorgan from ADR holders. For the year ended December 31, 2012, the depositary reimbursed US$1.0 million to us.

PART II

Item 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

Item 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS A. — D. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS

Not applicable.

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E. USE OF PROCEEDS

Not applicable.

Item 15. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) under the Exchange Act, our management, including our chief executive officer and our chief financial officer, performed an evaluation of the effectiveness of our disclosure controls and procedures, as that term is defined in Rules 13a-15(e) of the Exchange Act, as of the end of the period covered by this annual report. Based on that evaluation, our management, including our chief executive officer and our chief financial officer, has concluded that our disclosure controls and procedures were effective as of December 31, 2012.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of our management or our Board of Directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the interim or annual consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision of our chief executive officer and chief financial officer, our management conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2012, using the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO.

Based on this assessment, our management has concluded that our internal control over financial reporting was effective as of December 31, 2012 based on the criteria established in *Internal Control—Integrated Framework* issued by COSO.

The effectiveness of internal control over financial reporting as of December 31, 2012 has been audited by PricewaterhouseCoopers Zhong Tian CPAs Limited Company, our independent registered public accounting firm, as stated in its report on pages F-2 of this annual report.

Changes in Internal Control over Financial Reporting

During the year ended December 31, 2012, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Mr. Andy Lin qualifies as an audit committee financial expert as such term is defined in Item 16A(b) of Form 20-F.

Our board of directors has determined that all of the members of our audit committee are independent as such term is defined by Rule 5605(a)(2) of the NASDAQ Listing Rules and Rule 10A-3 of the Exchange Act.

Item 16B. CODE OF ETHICS

Our board of directors has adopted a code of ethics, which is applicable to our senior executive and financial officers. In addition, our board of directors has adopted a code of conduct, which is applicable to all of our directors, officers and employees. We have made our code of ethics and our code of conduct publicly available on our website at www.shandagames.com.

Item 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by our principal external auditors for the periods indicated.

	For the year ended December 31,		
	2011	2012	
	RMB	RMB	US$
	(in thousands)		
Audit fees[1]	12,335	13,756	2,208

(1) Audit fees means the aggregate fees in each of the fiscal years listed for professional services rendered by our principal auditors for the audit of our annual consolidated financial statements or services that are normally provided by the auditors in connection with statutory and regulatory filings or engagements. Services comprising the fees disclosed under this category also involve principally limited reviews performed on our consolidated financial statements and the audits of the annual financial statements of our consolidated subsidiaries and affiliated companies.

Item 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

Item 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

On March 1, 2010, we announced that our board of directors had authorized us to repurchase up to US$150 million worth of our outstanding ADSs from time to time during the next 24 months (the "2010 Share Repurchase Program"), depending on market conditions, share price and other factors, as well as subject to the relevant rules under United States securities regulations. We concluded this share repurchase program in November 2011, under which we had repurchased a total of approximately 12.2 million ADSs for an aggregate consideration of US$66.7 million from the open market.

In June 2012, our board of directors approved another share repurchase program (the "2012 Share Repurchase Program") authorizing us to repurchase up to US$100 million worth of our outstanding ADSs from time to time during the next 12 months. As of December 31, 2012, we had repurchased a total of approximately 11.0 million ADSs for an aggregate consideration of US$40.1 million from the open market.

We did not repurchase any ADSs under the 2010 Share Repurchase Program in 2012. The table below sets forth the details of our purchases of our own equity securities under the 2012 Share Repurchase Program during the year ended December 31, 2012.

Period	Total Number of ADSs Purchased	Average Price Paid per ADS in US$ (1)	Total Number of ADSs Purchased as Part of Publicly Announced Plan	Maximum Approximate U.S. Dollar Value of ADSs that May Yet Be Purchased Under the Plan
June 2012 (June 14 – 29)	547,495	$4.04	547,495	$97,788,922
July 2012 (July 2 – 31)	1,537,629	$3.67	2,085,124	$92,152,848
August 2012 (August 1 – 31)	2,430,271	$3.47	4,515,395	$83,724,530
September 2012 (September 4 – 28)	2,762,201	$3.78	7,277,596	$73,270,078
October 2012 (October 1 – 31)	2,458,885	$3.67	9,736,481	$64,248,919
November 2012 (November 1 – 16)	1,119,383	$3.55	10,855,864	$60,271,385
December 2012 (December 17 – 31)	117,513	$3.00	10,973,377	$59,919,159

(1) Average price paid per ADS repurchased is the execution price, excluding commissions paid to brokers.

Item 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not applicable.

Item 16G. CORPORATE GOVERNANCE

Because Shanda Interactive owns more than 50% of the total voting rights in our company, we are a "controlled company" under the NASDAQ Listing Rules. We are relying on the "controlled company" exemption under the NASDAQ Listing Rules and are not obligated to comply with certain NASDAQ corporate governance requirements, including the requirements:

- that a majority of our board of directors consist of independent directors;
- that we have a corporate governance and nominating committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities;
-

that we have a compensation committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities; and

- for an annual performance evaluation of the nominating and governance committee and the compensation committee.

We are not required to and will not voluntarily meet these requirements. As a result of our use of the "controlled company" exemptions, you will not have the same protection afforded to shareholders of companies that are subject to all of NASDAQ's corporate governance requirements.

Item 16H. MINE SAFETY DISCLOSURE

Not applicable.

PART III

Item 17. FINANCIAL STATEMENTS

Not applicable.

Item 18. FINANCIAL STATEMENTS

The consolidated financial statements for the Company and its subsidiaries are included at the end of this annual report.

Item 19. EXHIBITS

Number	Description
1.1	Amended and Restated Memorandum and Articles of Association of Shanda Games Limited (incorporated by reference to Exhibit 3.1 to our Registration Statement on Form F-1 (file no. 333-161708) filed with the Securities and Exchange Commission on September 30, 2009).
2.1	Specimen Certificate for Class A Ordinary Shares (incorporated by reference to Exhibit 4.1 to our Registration Statement on Form F-1 (file no. 333-161708) filed with the Securities and Exchange Commission on September 3, 2009).
2.2	Specimen of American Depositary Receipt (incorporated by reference to Exhibit A to Exhibit 1 to our Registration Statement on Form F-6 (file no. 333-161901) filed with the Securities and Exchange Commission on September 14, 2009).
2.3	Form of Deposit Agreement (incorporated by reference to Exhibit 1 to the Form F-6 (file no. 333-161901) filed with the Securities and Exchange Commission on September 14, 2009).
4.1	Amended and Restated 2008 Equity Compensation Plan (incorporated by reference to Exhibit 10.1 to our Registration Statement on Form F-1 (file no. 333-161708) filed with the Securities and Exchange Commission on September 3, 2009).
4.2	Form of Indemnification Agreement with the Registrant’s directors and officers (incorporated by reference to Exhibit 10.2 to our Registration Statement on Form F-1 (file no. 333-161708) filed with the Securities and Exchange Commission on September 3, 2009).
4.3	Form of Employment Agreement (incorporated by reference to Exhibit 10.3 to our Registration Statement on Form F-1 (file no. 333-161708) filed with the Securities and Exchange Commission on September 3, 2009).
4.4	Master Separation Agreement between Shanda Interactive Entertainment Limited and Shanda Games Limited dated July 1, 2008 (incorporated by reference to Exhibit 10.4 to our Registration Statement on Form F-1 (file no. 333-161708) filed with the Securities and Exchange Commission on September 3, 2009).
4.5	English translation of Amended and Restated Cooperation Agreement among Shanghai Shanda Networking Co., Ltd., Nanjing Shanda Networking Co., Ltd., Shanghai Shulong Technology Development Co., Ltd., Nanjing Shulong Computer Technology Co., Ltd. and Shanghai Shulong Computer Technology Co., Ltd. dated September 10, 2009 (incorporated by reference to Exhibit 10.5 to Amendment No. 1 to our Registration Statement on Form F-1 (file no. 333-161708) filed with the Securities and Exchange Commission on September 14, 2009).
4.6	English translation of Domain Names and Trademarks License Agreement between Shanda Computer (Shanghai) Co., Ltd. and Shengqu Information Technology (Shanghai) Co., Ltd. dated July 1, 2008 (incorporated by reference to Exhibit 10.6 to our Registration Statement on Form F-1 (file no. 333-161708) filed with the Securities and Exchange Commission on September 3, 2009).

4.7	The Non-Compete and Non-Solicitation Agreement between Shanda Interactive Entertainment Limited and Shanda Games Limited dated September 10, 2009 (incorporated by reference to Exhibit 10.7 to Amendment No. 1 to our Registration Statement on Form F-1 (file no. 333-161708) filed with the Securities and Exchange Commission on September 14, 2009).
4.8	English translation of Amended and Restated Sales Agency Agreement among Shanghai Shengfutong Electronic Commerce Co., Ltd., Shanghai Shulong Technology Development Co., Ltd., Nanjing Shulong Computer Technology Development Co., Ltd. and Shanghai Shulong Computer Technology Development Co., Ltd. dated September 10, 2009 (incorporated by reference to Exhibit 10.7 to Amendment No. 1 to our Registration Statement on Form F-1 (file no. 333-161708) filed with the Securities and Exchange Commission on September 14, 2009).

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Number	Description
4.9	English translation of Framework Agreement on Disposition of Shanda Point Cards Inventories among Shanghai Shengfutong Electronic Commerce Co., Ltd., Shanghai Shanda Networking Co., Ltd., Nanjing Shanda Networking Development Co., Ltd., Hangzhou Bianfeng Networking Technology Co., Ltd., Shanghai Shulong Technology Co., Ltd., Nanjing Shulong Computer Technology Co., Ltd. and Shanghai Shulong Computer Technology Co., Ltd. dated July 1, 2008 (incorporated by reference to Exhibit 10.9 to our Registration Statement on Form F-1 (file no. 333-161708) filed with the Securities and Exchange Commission on September 3, 2009).
4.10	Share Entrustment Agreement among Dongxu Wang, Yingfeng Zhang and Shengqu Information Technology (Shanghai) Co., Ltd. dated July 1, 2008 (incorporated by reference to Exhibit 10.10 to our Registration Statement on Form F-1 (file no. 333-161708) filed with the Securities and Exchange Commission on September 3, 2009).
4.11	English translation of Share Pledge Agreement among Dongxu Wang, Yingfeng Zhang and Shengqu Information Technology (Shanghai) Co., Ltd. dated July 1, 2008 (incorporated by reference to Exhibit 10.11 to our Registration Statement on Form F-1 (file no. 333-161708) filed with the Securities and Exchange Commission on September 3, 2009).
4.12	English translation of Power of Attorney to Business Operating Agreement executed by Dongxu Wang in favor of Shengqu Information Technology (Shanghai) Co., Ltd. dated July 1, 2008 (incorporated by reference to Exhibit 10.12 to our Registration Statement on Form F-1 (file no. 333-161708) filed with the Securities and Exchange Commission on September 3, 2009).
4.13	English translation of Power of Attorney to Business Operating Agreement executed by Yingfeng Zhang in favor of Shengqu Information Technology (Shanghai) Co., Ltd. dated July 1, 2008 (incorporated by reference to Exhibit 10.13 to our Registration Statement on Form F-1 (file no. 333-161708) filed with the Securities and Exchange Commission on September 3, 2009).
4.14	English translation of Share Disposition Agreement among Dongxu Wang, Yingfeng Zhang, Shengqu Information Technology (Shanghai) Co., Ltd. and Shanghai Shulong Technology Development Co., Ltd. dated July 1, 2008 (incorporated by reference to Exhibit 10.14 to our Registration Statement on Form F-1 (file no. 333-161708) filed with the Securities and Exchange Commission on September 3, 2009).
4.15	English translation of Business Operation Agreement among Dongxu Wang, Yingfeng Zhang, Shengqu Information Technology (Shanghai) Co., Ltd. and Shanghai Shulong Technology Development Co., Ltd. dated July 1, 2008 (incorporated by reference to Exhibit 10.15 to our Registration Statement on Form F-1 (file no. 333-161708) filed with the Securities and Exchange Commission on September 3, 2009).
4.16	English translation of Exclusive Consulting and Service Agreement between Shengqu Information Technology (Shanghai) Co., Ltd. and Shanghai Shulong Technology Development Co., Ltd. dated July 1, 2008 (incorporated by reference to Exhibit 10.16 to our Registration Statement on Form F-1 (file no. 333-161708) filed with the Securities and Exchange Commission on September 3, 2009).
4.17	English translation of Loan Agreement between Shengqu Information Technology (Shanghai) Co., Ltd. and Dongxu Wang dated July 1, 2008 (incorporated by reference to Exhibit 10.17 to our Registration Statement on Form F-1 (file no. 333-161708) filed with the Securities and Exchange Commission on September 3,

	2009).
4.18	English translation of Loan Agreement between Shengqu Information Technology (Shanghai) Co., Ltd. and Yingfeng Zhang dated July 1, 2008 (incorporated by reference to Exhibit 10.18 to our Registration Statement on Form F-1 (file no. 333-161708) filed with the Securities and Exchange Commission on September 3, 2009).
4.19	Mir II License Agreement among Actoz Soft Co., Ltd., Shanghai Shanda Internet Development Co., Ltd. and Shanghai Pudong New Area Imp. & Exp. Corp. dated June 29, 2001 (incorporated by reference to Exhibit 10.19 to our Registration Statement on Form F-1 (file no. 333-161708) filed with the Securities and Exchange Commission on September 3, 2009).
4.20	Mir II Amendment Agreement among Actoz Soft Co., Ltd., Shanghai Shanda Internet Development Co., Ltd., and Shanghai Pudong Imp. & Exp. Co., Ltd. dated August 19, 2003 (incorporated by reference to Exhibit 10.20 to our Registration Statement on Form F-1 (file no. 333-161708) filed with the Securities and Exchange Commission on September 3, 2009).

Number	Description
4.21	Mir II Extension Agreement among Actoz Soft Co., Ltd., Shanghai Shanda Internet Networking Co., Ltd. and Shanghai Pudong Imp. & Exp. Co., Ltd. dated September 22, 2005 (incorporated by reference to Exhibit 10.21 to Amendment No. 1 to our Registration Statement on Form F-1 (file no. 333-161708) filed with the Securities and Exchange Commission on September 14, 2009).
4.22	Mir II Extension Agreement among Actoz Soft Co., Ltd., Shengqu Information Technology (Shanghai) Co., Ltd. and Shanghai Pudong IMP & EXP Co., Ltd. dated November 26, 2008 (incorporated by reference to Exhibit 10.22 to Amendment No. 1 to our Registration Statement on Form F-1 (file no. 333-161708) filed with the Securities and Exchange Commission on September 14, 2009).
4.23	Assignment Agreement of Mir II among Actoz Soft Co., Ltd, Shanghai Shanda Internet Development Co., Ltd. and Shengqu Information Technology (Shanghai) Co., Ltd. dated July 1, 2008 (incorporated by reference to Exhibit 10.22 to our Registration Statement on Form F-1 (file no. 333-161708) filed with the Securities and Exchange Commission on September 3, 2009).
4.24	Sale and Purchase Agreement between Shanda Games International (Pte) Ltd., all of the shareholders of Eyedentity Games, Inc., and Eun Sang Lee, as the seller's representative, dated as of September 7, 2010 (incorporated by reference to Exhibit 4.26 to our Annual Report on Form 20-F (file no. 001-34454) filed with the Securities and Exchange Commission on May 25, 2011).
4.25	English translation of the Cooperation Agreement between Shanda Online and Shanda Games among Shengzhan Networking Technology Co., Ltd., Shanghai Shulong Technology Development Co., Ltd., Shanghai Shulong Computer Technology Co., Ltd., Nanjing Shulong Computer Technology Co., Ltd., Tianjin Youji Technology Co., Ltd., and Chengdu Youji Technology Co., Ltd., dated as of April 1, 2010 (incorporated by reference to Exhibit 4.25 to our Annual Report on Form 20-F (file no. 001-34454) filed with the Securities and Exchange Commission on May 19, 2012).
4.26	English translation of Supplement to the Cooperation Agreement between Shanda Online and Shanda Games among Shanghai Shanda Networking Co., Ltd., Nanjing Shanda Networking Co., Ltd., Shengzhan Networking Technology Co., Ltd., Shanghai Shulong Technology Development Co., Ltd., Shanghai Shulong Computer Technology Co., Ltd., Nanjing Shulong Computer Technology Co., Ltd., Tianjin Youji Technology Co., Ltd., and Chengdu Youji Technology Co., Ltd., dated as of April 1, 2010 (incorporated by reference to Exhibit 4.26 to our Annual Report on Form 20-F (file no. 001-34454) filed with the Securities and Exchange Commission on May 19, 2012).
4.27	English translation of Shengjing System Sales Agency Agreement for Promotion and Marketing of the Shanda Games Pre-paid Cards among Tianjin Shengjing Trade Co., Ltd., Shanghai Shulong Technology Development Co., Ltd., Shanghai Shulong Computer Technology Co., Ltd., Nanjing Shulong Computer Technology Co., Ltd., Tianjin Youji Technology Co., Ltd., and Chengdu Youji Technology Co., Ltd., dated as of May 1, 2011 (incorporated by reference to Exhibit 4.27 to our Annual Report on Form 20-F (file no. 001-34454) filed with the Securities and Exchange Commission on May 19, 2012).
4.28	English translation of Supplement Agreement to Shengjing System Sales Agency Agreement for Promotion and Marketing of the Shanda Games Pre-paid Cards among Tianjin Shengjing Trade Co., Ltd., Shanghai Shulong Technology Development Co., Ltd., Shanghai Shulong Computer Technology Co., Ltd., Nanjing Shulong Computer Technology Co., Ltd., Tianjin Youji Technology Co., Ltd., and Chengdu Youji

	Technology Co., Ltd., dated as of December 30, 2011 (incorporated by reference to Exhibit 4.28 to our Annual Report on Form 20-F (file no. 001-34454) filed with the Securities and Exchange Commission on May 19, 2012).
4.29	Facility Agreement for Shanda Online International (HK) Limited, Shanda Games Technology (HK) Limited and Shanda Games Holdings (HK) Limited, as borrowers, arranged by China Minsheng Banking Corp., Ltd., Hong Kong Branch, as arranger and agent, with China Minsheng Banking Corp., Ltd., Hong Kong Branch, as account bank, dated as of February 8, 2012 (incorporated by reference to Exhibit 4.29 to our Annual Report on Form 20-F (file no. 001-34454) filed with the Securities and Exchange Commission on May 19, 2012).

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Number	Description
4.30	English translation of Entrusted Loan Agreements between China Merchant Bank Co., Ltd. and each of Lansha Information Technology (Shanghai) Co., Ltd., Shengji Information Technology (Shanghai) Co., Ltd. and Shengqu Information Technology (Shanghai) Co., Ltd., dated as of February 7, 2012 (incorporated by reference to Exhibit 4.30 to our Annual Report on Form 20-F (file no. 001-34454) filed with the Securities and Exchange Commission on May 19, 2012).
4.31*	English translation of Supplemental Agreement to the Entrusted Loan Agreements between China Merchant Bank Co., Ltd. and each of Lansha Information Technology (Shanghai) Co., Ltd., Shengji Information Technology (Shanghai) Co., Ltd. and Shengqu Information Technology (Shanghai) Co., Ltd., dated as of February 8, 2013.
4.32	Loan Agreement between Shanda Interactive Entertainment Limited and Shanda Games Limited, dated as of February 8, 2012 (incorporated by reference to Exhibit 4.31 to our Annual Report on Form 20-F (file no. 001-34454) filed with the Securities and Exchange Commission on May 19, 2012).
4.33*	Supplemental Agreement to the Loan Agreement between Shanda Interactive Entertainment Limited and Shanda Games Limited, dated as of February 8, 2013.
4.34*	Stock Purchase Agreement between Shanda Games Limited and Shanda Online Entertainment Limited, dated as of March 31, 2012.
4.35*	Share Purchase Agreement between Shanda Games International Pte. Ltd. and Actoz Soft Co., Ltd., dated as of September 28, 2012.
4.36*	English translation of Limited Partnership Agreement for Shanghai Shengzixin Equity Investment Fund (Limtied Partnership) between Shanghai Dingguan Investment Management Co., Ltd. and the limited partners listed in schedule 2 thereto, dated August 24, 2012.
8.1*	List of Subsidiaries.
11.1	Code of Ethics (incorporated by references to Exhibit 99.11 to our Registration Statement on Form F-1 (file no. 333-161708) filed with the Securities and Exchange Commission on September 3, 2009).
12.1*	Certification of Chief Executive Officer Required by Rule 13a-14(a).
12.2*	Certification of Chief Financial Officer Required by Rule 13a-14(a).
13.1*	Certification of Chief Executive Officer Required by Rule 13(a)-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code.
13.2*	Certification of Chief Financial Officer Required by Rule 13(a)-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code.
15.1*	Consent of PricewaterhouseCoopers Zhong Tian CPAs Limited Company.
101.INS*†	XBRL Instance Document.

101.SCH*†XBRL Taxonomy Extension Schema Document.

101.CAL*†XBRL Taxonomy Extension Calculation Linkbase Document.

101.DEF*†XBRL Taxonomy Extension Definition Linkbase Document.

101.LAB*†XBRL Taxonomy Extension Labels Linkbase Document.

101.PRE*†XBRL Taxonomy Extension Presentation Linkbase Document.

* Filed or furnished herewith

† This Interactive Data File is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

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SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing its annual report on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

SHANDA GAMES LIMITED

By: s/ Xiangdong Zhang
Name: Xiangdong Zhang
Title: Chief Executive Officer

Date: April 8, 2013

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Shanda Games Limited:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and comprehensive income, of changes in equity and of cash flows present fairly, in all material respects, the financial position of Shanda Games Limited (the "Company") and its subsidiaries at December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 15. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become

inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers Zhong Tian CPAs Limited Company

PricewaterhouseCoopers Zhong Tian CPAs Limited Company

Shanghai, the People's Republic of China

April 8, 2013

SHANDA GAMES LIMITED

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Amounts expressed in thousands, except share and per share data and where otherwise stated)

	Notes	For the Years Ended December 31, 2010 RMB	2011 RMB	2012 RMB	2012 US$ (Note 2(5))
Net revenues:	2(18),2(35)				
Online game revenues generated in China		4,318,893	4,975,464	4,320,257	693,449
Other revenues		185,815	306,432	361,888	58,087
Total net revenues		4,504,708	5,281,896	4,682,145	751,536
Cost of revenues:					
Third parties	2(21)	(1,032,639)	(1,152,855)	(936,987)	(150,397)
Related parties	2(21),21	(804,543)	(903,096)	(774,416)	(124,302)
Total cost of revenues		(1,837,182)	(2,055,951)	(1,711,403)	(274,699)
Gross profit		2,667,526	3,225,945	2,970,742	476,837
Operating expenses:					
Product development	2(23)	(465,793)	(694,329)	(658,689)	(105,727)
Sales and marketing					
Third parties	2(24)	(275,267)	(255,110)	(233,789)	(37,526)
Related parties	2(24),21	(226,542)	(355,135)	(362,547)	(58,193)
General and administrative	2(22)	(367,029)	(447,333)	(337,480)	(54,169)
Total operating expenses		(1,334,631)	(1,751,907)	(1,592,505)	(255,615)
Income from operations		1,332,895	1,474,038	1,378,237	221,222
Interest income					
Third parties		59,709	102,891	143,527	23,037
Related parties	21	1,997	32,490	83,711	13,437
Interest expense					
Third parties		(284)	(10,791)	(93,620)	(15,027)
Related parties	21	(11,059)	(12,150)	(26,787)	(4,300)
Investment income		214	543	133	21
Other income, net	5	226,923	194,250	91,137	14,629
Income before income tax expenses and equity in losses of affiliated companies		1,610,395	1,781,271	1,576,338	253,019
Income tax expenses	6	(300,352)	(485,278)	(418,762)	(67,216)
Equity in losses of and impairments of investments in affiliated companies	10	(5,376)	(10,004)	(20,981)	(3,368)
Net income		1,304,667	1,285,989	1,136,595	182,435
Less: Net income attributable to non-controlling interests	18	(15,846)	(21,115)	(23,165)	(3,718)
Net income attributable to Shanda Games Limited		1,288,821	1,264,874	1,113,430	178,717
	4	—	(558)	—	—

Redeemable non-controlling interests redemption value accretion.					
Net income attributable to Shanda Games Limited's ordinary shareholders		1,288,821	1,264,316	1,113,430	178,717
Net income		1,304,667	1,285,989	1,136,595	182,435
Other comprehensive income (loss), net of tax:					
Unrealized (loss) gain on marketable securities		(3,842)	(1,540)	3,384	543
Currency translation adjustments of the Company	2(4)	17,409	7,260	6,711	1,077
Currency translation adjustments of affiliated companies/subsidiaries	2(4)	6,277	(53,052)	28,327	4,547
Comprehensive income		1,324,511	1,238,657	1,175,017	188,602
Comprehensive income attributable to non-controlling interests		(17,659)	(1,529)	(31,429)	(5,045)
Comprehensive income attributable to Shanda Games Limited		1,306,852	1,237,128	1,143,588	183,557
Earnings per ordinary share:	2(30),7				
Basic		2.26	2.23	2.01	0.32
Diluted		2.26	2.23	2.01	0.32
Weighted average ordinary shares used in per share calculation:	7				
Basic		570,645,594	567,138,809	554,813,612	554,813,612
Diluted		570,795,057	567,178,693	554,842,073	554,842,073
Share-based compensation included in:	2(25), 19				
Cost of revenues		(761)	(958)	(254)	(41)
Product development		(29,778)	(24,094)	(20,113)	(3,228)
Sales and marketing		(293)	(213)	(188)	(30)
General and administrative		(75,095)	(65,707)	(21,928)	(3,520)

The accompanying notes are an integral part of these financial statements.

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SHANDA GAMES LIMITED

CONSOLIDATED BALANCE SHEETS

(Amounts expressed in thousands, except share and per share data and where otherwise stated)

	Notes	December 31, 2011 RMB	December 31, 2012 RMB	December 31, 2012 US$ (Note 2(5))
ASSETS				
Current assets:				
Cash and cash equivalents	2(6),8	1,835,476	2,100,789	337,200
Restricted cash	2(7)	20,363	1,030	165
Short-term investments	2(8)	2,209,007	1,663,259	266,971
Marketable securities	2(9)	3,837	7,221	1,159
Accounts receivable, net of allowance for doubtful accounts	2(10),9	72,757	105,846	16,989
Accounts receivable due from related parties	21	405,953	325,773	52,290
Deferred licensing fees and related costs	2(20)	19,776	6,121	982
Prepayments and other current assets		181,985	191,860	30,796
Other receivables due from related parties	21	931,395	2,080,403	333,928
Deferred tax assets	6	74,765	69,651	11,180
Total current assets		5,755,314	6,551,953	1,051,660
Investment in affiliated companies	2(11),10	37,882	186,926	30,004
Property and equipment, net	2(12),11	230,475	189,068	30,348
Intangible assets	2(13),12	994,748	578,351	92,832
Goodwill	2(14),13	492,116	329,217	52,843
Long-term rental deposits		95,135	55,625	8,928
Other long term assets	2(15)	326,579	202,404	32,488
Non-current deferred tax assets	6	26,338	21,020	3,374
Total assets		7,958,587	8,114,564	1,302,477
LIABILITIES				
Current liabilities:				
Short-term borrowings	14	858,849	1,482,387	237,940
Accounts payable		38,355	45,209	7,257
Accounts payable due to related parties	21	77,349	71,737	11,515
Licensing fees and royalty fees payable		188,224	160,647	25,786
Taxes payable		190,574	181,512	29,135
Deferred revenue	2(19)	173,436	130,067	20,877
Other payables and accruals	15	415,977	508,533	81,621
Other payables due to related parties	21	125,910	983,913	157,929
Deferred tax liabilities	6	72,910	53,516	8,590
Dividend payable	2(29)	1,823,314	11,489	1,844

Total current liabilities		3,964,898	3,629,010	582,494
Long-term liabilities		68,863	26,042	4,180
Non-current deferred tax liabilities	6	260,186	102,420	16,440
Non-current deferred revenue	2(19)	47,641	37,765	6,062
Total liabilities		4,341,588	3,795,237	609,176
Commitments and contingencies	24	—	—	—
Redeemable non-controlling interests	4	13,971	13,971	2,243
EQUITY				
Class A ordinary shares (US$0.01 par value, 16,000,000,000 shares authorized, 151,222,556 and 131,860,314 issued and outstanding as of December 31, 2011 and 2012)	16	11,022	9,796	1,572
Class B ordinary shares (US$0.01 par value, 4,000,000,000 shares authorized, 409,087,000 and 409,087,000 issued and outstanding as of December 31, 2011 and 2012)	16	29,896	29,896	4,799
Additional paid-in capital		1,561,343	1,577,978	253,283
Statutory reserves	2(28)	147,083	153,610	24,656
Accumulated other comprehensive loss		(68,480)	(38,322)	(6,152)
Retained earnings		1,665,006	2,519,088	404,342
Total Shanda Games Limited shareholders' equity		3,345,870	4,252,046	682,500
Non-controlling interests	18	257,158	53,310	8,558
Total equity		3,603,028	4,305,356	691,058
Total liabilities and equity		7,958,587	8,114,564	1,302,477

The accompanying notes are an integral part of these financial statements.

SHANDA GAMES LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Amounts expressed in thousands, except share and per share data and where otherwise stated)

	Ordinary Shares (US$0.01 Par Value)						Total Shanda Games Limited		
	Number of Shares	**Par Value**	**Additional Paid-in Capital**	**Statutory Reserves**	**Accumulated Other Comprehensive Loss**	**Retained Earnings**	**Shareholders Equity**	**Non-controlling interests**	**Total Equity**
		RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Balance as of January 1, 2010	576,087,000	41,975	1,229,189	127,034	(58,765)	1,480,225	2,819,658	205,886	3,025,544
Share repurchase of the Company	(12,123,982)	(821)	(21,112)	—	—	(233,992)	(255,925)	—	(255,925
Corporate expense allocation (Note 2(1))	—	—	8,183	—	—	—	8,183	—	8,183
Restricted stock granted to subsidiary employees in connection with acquisition (Note 4)	—	—	24,050	—	—	—	24,050	—	24,050
Share-based compensation (Note 19)	—	—	100,907	—	—	—	100,907	5,020	105,927
Exercise of share option of the Company	3,426,236	229	24,299	—	—	—	24,528		24,528
Exercise of share option of a foreign subsidiary	—	—	439	—	—	—	439	3,848	4,287
Currency translation adjustments of the Company	—	—	—	—	17,409	—	17,409	—	17,409
	—	—	—	—	4,464	—	4,464	1,813	6,277

Currency translation adjustments of subsidiaries									
Unrealized loss on marketable securities	—	—	—	—	(3,842)	—	(3,842)	—	(3,842
Appropriations to statutory reserves	—	—	—	14,529	—	(14,529)	—	—	—
Distribution to Shanda (Note 19)	—	—	53,711	—	—	(62,453)	(8,742)	—	(8,742
Non-controlling interests arising from acquisition	—	—	—	—	—	—	—	6,451	6,451
Net income	—	—	—	—	—	1,288,821	1,288,821	15,846	1,304,667
Balance as of December 31, 2010	567,389,254	41,383	1,419,666	141,563	(40,734)	2,458,072	4,019,950	238,864	4,258,814
Share repurchase of the Company	(12,221,320)	(778)	(21,970)	—	—	(163,539)	(186,287)	—	(186,287
Corporate expense allocation (Note 2(1))	—	—	7,008	—	—	—	7,008	—	7,008
Share-based compensation (Note 19)	—	—	82,646	—	—	—	82,646	8,326	90,972
Exercise of share options of the Company	5,141,622	313	9,390	—	—	—	9,703	—	9,703
Exercise of share options of a foreign subsidiary	—	—	1,441	—	—	—	1,441	5,349	6,790
Currency translation adjustments of the Company	—	—	—	—	7,260	—	7,260	—	7,260
Currency translation adjustments of subsidiaries	—	—	—	—	(33,466)	—	(33,466)	(19,586)	(53,052
Unrealized loss on marketable securities	—	—	—	—	(1,540)	—	(1,540)	—	(1,540
	—	—	—	5,520	—	(5,520)	—	—	—

Appropriations to statutory reserves									
Distribution to Shanda (Note 19)	—	—	64,185	—	—	(65,009)	(824)	—	(824
Dividends declared to shareholders	—	—	—	—	—	(1,823,314)	(1,823,314)	—	(1,823,314
Change of equity in an affiliated company of a subsidiary	—	—	(1,023)	—	—	—	(1,023)	(972)	(1,995
Non-controlling interests arising from acquisition (Note 18)	—	—	—	—	—	—	—	4,062	4,062
Redeemable non-controlling interests redemption value accretion (Note 4)	—	—	—	—	—	(558)	(558)	—	(558
Net income	—	—	—	—	—	1,264,874	1,264,874	21,115	1,285,989
Balance as of December 31, 2011	560,309,556	40,918	1,561,343	147,083	(68,480)	1,665,006	3,345,870	257,158	3,603,028

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SHANDA GAMES LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Amounts expressed in thousands, except share and per share data and where otherwise stated)

	Ordinary Shares (US$0.01 Par Value)						Total Shanda Games Limited	
	Number of Shares	Par Value	Additional Paid-in Capital	Statutory Reserves	Accumulated Other Comprehensive Loss	Retained Earnings	Shareholders Equity	Non-intere
		RMB	RMB	RMB	RMB	RMB	RMB	RMB
Balance as of December 31, 2011	560,309,556	40,918	1,561,343	147,083	(68,480)	1,665,006	3,345,870	257,
Share repurchase of the Company	(21,946,754)	(1,389)	(39,480)	—	—	(214,515)	(255,384)	—
Corporate expense (expense reversal) allocation (Note 2(1))	—	—	(3,467)	—	—	—	(3,467)	—
Share-based compensation (Note 19)	—	—	33,597	—	—	—	33,597	8,88
Exercise of share options of the Company	2,584,512	163	545	—	—	—	708	—
Exercise of share options of a foreign subsidiary	—	—	4,722	—	—	—	4,722	4,92
Currency translation adjustments of the Company	—	—	—	—	6,711	—	6,711	—
Currency translation adjustments of subsidiaries	—	—	—	—	18,273	—	18,273	9,44
Unrealized gain on marketable securities	—	—	—	—	3,384	—	3,384	—
Appropriations to statutory reserves (Note 2(28))	—	—	—	6,527	—	(6,527)	—	—
Distribution to Shanda (Note 19)	—	—	43,129	—	—	(43,129)	—	—
Contribution to Shanda related to disposition of Mochi Media, Inc. (Note 4)	—	—	(243,972)	—	610	—	(243,362)	—
Reversal of dividend accrued for restricted shares due to forfeiture	—	—	—	—	—	4,823	4,823	—
Non-controlling interests arising from acquisition (Note 18)	—	—	—	—	—	—	—	5,53
Capital contribution to a subsidiary by non-controlling interest	—	—	—	—	—	—	—	7,11
Disposal of subsidiaries	—	—	—	—	—	—	—	(2,8
	—	—	221,561	—	1,180	—	222,741	(260

Contribution by non-controlling shareholders and tax expense charged to equity related to transfer of a portion of Eyedentity's equity from Games International to Actoz (Note 4)								
Net income	—	—	—	—	—	1,113,430	1,113,430	23,1
Balance as of December 31, 2012	540,947,314	39,692	1,577,978	153,610	(38,322)	2,519,088	4,252,046	53,3

The accompanying notes are an integral part of these financial statements.

SHANDA GAMES LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts expressed in thousands, except share and per share data and where otherwise stated)

	For the Years Ended December 31			
	2010	2011	2012	2012
	RMB	RMB	RMB	US$ (Note 2(5))
Cash flows from operating activities:				
Net income	1,304,667	1,285,989	1,136,595	182,435
Adjustments for:				
Share-based compensation expenses	105,927	90,972	42,483	6,819
Corporate expenses (expenses reversals) allocated from Shanda	8,183	7,008	(3,467)	(556)
Depreciation of property and equipment	57,017	74,439	82,897	13,306
Amortization of intangible assets	246,579	278,375	188,298	30,224
Impairment of intangible assets	—	23,216	—	—
Impairment of prepaid upfront license fee in other long-term assets	10,173	49,574	15,041	2,414
Provision for losses on receivables	14,933	1,369	9,244	1,484
Loss from disposal of fixed assets	2,566	1,651	14,689	2,358
Investment income	(214)	(543)	(133)	(21)
Foreign exchange loss / (gain)	5,164	(19,333)	3,408	547
Loss related to foreign currency forward instruments	—	—	22,476	3,608
Other income	(4,742)	—	—	—
Deferred taxes and change of withholding tax	(9,297)	(48,258)	(39,160)	(6,286)
Equity in losses of and impairments of investments in affiliated companies	5,376	10,004	20,981	3,368
Changes in operating assets and liabilities, net of acquisitions:				
Accounts receivable	24,113	(26,054)	(46,061)	(7,393)
Receivables due from related parties	13,339	(24,852)	(10,897)	(1,749)
Deferred licensing fees and related costs	9,082	19,909	13,656	2,192
Prepayments and other current assets	(2,813)	(81,300)	(15,110)	(2,425)
Upfront licensing fees paid in intangible assets	(2,300)	(11,724)	(57,895)	(9,293)
Prepayment for (refunds of) upfront license fees in other long term assets	(22,746)	(290,608)	107,498	17,255
Other long-term deposits	4,905	(38,886)	44,948	7,215
Accounts payable	13,913	(676)	(3,090)	(496)
Licensing fees and royalty fees payable	4,757	10,236	(35,754)	(5,739)
Taxes payable	2,699	49,043	(33,300)	(5,345)
Deferred revenue	(15,712)	(51,259)	(54,819)	(8,799)

Payables due to related parties	(3,182)	2,970	13,712	2,201
Other payables, accruals and other long-term liabilities	(27,055)	87,943	62,075	9,963
Net cash provided by operating activities	1,745,332	1,399,205	1,478,315	237,287
Cash flows from investing activities:				
Decrease in restricted cash for foreign currency forward contract	702,075	—	—	—
Proceeds from income of marketable securities	214	543	133	21
Proceeds from disposal of short-term investments	—	972,811	2,927,797	469,944
Purchases of short-term investments and time deposits with maturity over one year	(1,034,983)	(1,414,616)	(2,336,354)	(375,011)
Investments in other receivables due from related parties	(523,000)	(390,719)	(1,121,704)	(180,046)
Repayments of other receivables due from related parties	—	—	62,750	10,072
Purchase of property and equipment	(79,298)	(132,429)	(50,183)	(8,055)
Proceeds from disposal of fixed assets	3,006	2,199	3,527	566
Purchase of intangible assets	(6,708)	(29,105)	(8,701)	(1,397)
Net cash paid for disposal of subsidiaries	—	—	(5,577)	(895)
Acquisition of subsidiaries, net of cash acquired	(979,635)	(12,437)	(4,441)	(713)
Investment / prepaid investment in affiliated companies	(31,900)	(18,974)	(52,027)	(8,351)
Net cash used in investing activities	(1,950,229)	(1,022,727)	(584,780)	(93,865)
Cash flows from financing activities:				
Proceeds from short-term loans	—	876,850	2,848,106	457,153
Repayments of short-term loans and settlements of related derivatives (Note 22)	(717,075)	(1,090)	(2,235,891)	(358,885)
Cash contributions to subsidiaries by non-controlling shareholders	—	—	7,116	1,142
Tax paid (charged to equity) for transfer of a portion of Eyedentity's equity to Actoz	—	—	(37,336)	(5,993)
Proceeds from other payables due to related parties	947,049	91,190	926,000	148,633
Repayment of other payables due to related parties	—	(907,310)	(87,747)	(14,084)
Repurchase of own shares by the Company	(255,925)	(186,287)	(255,384)	(40,992)
Proceeds from issuance of ordinary shares under stock option plan of the Company	1,106	33,114	717	115
Proceeds from issuance of ordinary shares under stock option plan of a subsidiary	4,287	6,790	9,642	1,548
Dividends to the Company's shareholders	—	—	(1,810,016)	(290,528)
Net cash used in financing activities	(20,558)	(86,743)	(634,793)	(101,891)
Effect of exchange rate changes on cash	(1,925)	(26,030)	6,571	1,055
Net (decrease) / increase in cash and cash equivalents	(227,380)	263,705	265,313	42,586
Cash and cash equivalents, beginning of year	1,799,151	1,571,771	1,835,476	294,614
Cash and cash equivalents, end of year	1,571,771	1,835,476	2,100,789	337,200

SHANDA GAMES LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts expressed in thousands, except share and per share data and where otherwise stated)

	For the Years Ended December 31			
	2010	2011	2012	2012
	RMB	RMB	RMB	US$ (Note 2(5))
Supplemental disclosure of cash flow information:				
Cash paid during the year for income taxes	264,981	381,703	305,799	49,084
Cash paid for interest expenses	419	22,605	89,270	14,329
Supplemental disclosure of non-cash investing activities:				
Current portion of acquisition related obligation	61,826	58,771	143,374	23,013
Non-curent portion of acquisition related obligation	—	51,717	—	—
Issuance of restricted shares to acquire Mochi Media, Inc.	24,050	—	—	—
Accounts payable related to purchase of property and equipment	23,628	4,802	12,671	2,034
Supplemental disclosure of non-cash financing activities:				
Dividends declared but not paid to shareholders	—	1,823,314	11,489	1,844
Restricted cash relating to the exercise of employee stock options	5,432	20,363	1,030	165
Other receivables from issuance of ordinary shares under stock option plan of the Company	23,442	12	3	—

The accompanying notes are an integral part of these financial statements.

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SHANDA GAMES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(Amounts expressed in thousands unless otherwise stated)

1. ORGANIZATION AND NATURE OF OPERATIONS

Nature of operations

Shanda Games Limited ("Shanda Games" or "the Company"), a Cayman Islands limited company, is principally engaged in the development and operation of online games and related businesses in the People's Republic of China (the "PRC"). The Company currently operates its business in China through its wholly-owned subsidiaries ("PRC subsidiaries") which consist of Shengqu Information Technology (Shanghai) Co., Ltd. ("Shengqu"), Shengji Information Technology (Shanghai) Co., Ltd. ("Shengji"), Lansha Information Technology (Shanghai) Co., Ltd. ("Lansha") and Kuyin Software (Shanghai) Co., Ltd ("Kuyin") and its variable interest entities and their subsidiaries ("VIEs"). The VIEs consist of Shanghai Hongli Digital Technology Co., Ltd. ("Shanghai Hongli") and Shanghai Shulong Technology Development Co., Ltd. ("Shanghai Shulong") and Shulong's wholly-owned subsidiaries, Shanghai Shulong Computer Technology Co., Ltd. ("Shulong Computer"), Nanjing Shulong Computer Technology Co., Ltd. ("Nanjing Shulong"), Chengdu Youji Technology Co., Ltd. ("Chengdu Youji"), Tianjin Youji Technology Co., Ltd. ("Tianjin Youji"), Chengdu Aurora Technology Development Co., Ltd. ("Chengdu Aurora"), Chengdu Simo Technology Co., Ltd. ("Chengdu Simo"), and Shulong's majority-owned subsidiary Shanghai Shengzixin Equity Investment Fund ("Shengzixin Fund") and other small VIEs. Collectively, the PRC subsidiaries and the VIEs are referred to as the "PRC companies." The Company, together with (i) its wholly-owned subsidiaries, mainly including Shanda Games Holdings (HK) Limited ("Shanda Games (HK)"), Shanda Games International Pte. Ltd. ("Games International") and its majority-owned subsidiaries; (ii) Eyedentity Games, Inc., ("Eyedentity"); (iii) Actoz Soft Co., Ltd., ("Actoz"), a Korean developer, operator and publisher of online games listed on the KOSDAQ and its majority-owned subsidiaries; (iv) eFusion MMOG GmbH ("eFusion") and (v) the VIEs, shall collectively be referred to as "the Group."

On September 30, 2009, the Company completed an initial public offering (the "IPO") on the NASDAQ Global Select Market ("IPO"). In the IPO, 83,500,000 American Depositary Shares ("ADSs"), representing 167,000,000 Class A ordinary shares, were sold to the public at a price of $12.50 per ADS. Of these, 13,043,500 ADSs, representing 26,087,000 Class A ordinary shares, were sold by the Company; and 70,456,500 ADSs, representing 140,913,000 Class A ordinary shares, were sold by a direct wholly-owned subsidiary of Shanda. The net proceeds to the Company from the IPO, after deducting commissions and offering expenses, were approximately $152.5 million.

2. PRINCIPAL ACCOUNTING POLICIES

(1) Basis of preparation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

The Group's statement of operations include allocations of certain general corporate expenses of Shanda Interactive Entertainment Limited ("Shanda"), its parent, a Cayman Islands company engaged in the business of online and offline entertainment in the PRC, which formerly was listed on the NASDAQ Global Select Market prior to its de-listing and privatization in February 2012. These general corporate expenses primarily relate to corporate employee compensation costs, professional service fees, and other expenses arising from the provisions of corporate functions, including finance, legal, technology, investment, and executive management. These expenses are allocated based on estimates that management considers to be reasonable reflections of the utilization of services provided to, or benefits received by the Group, as specific identification is not practical. These expenses are as follows:

a) Employee compensation costs related to salaries, bonuses, social security costs, and share-based compensation are allocated to the Group based on the percentage of the respective department employee numbers of the Group to the total historical number of employees of corresponding department of Shanda, except for costs related to Shanda's executives, which are allocated based on percentage of estimated time incurred for online game business to total time incurred for Shanda.

SHANDA GAMES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(Amounts expressed in thousands unless otherwise stated)

b) Professional service fees related to legal and public accounting services are allocated to the Group based on percentage of revenues of the Group to total historical revenues of Shanda.

c) Other expenses incurred by the corporate functions are allocated to the Group based on percentage of number of employees of the Group to the total historical number of employees of Shanda.

From the second half year of 2009, since the Group has established its own finance, legal, investment and certain executive management functions and begun to promote its own brands, no such general corporate expenses were allocated to the Group, except for certain employee compensation costs from corporate functions such as technology, human resources and executive management that the Group does not have. While the expenses allocated to the Group for these items are not necessarily indicative of the expenses that the Group would have incurred if the Group had been a separate, independent entity during the years presented, management believes that the foregoing presents a reasonable basis of estimating what the Group's expenses would have been on a historical basis. General corporate expenses allocated from Shanda are recorded as capital contributions by Shanda. Total general corporate expenses allocated from Shanda to the Group were RMB8.2 million and RMB7.0 million for the years ended December 31, 2010 and 2011, respectively. Total general corporate expenses reflect an adjustment (reversal) of RMB3.5 million in 2012.

In addition, there are certain technical service arrangements between the Group and the other subsidiaries of Shanda as disclosed in Note 21.

(2) Use of estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the balance sheet dates and the reported amounts of revenues and expenses during the reporting periods. Actual results could materially differ from those estimates.

Significant accounting estimates reflected in the Group's consolidated financial statements include the allowance for doubtful accounts, revenue recognition, determination of the life of virtual items, assessment of recoverability of long-lived assets and goodwill, estimated useful lives of property and equipment as well as intangible assets, share-based compensation expense, consolidation of variable interest entities, valuation allowances for deferred tax assets, determination of fair value of identifiable assets and liabilities acquired through business combinations, recognition of non-controlling interests, accounting for equity investments and other-than temporary impairments, and determination of functional currencies. Such accounting policies are impacted significantly by judgments, assumptions and estimates used in the preparation of the Group’s consolidated financial statements, and actual results could differ materially from these estimates.

(3) Consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries and VIEs for which the Company is the primary beneficiary. All transactions and balances among the Company, its subsidiaries and VIEs have been eliminated upon consolidation. Investments in equity securities for which the Company can exercise significant influence are accounted for by the equity method of accounting.

The Company follows guidance relating to the consolidation of Variable Interest Entities in Accounting Standards Codification (“ASC”) 810-10, which requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties.

To comply with PRC laws and regulations that restrict foreign ownership of companies that operate online games, the Group conducts all its online game business through the VIEs. These companies hold the licenses and approvals to operate online games in the PRC. The capital of the VIEs is funded by the PRC subsidiaries and recorded as interest-free loans to individuals who are directors, officers, principal shareholders or employees of the Company or the PRC subsidiaries. The portion of the loans for capital injection is eliminated with the capital of the VIEs during consolidation. The interest-free loans to the shareholders of the VIEs were RMB30.1 million, RMB30.1 million and RMB59.9 million as of December 31, 2010, 2011 and 2012.

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Pursuant to the contractual arrangements between the PRC subsidiaries and the VIEs, the PRC subsidiaries provide services, software and technology licenses and equipment to the VIEs in exchange for fees, determined according to certain agreed formulas. During the years ended December 31, 2010, 2011 and 2012, the total amount of such fees was approximately RMB2,313.8 million, RMB2,363.2 million and RMB2,462.5 million, respectively, which represented the substantial majority of the operating profits of the VIEs. The PRC subsidiaries have also undertaken to provide financial support to the VIEs to the extent necessary for their operations. The following is a summary of the key agreements in effect:

Loan Agreements. The PRC subsidiaries entered into loan agreements with each shareholder of the relevant VIEs. Under these loan agreements, the PRC subsidiaries granted an interest-free loan to each shareholder of the VIEs solely for their capital contributions to the VIEs. The loans have an unspecified term and shall become payable when the PRC subsidiaries request repayment at any time. The shareholders of the VIEs may not prepay all or any part of the loans without the relevant PRC subsidiaries' prior written request.

Equity Disposition Agreements. The Group's VIEs and their shareholders entered into equity disposition agreements with the relevant PRC subsidiaries. Pursuant to such agreements, the PRC subsidiaries and any third party designated by them have the exclusive right to purchase from the shareholders of the Group's VIEs all or any part of their equity interests in the relevant VIE at a purchase price equal to the amount of the registered capital of the VIE or the lowest price permissible by the then-applicable PRC laws and regulations. The PRC subsidiaries may exercise such right at any time during the term of the agreement until it has acquired all equity interests of the relevant VIE, subject to applicable PRC laws. Moreover, under the equity disposition agreements, neither the Group's VIEs nor their shareholders may take actions that could materially affect the VIEs' assets, liabilities, operations, equity and other legal rights without the prior written approval of the relevant PRC subsidiary, including, without limitation, declaration and distribution of dividends and profits; sale, assignment, mortgage or disposition of, or encumbrances on, the VIE's equity; merger or consolidation; acquisition of and investment in any third-party entities; creation, assumption, guarantee or incurrence of any indebtedness; or entry into other material contracts. All these agreements have an initial term of 20 years (with the earliest expiration date being July 1, 2028) and are renewable upon the relevant PRC subsidiaries' requests.

Business Operation Agreements. The PRC subsidiaries entered into business operation agreements with the relevant VIEs and their shareholders. Under such agreements, the PRC subsidiaries have the right to nominate the directors of the relevant VIEs' boards and designate general managers, financial controllers and other senior management of the

relevant VIE. In addition, the VIEs may not engage in any transactions that could materially affect their assets, liabilities, rights or operations without the prior consent of the relevant PRC subsidiary. Such transactions include incurrence or assumption of any indebtedness that are not in the ordinary course of business; sale or purchase of any assets or rights with values of more than agreed amount; declaration of dividends or profit distribution; encumbrance on any of their assets or intellectual property rights in favor of a third party; or transfer of any rights or obligations under the agreement to a third party. These agreements have an initial term of 20 years (with the earliest expiration date being July 1, 2028) and are renewable upon the relevant PRC subsidiaries' requests. The PRC subsidiaries may terminate the agreements at any time by providing advance written notice to the relevant VIE and to each of their shareholders. Neither the VIEs nor any of their shareholders may terminate the agreements prior to their expiration dates.

Exclusive Consulting and Service Agreements. The PRC subsidiaries and VIEs entered into exclusive consulting and service agreements. Under these agreements, the VIEs and their subsidiaries agreed to engage the relevant PRC subsidiaries as their exclusive providers of technology consulting and services. Unless otherwise agreed among the parties, the VIEs will pay to the relevant PRC subsidiaries service and consulting fees taking in account the scope and complexity of the technology involved, the content and duration of the services provided and the prevailing market price for similar technology and services. The PRC subsidiaries will exclusively own any intellectual property arising from the performance of these agreements. These agreements have initial terms of 20 years (with the earliest expiration date being July 1, 2028) and are renewable upon the relevant PRC subsidiaries' requests. The PRC subsidiaries may terminate the agreements at any time by providing advance written notice to the relevant VIEs. The VIEs may not terminate such agreements prior to their expiration dates. Under the Exclusive Consulting and Service Agreements, the VIEs agreed to engage the relevant PRC subsidiaries as their exclusive providers of technology consulting and other services. According to the relevant PRC rules and regulations, related party transactions should be negotiated at the arm's length basis and apply reasonable transfer pricing methods. Pursuant to that principle and based upon the relevant VIEs' specific needs for technology support and services, the parties enter into supplemental agreements from time to time, which typically set forth the basic pricing terms including the total fees to be paid and the payment methods. The fees are typically determined based on the scope and complexity of the technology involved, the content and duration of the services provided, and the prevailing market price for similar technology and services. The fees are usually settled according to contract terms in two to three installments.

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Equity Pledge Agreements. The shareholders of the VIEs entered into share pledge agreements with the relevant PRC subsidiaries. Under the share pledge agreements, the shareholders of the VIEs pledged all of their equity interests in the VIEs to the relevant PRC subsidiaries as collateral for all of their payments due to the PRC subsidiaries and to secure performance of all obligations of the VIEs and their shareholders under the above loan agreements, equity disposition agreements, exclusive consulting and service agreements and the business operation agreements. The pledges shall remain effective until all obligations under such agreements have been fully performed. The VIEs are prohibited from declaring any dividends or making any profit distributions during the terms of the pledges. Without the relevant PRC subsidiaries' prior written consent, no shareholder of the VIEs may transfer any equity interests in the VIEs. If any event of default as provided for therein occurs, the relevant PRC subsidiary, as the pledgee, will be entitled to dispose of the pledged equity interest through transfer or assignment and use the proceeds to repay the loans or make other payments due under the above agreements. These pledges have been recorded on the share registers of each entity and have been duly registered with competent local branches of the State Administration for Industry and Commerce.

Power of Attorney (or Proxy). Each shareholder of the VIEs executed an irrevocable power of attorney (or proxy) to appoint the relevant PRC subsidiary as the attorney-in-fact to act on his or her behalf on all matters pertaining to the VIEs and to exercise all of his or her rights as a shareholder of the VIEs, including the right to attend shareholders' meetings, to exercise voting rights and to appoint directors, a general manager, financial controller and other senior management of the VIEs. The power of attorney (or proxy) is irrevocable and continually valid as long as the principal is the shareholder of the relevant VIE.

As a result of these agreements, the Company is considered the primary beneficiary of the VIEs and their subsidiaries and accordingly the results of operations, assets and liabilities of the VIEs and their subsidiaries are consolidated in the Group's financial statements.

Shareholders of the VIEs may potentially have conflicts of interest with the Company, and they may breach their contracts with the PRC subsidiaries or cause such contracts to be amended in a manner contrary to the interests of the Company. As a result, the Company may have to initiate legal proceedings, which involve significant uncertainty. Such disputes and proceedings may significantly disrupt the Company's business operations and adversely affect the Company's ability to control the VIEs. In light of the fact that most of the shareholders of the VIEs are directors, officers, principal shareholders or employees of the Company or the PRC subsidiaries, management is of the view that the risk that misaligned interests may lead to deconsolidation in the foreseeable future is remote and insignificant.

As described above, in order to comply with the restrictions imposed by PRC rules and regulations on foreign ownership in online game and other Internet-related businesses, the Company operates its business in China primarily through the VIEs. Although management is of the opinion that the current ownership structure of the Company, its PRC subsidiaries and VIEs and the contractual arrangements between the respective PRC subsidiaries, VIEs and their shareholders are in compliance with existing PRC laws, rules and regulations, the Company cannot be certain that the PRC government authorities will not ultimately take a view contrary to that of the Company due to the lack of official interpretation and clear guidelines. If the Company, its PRC subsidiaries and VIEs are found to be in violation of any existing or future PRC laws or regulations, or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities would have broad discretion in dealing with such violations, including requiring the Company to undergo a costly and disruptive restructuring such as forcing the Company to transfer its equity interest in the PRC subsidiaries to a domestic entity or invalidating the VIE agreements. If the PRC government authorities impose penalties which cause the Company to lose its rights to direct the activities of and receive economic benefits from the VIEs, the Company may lose the ability to consolidate and reflect in its financial statements the results of operation of the VIEs.

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As of December 31, 2011 and 2012, the total assets, liabilities, and equity of the consolidated VIEs were as follows:

	December 31, 2011 RMB (millions)	December 31, 2012 RMB (millions)
Total assets of the consolidated VIEs	2,109.5	2,182.6
Accounts payable	200.4	473.6
Amounts due to related parties	411.6	69.2
Deferred revenue	136.8	68.7
Taxes payable	90.5	58.5
Other payables and accruals	239.8	257.6
Deferred tax liabilities	26.1	20.0
Total liabilities of the consolidated VIEs	1,105.2	947.6
Total equity of the consolidated VIEs	1,004.3	1,235.0

As of December 31, 2012, the total assets of the consolidated VIEs were mainly comprised of cash and cash equivalents, short-term investments, accounts receivable, amounts due from related parties, prepayments and other current assets, intangible assets, fixed assets, goodwill, deferred tax assets, and other long term assets. These balances are reflected in the Group's consolidated financial statements with intercompany transactions eliminated. Under the contractual arrangements with the VIEs, the equity holders of VIEs effectively assigned all of their voting rights underlying their equity interests in VIEs to the Group's PRC subsidiaries. In addition, through the other aforementioned agreements, the Group demonstrates its ability and intention to continue to exercise the ability to absorb substantially all of the profits and all of the expected losses of the VIEs. The Group considers that there is no asset in any of the consolidated VIEs that can be used only to settle obligations of the VIEs, except for registered capital and PRC statutory reserves of the VIEs in the amount of RMB746.9 million as of December 31, 2012 (2011: RMB350.1 million). As all of the consolidated VIEs are incorporated as limited liability companies under the PRC Company Law, creditors of the VIEs do not have recourse to the general credit of the Group for any of the liabilities of the consolidated VIEs.

For the years ended December 31, 2010, 2011 and 2012, the total net revenues, cost of revenues and net income of the consolidated VIEs were as follows:

	For the years ended December 31,		
	2010	2011	2012
	RMB in million	RMB in million	RMB in million
Net revenues of the consolidated VIEs	4,317.7	4,985.7	4,299.2
Cost of revenues of the consolidated VIEs	3,633.4	4,056.9	3,439.0
Net income of the consolidated VIEs	206.9	230.5	215.8

Currently there is no contractual arrangement that requires the Company to provide additional financial support to the VIEs. However, as the Company is conducting its Internet-related business mainly through the VIEs, the Company has, in the past, provided and will continue to provide financial support based on its consideration of the business requirements of the VIEs and the Company's own business objectives in the future, which could expose the Company to a loss.

Please refer to "Contingencies" under Note 24 for the risks relating to the VIE arrangements.

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In August 2012, the Group entered into an investment agreement to invest up to RMB500 million in Shengzixin Fund, a partnership investment vehicle. The vehicle is managed by Dingguan Investment Holding (Shanghai) Company Limited, a related party under the common control of Shanda Interactive. The Group intends to use its investment towards investing in exceptional developer companies in the gaming market in China delivering content through online games, social network games, and mobile games. The Group had invested RMB250 million as of December 31, 2012, which was held in cash as no investments had been made at that time. As the Group is the only investor and beneficiary at December 31, 2012, the investment vehicle (cash balance) was consolidated in the Group's consolidated financial statements.

(4) Foreign currency translation and other comprehensive income (loss)

The functional currency of the Company is the United States dollar ("US$", "USD" or "U.S. dollars") and its reporting currency is the Renminbi ("RMB"). The PRC subsidiaries and the VIEs use RMB as their functional currency. Actoz and Eyedentity's functional currency is the Korean Won ("KRW"). eFusion's functional currency is the Euro ("Euro" or "€"). The functional currency of the Company's major subsidiaries other than the PRC subsidiaries, the VIEs, Actoz, Eyedentity, and eFusion is the U.S. dollar.

Assets and liabilities of the Company and its subsidiaries, including the PRC subsidiaries and the VIEs, are translated at the current exchange rates quoted by the People's Bank of China or the Seoul Money Brokerage Services Limited in effect at the balance sheet dates. Equity accounts are translated at historical exchange rates and revenues and expenses are translated at the average exchange rates in effect during the reporting period to RMB. Gains and losses resulting from foreign currency translation to reporting currency are recorded in accumulated other comprehensive income in the consolidated statements of changes in shareholders' equity for the years presented.

Transactions denominated in currencies other than functional currencies are remeasured into the functional currencies at the exchange rates quoted by the People's Bank of China or the Seoul Money Brokerage Services Limited prevailing at the dates of the transactions. Gains and losses resulting from foreign currency transactions are included in the consolidated statements of operations and comprehensive income. Monetary assets and liabilities denominated in foreign currencies are remeasured into the functional currencies using the applicable exchange rates quoted by the People's Bank of China or the Seoul Money Brokerage Services Limited at the balance sheet dates. All such exchange gains and losses are included in the statements of operations and comprehensive income.

According to ASC Topic 220, the relevant accounting literature for other comprehensive income, elements of other comprehensive income can be reported net of tax or gross of tax with the aggregate tax effect separately disclosed. The Group's elements of other comprehensive income, which consist of unrealized gains (losses) on marketable securities and currency translation adjustments, do not give rise to income taxes as the related activity is associated with jurisdictions which do not impose income tax or for which the related activity is tax-exempt.

(5) Convenience translation

Amounts in United States dollars ("US$") are presented for the convenience of the reader and are translated at the rate of US$1.00 to RMB6.2301, the exchange rate as set forth in the H.10 statistical release of the U.S. Federal Reserve Board on December 31, 2012. No representation is made that the RMB amounts could have been, or could be, converted into US$ at such rate.

(6) Cash and cash equivalents

Cash and cash equivalents represent cash on hand, demand deposits and highly liquid investments placed with banks or other financial institutions, which have original maturities less than three months.

(7) Restricted cash

Restricted cash mainly represents cash held in a designated bank account for the sole purpose of transmitting proceeds from the exercise of stock options.

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(8) Short-term investments

Short-term investments represent bank time deposits with original maturities longer than three months and less than one year. As of December 31, 2011, short-term investments of RMB902.9 million were pledged for bank borrowings of RMB858.8 million. As of December 31, 2012, short-term investments of RMB1,521.6 million were pledged for bank borrowings of RMB1,482.3 million. These included Korean won short term investments of KRW47,500 million (RMB277.8 million) which were pledged for bank borrowings of KRW42,800 million (RMB250.3 million).

(9) Marketable securities

Marketable securities primarily include available-for-sale marketable equity securities. Marketable securities are classified as short-term based on their high liquidity. Marketable securities are carried at fair market value with unrealized appreciation (or depreciation) reported as a component of accumulated other comprehensive income (or loss) in shareholders' equity, net of tax (Note 2(4)). The specific identification method is used to determine the cost of marketable securities disposed. Realized gains and losses are reflected as investment income or losses.

The Group evaluates the investments periodically for possible other-than-temporary impairment and reviews factors such as the length of time and extent to which fair value has been below cost basis, the financial condition of the issuer and the Group's ability and intent to hold the investment for a period of time which may be sufficient for anticipated recovery in market value. If appropriate, the Group records impairment charges equivalent to the amount that the carrying value of its available-for-sale securities exceeds the estimated fair market value of the securities as of the evaluation date.

During the years ended December 31, 2010, 2011 and 2012, the Group recorded unrealized losses of RMB3.8 million, RMB1.5 million, and an unrealized gain of RMB3.4 million, respectively, as components of other comprehensive income (or loss), net of tax.

(10) Allowances for doubtful accounts

The Group determines the allowance for doubtful accounts when facts and circumstances indicate that the receivable is unlikely to be collected.

Allowances for doubtful accounts are charged to general and administrative expenses. If the financial condition of the Group's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

(11) Investment in affiliated companies

Affiliated companies are entities over which the Group has significant influence, but which it does not control. Investments in affiliated companies are accounted for by the equity method of accounting. Under this method, the Group's share of the post-acquisition profits or losses of affiliated companies is recognized in the consolidated statements of operations and comprehensive income. Unrealized gains on transactions between the Group and its affiliated companies are eliminated to the extent of the Group's interest in the affiliated companies; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. When the Group's share of losses in an affiliated company equals or exceeds its interest in the affiliated company, the Group does not recognize further losses, unless the Group has incurred obligations or made payments on behalf of the affiliated company. The cost method is used for investments over which the Group does not have the ability to exercise significant influence and for which the investments do not have readily determinable fair values. Such investments are recorded and maintained at historical cost, as adjusted for possible impairment losses.

The Group continually reviews its investments in affiliated companies to determine whether a decline in fair value below the carrying value is other than temporary. The primary factors the Group considers in its determination are the length of time that the fair value of the investment is below the Group's carrying value and the financial condition, operating performance and near term prospects of the investee. In addition, the Group considers the reason for the decline in fair value, including general market conditions, industry specific or investee specific reasons, changes in valuation subsequent to the balance sheet date and the Group's intent and ability to hold the investment for a period of time sufficient to allow for a recovery in fair value. If the decline in fair value is deemed to be other than temporary, the carrying value of the security is written down to fair value. Impairment losses on equity method investments are included in "equity in losses of affiliated companies". Impairment losses recorded during the years ended December 31, 2010, 2011 and 2012 were nil, RMB5.6 million and RMB7.5 million, respectively.

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(12) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment. Depreciation is computed using the straight-line method over the following estimated useful lives:

Computer equipment	5 years
Leasehold improvements	Lesser of the term of the lease or the estimated useful lives of the assets
Furniture and fixtures	5 years
Motor vehicles	5 years

Expenditures for maintenance and repairs are expensed as incurred. Gain or loss on the disposal of property and equipment is the difference between the net sales proceeds and the carrying amount of the relevant assets and is recognized in the consolidated statements of operations and comprehensive income.

(13) Intangible assets

Online game product development costs

The Group recognizes costs to develop its online game products in accordance with ASC 985-20. Costs incurred for the development of online game products prior to the establishment of technological feasibility are expensed when incurred and are included in product development expense. Once an online game product has reached technological feasibility, all subsequent online game product development costs are capitalized until the product is available for marketing. Technological feasibility is evaluated on a product-by-product basis, but typically encompasses both technical design and game design documentation and only occurs when the online game has a proven ability to operate in the online game environment in the PRC market. During the years ended December 31, 2010, 2011 and 2012, the costs incurred for development of on-line game products were not capitalized after technological feasibility was reached because the time period from the establishment of technological feasibility to the related commercial launch is generally nonexistent or very brief; therefore, related costs during such periods, being immaterial for capitalization, were expensed.

Website and internally used software development costs

The Group recognizes website and internally used software development costs in accordance with ASC 350-40. As such, the Group expenses all costs that are incurred in connection with the planning and implementation phases of development and costs that are associated with repair or maintenance of the existing websites and software. Costs incurred in the development phase are capitalized and amortized over the estimated product life. During the years ended December 31, 2010, 2011 and 2012, costs qualifying for capitalization were immaterial and as a result all website and internally used software development costs were expensed as incurred.

Upfront licensing fees

Upfront licensing fees paid to third party licensors are capitalized once the related game software has reached technological feasibility in accordance with ASC 985-20 and amortized on a straight-line basis over the shorter of the useful economic life of the relevant online game or license period, which is usually 3 to 7 years. Amortization of upfront licensing fees commences upon the commercial launch of the related online game.

Software and copyrights

Software and copyrights purchased from third parties are initially recorded at cost and amortized on a straight-line basis over the shorter of the useful economic life or stipulated period in the contract, which is usually 1 to 5 years.

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Software technologies, game engines, non-compete agreements, customer databases and trademarks acquired through business combinations

An intangible asset is required to be recognized separately from goodwill based on its estimated fair value if such asset arises from contractual or legal right or if it is separable as defined by ASC 805, "Business Combinations". Software technologies, game engines, non-compete agreements, customer databases and trademarks arising from the acquisitions of subsidiaries and VIEs are initially recognized and measured at estimated fair value upon acquisition. Amortization is computed using the straight-line method over the following estimated useful lives:

Software technologies	0.5 to 6 years
Game engines	3 to 10 years
Non-compete agreements	2.5 to 5 years
Customer databases	2 to 5.5 years
Trademarks	5 or 20 years
In-progress research and development	Indefinite life and subject to impairment testing until completed or abandoned

Gross indefinite-lived in-progress research and development assets totaled RMB95.2 million as of December 31, 2011, relating to historical acquisitions (Note 12). RMB6.0 million of the gross amount had been fully impaired (with write-offs recorded in accumulated impairment) prior to December 31, 2011. After completion of the associated research and development efforts, the remaining RMB 89.2 million of gross carrying value was reclassified to software technologies during the year ended December 31, 2012. The net book value of in-progress research and development assets was zero as of December 31, 2012.

(14) Goodwill

Goodwill is accounted for at initial recognition and evaluated subsequently according to the provisions of ASC 805, "Business Combinations" and ASC 350, "Intangibles - Goodwill and Other." Goodwill is initially measured as the excess of (i) the total cost of an acquisition, fair value of the non controlling interests, and acquisition date fair value of any previously held equity interest in an acquiree over (ii) the fair value of the identifiable net assets of the

acquiree. If the cost of an acquisition is less than the fair value of the net assets of the acquiree, the difference is recognized directly in the income statement as a bargain purchase gain. In a business combination, any acquired intangible assets that do not meet separate recognition criteria as specified in ASC 805 are recognized as goodwill.

Goodwill is not amortized, but is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. In October of each year, the Company's annual impairment evaluation date, the Company tests impairment of goodwill at the reporting unit level, which is one step below the operating segment level. Under the two step impairment evaluation approach, the fair value of a reporting unit is first determined using an income approach which considers projected cash flows, expenses, and appropriate discount rates tailored to the risk profiles of the specific reporting units, considering more generally the risk profile of the online game sector. Should the fair value of a reporting unit be less than its carrying value (including goodwill), an impairment charge would be then be measured by reference to the excess of the carrying value of a reporting unit's goodwill over the implied fair value of goodwill, determined in a manner similar to the assignment of purchase price in a business combination. Key factors that are considered by the Company and likely to have a bearing on potential impairments of goodwill include, but are not limited to, (1) recent operating performance and forecasts; (2) generation of, and growth anticipated in, cash flows; (3) the state of the online game business in the respective geographic area; (4) trends in monthly average users/monthly paying users; and (5) the game development pipeline at the business unit level. Based upon application of the two step impairment evaluation approach, no impairment losses were recorded in the years ended December 31, 2010, 2011 and 2012.

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(15) Other long-term assets

Other long-term assets mainly represent the upfront licensing fees of online games that have not yet been commercially launched and receivables from independent online game companies. Other long-term assets as of December 31, 2011 and 2012 include prepayments in respect of upfront licensing fees paid for new games of RMB309.6 million and RMB171.1 million, respectively. Receivables from independent online game companies as of December 31, 2011 and 2012 amounted to RMB17.0 million and RMB21.4 million, respectively.

(16) Impairment of long-lived assets and intangible assets

Long-lived assets including finite-lived intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, or that the useful life is shorter than the Group had originally estimated. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of any impairment loss for long-lived assets including certain identifiable intangible assets that management expects to hold and use is based on the amount the carrying value exceeds the fair value of the asset. Indefinite-lived intangible assets are tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test consists of a comparison of the fair value of the intangible asset to its carrying amount. If the carrying amount exceeds the fair value, an impairment loss is recognized equal in amount to that excess. During the years ended December 31, 2010, 2011 and 2012, the Group recognized impairment losses of nil, RMB23.2 million and nil for its intangible assets, respectively, and RMB10.2 million, RMB49.6 million and RMB15.0 million for its other long-term assets, respectively. Impairments of other long-term assets recognized in product development expenses consisted of prepaid upfront license fees on certain games that did not continue in the game development cycle as a result of beta testing; accordingly, such fees were fully expensed. As the assets subject to impairment were fully written off, no fair value measurement disclosures for non-recurring fair value measurements were considered warranted as remaining basis in the written-off assets was zero.

(17) Financial instruments

Financial instruments of the Group are primarily comprised of cash and cash equivalents, restricted cash, short-term investments, time deposits with maturities over one year, marketable securities, accounts receivable, prepayments and

other current assets, forward contracts, amount due from/to related parties, short-term borrowings, accounts payable, license fees payable, and other payables and accruals (Note 15).

The Group has from time to time entered into foreign exchange forward contracts with certain banks to reduce the Group's exposure to significant changes in exchange rates between RMB and certain foreign currencies. These contracts are not designated as hedges pursuant to relevant accounting guidance and are remeasured at fair value at each reporting date, with changes in fair value recognized in the consolidated statements of operations and comprehensive income within "other income" (Notes 5 and 22).

(18) Revenue recognition

Online game revenues generated in China

The Group derives substantially all of its revenues from in-game virtual items and game usage fees purchased by game players to play its Massively Multiplayer Online Role-Playing Games ("MMORPGs", a recognized gaming industry term) and advanced casual games.

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The Group entered into various arrangements with subsidiaries that are under common control of Shanda. Pursuant to the Amended and Restated Cooperation Agreement between Shanghai Shanda Networking Co., Ltd. (“Shanda Networking”), Nanjing Shanda Networking Co., Ltd. (“Nanjing Shanda”), and Shanghai Shengzhan Networking Co., Ltd. (“Shanghai Shengzhan”), which are related parties under the common control of the Group’s parent, Shanda, on the one hand, and the VIEs, on the other hand, the Group engaged Shanda Networking on an exclusive basis to provide customer and other game support services until September 10, 2014. The cooperation agreements will be automatically extended for one year, unless otherwise terminated. Pursuant to a sales agency agreement, from July 1, 2008 to May 1, 2011, the Group engaged Shengfutong as the sales agent on an exclusive basis to provide agency services in selling pre-paid cards to third party distributors and retailers. On May 1, 2011, the Group terminated the sales agency agreement with Shengfutong and entered into a sales agency agreement with Tianjin Shengjing Trade Co., Ltd. (“Shengjing”), a related party of Shengfutong, which was further amended and supplemented in March 2012 pursuant to which Shengjing serves as the sales agent for the distribution of our prepaid cards until June 30, 2023. The economic terms of this agreement are substantially the same as the terms of the agreement with Shengfutong.

The Group has assessed its relationship and arrangements with Shanda Networking and Shengjing under ASC 605-45 regarding gross versus net reporting of revenue, and has concluded that reporting the gross amount equivalent to the amount that Shengjing receives from the sale of pre-paid game cards to distributors or retailers, which is subsequently activated and charged to the respective game accounts by players as deferred revenue, is appropriate as the Group is the primary obligor and it fulfills the online game services desired by the customers.

Under the item-based revenue model, revenues from the sales of in-game items are recognized when the items are consumed by the customers, for items with no further utility or very short lives, or over the estimated lives of the items for items that can be used over a period of time. The average periods for which players typically play the games and other player behavior patterns, which are affected by various factors such as acceptance and popularity of expansion packs, promotional events launched, and market conditions, are utilized to arrive at the best estimates for lives of these in-game items. The Group assesses the estimated lives of in-game items for all the item-based games periodically. If there are indications of any significant changes to the estimated lives of the in-game items, such changes would be applied in the period of change prospectively. The Group’s revenues under the item-based revenue model are principally derived from in-game consumable virtual items, which generally are consumed in a very short period. Under the time-based revenue model, revenues are recognized based on the time units consumed by the game players. Revenues are also recognized when game players who had previously purchased playing time or virtual currency are no longer entitled to access the online games in accordance with the published expiration policy. Deferred revenue is reduced as revenues are recognized.

Pursuant to the Sale Agency Agreement, Shengjing will receive a service fee which is equivalent to the difference between (x) the amount Shengjing receives from its distributors or users from the sale of the prepaid cards and (y) a fixed percentage based on the face value of the pre-paid card as agreed upon between Shengjing and the Group. This service fee is recorded as a sales and marketing expense.

Since 1 January 2012, a Pilot Program transitioned specified industries from business tax to value added tax for entities located in Shanghai. This round of reform covered certain "Modern Service Industries," which includes research, development and technological services, information technology services, cultural innovation services, and certain other areas. The Pilot Program affected the PRC subsidiaries Shengqu and Lansha, whose applicable rates shifted from the business tax rate of 5% to the value added tax rate of 6% from 1 Janaury 2012 onwards.

PRC subsidiaries are subject to business tax or value added tax and related surcharges on the gross receipt earned for services provided and products sold in the PRC. The applicable business tax rate varies from 3% to 5% and the rate of value added tax varies from 3% to 17%. In the accompanying consolidated statements of operations and comprehensive income, business tax, value added tax and related surcharges for revenues derived from on-line games are deducted from gross receipts to arrive at net revenues.

Other Revenues

Other revenues are principally comprised of overseas revenues generated from game licensing and game operations as well as advertising revenues.

The Group enters into licensing arrangements with overseas licensees to operate its MMORPGs and advanced casual games in other countries or territories. These licensing agreements provide two revenue streams, consisting of an initial license fee and a monthly revenue-based royalty fee. The initial license fee is based on a fixed amount and recognized ratably over the term of the license. The monthly revenue-based royalty fee is recognized when earned, provided that collectability is reasonably assured.

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The overseas game operations revenue is recognized by means of the online game revenue recognition principles described in the preceding section for online game revenues generated in China.

Overseas game revenues amounted to approximately RMB104.6 million, RMB229.9 million and RMB274.9 million during the years ended December 31, 2010, 2011 and 2012, respectively.

Advertising revenues are derived from online advertising whereby the Company allows advertisers to place advertisements on particular areas of its platform, in particular formats and over particular periods of time. Advertising revenues from online advertising arrangements are recognized ratably over the contract period of display when collectability is reasonably assured. Advertising revenues amounted to approximately RMB59.1 million, RMB56 million and RMB18.6 million during the years ended December 31, 2010, 2011 and 2012, respectively.

(19) Deferred revenue

For online game revenue, deferred revenue represents proceeds received by Shengjing from distributors relating to the sale of pre-paid cards which are activated or charged to the respective player game accounts by players, but which have not been consumed by the players or expired. For overseas licensing revenues, deferred revenues represent the unamortized balance of the initial license fee paid by overseas licensees. Non-current deferred revenues are primarily comprised of unamortized upfront license fees to be recognized beyond the next 12 months.

(20) Deferred licensing fees and related costs

Upon the receipt of proceeds from Shengjing which can be specifically attributed to certain online games, the Group is obligated to pay on-going licensing fees in the form of royalties and other costs related to such proceeds, including business tax and related surcharges. As revenues are deferred (Note 2(19)), the related on-going licensing fees and costs are also deferred. The deferred licensing fees and related costs are recognized in the consolidated statements of operations and comprehensive income in the period in which the related proceeds received from Shengjing are recognized as revenue.

(21) Cost of revenues

Cost of revenues consists primarily of platform service fees, upfront and ongoing licensing fees, salaries and benefits, share-based compensation, depreciation and amortization expenses and other expenses incurred by the Group and are recorded on an accrual basis.

(22) General and administrative

General and administrative expenses consist primarily of salaries and benefits for general management, finance and administrative personnel, professional service fees, business tax and value added tax expense, share-based compensation, and other expenses. The business tax and value added tax expense primarily relates to service and licensing fees paid by the VIEs to the PRC subsidiaries or by PRC subsidiaries to overseas subsidiaries.

(23) Product development

Product development costs consist primarily of salaries and benefits, depreciation expenses, outsourced game development expenses, share-based compensation and other expenses incurred by the Group to develop, maintain, monitor and manage the Group's online gaming products, software and websites, and are recorded on an accrual basis.

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(24) Sales and marketing

Sales and marketing costs consist primarily of advertising and market promotion expenses, salaries and benefits, share-based compensation, and other expenses incurred by the Group's sales and marketing personnel, and the agency expenses paid to Shengjing. Sales and marketing costs are recorded on an accrual basis. Advertising and marketing promotion expenses amounted to approximately RMB199.3 million, RMB169.5 million and RMB165.4 million during the years ended December 31, 2010, 2011 and 2012, respectively.

(25) Share-based compensation

The Group follows ASC 718, which requires all share-based payments to employees and directors, including grants of employee stock options and restricted shares, to be recognized as compensation expense in the financial statements over the vesting period of the award based on the fair value of the award determined at the grant date. The valuation provisions of ASC 718 apply to new awards, to awards granted to employees and directors before the adoption of ASC 718 whose related requisite services had not been provided, and to awards which were subsequently modified or cancelled. Under ASC 718, the number of share-based awards for which the service is not expected to be rendered for the requisite period should be estimated, and the related compensation cost not recorded for that number of awards. The Group has applied the provisions of ASC 718-10-S99 regarding the United States Securities and Exchange Commission's ("SEC") interpretation of ASC 718 and the valuation of share-based payments for public companies.

In accordance with ASC 718, the Group has recognized share-based compensation expenses, net of a forfeiture rate, using the straight-line method for awards with graded vesting features and service conditions only, and using the graded-vesting attribution method for awards with graded vesting features and performance conditions. Compensation cost should be accrued if it is probable that a performance condition will be achieved and should not be accrued if it is not probable that a performance condition will be achieved.

(26) Leases

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

(27) Taxation

Income taxes reflected in the Group's consolidated statements of operations and comprehensive income are provided on the taxable income of each subsidiary on the separate tax return basis.

Deferred income taxes are provided using the liability method in accordance with ASC 740 "*Income Taxes*". Under this method, deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. The effect on deferred taxes of a change in tax rates is recognized in income in the period of change. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some portion of, or all of the deferred tax assets will not be realized.

The Group follows ASC 740-10-25 guidance regarding uncertain tax positions which prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by tax authorities. The amount recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Group did not have any interest and penalties associated with uncertain tax positions and did not have any material liabilities for unrecognized tax benefits arising from uncertain tax positions for the years ended December 31, 2010, 2011 and 2012.

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(28) Statutory reserves

China

The PRC subsidiaries and the VIEs are required on an annual basis to make appropriations of retained earnings set at certain percentage of after-tax profit determined in accordance with PRC accounting standards and regulations (“PRC GAAP”).

The PRC subsidiaries must make appropriations to one or more of the following, (i) the general reserve, (ii) the enterprise expansion fund, and (iii) the staff bonus and welfare fund in accordance with the Law of the PRC on Enterprises Operated Exclusively with Foreign Capital. The general reserve fund requires annual appropriations of 10% of after-tax profit (as determined under PRC GAAP at each year-end) until such funds have reached 50% of the company registered capital. The other fund appropriations are at the PRC subsidiaries’ discretion.

The VIEs, in accordance with the PRC Company Law, must make appropriations to (i) the statutory reserve fund and (ii) the discretionary surplus fund. The statutory reserve fund requires annual appropriations of 10% of after-tax profit (as determined under PRC GAAP at each year-end) until such funds have reached 50% of the company’s registered capital. The discretionary surplus fund is at the VIEs’ discretion.

The general reserve fund and statutory reserve fund can only be used for specific purposes, such as setting off accumulated losses, enterprise expansion, or increasing registered capital. The enterprise expansion fund can be used to expand production and operations or to increase registered capital.

Appropriations to these funds are classified in the consolidated balance sheets as statutory reserves. During the years ended December 31, 2010, 2011 and 2012, the Group made total appropriations to these statutory reserves of approximately RMB14.5 million, RMB5.5 million and RMB2.7 million, respectively.

There are no legal requirements in the PRC to fund these reserves by transfer of cash to restricted accounts, and the Group does not do so.

Korea

Actoz and Eyedentity are required to appropriate, as the legal reserves, the amount equivalent to a minimum of 10% of cash dividends paid until such reserves equals 50% of their issued capital stock in accordance with the Commercial Code of Korea. The reserves are not available for the payment of cash dividends, but may be transferred to capital stock by an appropriate resolution of the company's board of directors or used to reduce accumulated deficit, if any, with the ratification of the company's majority shareholders. The Group made no appropriations in 2010 and 2011. An appropriation of approximately KRW648.9 million (RMB3.8 million) was made in 2012.

(29) Dividends

No dividend was declared by the Company in 2010. In November 2011, the Company declared cash dividends in the aggregate amount of US$289.7 million (equivalent to RMB1,823.3 million) or US$0.51 per ordinary share (US$1.02 per American Depositary Share (ADS)) to all shareholders or ADS holders of record as of December 20, 2011 (the "record date"). The cash dividends of US$286.8 million (equivalent to RMB1,810.0 million) were paid in 2012. Dividends of US$208.6 million were paid to the Company's parent company and controlling shareholder, Shanda Interactive Entertainment Limited.

Relevant laws and regulations permit payments of dividends by the PRC and Korean subsidiaries and affiliated companies only out of their retained earnings, if any, as determined in accordance with respective accounting standards and regulations (see Note 2(28)).

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In addition, since a significant amount of the Group's future revenues will be denominated in RMB, the existing and any future restrictions on currency exchange may limit the Group's ability to utilize revenues generated in RMB to fund the Group's business activities outside China, if any, or expenditures denominated in foreign currencies.

(30) Earnings per share

Basic earnings per ordinary share attributable to Shanda Games Limited's shareholders are computed using the weighted average number of ordinary shares outstanding during the year. Diluted earnings per ordinary share attributable to Shanda Games Limited's ordinary shareholders are computed using the weighted average number of ordinary shares and, if dilutive, potential ordinary shares outstanding during the year. Potential ordinary shares consist of shares issuable upon the exercise of stock options for the purchase of ordinary shares and the settlement of restricted share units and are accounted for using the treasury stock method. Potential ordinary shares are not included in the denominator of the diluted earnings per share calculation when inclusion of such shares would be anti-dilutive. The Group does not separately present earnings per share for Class A and Class B ordinary shares as each class of shares has the same rights to earnings and dividend distributions.

(31) Comprehensive income

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

(32) Segment reporting

Based on the criteria established by ASC 280, the Company currently operates and manages its business as a single operating and single reportable segment, whose business is developing and operating online games. As the Group generates substantially all of its revenues from customers in the PRC, no geographical segments are presented. In addition, substantially all of the Group's long-lived assets are located in the PRC.

(33) Fair value measurements

The Group does not have any non-financial assets or liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis.

Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. A three-tier fair value hierarchy is established as a basis for considering such assumptions and for inputs used in the valuation methodologies in measuring fair value: (Level 1) observable inputs such as quoted prices in active markets; (Level 2) inputs other than the quoted prices in active markets that are observable either directly or indirectly, or quoted prices in less active markets; and (Level 3) unobservable inputs with respect to which there is little or no market data, which require the Group to develop its own assumptions.

The Group’s financial instruments consist principally of cash and cash equivalents, restricted cash, short-term investments, time deposits with maturity over one year, marketable securities, accounts receivable, amounts due from/to related parties, prepayments and other current assets, short-term borrowings, accounts payable, licensing fees payable, and other payables and accruals.

As of December 31, 2011 and 2012, the carrying values of cash and cash equivalents, restricted cash, short-term investments, accounts receivable, amounts due from/to related parties, prepayments and other current assets, short-term borrowings, accounts payable, licensing fees payable, other payables and accruals approximated their fair values. Accounts receivable, amounts due from/to related parties, prepayments and other current assets, accounts payable, licensing fees payable, and other payables and accruals, which are measured at carrying value, would represent Level 3 fair value measurements if carried at fair value due to the presence of significant unobservable inputs. In a similar fashion, the Group’s cash and cash equivalents, short term investments, and short term borrowings would represent Level 2 measurements due to the presence of significant observable inputs such as interest rates.

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On a recurring basis, the Group measures (measured) the marketable securities and foreign currency forward contracts at fair value. The marketable securities are measured on the basis of actual prices quoted in actively traded markets for the related common shares. Fair value is developed for the foreign currency forward contracts based upon the terms underlying the forward contracts and commonly accepted valuation methodologies for currency forwards based upon discounted cash flow analysis, with reference to observable inputs such as forward rates available in the marketplace.

As of December 31, 2011 and 2012, information about the fair value measurements of the Group's assets and liabilities that are measured at fair value on a recurring basis in periods subsequent to their initial recognition is as follows (based on the classification of the inputs):

	December 31, 2011	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
		(Level 1)	(Level 2)	(Level 3)
	RMB	RMB	RMB	RMB
Marketable securities – Common stock	3,837	3,837	—	—

	December 31, 2012	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
		(Level 1)	(Level 2)	(Level 3)
	RMB	RMB	RMB	RMB
Marketable securities – Common stock	7,221	7,221	—	—
Derivative liability- foreign currency forward contracts (included in "Other payables and accruals " in balance sheet) (Note 15, 22)	(9,312)	—	(9,312)	—

During the historical periods presented, there were no transfers between fair value measurements categorized as level 1 or level 2.

On a non-recurring basis from time to time, the Group writes off certain specific license fee assets. These assets represent prepaid upfront license fees related to game intellectual property licensed from third parties which are included in other long-term assets or intangible assets at their original contractual values (representing fees paid to third parties under the contractual arrangements). As triggered by factual circumstances, the Group evaluates the prepaid fees for games for which the commercial viability is uncertain or game development does not successfully pass the testing phase and fully writes off the contractual value of related fees paid. During the years ended December 31, 2010, 2011 and 2012, the Group recognized impairment losses of nil, RMB23.2 million and nil for its intangible assets, respectively, and RMB10.2 million, RMB49.6 million and RMB15.0 million for its other long-term assets, respectively. The Group has not presented tabular disclosures or further qualitative information regarding fair value for these level 3-classified assets because the related fees have been fully written off; accordingly, the related fair values are zero for any balance sheet date.

(34) Business combinations and non-controlling interests

The Group accounts for its business combinations using the purchase method of accounting. This method requires that the acquisition cost to be allocated to the assets, including separately identifiable intangible assets, and liabilities the Group acquired based on their estimated fair values.

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The Group follows ASC 805, "*Business combinations.*" Pursuant thereto, the cost of an acquisition is measured as the aggregate of the fair values at the date of exchange of the assets given, liabilities incurred, and equity instruments issued as well as the contingent considerations and all contractual contingencies as of the acquisition date. The costs directly attributable to the acquisition are expensed as incurred. Identifiable assets, liabilities and contingent liabilities acquired or assumed are measured separately at their fair value as of the acquisition date, irrespective of the extent of any non-controlling interests. The excess of (i) the total of cost of acquisition, fair value of the non-controlling interests and acquisition date fair value of any previously held equity interest in the acquiree over (ii) the fair value of the identifiable net assets of the acquiree is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

The determination and allocation of fair values to the identifiable assets acquired and liabilities assumed is based on various assumptions and valuation methodologies requiring considerable management judgment. The most significant variables in these valuations are discount rates, terminal values, the number of years on which to base the cash flow projections, as well as the assumptions and estimates used to determine the cash inflows and outflows. The Group determines discount rates to be used based on the risk inherent in the related activity's current business model and industry comparisons. Terminal values are based on the expected life of assets and forecasted life cycle and forecasted cash flows over that period. Although the Group believes that the assumptions applied in the determination are reasonable based on information available at the date of acquisition, actual results may differ from the forecasted amounts and the differences could be material.

(35) Reclassifications

Beginning from January 1, 2011, the Group combined its net revenues from MMORPGs and advanced casual games into online game revenues generated in China as the Group believes that the Group's advanced casual games share many similar features of the Group's MMORPG games, but are quite different when compared to the casual games that are available on social networking sites. The year-over-year comparison of online game revenues generated in China and other revenues has been reclassified for 2010 and 2011 to conform to this presentation.

3. RECENT ACCOUNTING PRONOUNCEMENTS

Recently Effective

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-04, *"Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs"* (ASU 2011-04). Key provisions of the amendments in ASU 2011-04 include: (1) a prohibition on grouping financial instruments for purposes of determining fair value, except in limited cases; (2) an extension of the prohibition against the use of a blockage factor to all fair value measurements; and (3) a requirement that for recurring Level 3 fair value measurements, entities disclose quantitative information about unobservable inputs, a description of the valuation process used and qualitative details about the sensitivity of the measurements. For items not carried at fair value but for which fair value is disclosed, entities will be required to disclose the level within the fair value hierarchy that applies to the fair value measurement disclosed. This ASU is effective for interim and annual periods beginning after December 15, 2011 and was adopted effective January 1, 2012. The adoption of this guidance did not have an impact on the consolidated financial statements other than expanded disclosures in the fair value footnote.

In June 2011 the FASB issued Accounting Standards Update 2011-05, *"Comprehensive Income: Presentation of Comprehensive Income."* The amendment requires that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In December 2011, the FASB issued Accounting Standards Update 2011-12, *"Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items out of Accumulated Other Comprehensive Income."* This Update indefinitely deferred only the specific requirement in ASU 2011-05 to present reclassification adjustments for each component of other comprehensive income on the face of the financial statements. ASU 2011-05 and ASU 2011-12 were effective retrospectively for interim and annual periods beginning after December 15, 2011 and were adopted by the group effective January 1, 2012. In February 2013, the FASB issued Accounting Standards Update 2013-02, *"Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income,"* which closed the indefinite deferral. Specifically, ASU 2013-02, which is effective, with only prospective disclosure required, for public companies for interim and annual periods beginning after December 15, 2012, provides reporting entities the option to present the effect of reclassification adjustments either parenthetically on the face of the financial statements or in a separate dedicated footnote. The adoption of ASU 2011-05 did not impact the consolidated financial statements as the Group already presented, and presents, a continuous statement of operations and comprehensive income. The adoption of ASU 2013-02 (beginning January 1, 2013) is expected to have minimal impact as the periodic amounts for reclassifications of unrealized gains (losses) on marketable securities to net income upon realization are insignificant.

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In September 2011, the FASB issued Accounting Standards Update 2011-08, *"Testing Goodwill for Impairment"* (ASU 2011-08). Under the revised guidance, entities testing for goodwill impairment have an option of performing a qualitative assessment before calculating the fair value for a reporting unit (i.e., Step 1 of the traditional goodwill impairment test). If an entity determines, on a basis of qualitative factors, that the fair value of a reporting unit is more likely than not less than the carrying amount, the first step of the two-step impairment test would be required. If it is not more likely than not that the fair value of a reporting unit is less than the carrying value, then goodwill is not considered to be impaired. ASU 2011-08 does not change how goodwill is calculated or assigned to reporting units, nor does it revise the requirement to test goodwill at least annually for impairment. This ASU is effective for interim and annual periods beginning after December 15, 2011, and the Group adopted the guidance effective January 1, 2012. The adoption of this guidance did not change, nor would it be expected to change, the conclusions reached in periodic impairment evaluations for goodwill; moreover, the Group utilized the traditional two-step quantitative approach for all of its reporting units.

Recently Issued

In December 2011, the FASB issued ASU 2011-11, *"Disclosures about Offsetting Assets and Liabilities."* This ASU requires an entity to disclose both gross and net information about instruments and transactions eligible for offset in the statements of financial position as well as instruments and transactions executed under a master netting or similar arrangement and was issued to enable users of financial statements to understand the effects or potential effects of those arrangements on financial position. ASU 2011-11 is to be applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. In January 2013, the FASB issued ASU 2013-01, *"Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities."* The ASU 2013-01 amendments clarify that the scope of ASU 2011-11 applies to derivatives accounted for in accordance with ASC 815, *Derivatives and Hedging,* including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with ASC 210-20-45 or ASC 815-10-45 or subject to an enforceable master netting arrangement or similar agreement. The effective date is the same as the effective date of ASU 2011-11. The adoption of this guidance is expected to have minimal impact, if any, on the Group's financial statements due to the lack of or infrequent use of derivative instruments.

In July 2012, the FASB issued ASU 2012-02, *"Intangibles – Goodwill and Other: Testing Indefinite Lived Intangible Assets for Impairment"* (ASU 2010-012). This ASU applies to all entities that have indefinite-lived intangible assets,

other than goodwill, reported in their financial statements. Under the ASU, an entity has the option first to assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that an indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that an indefinite-lived intangible asset is impaired, then the entity is not required to take further action. The amendments to the guidance are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The Group will adopt this guidance beginning January 1, 2013; the adoption is not expected to impact the financial statements as the conclusions reached under a qualitative assessment approach, versus a strictly qualitative approach, should be similar for the Group's limited indefinite-lived intangible assets.

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4. BUSINESS COMBINATIONS

The Group completed the following acquisitions during the years ended December 31, 2010, 2011 and 2012:

Acquisition completed in 2012

In July 2012, the Group acquired a 70% equity interest in eFusion, a game operating company which mainly provides services in Germany, for cash consideration of €2.3 million (approximately RMB18.4 million). Total identifiable intangible assets acquired of approximately RMB12.3 million mainly represented the trademark and customer database. The weighted average amortization period for the identifiable intangible assets acquired is 5 years. The goodwill associated with this acquisition was RMB0.7 million. The non-controlling interest arising from this acquisition was RMB5.5 million.

Based on an assessment of the acquired company's financial performance made by the Group and the amounts involved in the acquisition, this acquisition is not material to the Group. Accordingly, presentation of the purchase price allocation, pro forma financial information, and other disclosures was not warranted.

Acquisition completed in 2011

In April 2011, the Group acquired a 51.85% equity interest in a game operating company which mainly provides services in East Asia, for total consideration of US$3.0 million (approximately RMB18.9 million) in cash and assumption of liabilities of RMB10.4 million. Total identifiable intangible assets acquired of approximately RMB25.7 million mainly represent a trademark, software technology and customer database. The weighted average amortization period for the identifiable intangible assets acquired is 4.4 years. The goodwill associated with this acquisition was RMB5.2 million. Certain non-controlling shareholders have a right to require the Group to purchase the outstanding non-controlling interests held by them after the completion of the acquisition at a fixed price if the game operating company fails to complete an initial public offering before 2014. Therefore, upon the date of consolidation, the related

non-controlling interests were recognized at fair value (using an income approach to measurement) and are presented as redeemable non-controlling interests in the consolidated balance sheet. As the initial public offering of the game acquiree cannot be anticipated or considered probable until it happens, the redemption of the non-controlling interests is considered probable and accretion of RMB0.6 million in the redemption value was recognized in retained earnings to adjust the initial carrying amount to the redemption value of RMB14.0 million at the consolidation date. No further accretion adjustments were required after the consolidation date.

Based on an assessment of the acquired company's financial performance made by the Group and the amounts involved in the acquisition, this acquisition was not material to the Group. Accordingly, presentation of pro forma financial information with regard to a summary of the results of operations for the acquisition completed in 2011 is not necessary.

Acquisitions completed in 2010

(1) Goldcool

On January 1, 2010, the Group acquired all of the equity interests of Goldcool Holdings Limited, as well as its wholly owned subsidiary Kuyin and VIE Shanghai Hongli (collectively known as "Goldcool"), one of the leading online game developers and operators in China. Pursuant to the acquisition agreement, the total purchase consideration was RMB120 million in cash.

The allocation of the purchase price to the assets acquired and liabilities assumed based on their fair values was as follows:

	RMB	Amortization Period
Cash	26,730	
Other assets	14,817	
Identifiable intangible assets		
Trademark	9,410	20 years
Software technology	41,560	3~6 years
Customer database	6,370	5 years
Purchased in-progress research and development	23,870	
Deferred tax liabilities	(17,084)	
Goodwill	25,077	
Current liabilities	(10,750)	
Purchase price	120,000	

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The fair value of identifiable intangible assets was measured primarily by the income approach taking into consideration historical financial performance and estimates of future performance of Goldcool's business. The weighted average amortization period for the identifiable intangible assets acquired was 7.2 years. Purchased in-progress research and development of RMB23.9 million was capitalized as an indefinite-lived intangible asset subject to impairment testing until completion or abandonment. Total goodwill of RMB25.1 million represents the excess of the purchase price over the estimated fair value of the net tangible and identifiable intangible assets acquired and is not deductible for tax purposes. Goodwill primarily represents the expected synergies from combining game operations of the Group and Goldcool and any other intangible benefits that would accrue to the Group that do not qualify for separate recognition.

(2) Mochi Media, Inc. ("Mochi")

Acquisition of Mochi

On January 15, 2010, the Group acquired all of the equity interests of Mochi, which operates a leading platform for distributing and monetizing browser-based games worldwide. Pursuant to the acquisition agreement, the total purchase consideration was US$64.3 million (approximately RMB438.6 million), which consisted of US$60.7 million in cash and the issuance of 622,222 Class A ordinary shares with an aggregate fair value of US$3.3 million on the acquisition date and the grant of 962,963 options to replace the outstanding employee options of Mochi with fair value of US$0.3 million which is attributable to employees' pre-combination services.

The Group also granted 2,068,219 restricted shares to the employees of Mochi on the acquisition date. The restricted shares vest over 2 to 4 years and were considered awards for post combination services. As result, the compensation expense is being recognized on straight line basis over the vesting period.

The allocation of the purchase price to the assets acquired and liabilities assumed based on their fair values was as follows:

	RMB	Amortization Period
Cash	35,193	
Other assets	17,470	
Identifiable intangible assets		
Trademark	218,442	20 years
Software technology	184,310	7 years
Deferred tax liabilities	(161,101)	
Goodwill	163,617	
Current liabilities	(15,220)	
Long term liabilities	(4,118)	
Purchase price	438,593	

The fair value of identifiable intangible assets was measured primarily by the income approach taking into consideration historical financial performance and estimates of future performance of Mochi's business. The weighted average amortization period for the identifiable intangible assets acquired was 14.1 years. Total goodwill of RMB163.6 million represents the excess of the purchase price over the estimated fair value of the net tangible and identifiable intangible assets acquired and is not deductible for tax purposes. Goodwill primarily represents the expected synergies from combining game operations of the Group and Mochi and any other intangible benefits that would accrue to the Group that do not qualify for separate recognition.

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Subsequent divestiture of Mochi

At the end of March 2012, the Group closed the transfer of 100% of the equity interests in Mochi to Shanda Online Entertainment Limited ("Shanda Online"), a wholly-owned subsidiary of Shanda, in exchange for 6.2% of the equity interests of Shanda Online. The transaction was primarily driven by the Group's strategy to focus on more intensive-play or advanced online games, versus the games offered on Mochi's platform, which are mostly mini casual games. Mochi's business model, which is centered on distribution and network services for online games, as well as the provision of advertising services, is also different from the Group's core business model.

As the share swap transaction occurred between entities under the common control of Shanda, no gain or loss was recognized in the Group's statement of operations. After the closing of the transfer, the Company deconsolidated Mochi at its net carrying amount of RMB370.7 million and recorded the 6.2% equity interest in Shanda Online of RMB127.4 million at Shanda's carry–over basis as a long-term investment (under the cost method) included in "investment in affiliated companies" on the consolidated balance sheet. The excess of RMB243.4 million of the net carrying amount deconsolidated for Mochi over the 6.2% equity interest acquired in Shanda Online was treated as a contribution to Shanda, and was recognized as a charge of RMB244.0 million to additional paid-in capital and an increase of RMB0.6 million in other comprehensive income.

The Group has not reflected the divestiture of Mochi as a discontinued operation for accounting purposes as the Group will have continuing involvement with Mochi on a prospective basis.

(3) Eyedentity

On September 1, 2010, the Group acquired all of the equity interests of Eyedentity, one of the leading online game developers in Korea. Pursuant to the acquisition agreement, the total purchase consideration was US$76.5 million (approximately RMB520.8 million) in cash. As of December 31, 2012, non-contingent purchase consideration of RMB10.0 million due on the third anniversary of the acquisition date had not yet been paid and is included as an acquisition related obligation in other payables and accruals.

The Group will pay US$2.8 million to purchase all outstanding stock options issued by Eyedentity on the acquisition date. The consideration was allocated between pre-combination and post-combination services for US$1.6 million and US$1.1 million, respectively. The pre-combination component was included as purchase consideration in the business combination and the post-combination component is being recognized as share based compensation expense on a straight line basis over the remaining vesting period. In addition, the Group will also pay the shareholders US$15.9 million (RMB98.9 million) if they continue to provide service to Eyedentity in the three years after the acquisition. Amounts due under this arrangement are expected to be paid in 2013 upon the satisfaction of the employment conditions and are included in “other payables and accruals” on the consolidated balance sheet. For the years ended December 31, 2010, 2011 and 2012, the Group accrued expense in the amounts of RMB14.8 million, RMB29.6 million and RMB33.1 million, respectively.

The allocation of the purchase price to the assets acquired and liabilities assumed based on their fair values was as follows

	RMB	Amortization Period
Cash	25,600	
Other assets	55,752	
Identifiable intangible assets		
Software technology	356,189	6~10 years
Non-compete arrangement	13,621	3 years
Purchased in-progress research and development	89,218	
Deferred tax liabilities	(102,693)	
Goodwill	123,425	
Current liabilities	(40,313)	
Purchase price	520,799	

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The fair value of identifiable intangible assets was measured primarily by the income approach taking into consideration historical financial performance and estimates of future performance of Eyedentity’s business. The weighted average amortization period for the identifiable intangible assets acquired was 6.7 years.

Total goodwill of RMB123.4 million represents the excess of the purchase price over the estimated fair value of the net tangible and identifiable intangible assets acquired and is not deductible for tax purposes. Goodwill primarily represents the expected synergies from combining game operations of the Group and Eyedentity and any other intangible benefits that would accrue to the Group that do not qualify for separate recognition.

On October 10, 2012, Games International, a Singaporean subsidiary of the Group which previously was the 100% owner of Eyedentity, closed the sale of 532,066 common shares of Eyedentity or 20.5% of Eyedentity’s outstanding equity interests, to the Group’s majority-owned (51% owned) Korean subsidiary Actoz for cash consideration, due in two installments, of KRW113.5 billion (US$106.6 million or RMB643.7 million). As of December 31, 2012, Actoz paid the initial payment of KRW60.0 billion (US$53.9 million or RMB339.9 million). The amount remitted to Games International reflected the KRW60.0 billion net of tax withholding for Korean capital gains tax and securities transaction tax of KRW13.0 billion (US$11.7 million or RMB73.7 million). The second installment payment of KRW53.6 billion (US$48.2 million or RMB303.8 million) will be paid to Games International before the first anniversary of the closing date, with interest accrued at the rate of 3.7% per annum. After the closing of the sale, as Eyedentity's controlling shareholder, the Group continued to consolidate Eyedentity in its consolidated financial statements. This transfer of a portion of Eyedentity’s equity to Actoz was undertaken on the basis of enhancing Actoz’s publishing capabilities as Eyedentity has strong game intellectual properties as well as better aligning Eyedentity and Actoz for research and development cooperation.

The Eyedentity share transfer occurred between entities under common control. Accordingly, no gain or loss was recognized in the Group's results of operations. Games International de-recognized 20.5% of the net assets of Eyedentity with amount of RMB111.3 million for cash consideration of RMB643.7 million at the transaction date. The difference of RMB532.4 million represented a contribution to Games International credited to Games International’s equity. However, because the transaction effectively resulted in a deemed contribution of equity from Actoz to Games International, the portion of the deemed contribution attributable to Actoz’s 49% non-controlling interest, or RMB260.0 million, was charged to equity attributable to non-controlling shareholders. The transaction-related capital gains tax was apportioned to the Group’s controlling interest in Actoz and the non-controlling interests in Actoz based upon the relative ownership percentages. Of the total tax of RMB73.7

million, RMB36.4 million attributable to the controlling interest was charged to income tax expense, with the balance of RMB37.3 million charged to equity for the portion attributable to the transaction with the non-controlling interests of Actoz.

(4) Unaudited Pro Forma information on 2010 acquisitions

The following unaudited pro forma consolidated financial information reflects the results of operations for the year ended December 31, 2010, as if the respective acquisitions had occurred on January 1, 2010, and after giving effect to purchase accounting adjustments. These pro forma results have been prepared for comparative purposes only and do not purport to be indicative of what operating results would have been had the acquisition actually taken place at the beginning of the period, and may not be indicative of future operating results.

	Year Ended December 31, 2010
	Unaudited
	RMB
Net revenues	4,525,472
Net income	1,285,234
Earnings per ordinary share	
Basic	2.25
Diluted	2.25

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The pro forma net income for 2010 includes RMB14.4 million for the amortization of identifiable intangible assets, as well as RMB3.5 million for the amortization of deferred tax liabilities using the actual effective income tax rate of the respective acquired businesses in 2010.

(5) Other acquisitions

In July 2010, the Group acquired all of the equity interests of a global micropayment solution provider, which mainly provides the service in South East Asia. Pursuant to the acquisition agreement, the total purchase consideration was US$2.5 million (approximately RMB17.0 million) in cash. Total identifiable intangible assets acquired of approximately RMB13.7 million mainly represent the trademark and billing platform. The weighted average amortization period for the identifiable intangible assets acquired was 15.2 years.

Based on an assessment of other acquired companies' financial performance and the amounts involved in the acquisitions, none of the acquired companies on their own or in total is (are) considered material to the Group. Therefore, pro forma financial information with regard to a summary of the results of operations of the Group for the other business combinations completed in 2010 is not necessary.

5. OTHER INCOME

	For the years ended December 31,		
	2010	2011	2012
	RMB	RMB	RMB
Government financial incentives	232,302	184,961	146,273
Foreign exchange (loss) / gain	(5,164)	25,852	(3,408)
Loss recognized on foreign currency forward contracts (Note 22)	—	—	(22,476)
Bank charges	(410)	(10,296)	(18,823)
Donation expenses	(5,812)	(1,092)	(182)
Others	6,007	(5,175)	(10,247)
	226,923	194,250	91,137

Government financial incentives represent cash subsidies received from the government. Cash subsidies which have no defined rules and regulations to govern the criteria necessary for companies to enjoy the benefits are recognized as other income when received. Other cash subsidies received from the government, for which the Group has to meet certain obligations, are initially recorded as liabilities and recognized as other income upon fulfilling the obligations.

Bank charges represent fees assessed by third party banks in relation to various short-term borrowings drawn from the banks by the Group (Note 14) and are expensed at the time they are incurred due to the short term nature of the borrowings (generally one year or less) and the insignificance of the charges to the Group's results of operations.

6. TAXATION

Cayman Islands

Under the current laws of the Cayman Islands, the Company is not subject to tax on its income or capital gains. In addition, upon payments of dividends by the Company to its shareholders, no Cayman Islands withholding tax will be imposed.

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Hong Kong

The Group's subsidiaries incorporated in Hong Kong were subject to a 16.5% tax rate for the years ended December 31, 2010, 2011 and 2012, respectively. No Hong Kong profit tax has been provided as the Group did not have assessable profit that was earned in or derived from Hong Kong subsidiaries during the years presented.

Singapore

Games International is subject to income tax on taxable income as reported in its statutory financial statements adjusted in accordance with Singapore income tax legislation. Games International was subject to an income tax rate of 17% for the years ended December 31, 2010, 2011 and 2012.

Germany

eFusion is subject to income tax on taxable income as reported in its statutory financial statements adjusted in accordance with Germany income tax law. eFusion was subject to an income tax rate of 15% for the year ended December 31, 2012.

China

The PRC Corporate Income Tax Law, among other things, impose a unified income tax rate of 25% for both domestic and foreign invested enterprises.

Relevant governmental regulatory authorities have established qualification criteria, application procedures and assessment processes for “high and new technology enterprises”, which will be entitled to a favorable statutory tax rate of 15%. An enterprise’s qualification as a “high and new technology enterprise” is re-assessed by the relevant PRC governmental authorities every three years.

Shengqu, Shanghai Shulong and Chengdu Aurora were recognized as “high and new technology enterprises” in 2008 and enjoyed the 15% preferential rate status through the end of 2010. After the qualification expired on December 31, 2010. Shengqu and Chengdu Aurora reapplied for the qualification in 2011 and were approved. These two entities are therefore entitled to a preferential tax rate of 15% for 2011, 2012 and 2013. Shanghai Shulong was subject to 25% income tax rate in 2011 and 2012. In 2010, Lansha also obtained the “high and new technology enterprise” for a three-year period which expired December 31, 2012. In 2012, Shengji obtained approval for “high and new technology enterprise” status which is effective for three years from 2012 to 2014.

In April 2010, Shengji, as “a software development enterprise,” was granted a two-year EIT exemption followed by a three year 50% EIT reduction on its taxable income, which is effective retroactively from January 1, 2009. However in 2012, Shengji was assessed by the relevant tax bureau and asked to pay additional tax charges of RMB21.9 million because Shengji did not qualify to enjoy the preferential tax rate of 12.5% for the year of 2011. The retroactive tax charges were recorded in 2012 as income tax expense. Beyond the immaterial additional tax charge for Shengji in 2012, the Group did not have any other material uncertain tax positions. Accordingly, the applied tax rates for 2010, 2011 and 2012 for Shengji were 0%, 25% and 15%, respectively.

As Chengdu Aurora also qualified as a “software development enterprise,” it was granted a three year 50% EIT”) reduction on its taxable income from 2009 to 2011. The applicable tax rates for 2010, 2011 and 2012 for Chengdu Aurora were 12.5%, 12.5% and 15%, respectively.

The Corporate Income Tax Law also imposes a 10% withholding tax for dividends distributed by a foreign invested enterprise to its immediate holding company outside China. Where an appropriate tax treaty is in place between the PRC and another relevant jurisdiction, rates below 10% may be available. Holding companies in Hong Kong, for example, are subject to a 5% withholding tax rate. The Group accrued no withholding taxes in 2010 as there were no dividend distributions in the year ended December 31, 2010. In 2011 and 2012, in light of the special dividend declared to shareholders described in Note 2(29) and the necessity of distributing a portion of accumulated profits for such dividend, and the possibility of dividends in the future based upon past experience, withholding tax was accrued, and continues to be accrued, based on a 5% tax rate. Amounts accrued and recognized in income tax expense were RMB116.5 million and RMB54.5 million, respectively in 2011 and 2012, for all the undistributed profits in the PRC subsidiaries.

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Korea

Actoz and Eyedentity are subject to income tax on taxable income as reported in their statutory financial statements adjusted in accordance with the Corporate Income Tax Law of the Republic of Korea (the "Korea Income Tax Laws"). Under the Korean Income Tax Laws, corporations were subject to a tax rate of 11% for the years ended December 31, 2010, 2011 and 2012(or 24.2% if the corporation's taxable income was greater than KRW200 million for such year). The foregoing tax rates include resident tax surcharges in accordance with the Korea Income Tax Laws and local tax laws. Actoz and Eyedentity were subject to a tax rate of 24.2% in 2010, 2011 and 2012.

Pursuant to the Korea Income Tax Laws, dividends distributed by a foreign invested enterprise to its immediate holding company outside Korea will be subject to 15% withholding tax, unless any such foreign investor's jurisdiction of incorporation has a tax treaty with Korea that provides for a different withholding arrangement. According to the Korea and Singapore Taxation Arrangement, dividends paid by a foreign invested enterprise in Korea to its direct holding company in Singapore will be subject to withholding tax at a rate of no more than 10% (if the foreign investor owns directly at least 25% of the shares of the foreign invested enterprise, which continues to be true after Games International's sales of 20.5% of Eyedentity's equity interests to Actoz) Eyedentity planned to distribute dividends to Games International in 2012, and withholding tax was accrued at 10% in the amounts of RMB17.5 million and RMB5.5 million in 2011 and 2012, respectively. The accrued withholding tax was fully paid in 2012.

Composition of income tax expense

Earnings before income taxes for the years ended December 31, 2010, 2011, and 2012 were taxed within the following jurisdictions (where "mainland" excludes Hong Kong):

	For the years ended December 31,		
	2010	2011	2012
	RMB	RMB	RMB
PRC mainland entities	1,640,669	1,662,221	1,583,250

Non-PRC mainland entities	(30,274)	119,050	(6,912)
Total	1,610,395	1,781,271	1,576,338

The current and deferred portions of income tax expense included in the consolidated statements of operations and comprehensive income during the years ended December 31, 2010, 2011 and 2012 are as follows:

	For the years ended December 31,		
	2010	2011	2012
	RMB	RMB	RMB
Current income tax expense			
PRC mainland entities	237,793	302,621	267,397
Non-PRC mainland entities	72,325	98,441	112,833
Total	310,118	401,062	380,230
Deferred income tax expense (benefit)			
PRC mainland entities	4,584	(14,962)	12,505
Non-PRC mainland entities	(14,350)	(34,800)	(33,933)
Total	(9,766)	(49,762)	(21,428)
Withholding tax			
PRC mainland entities	—	—	—
Non-PRC mainland entities	—	133,978	59,960
Total	—	133,978	59,960
Income tax expense			
PRC mainland entities	242,377	287,659	279,902
Non-PRC mainland entities	57,975	197,619	138,860
Total	300,352	485,278	418,762

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Reconciliation of the differences between statutory tax rate and the effective tax rate

The reconciliations between the statutory rate and the Group's effective tax rate for the years ended December 31, 2010, 2011 and 2012 are as follows:

	For the years ended December 31,					
	2010		2011		2012	
	RMB		RMB		RMB	
Statutory income tax rate	25	%	25	%	25	%
Effect of qualified lower tax rates awarded to certain PRC entities	(12	)%	(8	)%	(8	)%
Tax rate effect related to overseas subsidiaries	—		—		—	
Effect of withholding taxes	—		8	%	4	%
Effect of change in valuation allowance	4	%	1	%	3	%
Non-deductible expenses incurred in PRC	1	%	1	%	—	
Tax paid for the sale of equity interests in Eyedentity to Actoz	—		—		2	%
Others	1	%	—		1	%
Effective income tax rate	19	%	27	%	27	%

The effect of qualified lower tax rates awarded to certain PRC entities, as included in the preceding and following tables, specifically refers to the reduced statutory tax rates awarded by relevant authorities to certain PRC entities for defined periods to "high and new technology enterprises" and "software development enterprises" as described earlier. The aggregate amount and per share effect of the qualified lower tax rates are as follows:

	For the years ended December 31,		
	2010	2011	2012
(in thousands, except per share data)	RMB	RMB	RMB
Aggregate effect	195,935	145,224	131,127
Basic ordinary share effect	0.34	0.26	0.24
Diluted ordinary share effect	0.34	0.26	0.24

Significant components of deferred tax assets and deferred tax liabilities are as follows:

	December 31, 2011 RMB	December 31, 2012 RMB
Deferred tax assets		
Licensing fees and related costs and deferred revenues	31,317	29,704
Temporary differences related to deductible expenses	42,831	54,903
Other temporary differences	37,803	19,317
Foreign tax credits of Actoz and Eyedentity	174,938	200,264
Development costs	3,433	1,563
Less: Valuation allowance	(189,219)	(215,080)
Total deferred tax assets, net of valuation allowance	101,103	90,671
Deferred tax liabilities		
Intangible assets arising from business combinations	260,186	102,420
Withholding taxes	72,910	53,516
Total deferred tax liabilities	333,096	155,936

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Movement of valuation allowances

	For the years ended December 31,		
	2010	2011	2012
	RMB	RMB	RMB
Balance at beginning of year	123,949	180,169	189,219
Current year additions	56,220	9,050	37,172
Current year disposal due to divestitures	—	—	(11,311)
Balance at end of year	180,169	189,219	215,080

Valuation allowances have been provided on the net deferred tax assets due to the uncertainty surrounding their realization. As of December 31, 2010, 2011 and 2012, the majority of valuation allowances were provided because it was more likely than not that the Group would not be able to utilize certain foreign tax credit carry forwards generated by a subsidiary. If events occur in the future that allow the Group to realize more of its deferred tax assets than the presently recorded amount, an adjustment to the valuation allowances will increase net income when those events occur. In 2012, a portion of the valuation allowance was de-recognized as a result of the divestiture of Mochi.

As of December 31, 2012, total tax credit carry forwards of KRW12,960 million (equivalent to RMB75.8 million), KRW9,539 million (equivalent to RMB55.8 million), KRW11,287 million (equivalent to RMB66.0 million) and KRW555 million (equivalent to RMB3.2 million) will expire in 2015, 2016, 2017 and 2018, respectively.

7. EARNINGS PER SHARE

Basic and diluted earnings per ordinary share attributable to the Company’s shareholders are calculated in accordance with ASC 260, *“Earnings Per Share.”* Earnings per ordinary share do not differ between Class A and Class B ordinary shares, as there are no differences between the share classes as it relates to distributions of earnings. Reconciliations of the numerator and denominator of the per-share computations for the years ended December 31, 2010, 2011 and 2012 are as follows:

	For the years ended December 31,		
	2010	2011	2012
(in thousands, except share and per share data)	RMB	RMB	RMB
Numerator:			
Net income attributable to Shanda Games Limited’s ordinary shareholders for basic and diluted earnings	1,288,821	1,264,316	1,113,430
Denominator:			
Weighted-average ordinary shares outstanding for basic calculation	570,645,594	567,138,809	554,813,612
Dilutive effect of share options	149,463	39,884	28,461
Denominator for diluted calculation	570,795,057	567,178,693	554,842,073
Net income per ordinary share attributable to Shanda Games Limited’s shareholders -basic	2.26	2.23	2.01
Net income per ordinary share attributable to Shanda Games Limited’s shareholders -diluted	2.26	2.23	2.01

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For 2010, 2011 and 2012, the Group excluded 33,587,516, 30,448,623 and 27,646,400, respectively, outstanding weighted average stock options and restricted shares from the calculation of diluted earnings per common share because their effects were anti-dilutive.

8. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2012 include cash balances held by the VIEs of approximately RMB536.2 million. These cash balances cannot be transferred to the Company by dividend, loan or advance according to existing PRC laws and regulations (Note 27). However, these cash balances can be utilized by the Group for its normal operations pursuant to various agreements which enable the Group to substantially control the VIEs as described in Note 2(3) for its normal operations.

Included in the cash and cash equivalents are cash balances denominated in U.S. dollars of approximately US$96.1 million and US$56.1 million (approximately RMB605.0 million and RMB352.7 million) as of December 31, 2011 and 2012, respectively, and cash balances denominated in Korean Won of approximately KRW10,568.0 million and KRW14,214.9 million (approximately RMB61.8 million and RMB83.1 million) as of December 31, 2011 and 2012, respectively.

9. ACCOUNTS RECEIVABLE

	December 31, 2011 RMB	December 31, 2012 RMB
Accounts receivable	75,866	112,482
Less: Allowance for doubtful accounts	(3,109)	(6,636)
	72,757	105,846

The movements of the allowance for doubtful accounts during the years ended December 31, 2010, 2011 and 2012 are as follows:

	For the Years Ended December 31,		
	2010	2011	2012
	RMB	RMB	RMB
Balance at beginning of year	2,041	3,919	3,109
Add: Current year additions	3,420	1,752	3,696
Less: Current year reversal	(30)	—	—
Current year write-offs	(1,512)	(2,137)	(204)
Foreign currency translation	—	(425)	35
Balance at end of year	3,919	3,109	6,636

10. INVESTMENTS IN AFFILIATED COMPANIES

The following table includes the Group’s carrying amounts and percentages of ownership of the investments in affiliated companies under the equity and cost methods as of December 31, 2012 and the carrying amounts as of December 31, 2011:

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	December 31, 2011	December 31, 2012	
	RMB	RMB	Percentage Ownership
Investment in affiliated companies under the equity method:			
Beijing Chenkang Technology Co., Ltd ("Beijing Chenkang")	9,820	8,722	25%
Shanghai Maishi Information Technology Co., Ltd. ("Shanghai Maishi")	4,578	4,237	20%
WIP-KIF MCI Investment Fund("MCI Investment Fund")	4,186	5,912	27%
Chengdu Awata Network Technology Co., Ltd. ("Chengdu Awata")	3,989	—	20%
Beijing Yicheng Tianxia Technology Co., Ltd. ("Beijing Yicheng Tianxia")	3,460	—	40%
Anipark Co., Ltd. (“Anipark”)	3,077	1,550	11%
Shanghai Lantian Information Technology Co., Ltd. ("Shanghai Lantian")	2,690	—	23%
Shanghai Shimai Information Technology Co., Ltd ("Shanghai Shimai")	2,050	1,181	25%
Shanghai Siyuan Digital Technology Co.; Ltd ("Shanghai Siyuan"	1,941	1,916	20%
Shanghai Qiyu Information Technology Co., Ltd. (“Shanghai Qiyu”)	829	—	20%
Fuzhou Lingyu Computer Technology Co., Ltd. (“Fuzhou Lingyu”)	319	—	30%
Xiamen Lianyu Science and Technology Co., Ltd. (“Xiamen Lianyu”)	297	—	30%
Chongqing Xiaoheiwu Technology Co., Ltd. (“Chongqing Xiaoheiwu”)	38	—	23%
Shanghai Shengduo Network Technology Co.,Ltd ("Shanghai Shengduo")	—	8,842	40%
Shanghai Ningle Technology Co.,Ltd ("Shanghai Ningle")	—	8,759	40%
AKG Investment Co., Ltd ("AKGI Fund")	—	5,783	17%
Fuzhou Shudong Network Technology Co.,Ltd ("Fuzhou Shudong")	—	1,675	30%
Chengdu Yunyou Network Technology Co.,Ltd ("Chengdu Yunyou")	—	1,277	30%
Others	8	312	20%-40%
Investment in affiliated companies under the cost method:			
Zhejiang Shengwang Huashi Technology Co.,Ltd ("Zhejiang Shengwang")	600	600	6%
Shanda Online Entertainment Limited (“Shanda Online”)	—	127,387	6%
Giant Dream Co., Ltd ("Giant")	—	8,773	8%
Total	37,882	186,926	

The movements of the investments in affiliated companies are as follows:

	Balances at January 1, 2010	Investments	Share of Profits (Losses)	Other Equity Movement	Balances at December 31, 2010

	RMB	RMB	RMB	RMB	RMB
Investment in affiliated companies under the equity method:					
Anipark	6,751	—	(3,851)	123	3,023
Shanghai Qiyu	829	—	—	—	829
Xiamen Lianyu	505	—	(208)	—	297
Fuzhou Lingyu	319	—	—	—	319
Beijing Yicheng Tianxia	—	8,000	(158)	—	7,842
Shanghai Maishi	—	4,800	429	—	5,229
Chengdu Awata	—	5,000	—	—	5,000
Shijiazhuang Hailan Online Game Development Co., Ltd. ("Shijiangzhuang Hailan")	—	4,000	(339)	—	3,661
Shanghai Lantian	—	3,000	(134)	—	2,866
Shenzhen Youyou Digital Technology Co., Ltd.("Shenzhen Youyou")	123	3,000	(926)	—	2,197
Chongqing Xiaoheiwu	—	—	151	—	151
Others	176	202	(340)	—	38
Total	8,703	28,002	(5,376)	123	31,452

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	Balances at January 1, 2011	Investments	Share of Profits / (Losses)	Impairment	Other Equity Movement	Balances at December 31, 2011
	RMB	RMB	RMB	RMB	RMB	RMB
Investment in affiliated companies under the equity method:						
Beijing Yicheng Tianxia	7,842	—	(4,382)	—	—	3,460
Shanghai Maishi	5,229	—	(651)	—	—	4,578
Chengdu Awata	5,000	—	(1,011)	—	—	3,989
Anipark	3,023	—	2,386	—	(2,332)	3,077
Shijiazhuang Hailan	3,661	—	(267)	(3,394)	—	—
Shanghai Lantian	2,866	—	(176)	—	—	2,690
Shenzhen Youyou	2,197	—	—	(2,197)	—	—
Shanghai Qiyu	829	—	—	—	—	829
Fuzhou Lingyu	319	—	—	—	—	319
Xiamen Lianyu	297	—	—	—	—	297
Chongqing Xiaoheiwu	151	—	(113)	—	—	38
Beijing Chenkang	—	10,000	(180)	—	—	9,820
MCI Investment Fund	—	4,324	(171)	—	33	4,186
Shanghai Shimai	—	1,733	317	—	—	2,050
Shanghai Siyuan	—	2,000	(59)	—	—	1,941
Others	38	317	(106)	—	(241)	8
Investment in affiliated companies under the cost method:						
Zhejiang Shengwang	—	600	—	—	—	600
Total	31,452	18,974	(4,413)	(5,591)	(2,540)	37,882

	Balances at January 1, 2012	Investments	Share of Profits / (Losses)	Impairment	Other Equity Movement	Balances at December 31, 2012
	RMB	RMB	RMB	RMB	RMB	RMB
Investment in affiliated companies under the equity method:						

Beijing Chenkang	9,820	—	(1,098)	—	—	8,722
Shanghai Maishi	4,578	—	(341)	—	—	4,237
MCI Investment Fund	4,186	2,247	(892)	—	371	5,912
Chengdu Awata	3,989	—	(325)	(3,664)	—	—
Beijing Yicheng Tianxia	3,460	—	(3,460)	—	—	—
Anipark	3,077	—	(1,616)	—	89	1,550
Shanghai Lantian	2,690	—	(47)	(2,643)	—	—
Shanghai Shimai	2,050	—	(869)	—	—	1,181
Shanghai Siyuan	1,941	—	(25)	—	—	1,916
Shanghai Qiyu	829	—	—	(829)	—	—
Fuzhou Lingyu	319	—	—	(319)	—	—
Xiamen Lianyu	297	—	(297)	—	—	—
Chongqing Xiaoheiwu	38	—	(38)	—	—	—
Shanghai Shengduo	—	10,000	(1,158)	—	—	8,842
Shanghai Ningle	—	9,000	(241)	—	—	8,759
AKGI Fund	—	5,655	(63)	—	191	5,783
Fuzhou Shudong	—	2,000	(325)	—	—	1,675
Chengdu Yunyou	—	1,400	(123)	—	—	1,277
Suzhou Shengyou Network Development Co., Ltd.	—	1,000	(1,000)	—	—	—
Others	8	65	239	—	—	312
Investment in affiliated companies under the cost method:						
Zhejiang Shengwang	600	—	—	—	—	600
Shanda Online	—	127,387	—	—	—	127,387
Giant	—	8,334	—	—	439	8,773
Total	37,882	167,088	(11,679)	(7,455)	1,090	186,926

11. PROPERTY AND EQUIPMENT

Property and equipment and its related accumulated depreciation as of December 31, 2011 and 2012 are as follows:

	December 31, 2011 RMB	December 31, 2012 RMB
Computer equipment	422,983	378,837
Leasehold improvements	22,757	38,329
Furniture and fixtures	29,493	30,505
Motor vehicles	10,500	5,958
Less: Accumulated depreciation	(255,258)	(264,561)
Net book value	230,475	189,068

Depreciation expense for the years ended December 31, 2010, 2011 and 2012 was approximately RMB57,017, RMB74,439 and RMB82,897, respectively.

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12. INTANGIBLE ASSETS

Intangible assets consist of upfront licensing fees paid to online game licensors, software and copyrights, and intangible assets arising from business combinations. Gross carrying amounts, accumulated amortization and net book value of the Group's intangible assets as of December 31, 2011 and 2012 are as follows:

	December 31, 2011 RMB	December 31, 2012 RMB
Gross carrying amounts:		
Upfront licensing fee paid	473,471	553,580
Software, copyrights and others	145,184	153,946
Intangible assets arising from business combinations		
— Software technologies*	833,349	724,100
— Non-compete arrangements	34,848	34,848
— Trademarks	308,492	94,181
— Customer databases	14,271	19,308
	1,809,615	1,579,963
Less: accumulated amortization		
Upfront licensing fees paid	(397,888)	(441,877)
Software, copyrights and others	(114,183)	(122,936)
Intangible assets arising from business combinations		
— Software technologies	(293,206)	(343,422)
— Non-compete arrangements	(16,780)	(21,321)
— Trademarks	(40,984)	(26,144)
— Customer databases	(4,304)	(8,715)
	(867,345)	(964,415)
Add: Gross carrying amount of intangible assets with indefinite life*		
— In-progress research and development with indefinite life	95,218	6,000
Less: accumulated impairment	(42,740)	(43,197)
Net book value	994,748	578,351

* Software technologies includes assets reclassified from in-progress research and development with indefinite life after completion of the associated research and development efforts. Amounts reclassified were nil and RMB 89.2

million during 2011 and 2012, respectively. The remaining RMB6 million of in-progress research and development had been impaired (via accumulated impairment) prior to December 31, 2011.

Amortization expense for the years ended December 31, 2010, 2011 and 2012 amounted to approximately RMB246,579, RMB278,375 and RMB188,298, respectively.

The estimated aggregate amortization expense for each of the five succeeding fiscal years is as follows:

	Amortization RMB
2013	155,139
2014	134,233
2015	114,835
2016	80,738
2017	33,496
Total	518,441

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13. GOODWILL

The changes in the carrying amount of goodwill from significant acquisitions are as follows:

	Actoz	Chengdu Aurora	Shanghai Shulong	Chengdu Simo	Goldcool	Mochi	Eyedentity	eFusion	Others	Total
	RMB									
Balance as of December 31, 2010	86,479	26,130	3,934	53,532	25,077	163,617	123,425	—	4,713	486,907
Acquisitions in 2011	—	—	—	—	—	—	—	—	5,209	5,209
Balance as of December 31, 2011	86,479	26,130	3,934	53,532	25,077	163,617	123,425	—	9,922	492,116
Acquisitions in 2012	—	—	—	—	—	—	—	718	—	718
Divestitures in 2012	—	—	—	—	—	(163,617)	—	—	—	(163,617)
Balance as of December 31, 2012	86,479	26,130	3,934	53,532	25,077	—	123,425	718	9,922	329,217

Goodwill arising from business combinations completed in 2011 and 2012 has been allocated to the respective reporting units of the Group. Goodwill is not amortized but is reviewed annually for impairment. The Group performed goodwill impairment tests in October of 2010, 2011 and 2012 using the two-step quantitative approach, and determined that the Group’s goodwill was not impaired for any reporting units.

14. SHORT-TERM BORROWINGS

Short-term borrowings as of December 31, 2011 and 2012 are as follows:

	December 31, 2011 RMB	December 31, 2012 RMB
Borrowing from China Merchant Bank	829,829	—
Borrowing from Shanghai Pudong Development Bank	8,689	—
Borrowing from Pingan Bank	19,000	—
Borrowing from China Minsheng Bank	—	980,538
Borrowing from Industrial and Commercial Bank of China	—	251,420
Borrowing from Citi Bank	—	250,337
Borrowing from others	1,331	92
Total short-term borrowings	858,849	1,482,387

In February 2012, the Group obtained a borrowing of US$156.0 million (equivalent to RMB980.5 million), which is repayable in February 2013, from China Minsheng Bank. The borrowing carried an interest rate of 6.0% per annum and was collateralized by a pledge of short term investments of RMB983.8 million with interest rate ranging from 5.46% to 6.94% per annum. The Group repaid the loan in February 2013.

In June 2012, the Group obtained a borrowing of US$40.0 million (equivalent to RMB251.4 million), which is repayable no later than August 2013, from Industrial and Commercial Bank of China. The borrowing carried an interest rate of 2.90% per annum and was collateralized by a pledge of short term investments of RMB260.0 million with an interest rate of 5% per annum.

In October 2012, the Group obtained a borrowing of KRW42,800.0 million (equivalent to RMB250.3 million), which is repayable in June 2013, from Citi Bank. The borrowing carried an interest rate of 3.7% per annum and was collateralized by a pledge of short term investments of KRW47,500 million (equivalent to RMB277.8 million) with interest rates ranging from 3.37% to 4.33% per annum.

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The movement of short-term borrowings during the years ended December 31, 2011 and 2012 are as follows:

	For the Years Ended December 31,	
	2011	2012
	RMB	RMB
Balance at beginning of year	—	858,849
Add: Current year additions	876,850	2,848,106
Current year additions from acquisition	2,421	—
Less: Current year repayment	(1,090)	(2,235,891)
Foreign currency translation	(19,332)	11,323
Balance at end of year	858,849	1,482,387

Weighted average borrowings were RMB424.4 million and RMB2,388.5 million for 2011 and 2012, respectively.

15. OTHER PAYABLES AND ACCRUALS

	December 31, 2011	December 31, 2012
	RMB	RMB
Salary and welfare payable	20,377	27,560
Accrued bonus	106,371	70,930
Unpaid rental for server software	5,810	2,938
Accrued professional service fee	12,772	15,162
Acquisition related obligation (Note 4)	58,771	143,374
Unpaid advertisement and promotion fee	142,911	158,667
Unpaid rental fee	153	13,562
Payables to employees relating to exercise of options (Note 2(7))	10,343	3
Interest payable	10,579	16,913
Derivative liability-foreign currency forward contracts(Note 22)	—	9,312
Other payables	47,890	50,112
Total	415,977	508,533

16. ORDINARY SHARES

Upon incorporation of Shanda Games (HK) in December 2007, Shanda subscribed for 55,000,000 shares at a par value of US$1.00 per ordinary share in Shanda Games (HK). In turn, Shanda paid US$45 million, equivalent to RMB328.9 million out of the total payable of US$55 million to Shanda Games (HK). Following a corporate reorganization on July 1, 2008, Shanda transferred all of its 55,000,000 ordinary shares in Shanda Games (HK) to the Company in exchange for the issuance of 54,999,999 ordinary shares of the Company. Together with the 1 ordinary share owned by Shanda upon the incorporation of the Company, Shanda owned 55,000,000 ordinary shares in the Company immediately after the share swap. Due to the share swap, the Company assumed the payable of US$10 million to Shanda Games (HK), which was settled in cash in 2009. On September 18, 2008, the Company declared a share dividend and distributed 495,000,000 ordinary shares to Shanda. Immediately after the share dividend, Shanda owned 550,000,000 ordinary shares of Shanda Games at a par value of US$0.01 per ordinary share.

The transactions described above were accounted for as a legal reorganization under common control. Therefore the Company is assumed to have been in existence since January 1, 2007, and the impact of the share transactions is accounted for retroactively. In connection with Shanda's investments that were transferred from Shanda to the Group, such as investments in Actoz and certain affiliated companies, as part of the corporate reorganization, they were recorded as capital contributions from Shanda.

On September 30, 2009, the Company completed an IPO on the NASDAQ Global Select Market. In the offering, 83,500,000 American Depositary Shares ("ADSs"), representing 167,000,000 Class A ordinary shares, were sold to the public at a price of US$12.50 per ADS. Of these, 13,043,500 ADSs, representing 26,087,000 Class A ordinary shares, were sold by the Company; and 70,456,500 ADSs, representing 140,913,000 Class A ordinary shares, were sold by a direct wholly-owned subsidiary of Shanda. The net proceeds to the Company from the IPO, after deducting commissions and offering expenses, were approximately US$152.5 million.

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As of December 31, 2012, the Company had an aggregate of 540,947,314 ordinary shares issued and outstanding. These outstanding shares consist of (1)131,860,314 Class A ordinary shares held by public shareholders and (2) 409,087,000 Class B ordinary shares indirectly held by Shanda. The terms of the Class A ordinary shares and Class B ordinary shares are similar, except that (i) each Class A ordinary share and Class B ordinary share are entitled to 1 vote and 10 votes respectively on matters subject to shareholders' vote, and (ii) each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof, but Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances.

17. REPURCHASE OF SHARES

On March 1, 2010, the Company's Board of Directors approved a share repurchase program under which the Company was authorized to repurchase up to US$150 million worth of its outstanding ADSs during the next 24 months depending on market conditions, share price and other factors, subject to the relevant rules under United States securities regulations. In June 2012, the Company's Board of Directors approved a new share repurchase program under which the Company is authorized to repurchase up to $100 million worth of its outstanding ADSs during the next 12 months. The share repurchases may be made on the open market, in block trades or otherwise, and are to be funded by the Company's available working capital.

In 2010, the Company repurchased a total of 12,123,982 ordinary shares for aggregate consideration of US$37.8 million (approximately RMB255.9 million). After the repurchase, those shares were retired. The excess of US$37.6 million (approximately RMB255.1 million) of purchase price over par value, was allocated between additional paid-in capital and retained earnings of US$3.1 million and US$34.5 million, respectively (approximately RMB21.1 million and RMB234.0 million, respectively), based on the pro rata portion of additional paid-in capital on the ordinary shares.

In 2011, the Company repurchased a total of 12,221,320 ordinary shares for aggregate consideration of US$29.2 million (approximately RMB186.3 million). After the repurchase, those shares were retired. The excess of US$29.1 million (approximately RMB185.5 million) of purchase price over par value was allocated between additional paid-in capital and retained earnings of US$3.5 million and US$25.6 million, respectively (approximately RMB22.0 million and RMB163.5 million, respectively), based on the pro rata portion of additional paid-in capital on the ordinary shares.

In 2012, the Company repurchased a total of 21,946,754 shares for aggregate consideration of US$40.4 million (approximately RMB255.4 million). After the repurchase, those shares were retired. The excess of US$40.1 million (approximately RMB254.0 million) of purchase price over par value was allocated between additional paid-in capital and retained earnings of US$6.2 million and US$33.9 million, respectively (approximately RMB39.5 million and RMB214.5 million, respectively), based on the pro rata portion of additional paid-in capital on the ordinary shares.

As of December 31, 2012, the Company had repurchased in the aggregate 46,292,056 shares for aggregate consideration of US$107.4 million (approximately RMB697.6 million). The excess of US$106.8 million (approximately RMB694.6 million) of purchase price over par value, was allocated between additional paid-in capital and retained earnings of US$12.8 million and US$94.0 million, respectively (approximately RMB82.6 million and RMB612.0 million, respectively), based on the pro rata portion of additional paid-in capital on the ordinary shares.

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18. NON-CONTROLLING INTERESTS

Non controlling interests as of December 31, 2011 and 2012 are as follows:

	December 31, 2011 RMB	December 31, 2012 RMB
Non-controlling interests in Actoz	247,775	30,720
Non-controlling interests in other subsidiaries	9,383	22,590
	257,158	53,310

The movements of non-controlling interests during the years ended December 31, 2010, 2011 and 2012 are as follows:

	For the Years Ended December 31,		
	2010 RMB	2011 RMB	2012 RMB
Balance at beginning of year	205,886	238,864	257,158
Add:			
Non-controlling interests arising from business combination	6,451	4,062	5,533
Capital contribution to subsidiaries by non-controlling interests*	—	—	7,116
Net income attributable to non-controlling interests	15,846	21,115	23,165
Share-based compensation of subsidiaries	5,020	8,326	8,886
Exercise of share options of a subsidiary	3,848	5,349	4,920
Less:			
Currency translation adjustments of subsidiaries	1,813	(19,586)	9,444
Contribution by noncontrolling shareholders related to transfer of a portion of subsidiary Eyedentity's equity from Shanda Games International to Actoz (see Note 4(3))	—	—	(260,077)
Disposal of a subsidiary	—	—	(2,835)
Change of equity in an affiliated company of a subsidiary	—	(972)	—
Balance at the end of year	238,864	257,158	53,310

*Capital contribution to subsidiaries by non-controlling interests mainly represented capital contributions from non-controlling interests to subsidiaries which are majority-owned. The group contributed a total amount of RMB15.2 million to such subsidiaries for its controlling interests.

19. SHARE OPTION PLAN

Certain of the Group's employees historically were granted awards under share-based incentive plans established by the Group's parent, Shanda, which formerly was a publicly traded NASDAQ issuer and delisted, changing its status to a private company in February 2012. All share based payment awards historically issued by Shanda at that time were extinguished. Share-based compensation expenses related to Shanda's now-defunct incentive plans were recognized in the Group's consolidated statements of operations and comprehensive income in the amounts of RMB7.8 million, RMB1.2 million and nil for the years ended December 31, 2010, 2011 and 2012, respectively.

For awards granted to the Company's employees under the share-based incentive plans established by the Company, share-based compensation expenses were recognized in the Company's consolidated statements of operations and comprehensive income in the amounts of RMB93.1 million, RMB81.4 million and RMB33.6 million for the years ended December31, 2010, 2011 and 2012 respectively.

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Share-based compensation of the Company

2008 Equity Compensation Plan

In November 2008, the Company authorized an equity compensation plan (the "2008 Equity Compensation Plan") that provides for the issuance of options to purchase up to 44,000,000 ordinary shares. Under the Company's 2008 Equity Compensation Plan, the directors may, at their discretion, grant any officers (including directors) and employees of the Company and/or its subsidiaries, and individual consultants or advisors (i) options to subscribe for ordinary shares, (ii) share appreciation rights to receive payment, in cash and/or the Company's ordinary shares, equal to the excess of the fair market value of the Company's ordinary shares, or (iii) other types of compensation based on the performance of the Company's ordinary shares. In November 2010, the Company increased the number of ordinary shares reserved under the 2008 Equity Compensation Plan to 54,750,000 ordinary shares.

From November 14, 2008 through September 7, 2009, the Company granted options to employees to purchase 24,752,500 ordinary shares at an exercise price of US$3.20 per share and 936,000 ordinary shares at an exercise price of US$3.98 per share under the Company's 2008 Equity Compensation Plan, respectively. After the Company's IPO, from October 16, 2009 through December 1, 2009, the Company granted options to employees to purchase 38,000 Class A ordinary shares at an exercise price of US$5.38 and 20,000 Class A ordinary shares at an exercise price of US$5.29 under the Company's 2008 Equity Compensation Plan, respectively, equivalent to the average market value in the previous fifteen trading days of the grant dates. The options can be exercised within 10 years from the respective grant dates. Pursuant to the 2008 Equity Compensation Plan, for each quarter during the four years beginning on the Performance Period Start Date through the four-year Performance Period, 1/16th of the options have the opportunity to be earned, including 1/3 of which can be earned subject to the participant's continued employment with the Group, and up to 2/3 of which can be earned contingent on the achievement of different performance targets.

For the options granted prior to the consummation of the Company's IPO, the vesting conditions are: 1) On each of the first four anniversaries of the Performance Period Start Date, twenty percent (20%) of the earned options during the year preceding such anniversary date shall vest and become exercisable; and 2) on each of the first four anniversaries of the consummation of the IPO, eighty percent (80%) of the earned options during the year preceding the corresponding first four anniversaries of the Performance Period Start Date shall vest and become exercisable

provided, in each case, that the employees remain employed by the Company on such vesting date.

The Company did not recognize share-based compensation expenses for the earned options (80%) granted prior to the IPO and which vested upon the consummation of the IPO, as the Company was not able to determine that it was probable that this performance condition would be satisfied until such event occurred As a result of the consummation of the IPO, the share-based compensation expenses for this portion of the earned options were recognized in the Company's consolidated statements of operations and comprehensive income.

In accordance with ASC 718, after IPO, the Company recognized share-based compensation expenses for the options granted prior to IPO, net of a forfeiture rate, using the straight-line method for the 1/3 of the 20% of the options earned subject to the employees' continued employment with the Group, and using the graded-vesting method for of the rest of the options earned contingent on the achievement of different performance targets when the Company concluded that it is probable that the performance targets would be achieved (or were achieved).

There was one significant modification in the first quarter of 2010 relating to the previously granted performance-based options. These options were not considered probable to be earned and vested under the original performance target, but were probable under the revised performance target. The compensation costs for the original awards were nil as none of the options were expected to vest. The incremental fair value was equal to the full fair value of the modified award, which represents the total cumulative compensation cost to be recognized for the award. On the modification date, the compensation costs previously recognized for the unvested award were reversed and fair value of the modified award was recognized as compensation cost over the remaining vesting period of the modified award.

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In January 2010, the Company replaced the outstanding employee options of a foreign subsidiary with options of the Company. The replacement awards allow employees to purchase 962,963 Class A ordinary shares within 10 years from the original grant date and have the same vesting terms as under the original award. The replacement awards' share option activities are included in the 2008 Equity Compensation Plan movements. The incremental compensation cost resulting from the replacement was immaterial.

From March 9, 2010 through December 15, 2010, the Company granted options under the 2008 Equity Compensation Plan to purchase 6,805,200 Class A ordinary shares of the Company at an exercise price equivalent to the average market value in the previous fifteen days. From January 1, 2011 through December 1, 2011, the Company granted options under the 2008 Equity Compensation Plan to purchase 5,380,300 Class A ordinary shares of the Company at an exercise price equivalent to the average market value in the previous fifteen days. From January 1, 2012 through December 1, 2012, the Company granted options under the 2008 Equity Compensation Plan to purchase 7,732,000 Class A ordinary shares of the Company at an exercise price equivalent to the average market value in the previous fifteen days. Pursuant to the 2008 Equity Compensation Plan, for each quarter during the four years beginning on the Performance Period Start Date through the four-year Performance Period, 1/16th of the options have the opportunity to be earned, including 1/3 of which can be earned subject to the participant's continued employment with the Group, and up to 2/3 of which can be earned contingent on the achievement of different performance targets. The options have 10 year contractual terms from the grant dates and vest over four year periods. On each of the first four anniversaries of the Performance Period Start Date, one hundred percent (100%) of the options earned during the year preceding such anniversary date shall vest and become exercisable provided that the employees remain employed by the Group on such vesting date.

From January 1, 2011 through April 15, 2011, the Company granted options under the 2008 Equity Compensation Plan to purchase 216,400 Class A ordinary shares of the Company with no performance conditions at an exercise price equivalent to the average market value in the previous fifteen days. The options have 10 year contractual terms from the grant dates and vest over four year periods. On the first anniversary of the grant date, 25% of the options vest, and over the three-year remaining vesting period, $1/36^{th}$ of the options vest monthly provided that the employees remain employed by the Group on such vesting dates.

In 2011, the Company granted options under the 2008 Equity Compensation Plan to purchase 1,916,739 Class A ordinary shares of the Company at an exercise price equivalent to the average market value in the previous fifteen days. The options have a 10 year contractual term from the grant date and vested immediately.

On September 14, 2012, the board of directors approved an option modification to reduce the exercise price of certain outstanding options (mainly granted to key members of management and certain staff) that were granted by the Company under the 2008 Equity Compensation Plan to a calculated market value of US$1.835 per ordinary share. The calculated value was based on the average closing price of the Company's ADSs during the 15 consecutive trading days prior to September 14, 2012 divided by two. Other terms of the option grants remain unchanged. Total modified options amount to 12.8 million, or 9.9 million unvested options and 2.9 million vested options. All eligible option grantees affected by such changes had entered into amendments to their original share option agreements with the Company. A modification charge for the incremental compensation cost of RMB5.7 million was recorded in the third quarter of 2012 for fully vested options. The Company expects to record approximately RMB11.9 million of incremental cost for unvested options over their respective remaining vesting periods of one year to four years. Overall, this modification was undertaken in light of the decrease in the Company’s share price after the large 2011 special dividend.

Share-based compensation expenses related to the option awards granted by the Company under the 2008 Equity Compensation Plan amounted to approximately RMB44.6 million, RMB35.2 million and RMB16.9 million for the years ended December 31, 2010, 2011 and 2012.

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The Company's share option activities as of December 31, 2010, 2011 and 2012 and changes during the years then ended are presented below:

	Options Outstanding	Weighted Average Exercise Price		Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
		US$			US$ (in thousands)
Outstanding at December 31, 2009	25,555,200	3.2		8.94	47,589
Granted	7,768,163	3.0			
Exercised	(1,403,548)	2.6			
Forfeited	(8,708,587)	3.3			
Expired	—	—			
Outstanding at December 31, 2010	23,211,228	3.2		8.34	2,225
Vested and expected to vest at December 31, 2010	21,863,951	3.2		8.33	2,199
Vested and exercisable at December 31, 2010	5,182,199	3.2		7.96	176
Granted	7,513,439	3.0			
Exercised	(650,100)	2.3			
Forfeited	(7,714,478)	3.1			
Expired	—	—			
Outstanding at December 31, 2011	22,360,088	3.2		7.90	300
Vested and expected to vest at December 31, 2011	21,891,028	3.2		7.88	273
Vested and exercisable at December 31, 2011	7,568,229	3.1		7.13	31
Granted	7,732,000	1.9			
Exercised	(149,884)	0.6			
Forfeited	(7,840,095)	2.6	*		
Expired	—	—			
Outstanding at December 31, 2012	22,102,109	2.2	*	7.84	46
Vested and expected to vest at December 31, 2012	18,678,050	2.3	*	7.24	46
Vested and exercisable at December 31, 2012	8,989,861	2.8	*	6.46	8

* Includes the impact of stock option exercise price modification in September 2012 previously discussed.

The aggregate intrinsic values are calculated as the differences between the market values of US$3.22, US$1.96 and US$1.52 as of December 31, 2010, 2011 and 2012 and the exercise prices of the shares. The total intrinsic value of options exercised during the year ended December 31, 2012 was US$0.1 million.

The weighted average grant-date fair values of options granted during the years ended December 31, 2010, 2011 and 2012 were US$1.92, US$1.15 and US$1.01, respectively. The weighted average grant-date fair values of options vested during 2010, 2011 and 2012 were RMB81.3 million, RMB27.8 million and RMB46.2 million, respectively.

As of December 31, 2012, there was RMB37.9 million of unrecognized compensation cost, adjusted for the estimated forfeitures, related to unvested options granted to the Group's employees. This cost is expected to be recognized over a weighted average period of 2.6 years. Total compensation cost may be adjusted for future changes in estimated forfeitures and the probability of the achievement of performance conditions. In 2012, total cash received from the exercise of stock options amounted to RMB0.7 million.

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The fair value of each option granted under the Company's 2008 Equity Compensation Plan after the IPO was estimated on the date of grant using the Black-Scholes model with the assumptions in the following table:

	For the year ended December 31		
	2010	2011	2012
Exercise Price	US$0.23~US$3.40	US$2.47~US$3.62	US$1.84~US$2.05
Fair value of ordinary shares	US$2.50~US$5.21	US$1.99~US$3.75	US$1.92~US$2.23
Risk-free interest rate[(1)]	1.00%~2.50%	0.88%~2.0%	0.63%~1.0%
Expected life (in years)[(2)]	5	2.25~5	5
Expected dividend yield[(3)]	0%	0%	0%
Expected volatility[(4)]	50%	50%	50~60%
Fair value per option at grant date (in RMB)	7.31~33.52	2.22~11.88	6.3~6.52

(1) The risk-free interest rate for periods within the contractual life of the share option is based on the U.S. Treasury yield curve in effect at the time of grant for a term consistent with the expected term of the awards.

(2) The expected term of stock options granted is developed giving consideration to vesting period, contractual term and historical exercise pattern of options granted by the Company.

(3) The Company has no expectation of paying regular dividends on its ordinary shares.

(4) Expected volatility is estimated based on the historical volatility of comparable companies' stocks and of the Company's ordinary shares for a period equivalent to the expected term preceding the grant date.

On December 22, 2008, the Company also granted 407,770 restricted shares under the Company's 2008 Equity Compensation Plan. The restricted shares vest in equal installments over four calendar years on December 31 of each such calendar year, commencing on December 31, 2009, subject to the employee's continued employment with the Group.

From July 14, 2009 through December 1, 2009, the Company granted 251,920 restricted shares and 6,068,500 restricted shares to the Group’s and Shanda’s employees, respectively, under the Company’s 2008 Equity Compensation Plan. From January 1, 2010 through December 1, 2010, the Company granted 4,488,279 and 925,000 restricted shares to the Group's and Shanda's employees, respectively, under the Company's 2008 Equity Compensation Plan. From January 1, 2011 through December 1, 2011, the Company granted 1,661,989 and 1,788,624 restricted shares to the Group's and Shanda's employees, respectively, under the Company's 2008 Equity Compensation Plan. From January 1, 2012 through December 1, 2012, the Company granted 337,462 and 1,142,500 restricted shares to the Group's and Shanda's employees, respectively, under the Company's 2008 Equity Compensation Plan.These awards will vest in equal installments over two to four years, commencing on the grant date, subject to the employee’s continued employment with the Group or Shanda, as the case may be.

Share-based compensation expense related to the restricted share awards granted by the Company under the 2008 Equity Compensation Plan amounted to RMB48,518, RMB46,161 and RMB16,675 for the years ended December 31, 2010, 2011 and 2012. The restricted shares granted to Shanda’s employees were measured at fair value at the grant dates and amounts of RMB62,453, RMB65,044 and RMB43,129 were recognized as dividends distributed to Shanda in 2010, 2011 and 2012, respectively.

A summary of unvested restricted share activity as of December 31, 2010, 2011 and 2012 is presented below:

Unvested Restricted Shares	Number of Shares		Weighted Average Grant-date Fair Value US$
Unvested at December 31, 2009	6,725,190		6.0
Granted	5,413,279		4.1
Vested	(2,022,688	)	5.5
Forfeited	(489,549	)	5.5
Unvested at December 31, 2010	9,626,232		5.2
Expected to vest at December 31, 2010	8,473,034		5.1
Granted	3,450,613		3.0
Vested	(4,492,918	)	5.2
Forfeited	(1,082,538	)	5.6
Unvested at December 31, 2011	7,501,389		4.5
Expected to vest at December 31, 2011	7,120,357		4.5
Granted	1,479,962		2.0
Vested	(2,434,628	)	4.7
Forfeited	(1,635,122	)	4.9
Unvested at December 31, 2012	4,911,601		3.5
Expected to vest at December 31, 2012	4,498,720		3.3

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The total intrinsic value of restricted shares vested during the years ended December 31, 2010, 2011 and 2012 was RMB42.9 million, RMB55.3 million and RMB23.1 million, respectively.

As of December 31, 2012, there was RMB74.3 million of unrecognized compensation cost (including the unrecognized compensation cost of the restricted shares granted to the employees of Shanda amounting to RMB52.1 million), adjusted for estimated forfeitures, related to unvested restricted shares granted to the Group's employees and Shanda employees. This cost is expected to be recognized over a weighted average period of 2.02 years. Total compensation cost may be adjusted for future changes in estimated forfeitures.

Share-based compensation of Actoz

Since 2005, Actoz has granted stock options to its employees as an incentive program.

A total of 127,420 shares were granted to Actoz's employees in July 2006; 140,000 shares were granted in March 2007; 470,730 shares were granted in September 2007; 94,040 shares were granted in March 2008; 10,000 shares were granted in October 2008; 102,666 shares were granted in March 2010, and 40,000 shares were granted in March, 2012.

The stock options may be exercised from the date that is two years from the grant date for a period of five years under relevant law. The grantees who were granted options before March 2007 may exercise 2/3 of granted stock options two years after the grant date and 1/3 of granted stock options may be exercised three years after the grant date. Grantees who were granted options in September 2007 and in 2008, 2010 and 2012 may exercise 1/2 of granted stock options two years after grant date, 1/4 of granted stock options may be exercised three years after grant date, and 1/4 of granted stock options may be exercised four years after grant date.

Under the relevant law, the option exercise price is decided based on the price calculated by taking the arithmetic average of the weighted average of the periods of past two months, one month and one week each prior to the day immediately preceding the date of the shareholders meeting.

Actoz may decide upon one or more methods for exercise of the options pursuant to the resolution of the board of directors: 1) delivery of new shares of Actoz; 2) delivery of Actoz's treasury stock; or 3) payment by Actoz to the grantee of the difference between the market price at the time of exercise and the exercise price, in cash or treasury stock.

The assumptions used to value stock-based compensation awards for the years ended December 31, 2010 and 2012 are presented as follows. Further information regarding the assumptions has not been included as the grant-date fair value of the options issued was not material.

	For the years ended December 31	
	2010	**2012**
Risk-free interest rate	4.56%	3.71%
Expected life (in years)	4.5-4.9 years	4.9 years
Expected dividend yield	0%	0%
Expected volatility	65%-67%	61%
Fair value per option at grant date (in KRW)	7,504~7,668	10,379

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Activities of share options

Actoz's share option activities as of December 31, 2010, 2011 and 2012 and changes during the years then ended are presented below:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
		KRW		KRW
December 31, 2009	412,490	9,398	4.66	3,156,394
Granted	102,666	14,250	—	—
Exercised	(75,551)	9,378	—	—
Forfeited	(56,443)	9,532	—	—
December 31, 2010	383,162	10,682	4.38	301,206
Vested and expected to vest as of December 31, 2010	368,502	10,542	4.30	301,094
Vested and exercisable as of December 31, 2010	214,000	9,346	3.63	236,267
Granted	—	—	—	—
Exercised	(121,517)	9,416	—	—
Forfeited	(51,685)	13,468	—	—
December 31, 2011	209,960	10,729	3.52	551,208
Vested and expected to vest as of December 31, 2011	209,960	10,729	3.52	551,208
Vested and exercisable as of December 31, 2011	148,222	9,347	2.83	541,498
Granted	40,000	18,040	—	—
Exercised	(168,089)	10,372	—	3,896,501
Forfeited	(3,500)	14,250	—	—
December 31, 2012	78,371	15,070	4.69	1,734,338
Vested and expected to vest as of December 31, 2012	78,371	15,070	4.69	1,734,338
Vested and exercisable as of December 31, 2012	26,496	15,070	2.55	695,407

The aggregate intrinsic values were calculated as the differences between the market values of KRW10,450, KRW13,000 and KRW37,200 as of December 31, 2010, 2011 and 2012, respectively, and the exercise prices of the shares. The total intrinsic value of options exercised during the year ended December 31, 2012 was KRW3,896.5 million.

The weighted average fair value of options granted during fiscal year 2010 was KRW7,593. During 2011, Actoz did not grant any options. The weighted average estimated fair value of options granted during fiscal year 2012 was KRW10,379. The total fair value of options vested during the years ended December 31, 2011 and 2012 was KRW324.5 million and KRW174.2 million, respectively.

Share-based compensation expenses of approximately RMB5.0 million, RMB3.4 million and RMB1.9 million were recognized in the consolidated statements of operations and comprehensive income for the years ended December 31, 2010, 2011 and 2012.

As of December 31, 2012 there was KRW447.0 million(RMB2.6 million) of unrecognized compensation cost, adjusted for estimated forfeitures, related to unvested options granted to Actoz's employees. This cost is expected to be recognized over a weighted average period of 5.79 years. Total compensation cost may be adjusted for future changes in estimated forfeitures. For the year ended December 31, 2012, total cash received by Actoz from the exercise of stock options amounted to KRW1,743.4 million (equivalent to approximately RMB9.8 million).

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Share-based compensation of Eyedentity

In February 2012, pursuant to a resolution of the board of directors, the Group's Korean subsidiary Eyedentity authorized an equity compensation plan to grant stock options to its employees as an incentive program. A total of 95,000 shares were granted to Eyedentity's employees in February 2012. The options can be exercised within 5 years from the award date. These awards vest over a three year period, with 1/3 of the options to vest on each of the first, second, and third anniversaries of the award date under relevant Korean law.

The fair value of each option granted under Eyedentity's equity compensation plan was estimated on the date of grant using the Black-Scholes model with the assumptions noted in the following table. Further information regarding the assumptions has not been included as the grant-date fair value of the options issued in 2012 was not material.

	Year ended December 31	
	2012	
Risk-free interest rate	3.43	%
Expected life (in years)	4 years	
Expected dividend yield	0	%
Expected volatility	55.95	%
Fair value per option at grant date (in KRW)	55,403	

Activities of share options

Eyedentity's share option activities as of December 31, 2012 and changes during the year follow:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value

		KRW		KRW
Granted	95,000	100,000	—	—
Exercised	—	—	—	—
Forfeited	(13,500)	100,000	—	—
December 31, 2012	81,500	100,000	4.09	—
Vested and expected to vest as of December 31, 2012	81,500	100,000	4.09	—
Vested and exercisable as of December 31, 2012	—	—	—	—

There is no intrinsic value as of December 31, 2012. The weighted average grant date estimated fair value of options granted during 2012 was KRW55,403. Share-based compensation expense of approximately RMB7.0 million was recognized in the consolidated statements of operations and comprehensive income for 2012.

As of December 31, 2012 there was KRW2,832 million (RMB16.6 million) of unrecognized compensation cost, adjusted for estimated forfeitures, related to unvested stock-based awards granted to Eyedentity's employees. This cost is expected to be recognized over a weighted average period of 2.1 years. Total compensation cost may be adjusted for future changes in estimated forfeitures.

20. EMPLOYEE BENEFITS

The full-time employees of the PRC subsidiaries and the VIEs that are incorporated in the PRC are entitled to staff welfare benefits, including medical care, welfare subsidies, unemployment insurance and pension benefits. The PRC subsidiaries and the VIEs are required to accrue for these benefits based on certain percentages of the employees' salaries in accordance with the relevant regulations and to make contributions to the state-sponsored pension and medical plans out of the amounts accrued for medical and pension benefits. The total amounts charged to the statements of operations and comprehensive income for such employee benefits amounted to approximately RMB42,533, RMB76,275 and RMB91,271 for the years ended December 31, 2010, 2011 and 2012, respectively. The PRC government is responsible for the medical benefits and ultimate pension liability to these employees.

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21. RELATED PARTY TRANSACTIONS

Transactions pertaining to online gaming business and interest on lendings and borrowings

During the years ended December 31, 2010, 2011 and 2012, significant related party transactions were as follows:

	For the years ended December 31,		
	2010 RMB	2011 RMB	2012 RMB
Activity related to online gaming business:			
Platform service fees and sales agent fees paid to companies under common control by Shanda	(1,020,534)	(1,250,914)	(1,118,293)
Promotion service fee paid to companies under common control by Shanda	(10,551)	(7,260)	(3,914)
Online game licensing fees received from companies under common control by Shanda	6,672	3,199	1,814
Corporate general administrative expenses (2012: reversal) allocated from Shanda	(8,183)	(7,008)	3,467
Rental fee paid to companies under common control by Shanda	(13,796)	(17,647)	(17,624)
Consulting service fee paid to companies under common control by Shanda	(2,260)	—	(9,434)
Interest on loans to or from Shanda or companies under its common control:			
Interest expense for loans from Shanda and companies under common control by Shanda	(11,059)	(12,150)	(26,787)
Interest income from loans to Shanda and companies under common control by Shanda	1,997	32,490	83,711

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Amounts due from and due to related parties

As of December 31, 2011 and 2012, outstanding balances due from and due to related parties were as follows:

	December 31, 2011 RMB	December 31, 2012 RMB
Amounts due from related parties:		
Accounts receivable from companies under common control by Shanda	405,953	325,773
Other receivables from Shanda	1,667	1,035,432
Other receivables from companies under common control by Shanda	929,728	1,044,971
Amounts due to related parties:		
Accounts payable to companies under common control by Shanda	77,349	71,737
Other payables to companies under common control by Shanda	125,910	983,913

Except for loan transactions (included in “other receivables” and “other payables” above), the accounts receivable from and accounts payable to companies under common control by Shanda, mainly arising from the related party activity pertaining to the online gaming business described in the foregoing section of this note, are interest free, unsecured and can be settled on demand.

The Group from time to time extends interest-bearing loans to, or borrows interest-bearing funds from Shanda or companies under its common control. Such transactions have in part been motivated by the Group’s, Shanda’s, or Shanda’s affiliates’ needs to borrow or lend U.S. dollar denominated or RMB denominated funds under various circumstances. Before entering into these transactions, these arrangements were reviewed and assessed to ensure their fairness and that they would not pose incremental credit or interest risk to us.

Loans to related parties. The Group has extended various RMB-denominated loans to companies under the common control of Shanda as part of the efforts to manage the Group's surplus cash resources.

- In October and November 2010, the Group originated unsecured RMB-denominated loans with an aggregate principal amount of RMB503.0 million (US$80.7 million) to a company under common control of Shanda. These loans were originally due in September 2011 and their terms have been extended successively to June 2013. The interest rates on these loans for both the initial and the renewed terms were 5.68% per year, which were higher than the prevailing one-year deposit rates when the loans were originated and renewed, respectively.

- In February 2011, the Group originated an unsecured RMB-denominated entrusted loan of RMB20.0 (US$3.2 million) million to a company under common control of Shanda. This loan was originally due in August 2011 and its term has been extended successively to February 2013. The interest rate on this loan for both the initial and the renewed terms was 6.71% per year, which was higher than the prevailing one-year deposit rates when the loan was originated and renewed, respectively.

- In August 2011, the Group originated unsecured RMB-denominated entrusted loans with an aggregate principal amount of RMB300.0 million (US$48.2 million) to a company under common control of Shanda. These loans were originally due in August 2012 and their terms have been extended to August 2013. The interest rates on these loans for the initial and the renewed terms were 5.93% and 5.40% per year, respectively, which were higher than the prevailing one-year deposit rates when the loans were originated and renewed, respectively.

- In February 2012, the Group originated an unsecured RMB-denominated entrusted loan of RMB115.0 million (US$18.5 million) to a company under common control of Shanda. This loan was originally due in February 2013 and its term has been extended to February 2014. The interest rates on this loan for the initial and the renewed terms were 5.93% and 5.43% per year, respectively, which were higher than the prevailing one-year deposit rates when the loan was originated and renewed, respectively.

Borrowing and lendings related to Shanda's privatization. In connection with Shanda's privatization in February 2012, the Group engaged in a series of closely linked third-party and related-party borrowing and lending transactions. These transactions were motivated primarily by Shanda's needs for funds in U.S. dollars, its excess RMB-denominated cash resources, and the Group's access to both RMB-denominated and U.S. dollar-denominated cash resources and funding sources. The key actions taken were as follows:

- In February 2012, the Group borrowed, in the form of unsecured entrusted RMB-denominated loans, an aggregate principal amount of RMB926.0 million (US$148.6 million) from a company under the common control of Shanda. These RMB-denominated loans carry an interest rate of 3% per year. Concurrently, the Group provided U.S. dollar-denominated loans to Shanda with an aggregate amount of US$160.0 million (RMB1,005.7 million). The interest rate on these U.S. dollar-denominated loans is 3% per year. All of these borrowings were originally due in February 2013 and the terms were later extended to February 2014.

- In order to bridge the loans described above and obtain the U.S. dollars necessary to lend to Shanda, the Group borrowed US$156.0 million (equivalent to RMB980.5 million) from China Minsheng Bank at an interest rate of 6%

per year, by pledging certain RMB-denominated short term investments with China Minsheng Bank in an aggregate amount of RMB983.8 million, which earned interest at rates ranging from 5.46% to 6.94% per year, as collateral. Such short term investments were financed primarily with the proceeds from the RMB926.0 million entrusted loans described above. The interest rates on the China Minsheng Bank loan and the collateral were structured with an aim to cancel out the related interest income and expenses. This borrowing was repaid in February 2013 via conversion of RMB funds for U.S. dollars and the pledge was released.

With respect to the above transactions relating to Shanda's privatization, the interest income was RMB79.9 million (US$12.8 million) and interest expense was RMB78.7 million (US$12.6 million), resulting in net interest income of RMB1.2 million (US$0.2 million) for the year ended December 31, 2012.

The Group generated net income for loans to and from Shanda and companies under its common control, reflecting both the loans to related parties and the borrowings and lendings related to Shanda's privatization described above. With respect to these loans and transactions, the interest income was RMB83.7 million (US$13.4 million) and the interest expense was RMB26.8 million (US$4.3 million), resulting in net interest income of RMB56.9 million (US$9.1 million), for the year ended December 31, 2012.

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22. DERIVATIVE

In June 2009, Shengqu entered into an arrangement with a bank in China whereby Shengqu obtained a loan of US$102.5 million which was repaid in June 2010. The loan bore interest at 1.35% per annum and was collateralized with a cash deposit of RMB702 million from Shengqu. The interest earned from the RMB cash deposit is 2.25% per annum. In connection with the loan, Shengqu also entered into a foreign currency forward contract with the same bank by fixing the exchange rate of USD to RMB at 6.8445 at the time when it repays the U.S. dollar loan. The Group recorded the foreign currency forward contract as a derivative and marked-to-market at each balance sheet date. The loan is remeasured at each period end to Shengqu's functional currency and is netted off against its RMB cash deposit due to the existence of the legal set off right. On June 30, 2010, the forward contract was executed by releasing of RMB cash deposit to settle the principal and interest on the loan.

In the second quarter of 2012, the Group entered into several foreign currency forward contracts with certain domestic banks to manage foreign exchange rate exposure by fixing the exchange rates of USD to RMB at the contract maturity dates. None of the forward contracts were designated in hedging relationships; therefore, the foreign currency forward contracts were remeasured at fair value at the end of each reporting period with changes in fair value recognized in the consolidated statement of operations and comprehensive income. As of December 31, 2012, the total notional value amounted to US$196 million with a weighted average forward exchange rate of US$1.00 to RMB6.31. The Group recorded a derivative liability of RMB9.3 million in "other payables and accruals" for the current liability and a corresponding unrealized loss of RMB9.3 million and realized loss of RMB13.2 million as other expense in 2012.

23. CERTAIN RISKS AND CONCENTRATIONS

Financial instruments that potentially subject the Group to significant concentrations of credit risk consist primarily of cash and cash equivalents, short-term investments, accounts receivable, accounts receivable due from related parties and prepayments and other current assets. As of December 31, 2011 and 2012, substantially all of the Group's cash and cash equivalents and short-term investments were held by major financial institutions located in the PRC and Hong Kong, which management believes are of high credit quality.

Accounts receivable are typically unsecured and are derived from revenue earned from customers in China. The risk with respect to accounts receivables is mitigated by credit evaluations the Group performs on its customers and its ongoing monitoring process of outstanding balances.

No individual customer accounted for more than 10% of net revenues during the years ended December 31, 2010, 2011 and 2012.

The Group derived the majority of its net revenues from two MMORPGs, Mir II and Woool, including their sequels, which accounted for approximately 45.7% and 21.1% of the net revenues, respectively, for 2010, 39.7% and 16.8% of the net revenues, respectively, for 2011, and 33.0% and 15.7% of the net revenues, respectively, for 2012.

The Group's exposure to foreign currency exchange rate risk primarily relates to cash and cash equivalents and short-term investments denominated in the U.S. dollar, as well as borrowings with related parties denominated in the U.S. dollar and certain limited activity in foreign currency forward contracts entered into in relation to the rate of USD/RMB exchange as hedges. On July 21, 2005, the People's Bank of China, or PBOC, announced an adjustment of the exchange rate of the U.S. dollar to RMB from 1:8.27 to 1:8.11 and modified the system by which the exchange rates are determined. This adjustment has resulted in an appreciation of the RMB against the U.S. dollar. While the international reaction to the RMB revaluation has generally been positive, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further revaluation and a significant fluctuation of the exchange rate of RMB against the U.S. dollar.

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The RMB is not a freely convertible currency. The PRC State Administration for Foreign Exchange, under the authority of the People's Bank of China, controls the conversion of RMB into foreign currencies. The value of the RMB is subject to changes in central government policies and to international economic and political developments affecting supply and demand in China's foreign exchange trading system market. The Company's aggregate amount of cash and cash equivalents denominated in RMB amounted to RMB1,172 million and RMB1,640 million as of December 31, 2011 and 2012, respectively.

24. COMMITMENTS AND CONTINGENCIES

Operating lease agreements

The Group has entered into leasing arrangements relating to office premises and computer equipment that are classified as operating leases, which expire at various dates through December 2014. Future minimum lease payments for non-cancelable operating leases as of December 31, 2012 are as follows:

	Office Premises	Server leasing and maintenance fees	Total
	RMB	RMB	RMB
2013	28,328	76,373	104,701
2014	26,164	2,832	28,996
2015	24,172	—	24,172
2016	10,531	—	10,531
2017	562	—	562
Total	89,757	79,205	168,962

As of December 31, 2012, the Group had leased servers under operating lease arrangements where the lease payments are calculated based on certain formulas, as specified in the agreements, with reference to the actual usage of the servers. The server leasing rental expenses under these operating leases amounted to approximately RMB20,344, RMB10,787 and RMB3,748 during the years ended December 31, 2010, 2011 and 2012, respectively. As the future

lease payments for these arrangements are based on the actual number of users and thus cannot be reasonably estimated, they are not included in the minimum lease payments as disclosed above.

Total rental expenses including server leasing rental, office rental and server maintenance were approximately RMB134,792, RMB157,969 and RMB168,360 during the years ended December 31, 2010, 2011 and 2012, respectively, and were charged to the statements of operations and comprehensive income when incurred.

As of December 31, 2012, the Group also has commitments in respect of the maintenance contracts in relation to the servers owned by the Group and server leasing contracts amounting to RMB79,205.

As of December 31, 2012, there are no material capital lease obligations.

Capital commitments

As of December 31, 2012, capital commitments for purchase of equipment and game licenses were approximately RMB299,715.

Contingencies

The Company accounts for loss contingencies in accordance with ASC 450, "Contingencies" and other related guidance. Set forth below is a description of certain loss contingencies as well as the opinion of management as to the likelihood of loss.

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Current PRC laws and regulations include limitations on foreign ownership in PRC companies that conduct online gaming business. Specifically, foreign investors are not allowed to own any equity interests in any entity conducting online gaming business. Since the Company is incorporated in the Cayman Islands, neither the Company nor its PRC subsidiaries are eligible to hold licenses to conduct online gaming business in China. To comply with PRC laws and regulations, the Company conducts its operations in China through a series of contractual arrangements entered into among its wholly owned PRC subsidiaries and its VIEs.

The Company's VIEs hold the licenses that are essential to the operation of the Company's business. In the opinion of management, (i) the ownership structure of the Company, its PRC subsidiaries, and its VIEs is in compliance with existing PRC laws and regulations; (ii) the contractual arrangements with the VIEs and their shareholders are valid and binding, and will not result in any violation of PRC laws or regulations currently in effect; and (iii) the Company's business operations are in compliance with existing PRC laws and regulations in all material respects. However, there are substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations. Accordingly, the Company cannot be assured that PRC regulatory authorities will not ultimately take a contrary view to its opinion. If the current ownership structure of the Company and its contractual arrangements with the VIEs and their shareholders were found to be in violation of any existing or future PRC laws and regulations, the Company may be required to restructure its ownership structure and operations in the PRC to comply with the changing and new PRC laws and regulations.

Under PRC Ministry of Commerce ("MOFCOM") security review rules promulgated in September 2011, a national security review is required for certain mergers and acquisitions by foreign investors raising concerns regarding national defense and security. Foreign investors are prohibited from circumventing the national security review requirements by structuring transactions through proxies, trusts, indirect investment, leases, loans, control through contractual arrangements, or offshore transactions. Management has concluded there is no need to submit the existing contractual arrangements with its VIEs and their shareholders to the MOFCOM for national security review based upon analysis of the rules. However, there are substantial uncertainties regarding the interpretation and application of the MOFCOM security review rules, and any new laws, rules, regulations or detailed implementation measures in any form relating to such rules. Therefore, the Company cannot be assured that the relevant PRC regulatory authorities, such as the MOFCOM, would not ultimately take a contrary view to the opinion of management. If the MOFCOM or another PRC regulatory authority determines that the Company needs to submit the existing contractual arrangements with its VIEs and their shareholders for national security review, the Company may face sanctions by the MOFCOM or other PRC regulatory authority, which may include, among others, requiring the Company to restructure its ownership structure, discontinuation or restriction of operations in the PRC, or invalidation of the agreements that the PRC subsidiaries have entered into with the VIEs and their shareholders.

In such case, the Company may not be able to operate or control business in the same manner as it currently does, and therefore, may not be able to consolidate the VIEs. In addition, the relevant regulatory authorities would have broad discretion in dealing with such violations which may adversely impact the financial statements, operations and cash flows of the Company (including restrictions on the Company to carry out business).

If the VIEs and their shareholders fail to perform their respective obligations under the current contractual arrangements, the Company may have to incur substantial costs and expend significant resources to enforce those arrangements and rely on legal remedies under PRC laws. The PRC laws, rules and regulations are relatively new, and because of the limited volume of published decisions and their non-binding nature, the interpretation and enforcement of these laws, rules and regulations involve substantial uncertainties. These uncertainties may impede the ability of the Company to enforce these contractual arrangements, or suffer significant delay or other obstacles in the process of enforcing these contractual arrangements and may materially and adversely affect the results of operations and the financial position of the Company.

In the opinion of management, the likelihood of loss in respect of the Company’s current ownership structure or the contractual arrangements with the VIEs and their shareholders is remote.

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25. LITIGATION

On November 8, 2010, a former shareholder of Chengdu Simo filed a claim with the Sichuan Superior People's Court, or the Sichuan Court, against Shanghai Shulong, alleging that Shanghai Shulong had failed to pay RMB48.8 million of non-contingent consideration (see Note 15) in connection with the purchase of all of the outstanding shares of Chengdu Simo Technology Co., Ltd., or Chengdu Simo by Shanghai Shulong. This amount represents the final payment amount to be paid by Shanghai Shulong to the shareholder upon the achievement of certain milestones by Chengdu Simo relating to its game "Qi Xia Tian Xia." The shareholder has requested the court to require Shanghai Shulong to pay RMB48.8 million plus accrued interest. Shanghai Shulong does not believe that the milestone has been achieved yet.. Management has concluded that payment of additional amounts beyond the existing non-contingent consideration already recorded is remote. On September 13, 2011, Shanghai Shulong filed a claim with Shanghai No.1 Intermediate People's Court against the former shareholder of Chengdu Simo, alleging that the former shareholder had failed to perform the obligations in Share Purchase Agreement. There still are no verdicts on the foregoing cases.

26. SUBSEQUENT EVENTS

In February 2013, the Group extended the payment terms of certain unsecured loans provided to Shanda and companies under common control of Shanda.

The unsecured loan receivable from a company under the common control of Shanda denominated in RMB in the amount of RMB115.0 million (Note 21) was extended. This loan carried an interest rate of 5.93% and was originally due in February 2013. The term of this loan was extended to February 2014 and the interest rate was revised to 5.43%.

Certain other loans receivable from Shanda denominated in USD in the aggregate amount of US$160.0 million (RMB1,005.7 million) (Note 21) were extended in February 2013. These loans carried an interest rate of 3% and were originally due in February 2013. The terms of these loans were subsequently extended to February 2014 and the interest rate remained at 3%.

In February 2013, the Group extended the terms of unsecured borrowings by the Group from companies under common control of Shanda. These loans were denominated in RMB with aggregate amount of RMB926.0 million (US$148.6 million) (Note 21) and were originally due in February 2013. The terms of these loans were subsequently extended to February 2014 and the interest rate remained unchanged at 3%.

27. RESTRICTED NET ASSETS

Relevant PRC laws and regulations permit PRC companies to pay dividends only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. In addition, PRC companies can only distribute dividends upon approval of the shareholders after they have met the PRC requirements for appropriation to statutory reserves. The statutory general reserve fund requires annual appropriations of 10% of net after-tax income to be set aside prior to payment of any dividends. As a result of these and other restrictions under PRC laws and regulations, the PRC subsidiaries and the VIEs are restricted in their ability to transfer a portion of their net assets to the Company either in the form of dividends, loans or advances, which restricted portion amounted to approximately RMB1,279.1 million, or 30.1% of the Group’s total consolidated net assets as of December 31, 2012. Even though the Company currently does not require any such dividends, loans or advances from the PRC subsidiaries or the VIEs for working capital and other funding purposes, the Company may in the future require additional cash resources from the PRC subsidiaries or the VIEs due to changes in business conditions, to fund future acquisitions and developments, or merely declare and pay dividends to or distributions to the Company’s shareholders.

28. ADDITIONAL INFORMATION - CONDENSED FINANCIAL STATEMENTS

The condensed financial statements of the Company have been prepared in accordance with SEC Regulation S-X Rule 5-04 and Rule 12-04.

The Company records its investment in subsidiaries under the equity method of accounting. Such investment and long-term loans to subsidiaries are presented on the balance sheet as “Interests in subsidiaries” and the profit of the subsidiaries is presented as “Equity in profit of subsidiaries” on the statement of operations.

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These statements should be read in conjunction with the notes to the consolidated financial statements of the Group. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted.

As of December 31, 2011 and 2012, there were no material contingencies, significant provisions for long-term obligations, or guarantees of the Company, except for those which have been separately disclosed in the consolidated financial statements of the Group, if any.

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Condensed Statements of Operations

	For the Years Ended December 31			
	2010	2011	2012	2012
	RMB	RMB	RMB	US$ (Note 2(5))
Net revenues	—	—	—	—
Cost of revenues	—	—	—	—
Gross profit	—	—	—	—
Operating expenses				
Product development	—	—	—	—
Sales and marketing	—	—	—	—
General and administrative	(105,185)	(88,940)	(31,379)	(5,037)
Total operating expenses	(105,185)	(88,940)	(31,379)	(5,037)
Loss from operations	(105,185)	(88,940)	(31,379)	(5,037)
Interest income	1,540	5,103	28,128	4,515
Interest expenses	(10,915)	(13,610)	(134,253)	(21,549)
Other income(expenses)	294	(405)	(45)	(8)
Income tax expenses	—	—	—	—
Equity in profit of subsidiaries	1,403,087	1,362,726	1,250,979	200,796
Net income	1,288,821	1,264,874	1,113,430	178,717

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Condensed Balance Sheets

	December 31,		
	2011	2012	2012
	RMB	RMB	US$ (Note 2(5))
ASSETS			
Current assets:			
Cash and cash equivalents	29,127	130,506	20,948
Prepayment and other current assets	8,163	3,348	537
Other receivables due from related parties	484,687	1,036,060	166,299
Investment in subsidiaries	5,446,987	6,715,099	1,077,848
Total assets	5,968,964	7,885,013	1,265,632
LIABILITIES			
Current liabilities:			
Other payables and accruals	2,726	1,162	187
Other payables due to related parties	797,054	3,620,316	581,101
Dividend payable	1,823,314	11,489	1,844
Current liabilities	2,623,094	3,632,967	583,132
Total liabilities	2,623,094	3,632,967	583,132
Shareholders' Equity			
Class A ordinary shares (US$0.01 par value, 16,000,000,000 shares authorized, 151,222,556 and 131,860,314 issued and outstanding as of December 31, 2011 and 2012)	11,022	9,796	1,572
Class B ordinary shares (US$0.01 par value, 4,000,000,000 shares authorized, 409,087,000 and 409,087,000 issued and outstanding as of December 31, 2011 and 2012)	29,896	29,896	4,799
Additional paid-in capital	1,561,343	1,577,978	253,283
Accumulated other comprehensive loss	(68,480)	(38,322)	(6,152)
Retained earnings	1,812,089	2,672,698	428,998
Total Shanda Games Limited shareholders' equity	3,345,870	4,252,046	682,500
Total liabilities and shareholders' equity	5,968,964	7,885,013	1,265,632

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Condensed Statements of Cash Flows

	For the Years Ended December 31,			
	2010	2011	2012	2012
	RMB	RMB	RMB	US$ (Note 2(5))
Net cash generated / (used) in operating activities	1,090	(7,603)	4,796	770
Net cash generated / (used) in investing activities	(609,701)	530,776	(533,097)	(85,568)
Net cash generated / (used) in financing activities	679,627	(769,060)	629,821	101,093
Effect of foreign exchange rate changes on cash and cash equivalents	(7,562)	(8,191)	(141)	(22)
Net increase / (decrease) in cash and cash equivalents	63,454	(254,078)	101,379	16,273
Cash and cash equivalents, beginning of year	219,751	283,205	29,127	4,675
Cash and cash equivalents, end of year	283,205	29,127	130,506	20,948