OVERVIEW

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

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

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

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

Our marketing strategy focuses on cooperation with leading Internet companies, such as Facebook, Apple Inc. and Google Inc. In addition, we have established business relationships with more than 40 other game promotional platforms. As at 31 May 2013, we also provided players option to purchase virtual currency through 36 payment channels.

We have experienced significant growth in the Track Record Period. Our total revenue grew 38.9% from US$31.1 million for the year ended 31 December 2011 to US$43.2 million for the year ended 31 December 2012 and 42.9% from US$17.0 million for the five months ended 31 May 2012 to US$24.3 million for the five months ended 31 May 2013, and our gross profit grew 40.8% from US$23.3 million for the year ended 31 December 2011 to US$32.8 million for the year ended 31 December 2012 and 42.0% from US$13.1 million for the five months ended 31 May 2012 to US$18.6 million for the five months ended 31 May 2013. Revenue from our browser games increased 47.5% from US$22.1 million for the year ended 31 December 2011 to US$32.6 million for the year ended 31 December 2012 and 25.6% from US$13.3 million for the five months ended 31 May 2012 to US$16.7 million for the five months ended 31 May 2013, and revenue from our mobile games increased significantly from US$12,000 for the year ended 31 December 2011 to US$2.2 million for the year ended 31 December 2012 and continue to increase to US$3.6 million for the five months ended 31 May 2013.

For the years ended 31 December 2011 and 2012 and the five months ended 31 May 2012 and 2013, most of the revenue we earned from various games was collected and held by a number of payment channels. At the end of each month, we settle with these payment channels after deducting applicable services fees and directly record revenue generated from our operation of these games in the account of the relevant subsidiary that owns the IP right of that game. Payment is generally made upfront by our players in cash when purchasing the virtual currency and we do not provide users with the right of refund once the payment was made. Because IGG Singapore owns most of the intellectual property rights for the games we operate, 91.0%, 94.5%, 95.2% and 94.2% of our revenue was recorded by IGG Singapore in the years ended 31 December 2011 and 2012 and the five months ended 31 May 2012 and 2013, respectively.

BASIS OF PRESENTATION OF FINANCIAL INFORMATION

Basis of presentation

Under the prevailing laws and regulations in the PRC, companies with foreign ownership are prohibited from online game business and online advertising business in China. Our Group historically operated its online games and online advertising in China through Fuzhou Tianmeng and Fuzhou Online Game (collectively, the "PRC Operating Entities"). Fuzhou Online Game was disposed by our Group in October 2012.

Certain contractual arrangements (the "Contractual Arrangements") were effectuated among the PRC Operating Entities, Fuzhou Tianji and Mr. Zongjian Cai and Mr. Yuan Chi, who are the legal shareholders of the PRC Operating Entities and also the core founders of our Company. The Contractual Arrangements provide the Company through Fuzhou Tianji with effective control over the PRC Operating Entities.

In particular, Fuzhou Tianji has undertaken to provide the PRC Operating Entities with certain technical services as required by to support their operations. In return, our Group is entitled to substantially all of the operating profits and residual benefits generated by the PRC Operating Entities through intercompany charges levied on these services rendered. Mr. Zongjian Cai and Mr. Yuan Chi are also required to transfer their interests in the PRC Operating Entities to our Group or our Group's designee upon a request made by our Group when permitted by the PRC laws for consideration, as permitted under the PRC laws. The ownership interests in the PRC Operating Entities have also been pledged by Mr. Zongjian Cai and Mr. Yuan Chi to our Group in respect of the continuing obligations of the PRC Operating Entities; Fuzhou Tianji has not provided any financial support to any of the PRC Operating Entities that it was not previously contractually required to do during the Track Record Period. Fuzhou Tianji intends continuously to provide to or assist PRC Operating Entities in obtaining financial support when deemed necessary. Accordingly, our Group has the rights to variable returns from its involvement with the PRC Operating Entities and has the ability to affect those returns through its power over the PRC Operating Entities.

As a result, Fuzhou Tianmeng and Fuzhou Online Game were accounted for as subsidiaries of our Company and the formation of the Structured Contracts for Fuzhou Tianmeng was accounted for as business combinations between entities under common control by applying the pooling of interests method, where the assets and liabilities of Fuzhou Tianmeng are reflected as their existing carrying values at the date of consolidation. The formation of the Structured Contracts for Fuzhou Online Game was accounted for as business combination by applying acquisition method where the assets and liabilities of Fuzhou Online Game are reflected at their values at the date of consolidation. For the purpose of this document, references to "we", "our Company" or "our Group" includes the business operations of Fuzhou Tianmeng and Fuzhou Online Game, including employees and property, plant and equipment, among others.

Basis of consolidation

The consolidated financial statements include the financial statements of our Group for the two years ended 31 December 2012 and the five months ended 31 May 2012 and 2013. The financial statements of the subsidiaries and the PRC Operating Entities are prepared for the same reporting period as our Company, using consistent accounting policies. The results of the subsidiaries and the PRC Operating Entities are consolidated from the date of acquisition, being the date on which our Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

As explained in the section headed "History and Corporate Structure" in this document and basis of presentation above, the acquisition of subsidiaries and Fuzhou Tianmeng under common control has been accounted for using the pooling of interests method. The pooling of interests method involves incorporating the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party. The net assets of the combining entities or businesses are combined using the existing book value. No amount is recognised in respect of goodwill or the excess of the acquirers' interest in the net fair value of acquirees' identifiable assets, liabilities and contingent liabilities over the cost of investment at the time of common control combination.

Total comprehensive income within a subsidiary or a PRC Operating Entity is attributed to the non-controlling interest even if it results in a deficit balance.

A change in the ownership interest of a subsidiary or a PRC Operating Entity, without a loss of control, is accounted for as an equity transaction.

If our Group loses control over a subsidiary or PRC Operating Entity, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. Our Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

FACTORS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our financial conditions and results of operations have been and will continue to be affected by a number of factors, including those discussed below.

Emergence of new technologies

New technologies have had and will continue to have significant impact on business, communications and many other aspects of peoples' lives. This is particularly true in industries like our own which are largely defined by changes in technologies and their acceptance by the mainstream public. For example, according to Analysys Consulting, the emergence of mobile devices, such as smart phones and tablet PCs, has made mobile games popular. We have historically focused on browser games and client-based games. 98.5%, 91.8%, 96.4% and 80.3% of our revenue for the years ended 31 December 2011 and 2012 and for the five months ended 31 May 2012 and 2013, respectively, was generated from browser games and client-based games, respectively. However, new mobile technology has materially changed the way people play games. In order to align ourselves with this trend, we have significantly changed the focus of our development and marketing efforts towards mobile games recently. We launched nine new games during the seven months ended 31 July 2013, seven of which were mobile games and had an additional six mobile games in the development and/or testing phase which we plan to launch by the end of 2013.

The popularity of our new games

We need popular, new games to keep our existing customers satisfied and to attract new players. Successfully doing so will allow us to maintain our revenue growth. For the two years ended 31 December 2011 and 2012, our revenue was primarily generated from three games, Galaxy Online II, Godswar and Texas HoldEm Poker Deluxe. For each of the two years ended 31 December 2011 and 2012, we derived 70.5% and 75.9%, respectively, of our revenue from these three games. In 2012, one of the new games we launched, Wings of Destiny, showed particular promise as it generated US$1.5 million revenue for the year ended 31 December 2012 following its launch in May 2012 in Taiwan. It generated revenue of US$4.2 million for the five months ended 31 May 2013, representing 17.3% of our total revenue for the period and becoming our third most popular game in terms of revenue. For the five months ended 31 May 2013, we derived 79.1% of our revenue from these four most popular games. Our success depends, in part, on the popularity of our new games. We devote substantial resources on developing and marketing new games. We launched nine new games during the seven months ended 31 July 2013, including two browser games and seven mobile games. As at the Latest Practicable Date, we had an additional six mobile games in the development and/or testing phase, which we planned to launch by the end of 2013. It is our goal that these newly launched games will attract significant number of new players. We believe we have been successful in accomplishing that over the Track Record Period. We had 425,833, 383,335 and 510,580 active paying users for the years ended 31 December 2011 and 2012 and the five months ended 31 May 2013, respectively. However, there can be no assurance that our new games will be well-received by the player community. If we are able to offer more attractive new games to our customers, we will be able to maintain or increase our profitability.

Advertising and promotion expenses and channel cost

We depend on our advertising and promotional strategies to attract game players and generate revenue as they purchase virtual items offered in our games. To facilitate this business model, we rely on our payment channel platform partners to provide us with efficient payment channels. Significant increases in our advertising and promotional expenses and/or channel cost would affect our financial condition and results of operations. Our advertising and promotional expenses were US$9.7 million, US$12.1 million, US$3.2 million and US$5.6 million, representing 31.2%, 28.0%, 18.8% and 23.0% of our revenue for the years ended 31 December 2011 and 2012 and the five months ended 31 May 2012 and 2013, respectively. Our channel cost was US$2.9 million, US$5.6 million, US$2.0 million and US$3.4 million, representing 37.7%, 53.8%, 51.3% and 60.7% of the total cost of sales for the years ended 31 December 2011 and 2012 and the five months ended 31 May 2012 and 2013, respectively. Our advertising and promotional expenses and channel cost vary, depending on the charging policy of our various partners, which will impact our profitability. For example, we paid US$1.3 million, US$2.7 million, US$1.0 million and US$1.5 million in service fees for the use of Facebook Payments, which represented 44.8%, 48.2%, 50.0% and 44.1% of our total channel cost for the years ended 31 December 2011 and 2012 and the five months ended 31 May 2012 and 2013, respectively. The increase of the payment channel service fee to Facebook Payments was primarily due to the fact that Facebook designated Facebook Payments as its exclusive payment channel since 1 July 2011, which requires us to pay Facebook 30% of our game proceeds paid by our players using Facebook Payments as service fee.

Product mix

Our ability to improve our product portfolio helps us optimize our marketing cost structure and also attract potential players who are interested in different types of games, which generally have different cost structures. For example, user acquisition cost, the cost we expend to obtain one actual user, is relatively lower for mobile games than that of browser games and client-based games. By improving our product portfolio, we can make the best use of our marketing capital and improve our marketing strategy to be more efficient. On the other hand, diversified product portfolio helps us cater to different types of players and expand our player community, which is crucial for the continuous growth in our business and profitability.

Preferential taxation and tax jurisdiction

Main business activities of each Group company

IGG Singapore, which is headed by our senior vice president, Zhixiang Chen, plays an important operational role within our Group. It is responsible for coordinating with other entities within our Group to execute our overall corporate strategy, budget and business plans adopted by our Board of Directors. It owns and manages most of the IP rights of our Group and supervises and oversees the operation of our online game playing platform, www.IGG.com. IGG Singapore is also responsible for the development of the overall marketing strategies and activities for our Group. Therefore, it bears the market risks relating to the operation and promotion of our games in overseas markets. For example, most of the advertisement and promotional expenses of our Group were recorded in IGG Singapore during the Track Record Period. In addition, IGG Singapore is the contractual party which enters into various agreements and/or contracts on behalf of our Group, including, among other things, licensing agreements, game development contracts and user agreements. As at the Latest Practicable Date, IGG Singapore had two directors and 31 employees.

IGG USA primarily provides supportive service to IGG Singapore, including, among others, marketing support service, game server hosting service, customer support service and general administrative and management service. Currently, IGG HK's main function is to hold the license to operate a third-party developed MMORPG game, Voyage Century.

IGG Philippines was incorporated in 2013 to provide global customer support service and other business process and information and communication technology-enabled service to support our overseas business. During the Track Record Period, IGG Philippines did not commence providing any such service to our Group.

The principal business operation of Fuzhou Tianmeng includes (i) designing and developing browser games, client-based games and mobile games; (ii) providing online customer support services to end users in the PRC; (iii) operating and ongoing maintenance of Chinese version of developed games in the PRC, which includes (a) uploading and maintaining the self-developed games for download and play by players in the PRC; (b) licensing games to third party licensees in the PRC; (c) co-operating games the Group developed in-house with third party game operators in the PRC. Fuzhou Tianmeng, as a domestic company, holds ICP license, Internet Culture Operating License and Internet Publishing License, which are required to carry out above-mentioned operation and ongoing maintenance of developed games in the PRC, while, currently, PRC laws restrict or prohibit foreign invested companies from obtaining the aforementioned licenses.

The principal business operation of Fuzhou Tianji includes, among others, (i) providing technical consulting and management service to Fuzhou Tianmeng; (ii) providing customer support service to IGG Singapore; (iii) conducting research and development activities; and (iv) licensing its self-developed games to other entities within our Group.

Tax risks and jurisdictions

IGG Singapore currently enjoys preferential tax treatment in accordance with the Development and Expansion Incentive and Approved Royalties Incentive. This preferential tax treatment, which began on 1 January 2010 and, subject to our meeting certain conditions, will last for a period of seven years, affords us a preferential income tax rate and royalties tax rate. We may fail to meet the terms and conditions set forth in the Development and Expansion Incentive and Approved Royalties Incentive issued by the Singapore Economic Development Board, resulting in an early termination of our preferential status before the expiry of the Development and Expansion Incentive and Approved Royalties Incentive, unless we are granted the extension or waiver of such terms and conditions. In the past, we have timely met the terms and conditions stipulated in the Development and Expansion Incentive and Approved Royalties Incentive. We met the first milestone in December 2010, which made us eligible for the tax incentive for the three years ended 31 December 2012. With respect to the terms and conditions for the second milestone to be satisfied by November 2013, we believe we will be able to satisfy these conditions based on our current progress, which will enable us to qualify for the tax incentive for additional two years ending 31 December 2014. In addition, even we can meet the terms and conditions during the incentive period, there can be no assurance that we will continue to enjoy such preferential tax treatment after the expiration of the incentive period. Given that 91.0%, 94.5%, 95.2% and 94.2% of our total revenue was recorded in Singapore for each of the years ended 31 December 2011 and 2012 and the five months ended 31 May 2012 and 2013, respectively, the discontinuation of preferential tax treatment in Singapore would adversely affect our financial condition and results of operations.

We are also exposed to the risk of being treated as a PRC resident enterprise, as a large percentage of our personnel, including some of our management, is currently based in the PRC and will likely remain in the PRC to operate our business in the future. Please see "Risk Factors — Risks Related To Our Business — We may be deemed to be a PRC resident enterprise under the EIT Law and be subject to the PRC taxation on our worldwide income" for further details on the risk of us being deemed as a PRC resident enterprise. However, based on (i) our discussions with a professional tax advisor; and (ii) our consultation with an officer from Fuzhou Municipal Office, who is in charge of anti-tax avoidance affairs of State Administration of Taxation regarding the interpretation and implementation of the relevant EIT Law, we believe that the "de facto management" of our non-PRC subsidiaries will not be deemed to be located in PRC and accordingly the likelihood that our non-PRC subsidiaries will be deemed as PRC tax enterprise is relatively low.

In addition, we are exposed to the risk of paying corporate income taxes or sales taxes for the revenue generated from our players in various jurisdictions, as our online games are offered to players in various jurisdictions around the world. Please see "Risk Factors — Risks Related To Our Business — Our revenue generated from diversified player base exposes us to potential taxation risks in different jurisdictions" in this document for further details on such risk. After considering advice from our external tax consultant, we believe the likelihood of our Group being subject to paying corporate income tax or sales tax in major jurisdictions based on where our players are located is relatively low because (i) IGG Singapore entered into user agreements directly with players based outside PRC, which accordingly, would be considered the primary service provider of the online gaming services for our Group; (ii) IGG Singapore holds most of the intellectual property copy rights for the games we operate and owns our official website; (iii) 91.0%, 94.5% and 94.2% of our total revenue for the years ended 31 December 2011 and 2012 and for the five months ended 31 May 2013, respectively, was recorded in IGG Singapore and was already subject to Singapore corporate income tax during the Track Record Period; (iv) Singapore has tax treaties with major jurisdictions where our players are based, including Australia, Canada, Germany, the Philippines and the United Kingdom, to avoid double taxation; (v) other than those jurisdictions where we established our subsidiaries or already paid withholding taxes, we did not have any employees, establish any offices, possess any assets of significant value or engage any agents to render services in those jurisdictions, as a result of which we believe we should not be deemed to provide any services in those jurisdictions; and (vi) since our inception, we are not aware of being challenged or investigated by any relevant tax authorities in the jurisdictions in which we operate.

Furthermore, our external tax consultant has advised us that during the Track Record Period, the likelihood of being subject to corporate income tax for revenue generated from players located in California, which is the most populous state in the United States where many reputable information technology firms are based and where the office of our U.S. subsidiary, IGG US, is located, and Nevada, the state of incorporation of IGG US, in the United States is relatively low. In addition, our external tax consultant has advised us that, during the Track Record Period, our revenue generated by selling virtue items to players based in California and Nevada will not be subject to sales tax in these two states. We intend to expand our finance department by recruiting new staff with international tax experience and continuously engage reputable international professional firms, if necessary, to provide advice and closely monitor our tax positions in various relevant jurisdictions. Our Group has not filed any tax filings with relevant the tax authorities in the above mentioned jurisdictions after determining that the possible tax exposure to our Group in these jurisdictions is relatively insignificant.

Intra-group transactions

During the Track Record Period, our Group engaged in a number of intra-group transactions, primarily involving the transactions between IGG Singapore, on the one hand, and four other subsidiaries of our Group. During the Track Record Period, IGG Singapore engaged in several intra-group transactions with Fuzhou Tianmeng, pursuant to which Fuzhou Tianmeng transferred certain of its intellectual property rights to IGG Singapore for an aggregate purchase price of US$15.6 million, and Fuzhou Tianmeng licensed certain online games to IGG Singapore for an aggregate liscence fee of US$35,737. IGG Singapore also entered into separate transactions with IGG USA and Fuzhou Tianji during the Track Record Period, pursuant to which IGG USA provided marketing support, cash collection and game hosting services to IGG Singapore for an aggregate purchase price of US$7.7 million, and Fuzhou Tianji provided customer services to IGG Singapore for an aggregate purchase price of US$1.1 million. Moreover, during the Track Record Period, IGG Singapore provided interest-free loans to Fuzhou Tianji in an aggregate principal amount of US$3.8 million, and Fuzhou Tianji transferred certain of its intellectual property rights to IGG Singapore for an aggregate purchase price of US$2.0 million. In addition to the above-mentioned intra-group transactions, IGG Singapore provided marketing support, cash collection and game hosting services to IGG HK during the Track Record Period in an aggregate purchase price of US$0.2 million. Fuzhou Tianji began to provide to Fuzhou Tianmeng technical service during the five months ended 31 May 2013 for an aggregate purchase price of US$0.8 million. These transactions were subject to the risk that the relevant tax authorities in various jurisdictions in which such transactions took place will challenge the appropriateness of our Group's transfer pricing arrangement. Further details with regard to transfer pricing are set forth in "Risk Factors — Risks Relating To Our Business — Taxation authorities could challenge our allocation of taxable income which could increase our consolidated tax liability"of this document. However, we believe the likelihood that our transfer pricing arrangement will be challenged by the relevant tax authorities is relatively low primarily because (i) we have obtained either transfer pricing reports or valuation reports issued by independent professional firms for our material intra-group transactions that took place in 2011 and 2012, which concluded the transaction prices were either determined at arm's length or at fair value; (ii) we discussed with an officer from Fuzhou Municipal office of State Administration of Taxation regarding the interpretation and implementation of the relevant EIT Law with respect to the structure of transfer pricing arrangements between our PRC subsidiaries and non-PRC subsidiaries; and (iii) since our inception, our transfer pricing arrangements have not been challenged or investigated by any relevant tax authority. Pursuant to the Administration of Tax Collection of the PRC, higher-level tax authorities shall supervise activities of lower-level tax authorities. Thus, in general, higher-level tax authorities are able to challenge decisions made by lower-level tax authorities. However, regarding confirmation or verification letter, the Administrative Approval Law of the PRC is silent on whether such confirmation or verification letter can be challenged by a higher-level administrative authority. Based on the procedures carried out and its findings, the [●] is satisfied that our Company has provided accurate, complete and consistent information to the professional advisors in seeking their views and to the relevant tax authorities in the tax filings and consultations.

As at the Latest Practicable Date, our Directors were not aware of any enquiry, audit or investigation by any tax authority in the United States, Singapore, the PRC or Hong Kong with respect to transfer pricing procedures carried out by our Group. We have not been called upon to demonstrate to any relevant tax authorities the reasonableness of our transfer pricing arrangement as none of the entities within our Group have been requested or required to do so in accordance with applicable rules and regulations in the relevant jurisdictions in which they operate. In 2013, we have engaged third-party professional advisers to study and analyse of our potential tax exposure and suggest procedures to mitigate relevant risks in the future.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to our Group and when the revenue can be measured reliably.

(a) ***Online game revenue***

We operate our online games under the F2P model, which encourages players to experience our games and facilitate the growth of game communities of our online games. Under this model, our games are free for download and play. Our revenue is generated by selling virtual currency to players for the purchase of in-game virtual items to enhance their game-playing experience. Once the players have purchased such virtual currency through our payment channel partners, including PayPal, Facebook Payments, Skrill, MOL, Amazon Payments and Google Checkout, they are able to charge items directly to their accounts. The third-party payment platforms are entitled to relevant service fees which are withheld and deducted from the gross proceeds of virtual currency collected from the players, with the net amounts remitted to us. The consideration received for the purchase of the virtual currency or virtual items is non-refundable and the related contracts are non-cancellable. Such consideration received is initially included in deferred revenue on our consolidated statement of financial position. We recognise revenue on a gross basis and treat the relevant service fees as cost of sales in the consolidated income statements.

The virtual items are considered value-added services and rendered over a pre-specified period or throughout the entire life cycle of the game. We categorize our virtual items as either consumable or durable.

- Consumable virtual items, such as the "Adv Galaxy Transfer" ability in Galaxy Online 2, which enables a player to move his/her planet to a specified location quicker, represent items that can be consumed by a specific player action. Common characteristics of consumable items may include virtual items that are no longer displayed on the player's bag after a short period of time. These consumable virtual items do not provide a player any continuing benefit following consumption or have limitations on repeated use. For the sale of consumable virtual items, we recognise revenue upon the full consumption.

- Durable virtual items, such as Gems in Galaxy Online 2, which enhances certain abilities of a player's in-game commander permantly, represent virtual items that are accessible to a player over an extended period of time or do not have a limitation on repeated use. We recognise revenue from the sale of durable virtual items ratably over the lifespan of the specific item. The lifespan of durable virtual item is determined based on the usage period which is explicitly stated in the game for these specific items. If the usage period is not explicitly stated in the game, the lifespan is determined based on the estimated user life of paying players, which is determined based on the historical paying player's game-playing behavior.

When the timing of the virtual items being consumed cannot be reliably determined for a specific game, we recognise revenue from the sale of virtual items (including all durable and consumable virtual items) for that game ratably over the estimated user life of paying players.

Future usage patterns may differ from the historical usage patterns based on which our revenue recognition policy is based. We monitor the operational statistics and usage patterns of the virtual items. Once virtual currency is charged to a player's personal online game account, it can be used by such player until the specific game has been closed down. Unused balance of virtual currency is recognised as revenue when the specific game has been closed down or the players' account has been inactive for 360 consecutive days, whichever is earlier. We determine that the likelihood that we would provide further online game service with respect to the players whose accounts have been inactive for 360 consecutive days is remote.

We entered into an agreement with Facebook, which required us to accept Facebook Payments as the exclusive in-game payment method for our games played through the Facebook platform. Facebook sells Facebook Credits, a proprietary virtual currency to users on the Facebook platform. Facebook sets the price players pay for Facebook Credits and collects the cash from the sale of

Facebook Credits. Facebook's current stated face value of a Facebook Credit is US$0.10. For each Facebook Credit purchased by players and redeemed in the games, Facebook remits to us US$0.07. We recognise revenue on a gross basis based on the stated face value and amount of Facebook Credits redeemed in the game and recorded the portion retained by Facebook as cost of sales.

We are susceptible to chargebacks claims, in which the players report to the payment platforms the purchase of virtual currency or virtual items as suspicious or fraudulent activity. The payment platforms will not substantially review the claim and will normally refund the credit card. We estimate chargebacks from Facebook and third-party payment processors to account for potential future chargebacks based on historical data and record such amounts as a reduction of revenue.

(b) ***Discontinued Operation — online advertising revenue***

Online advertising revenue is derived principally from online advertising arrangements. Our Group enters into advertising arrangements with advertisers to allow them to place advertisements on particular areas of our Group's websites over a particular period of time. Advertising revenue from advertising arrangements with a particular period of time are recognised ratably over the displayed period of the advertisements when the collectibility is reasonably assured.

(c) ***Licensing revenue***

Our Group receives royalty income from third parties licensees in exchange for exclusively operating our proprietary games in certain regions and providing related technical support. The royalty fees include, an upfront fee and a monthly fee, which are determined based on an agreed percentage of virtual currency purchased by the players with accounts registered with the third parties. The upfront fee is recognised rateably over the contracted license period. We are unable to reliably estimate the monthly royalty fee because we have no access to the data of players' purchase activity conducted through the licensees. Accordingly the monthly royalty fee is recognised when the licensees confirm their sales activities for the period.

(d) ***Joint operation revenue***

When our Group's games are jointly operated through the websites of third-party joint operators, our Group views the third-party joint operators as its customers and recognises revenue on a net basis as our Group acts as an agent in the arrangement. We do not have the primary responsibility for the fulfilment and acceptability of the game services. We have been given access to third-party joint operators' platform to monitor monthly sales activity for purposes of estimating revenue. Accordingly, revenue from such arrangement is recognised in the month game players purchase the virtual currency. The amount of revenue is measured based on the portion to which the Company is entitled of the amount of game players' purchase of our Group's virtual currency through the joint operator's websites.

(e) ***Interest income***

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset.

Financial liabilities

(a) ***Initial recognition and measurement***

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss and loans and borrowings, as appropriate. Our Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

Our Group's financial liabilities include accounts payable, financial liabilities included in other payables and accruals, and the Preferred Shares.

(b) ***Subsequent measurement***

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Preferred Shares

The Preferred Shares were designated at fair value through profit or loss on initial recognition. For details of our policies relating to fair value calculation of the Preferred Shares, please see "— Estimate uncertainty — Fair value of the Preferred Shares".

A financial liability may be designated at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with our documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

The Preferred Shares with embedded derivatives whose economic risks and characteristics are not closely related to those of the host contract (the liability component) as a whole is designated as financial liabilities at fair value through profit or loss on initial recognition.

Transaction costs that are directly attributable to the issue of the Preferred Shares designated as financial liabilities at fair value through profit or loss are recognised immediately in the income statement.

At the end of the reporting period subsequent to initial recognition, the redeemable convertible preferred shares are measured at fair value, with changes in fair value arising on remeasurement recognised directly in the income statement in the period in which they arise.

Share-based payments

We operate a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of our Group's operations. Employees (including directors) of our Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 29 to the accountants' report set out in Appendix I to this document.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each year of the Track Record Period until the vesting date reflects the extent to which the vesting period has expired and our Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Royalty fees

Royalty fees represent upfront license fees from licenses for exclusively operating our Group's in-house developed games in certain regions. They are stated at cost less any impairment losses and are amortised on the straight-line basis over the estimated useful life.

Trademarks & Domain names, Software and Copyright

All these intangible assets are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 3 to 5 years.

Research and development costs

All research costs are charged to the income statement as incurred. Expenditure incurred on projects to develop new products is capitalised and deferred only when our Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each year of the Track Record Period, taking into consideration interpretations and practices prevailing in the jurisdictions in which we operate.

Deferred tax is provided, using the liability method, on all temporary differences at the end of each year of the Track Record Period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each year of the Track Record Period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each year of the Track Record Period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of each year of the Track Record Period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) ***Fair value of share-based compensation expenses***

Our Group has granted share options to its employees. We have used the Binomal Model to determine the fair value of the options granted, which is to be expensed over the vesting period. Significant judgement on parameters, such as risk free rate, dividend yield, expected volatility and expected life of options, is required to be made by the directors in applying the Binomal Model.

The grant of equity instruments is conditional upon satisfying specified performance and/or service vesting conditions. Judgement is required to take into account the vesting conditions and adjust the number of equity instruments included in the measurement of share based compensation costs.

(b) ***Fair value of the Preferred Shares***

The Preferred Shares are measured to fair value through profit or loss. We engaged an independent appraiser to assist it in determining the fair value. The determination of fair value was made after consideration of a number of factors, including but not limited to: our Group's financial and operating results; the global economic outlook in general and the specific economic and competitive factors affecting our Group's business; business risks our Group faces; and market yields and return volatility of comparable corporate bonds. This conclusion of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

(c) ***Estimation of the sales value of unutilised virtual items***

Online game revenue is recognised based on the actual consumption of the virtual items that are converted from virtual currency. Income received in respect of unutilised virtual items is recognised as deferred revenue. As to the amount of deferred revenue in respect of unutilised virtual items, management's estimation is required in determining the average sales value of these unutilised virtual items because we are unable to track the sales value of each individual unutilised virtual item.

A number of promotional activities that offer game players volume discounts of virtual currency were conducted throughout the Track Record Period. In assessing the amount of average sales value for the virtual currency, which accordingly will affect the value of unutilised virtual items, management considers the discount rate offered in different promotional activities and the income received during the periods when such activities were conducted. Based on these factors, management determines an average discount rate which gives rise to the best estimate of the discount given to virtual currency sold during the Track Record Period. The average discount rate of virtual currency is determined based on total cash received from the sales of virtual currency divided by total stated face value of virtual currency sold during the period under analysis, which was performed on a quarterly basis.

In addition, a number of unutilised virtual items were granted free of charge to game players if they complete certain tasks or entering into lucky draw when playing the game. We do not recognise revenue related to the virtual items that are granted free of charge. The portion of unutilised virtual items obtained during gameplay by means other than paying with virtual currency is estimated based on our statistics. The portion of virtual items granted free of charge is calculated based on the number of virtual items granted free of charge divided by total number of virtual items offered in the game during the period under analysis, which was performed on a quarterly basis.

The average sales value of each virtual item paid with virtual currency is then determined by factoring the average discount rate, the face value of the virtual currency and standard price of the virtual items measured in virtual currency.

(d) ***Estimation of the user life of paying players***

We recognise revenue from the sale of virtual items and virtual currency ratably over the estimated average user life of paying players for the applicable games in which we are not able to track the consumption of virtual items. We determine our estimated average playing period for paying players by game beginning at the time of a payer's first purchase and ending on a date calculated based on an attrition rate which factors in historical data. To determine the attrition rate for a given game, we analyse paying players for games within similar characters and determine whether each player within the analysed population is an active or inactive player as of the date of our analysis. To determine which players are inactive, we analyse the dates that each paying player last logged into that game. We determine a paying player to be inactive once he or she has reached a period of inactivity for which it is probable that a player will not return to a specific game. For the players deemed inactive as of our analysis date we analyse the dates they last logged into that game to determine the rate at which inactive players stop playing. Based on these inactivity periods we then project the expected date on which all paying players for each monthly cohort are expected to cease playing our games. Future paying player usage patterns and behavior may differ from the historical usage patterns and therefore the estimated average user life of paying players may change in the future.

We will continue to monitor the estimates used in determining the sales value of virtual items and average user life of paying players, which may differ from the historical period, and any change in the estimate may result in the revenue being recognised on a different basis than in prior periods.

(e) ***Deferred tax assets***

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

(f) ***Estimates of current and deferred tax***

Our Group is subject to taxation in various jurisdictions. Significant judgment is required in determining the amount of provision for taxation and the timing of payment of the related taxation. Where the final tax outcome is different from the amounts that were initially recorded, such differences would impact the income and deferred tax provisions in the period in which such determination were made.

SUMMARY RESULTS OF OPERATIONS

The following table sets forth the consolidated income statements and consolidated statements of comprehensive income of our Group for the years ended 31 December 2011 and 2012 and the five months ended 31 May 2013, which are derived from our consolidated income statements and consolidated statements of comprehensive income included in the accountants' report set out in Appendix I to this document. For purposes of comparison to the five months ended 31 May 2013, financial information for the comparative five months period for 2012 has also been presented.

	Year ended 31 December		Five months ended 31 May	
	2011	**2012**	**2012**	**2013**
	US$'000	*US$'000*	*US$'000*	*US$'000*
			(Unaudited)	
Continuing Operations				
Revenue	31,080	43,154	16,989	24,258
Cost of sales	(7,745)	(10,358)	(3,873)	(5,642)
Gross profit	23,335	32,796	13,116	18,616
Other income and gains	448	422	16	20
Selling and distribution expenses	(9,721)	(12,071)	(3,224)	(5,593)
Administrative expenses	(5,218)	(7,093)	(2,614)	(3,608)
Research and development costs	(5,312)	(6,331)	(2,488)	(3,082)
Fair value loss of redeemable convertible preferred shares	(11,571)	(20,612)	(8,460)	(14,167)
Other expenses	(304)	(57)	(182)	(44)
Loss before tax	(8,343)	(12,946)	(3,836)	(7,858)
Income tax expense	(346)	(163)	(192)	(396)
Loss for the year/period from continuing operations	(8,689)	(13,109)	(4,028)	(8,254)
Discontinued Operation				
Loss for the year from a discontinued operation	(12)	(326)	(58)	—
Loss for the year/period	(8,701)	(13,435)	(4,086)	(8,254)
Other comprehensive loss				
Exchange differences on translation of foreign operations	(267)	(55)	68	(85)
Other comprehensive loss for the year/period, net of tax	(267)	(55)	68	(85)
Total comprehensive loss for the year/period	(8,968)	(13,490)	(4,018)	(8,339)
Attributable to				
Owners of the parent	(8,957)	(13,490)	(4,018)	(8,339)
Non-controlling interests	(11)	—	—	—
	(8,968)	(13,490)	(4,018)	(8,339)
Adjusted profit for the year/period[1]	2,870	7,177	4,374	5,913

Note:

Adjusted profit for the year/period is derived by excluding the fair value loss of the Preferred Shares from loss for the year/period. Adjusted profit for the year/period is not a calculation based on IFRS. The amounts included in the adjusted profit for the year/period calculation, however, are derived from amounts included in the consolidated income statements data. We have presented adjusted profit for the year/period data in this document as we believe that adjusted profit for the year/period is a useful supplement to income statement data because it enables us to measure our profitability without taking into consideration of fair value loss of the Preferred Shares, which have been be converted to our ordinary Shares on 31 May 2013 in accordance with the then applicable Articles and have been transformed to equity. We believe adjusted profit for the year/period is a more accurate indication of our profitability and operating performance for the Track Record Period and beyond. However, adjusted profit for the year/period should not be considered in isolation or construed as an alternative to net income or operating income, or as an indicator of our operating performance or other consolidated operations or cash flow data prepared in accordance with IFRS, or as an alternative to cash flow as a measurement of liquidity. Potential investors should be aware that the adjusted profit for the year/period measure presented in this document may not be comparable to similarly titled measures reported by other companies due to differences in the components of the calculation.

PRINCIPAL INCOME STATEMENT COMPONENTS

Revenue

Our revenue is mainly derived from the sale of virtual items in the games we operate. In recent years, we have experienced rapid growth and expansion of our business. Our revenue increased from US$31.1 million for the year ended 31 December 2011 to US$43.2 million for the year ended 31 December 2012, or 38.9% growth, and from US$17.0 million for the five months ended 31 May 2012 to US$24.3 million for the five months ended 31 May 2013, or 42.9% growth. Below sets forth our revenue analysis based on operating parties and game type, geographical markets and our major games.

Revenue by operating segment and game type

The following table sets out the breakdown of our revenue by operating segment and game type during the Track Record Period:

	Year ended 31 December				**Five months ended 31 May**			
	2011		**2012**		**2012**		**2013**	
	US$'000	*%*	*US$'000*	*%*	*US$'000*	*%*	*US$'000*	*%*
					(Unaudited)			
Games operated by us								
Browser games	22,118	71.2	32,627	75.6	13,319	78.4	16,661	68.7
Client-based games	8,496	27.3	6,991	16.2	3,064	18.0	2,803	11.6
Mobile games	12	0.0	2,192	5.1	303	1.8	3,598	14.8
Games licensing	454	1.5	548	1.3	303	1.8	131	0.5
Joint operation	—	0.0	796	1.8	—	0.0	1,065	4.4
Total	31,080	100.0	43,154	100.0	16,989	100.0	24,258	100.0

During the Track Record Period, our revenue was mainly derived from browser games and client-based games, which accounted for 71.2% and 27.3%, respectively, of our revenue for the year ended 31 December 2011, 75.6% and 16.2%, respectively, of our revenue for the year ended 31 December 2012 and 68.7% and 11.6%, respectively, of our revenue for the five months ended 31 May 2013. The revenue derived from browser games increased significantly from US$22.1 million for the year ended 31 December 2011 to US$32.6 million for the year ended 31 December 2012, mainly because we launched five new browser games in 2011, most notably including, Galaxy Online II (browser) and five new browser games in 2012 and two new browser games during the first five months of 2013. Growth of revenue from browser games was more moderate from US$13.3 million for the five months ended 31 May 2012 to US$16.7 million in the five months ended 31 May 2013 as the number of games that we operated increased and the number of language versions for the games increased. The revenue derived from client-based games decreased from US$8.5 million for the year ended 31 December 2011 to US$7.0 million for the year ended 31 December 2012 and from US$3.1 million for the five months ended 31 May 2012 to US$2.8 million for the five months ended 31 May 2013, primarily because of our business decision to shift our focus from developing client-based games to developing browser games and mobile games. Therefore, we decreased our advertising and promotion for client-based games and attracted fewer new players to our client-based games.

In order to capture the business opportunities arising from the fast-growing mobile market, we launched our first mobile game, Texas HoldEm Poker Deluxe (mobile), in October 2011. As a result, our revenue from mobile games increased significantly from US$12,000 for the year ended 31 December 2011 to US$2.2 million for the year ended 31 December 2012 and from US$0.3 million for the five months ended 31 May 2012 to US$3.6 million for the five months ended 31 May 2013. In light of our strategy to focus on the development of mobile games, we expect that the revenue derived from our mobile games will continue to grow in 2013 and beyond.

During the Track Record Period, we generated less than 5.0% of our revenue from game licensing and joint operation. The revenue we generated from game licensing increased by US$94,000, or 20.7%, from US$454,000 for the year ended 31 December 2011 to US$548,000 for the year ended 31 December 2012, primarily because eight of the 18 license agreements we entered into as at 31 December 2011 were early terminated during the first quarter of 2012, and accordingly, we fully recognised at the time of termination the upfront fee paid by the third party licensees to us on the commencement of the license agreement, which normally would have been gradually recognised by us throughout the term of the license agreements. The revenue we generated from game licensing decreased from US$303,000 for the five months ended 31 May 2012 to US$131,000 for the five months ended 31 May 2013, primarily because (i) as a result of early termination of license agreements, only three browser and client-based games were licensed to third party licensees as at 31 May 2013 and (ii) we did not devote substantial resources to promote this business given the shift in our business focus to develop and operate mobile games. We started to jointly operate our online games with third-party operators in July 2012 and generated US$796,000 and US$1.1 million for the year ended 31 December 2012 and the five months ended 31 May 2013, respectively. The increase was primarily due to an increase in the number of games we jointly operated with third-party operators from four as at 31 December 2012 to six as at 31 May 2013.

Revenue by geographical markets

The following table sets forth a breakdown of our revenue by geographical markets based on IP location of our players during the Track Record Period:

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

During the Track Record Period, a majority of our revenue was derived from North America, Europe and Asia. For the year ended 31 December 2012, we increased the number of languages we offered in our games. For example, with respect to Galaxy Online II one of our leading games during the Track Record Period, we operated 15 different language versions as at 31 May 2013 compared to ten language versions as at 31 December 2011. These multi-language versions helped us to attract a significant number of new players during the Track Record Period, particularly in Asia and Europe where annual revenue grew substantially.

Revenue by games

For each of the two years ended 31 December 2012 and for the five months ended 31 May 2012 and 2013, over 60% of our revenue was derived from our three most popular games, Galaxy Online II, Godswar and Texas HoldEm Poker Deluxe. For the five months ended 31 May 2013, Wings of

Destiny became our third popular game in terms of revenue. The following table sets out a breakdown of our revenue by major games during the Track Record Period:

	Year ended 31 December				Five months ended 31 May			
	2011		2012		2012		2013	
	US$'000	*%*	*US$'000*	*%*	*US$'000*	*%*	*US$'000*	*%*
					(Unaudited)			
Galaxy Online II . . .	14,108	45.4	21,319	49.4	9,288	54.7	8,180	33.7
Godswar	6,358	20.5	6,728	15.6	2,839	16.7	2,424	10.0
Wings of Destiny . . .	—	—	1,487	3.4	17	0.1	4,199	17.3
Texas HoldEm Poker Deluxe (browser) . .	1,420	4.6	2,649	6.1	1,097	6.5	1,454	6.0
Texas HoldEm Poker Deluxe (mobile). . .	12	—	2,078	4.8	279	1.6	2,933	12.1
Others.	9,182	29.5	8,893	20.7	3,469	20.4	5,068	20.9
Total	31,080	100.0	43,154	100.0	16,989	100.0	24,258	100.0

Galaxy Online II was first launched in February 2011 as a browser game and has become one of our key revenue sources. The revenue it generated increased from US$14.1 million for the year ended 31 December 2011 to US$21.3 million for the year ended 31 December 2012 but decreased from US$9.3 million for the five months ended 31 May 2012 to US$8.2 million for the five months ended 31 May 2013. Godswar, our first proprietary client-based MMORPG, was launched in November 2008. Its revenue grew from US$6.4 million for the year ended 31 December 2011 to US$6.7 million for the year ended 31 December 2012 but decreased from US$2.8 million for the five months ended 31 May 2012 to US$2.4 million for the five months ended 31 May 2013. Wings of Destiny was first launched in May 2012 in Taiwan as a browser game. Its revenue increased from US$17,462 for the five months ended 31 May 2012 to US$4.2 million for the five month ended 31 May 2013. The revenue derived from Texas HoldEm Poker Deluxe (browser and mobile game versions) increased by 235.7% from US$1.4 million in 2011 to US$4.7 million in 2012 and by 214.3% from US$1.4 million for the five months ended 31 May 2012 to US$4.4 million for the five months ended 31 May 2013, mainly because we devoted more efforts in advertising and promotion for this game as a result of our adapting to changing market trends and our belief that this game has a relatively long life cycle.

Cost of sales

Our cost of sales primarily consists of channel cost, royalty fee, salaries and welfares and hosting fee. The following table sets out a breakdown of our Group's cost of sales and such cost as a percentage of the total cost of sales during the Track Record Period:

	Year ended 31 December				Five months ended 31 May			
	2011		2012		2012		2013	
	US$'000	*%*	*US$'000*	*%*	*US$'000*	*%*	*US$'000*	*%*
					(Unaudited)			
Cost of Sales								
Channel cost	2,914	37.6	5,636	54.4	2,039	52.6	3,441	60.9
Royalty fee	2,030	26.2	1,598	15.4	629	16.2	715	12.6
Salaries and welfares	1,001	12.9	945	9.1	386	10.0	440	7.8
Data center lease & hosting cost	949	12.3	1,416	13.7	490	12.7	766	13.6
Others	851	11	763	7.4	329	8.5	280	5.1
Total	7,745	100.0	10,358	100.0	3,873	100.0	5,642	100.0

Channel cost represents the service fee we paid to the payment channel providers for their payment channel service. We also paid royalty fee primarily to our licensors for the games we licensed from them. Salaries and welfares are the cost we paid for personnel in our operation department including salaries, benefits and bonus, and data center lease and hosting fee is the cost we paid to lease data centers and rent the servers.

Gross profit and gross profit margin

Our gross profit is our Group's revenue for the Track Record Period less cost of sales, which was US$23.3 million, US$32.8 million, US$13.1 million and US$18.6 million for the years ended 31 December 2011 and 2012 and the five months ended 31 May 2012 and 2013, respectively. Our gross profit margin was 74.9%, 75.9%, 77.1% and 76.5% for the years ended 31 December 2011 and 2012 and the five months ended 31 May 2012 and 2013, respectively.

Other income and gains

Other income and gains comprise mainly grants from the PRC government to subsidize staff training costs incurred by Fuzhou Tianji and Fuzhou Tianmeng in connection with the service outsourcing and technology export to IGG Singapore. Other income and gains amounted to US$0.4 million, US$0.4 million, US$16,000 and US$20,000 for the years ended 31 December 2011 and 2012 and the five months ended 31 May 2012 and 2013, respectively.

Selling and distribution expenses

Selling and distribution expenses represent our advertising and promotion costs, which were US$9.7 million, US$12.1 million, US$3.2 million and US$5.6 million for the years ended 31 December 2011 and 2012 and the five months ended 31 May 2012 and 2013, respectively.

Administrative expenses

Administrative expenses mainly represent salaries and welfare, rental expense and legal and professional fees. The table below sets forth our administrative expenses for periods indicated.

	Year ended 31 December				Five months ended 31 May			
	2011		2012		2012		2013	
	US$'000	*%*	*US$'000*	*%*	*US$'000*	*%*	*US$'000*	*%*
					(Unaudited)			
Salaries and welfares	3,252	62.3	4,540	64.0	1,728	66.1	1,798	49.8
Rental expense	554	10.6	775	10.9	234	8.9	309	8.6
Depreciation	417	8.0	378	5.3	156	6.0	82	2.3
Legal and professional fee	137	2.6	375	5.3	128	4.9	1,028	28.5
Water & electricity & property costs	187	3.6	187	2.6	70	2.7	63	1.7
Amortization	107	2.1	125	1.8	51	2.0	39	1.1
Others[1]	564	10.8	713	10.1	247	9.4	289	8.0
Total	5,218	100.0	7,093	100.0	2,614	100.0	3,608	100.0

Note:

(1) Mainly includes travelling expenses, data center lease and Internet fee and share-based compensation.

The principal component of our administrative expenses is salaries and welfares, including salaries, benefits and bonus for employees in our administrative department. Rental expense represents our expense on the lease for office space.

Research and development costs

Research and development costs mainly include salaries and welfares and outsourced game development costs. The table below sets forth our research and development costs for periods indicated:

	Year ended 31 December				Five months ended 31 May			
	2011		2012		2012		2013	
	US$'000	*%*	*US$'000*	*%*	*US$'000*	*%*	*US$'000*	*%*
					(Unaudited)			
Salaries and welfares	2,501	47.1	4,634	73.2	1,763	70.9	2,458	79.8
Outsourced game development costs	2,308	43.4	1,007	15.9	469	18.8	472	15.3
Others[1]	503	9.5	690	10.9	256	10.3	152	4.9
Total	5,312	100.0	6,331	100.0	2,488	100.0	3,082	100.0

Note:

(1) Mainly includes translation cost and share-based compensation.

Salaries and welfares represents the expense that we spent on the development personnel, including salaries, benefits and bonus, which accounted for 47.1%, 73.2%, 70.9% and 79.8% of the total research and development costs for the years ended 31 December 2011 and 2012 and the five months ended 31 May 2012 and 2013, respectively. Outsourced game development costs represents the development fee we paid to third parties, who we outsourced some of our research and development projects, for research and developing service, such as in-game graphic art design.

Fair value loss of the Preferred Shares

We issued Series A and Series A-1 Preferred Shares on 30 November 2007 and Series B Preferred Shares subsequently on 12 November 2008 to certain corporate investors, which were measured at fair value. The Preferred Shares have been classified as financial liability at fair value through profit or loss. The initial carrying value of the Series A Preferred Shares and Series B Preferred Shares is their issuance price at their respective issuance dates. The initial carrying value of the Series A1 Preferred Shares is the fair value of the warrants on the exercise date plus the cash proceeds from the exercise.

We incurred losses on changes in fair value of the Preferred Shares, which were US$11.6 million and US$20.6 million for the years ended 31 December 2011 and 2012, respectively. While such loss negatively impacted our income statement, it has no impact to the cash flows of our Group. The Preferred Shares have been converted to ordinary Shares on 31 May 2013 in accordance with the then applicable Articles of Association and have been transferred to equity.

For details of the issuance of the Preferred Shares, please refer to the section headed "History and Corporate Structure — [●] Investments" and note 26 of the Accountants' Report in Appendix I to this document.

Other expenses

Other expenses were US$0.3 million and US$57,000 for the year ended 31 December 2011 and 2012, respectively, mainly represented the loss on disposal subsidiaries and associates in 2011 and foreign exchange loss in 2012. In addition, other expenses were US$0.2 million and US$44,000 for the five months ended 31 May 2012 and 2013, repectively, which mainly represented foreign exchange loss for both periods.

Income tax expense

We are subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of our Group are domiciled and operate. The following table sets forth our income tax for the periods indicated:

	Year ended 31 December		Five months ended 31 May	
	2011	**2012**	**2012**	**2013**
	US$'000	*US$'000*	*US$'000*	*US$'000*
			(Unaudited)	
Current year provision:				
Cayman Island	—	—	—	—
US	24	11	6	37
Hong Kong	—	—	—	—
Singapore	—	—	73	299
PRC	—	—	—	—
Subtotal of current tax	24	11	79	336
Deferred tax:				
US	41	45	(19)	(16)
Singapore	367	116	134	12
PRC	(86)	(9)	(2)	64
Subtotal of deferred tax	322	152	113	60
Total	346	163	192	396
Adjusted effective tax rate*	10.7%	2.1%	4.3%	6.3%

* Adjusted effective tax rate is computed by loss before tax from continuing operations adjusted by excluding the non-taxable fair value loss of redeemable convertible preferred shares from loss before tax from continuing operations, divided by the tax charge for the year/period.

In 2011, the applicable tax rates for IGG Singapore and Fuzhou Tianmeng were 5% and 25%, respectively. The adjusted effective tax rate of our Group in 2011 was 10.7%, which was primarily due to the fact that differed tax assets have not been recognised in respect of significant operating losses of US$3.0 million arisen in Fuzhou Tianji, which have been loss-making continuously and it is not considered probable that tax profits will be available against the tax loss.

Minimal current tax provision was provided for the year ended 31 December 2011 because in 2011, IGG HK claimed offshore exemption of its profits, IGG US recorded minimal amount of taxable income and all other group entities were still in an accumulated loss position. Deferred tax expense recognised for the year ended 31 December 2011 was mainly due to utilization of accumulated tax loss for which a deferred tax asset was recognised in prior years and the recognition of deferred tax liabilities in relation to the bonus depreciation allowance claimed by IGG US for the computer equipment in the year of purchase.

In 2012, the applicable tax rate for IGG Singapore was 5% and Fuzhou Tianmeng was exempt from income tax. Fuzhou Tianmeng was exempt from income tax because of its certification as a Software Enterprise. See "— PRC income tax" below. IGG HK claimed offshore exemption of its profit derived in 2012, which accounted for 7.8% of the total profits before tax (excluding fair value change of the convertible preferred shares). The super deduction for qualifying spending under Productivity and Innovation Credit, which mainly represents the purchase of intellectual property rights by IGG Singapore. In 2012, the super deduction for qualifying spending reduced income tax expense by US$181,000, representing 2.6% of total profits before tax (excluding fair value change of the convertible preferred shares). Accordingly, the adjusted effective tax rate of our Group in 2012 was as low as 2.1%, lower than the 5% preferential tax rate of IGG Singapore.

Minimal current tax provision was provided for the year ended 31 December 2012 because in 2012, IGG HK claimed offshore exemption of its profits, Fuzhou Tianmeng was tax exempted due to its certification of Software Enterprise, IGG Singapore had no taxable income due to the super deduction of qualifying spending under Productivity and Innovation Credit and operating loss carried forward from prior years. Only IGG US recorded minimal amount of taxable income. Deferred tax expense recognised for the year ended 31 December 2012 was mainly due to the utilization of accumulated tax loss for which deferred tax assets were recognised in prior years and the recognition of deferred tax liabilities in relation to the bonus depreciation allowance claimed by IGG US for the computer equipment in the year of purchase.

In the five months ended 31 May 2013, the applicable tax rate for IGG Singapore was 5% and Fuzhou Tianmeng was exempt from income tax. Fuzhou Tianmeng was exempt from income tax because of its certification as a Software Enterprise. See "— PRC income tax" below. IGG HK has claimed offshore exemption of its profit derived in year 2011 and 2012 and expects to be entitled the offshore exemption for the five months ended 31 May 2013, which accounted for 4.8% of the total profits before tax (excluding fair value change of the convertible preferred shares). Accordingly, the adjusted effective tax rate of our Group for the five months ended 31 May 2013 was 6.3%, which was slightly higher than 5% preferential tax rate of IGG Singapore, primarily because in the five months ended 31 May 2013, IGG Singapore had no super deduction and Fuzhou Tianmeng had a large amount of non deductible bad debt expense of US$0.5 million.

Current tax provision provided for the five months ended 31 May 2013 was mainly provided by IGG Singapore. Due to the continuous increase in profits recorded by IGG Singapore, the tax losses accumulated by IGG Singapore in prior years have been fully utilised in 2013. Therefore, our Group provided significant amount of current tax for the five months ended 31 May 2013. Deferred tax expense recognised for the period ended 31 May 2013 was mainly due to the realisation of deferred tax liabilities in relation to the bonus depreciation allowance claimed by IGG US for the computer equipment in the period of purchase and the reversal of a previously recognised deferred tax asset by Fuzhou Tianmeng for a bad debt expense that was deemed not deductible in 2013 by local tax bureau.

Cayman Island profit tax

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law and the Cayman Islands currently levy no taxes on corporations based upon profits.

US profit tax

For each of the Track Record Period, IGG USA, a subsidiary of our Company in the United States, are subject to federal income tax at graduated rates ranging from 15% to 39%. And IGG USA is also subject to California state income tax rate of 8.84%.

Hong Kong profit tax

The subsidiary of our Company incorporated in Hong Kong is subject to Hong Kong profits tax, which is provided at the rate of 16.5% on the estimated assessable profits during the Track Record Period. No provision for Hong Kong profits tax has been made as our Group had no assessable profits derived from or earned in Hong Kong during the Track Record Period.

IGG HK generated a net profit of US$0.7 million, US$0.6 million and US$0.3 million for the years ended 31 December 2011 and 2012 and the five months ended 31 May 2013, respectively. IGG HK claimed offshore exemption of its profits for the years ended 31 December 2011 and 2012 and expects to be entitled the offshore exemption for the five months ended 31 May 2013 based on: (i) all of the services and contracts related to the operation of IGG HK are conducted and completed outside of Hong Kong; (ii) the board of directors meetings are held via conference calls outside Hong Kong; (iii) the servers are located outside of Hong Kong; and (iv) IGG HK does not maintain any office nor bank accounts / payment channel accounts in Hong Kong. IGG HK is not subject to taxation in any other tax jurisdiction.

Singapore profit tax

IGG Singapore is subject to the prevailing corporate tax rate of 17% in Singapore and is entitled to a preferential tax rate of 5% on qualifying income derived during the incentive period as a result of the Development and Expansion Incentive granted by the Singapore Economic Development Board for the benefit of being an intellectual property owner and international headquarter for the Group's online gaming business. The incentive period covers a time frame of seven years from 1 January 2010 to 31 December 2016, as long as IGG Singapore is able to meet certain conditions as set out in the letter of award issued by the Singapore Economic Development Board on 27 January 2010 and subsequently amended on 28 December 2012. Unless IGG Singapore reaches a subsequent agreement to extend the incentive period, IGG Singapore will not be entitled to the preferential tax rate of 5% from 1 January 2017 onwards. During the years ended 31 December 2011 and 2012, IGG Singapore met the conditions and thus, 5% preferential tax rate was applied. As at 31 May 2013, IGG Singapore expected to meet the conditions so as to be entitled to the preferential tax rate of 5% in 2013 and thus, a 5% preferential tax rate was applied.

During the Track Record Period, IGG Singapore did not have significant taxable income. This was primarily due to the significant outsourced development cost that IGG Singapore incurred for game and software research and development service that was mainly provided by Fuzhou Tianmeng. The intellectual property rights purchased by IGG Singapore are entitled to super deductions because such rights are qualifying spending under the Productivity and Innovation Credit.

PRC income tax

The provision for the PRC current income tax is based on the statutory rate of 25% of the assessable profit of certain PRC subsidiaries of our Company as determined in accordance with the PRC Corporation Income Tax Law which was approved and became effective on 1 January 2008 (the "New Corporate Income Tax Law"), except for Fuzhou Tianmeng which was certified as a Software Enterprise and is exempted from corporate income tax for two years starting from the first year it generates taxable profit, followed by a 50% reduction for the next three years. For the year ended 31 December 2012, Fuzhou Tianmeng started generating taxable profit and therefore is exempted from corporate income tax for the year ended 31 December 2012 and for the year ending 31 December 2013.

Fuzhou Tianmeng incurred operating loss prior to 2010 and was in accumulated losses position as at 31 December 2010 and 2011, respectively. In 2012, Fuzhou Tianmeng generated sufficient operating profits and accordingly, started generating taxable profits thereafter. Pursuant to the conformation issued by the National Tax Bureau of Fuzhou Gulou District, for the years ended 31 December 2010, 2011 and 2012, Fuzhou Tianmeng did not violate any laws or regulations and was not penalized during such periods, and its corporate income tax payable was zero.

For details of income tax, please see note 11 of the Accountants' Report in Appendix I to this document.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATION

Five Months Ended 31 May 2012 Compared to Five Months Ended 31 May 2013

Revenue

Our revenue increased 42.9% from US$17.0 million for the five months ended 31 May 2012 to US$24.3 million for the five months ended 31 May 2013, primarily due to (i) an increase in the revenue from Wings of Destiny, a browser game that we launched in May 2012 in Taiwan and in September 2012 in the U.S., (ii) an increase in the revenue of our mobile games and (iii) and an increase in the revenue generated from the co-operation of several of our games, including Galaxy

Online II. The revenue from Wings of Destiny increased from US$17,462 for the five months ended 31 May 2012 to US$4.2 million for the five months ended 31 May 2013 primarily because we expanded the operation of this game in nine new jurisdictions and launched eight new language versions due to postive feedback from our players. MAU is the number of individuals who play a particular game during a 30-day period, which depends largely on our marketing and promotional efforts to attract new players. Wings of Destiny achieved an average DAU of 88,399 for the five months ended 31 May 2013 and a MAU of 803,460 as at 31 May 2013, compared to an average DAU of 6,596 for the five months ended 31 May 2012 and a MAU of 88,439 as at 31 May 2012, primarily due to an increase in the number of language versions for this game. The revenue of our mobile games increased from US$0.3 million for the five months ended 31 May 2012 to US$3.6 million for the five months ended 31 May 2013, primarily as a result of an increase in the revenue of Texas HoldEm Poker Deluxe, which increased from US$0.3 million for the five months ended 31 May 2012 to US$2.9 million for the five months ended 31 May 2013, primarily due to increased advertising and promotional efforts which lead to longer player base. It achieved an average DAU of 352,307 for the five months ended 31 May 2013 and a MAU of 2,280,313 as at 31 May 2013, compared to an average DAU of 105,060 for the five months ended 31 May 2012 and a MAU of 713,140 as at 31 May 2012, primarily due to increased spending on advertising and promotional activities. In addition, in July 2012 as part of our co-operation business model, we generated revenue of US$1.1 million for the co-operation of two of our games, including Galaxy Online II, for the five months ended 31 May 2013 compared to nil for the five months ended 31 May 2012.

Cost of sales

Our cost of sales increased 43.6% from US$3.9 million for the five months ended 31 May 2012 to US$5.6 million for the five months ended 31 May 2013, primarily due to the increase in our channel cost. Our channel cost increased significantly by 70.0% from US$2.0 million to US$3.4 million because as we derived more revenue from our mobile game business, we increasingly relied on exclusive payment channels such as Facebook Payments, Google Play and Apple App Store, which charge substantially higher service fee rates than our other payment channel platforms. Accordingly, we paid US$1.5 million, US$0.6 million and US$0.2 million to Facebook Payments, Google Play and Apple App Store for the five months ended 31 May 2013, which accounted for 26.8%, 10.7% and 3.6% of our total cost of sales, respectively. There were also significant increase of the data center lease and hosting cost from US$0.5 million to US$0.8 million, primarily as a result of the expansion of our business that requires additional server and network capacity to accommodate our growing player base and increased network traffic.

Gross profit and gross profit margin

Gross profit increased by 42.0% from US$13.1 million for the five months ended 31 May 2012 to US$18.6 million for the five months ended 31 May 2013, primarily as a result of the increase of our revenue. Our gross profit margin decreased from 77.1% for the five months ended 31 May 2012 to 76.5% for the five months ended 31 May 2013, mainly due to an increase in channel costs as we focused more on the development and operation of our mobile games.

Other income and gains

Other income and gains remained relatively stable at US$16,000 and US$20,000 for the five months ended 31 May 2012 and 2013, respectively.

Selling and distribution expenses

Selling and distribution expenses increased by 75.0% from US$3.2 million for the five months ended 31 May 2012 to US$5.6 million for the five months ended 31 May 2013, primarily due to the a significant increase of advertising and promotion expenses for Texas HoldEm Poker Deluxe and Wings of Destiny, which increased from US$0.5 million and US$ Nil for the five months ended 31 May 2012, respectively, to US$2.0 million and US$1.4 million for the five months ended 31 May 2013, respectively.

Research and development expenses

Research and development costs increased by 24.0% from US$2.5 million for the five months ended 31 May 2012 to US$3.1 million for the five months ended 31 May 2013, primarily due to an increase in salaries and welfare costs paid with respect to our game developing personnel over the period as the number of such personnel increased, partially offset by a decrease in translation cost. Our translation cost decreased from US$0.1 million for the five months ended 31 May 2012 to US$37,000 for the five months ended 31 May 2013, primarily as a result of fewer translation projects during the earlier stages of game development.

Fair value loss of preferred shares

Fair value loss of the Preferred Shares increased by US$5.7 million, from US$8.5 million for the five months ended 31 May 2012 to US$14.2 million for the five months ended 31 May 2013, primarily due to the increase of fair value of the Preferred Shares as a result of the growth of our business. The fair value of the Preferred Shares was valued by Jones Lang LaSalle, based on the estimation of the value of our Group.

Income tax expenses

We incurred income tax expense of US$0.2 million for the five months ended 31 May 2012 and US$0.4 million for the five months ended 31 May 2013, mainly due to an increase in our revenue.

Loss for the period

As a result of the factors described above, especially fair value loss of the Preferred Shares, our net loss from continuing operations increased by 107.5% from a loss of US$4.0 million for the five months ended 31 May 2012 to a loss of US$8.3 million for the five months ended 31 May 2013.

Year Ended 31 December 2011 Compared to Year Ended 31 December 2012

Revenue

Our revenue increased 38.9% from US$31.1 million for the year ended 31 December 2011 to US$43.2 million for the year ended 31 December 2012, primarily due to increase in the revenue from Galaxy Online II as a result of the increase in the number of paying players for the year ended 31 December 2012, and the launch of Texas HoldEm Poker Deluxe (mobile version) in October 2011. The revenue from Galaxy Online II increased from US$14.1 million for the year ended 31 December 2011 to US$21.3 million for the year ended 31 December 2012. It achieved an average DAU of 181,995 for the year ended 31 December 2012 and a MAU of 494,225 as at 31 December 2012, whereas it recorded an average DAU of 155,081 for the year ended 31 December 2011 and a MAU of 675,363 as at 31 December 2011, respectively. MAU depends largely on our marketing and promotional efforts to attract new players. We generally deploy fewer resources to conduct promotional activities for existing games compared to newly launched games. Galaxy Online II was launched in February 2011 and experienced rapid growth in terms of the number of new players in 2011 due to our efforts on promotional activities to attract new players for this game. After nearly two years of operation, Galaxy Online II has maintained a stable and loyal user base and therefore, we gradually reduced related promotional activities, which resulted in a decline in newly-acquired players for Galaxy Online II in 2012. As a result, MAU of Galaxy Online II decreased from 675,363 as at 31 December 2011 to 494,225 as at 31 December 2012. However, the average DAU of Galaxy Online II in 2012 was higher than that in 2011 because loyal players accumulated over the years, who comprised a greater percentage of the total number of our game players, tend to be more persistent in playing the game and therefore, log on more frequently on a daily basis.

The revenue from Texas HoldEm Poker Deluxe (browser and mobile versions) increased from US$1.4 million for the year ended 31 December 2011 to US$4.7 million for the year ended 31 December 2012. It achieved an average DAU of 154,866 for the year ended 31 December 2012 and a MAU of 1,904,071 as at 31 December 2012, whereas it recorded an average DAU of 66,568 for the year ended 31 December 2011 and a MAU of 520,600 as at 31 December 2011. Although the MAU of Texas HoldEm Poker Deluxe was the highest among our major games as at 31 December 2012, the revenue it generated was relatively lower, primarily due to such card game's lower daily monetisation but longer lifespan.

The revenue derived from one of our client-based game, Godswar, remained relatively stable for the years ended 31 December 2011 and 2012. In addition to Galaxy Online II and Texas HoldEm Poker Deluxe, we launched three new games in the second half of 2011 and six new games in 2012, respectively, which also contributed to the increase in our revenue from 2011 to 2012.

In addition to the number of our paying customers, our revenue is also affected by our average revenues per daily active user, or ARPDAU. Our overall ARPDAU increased from US$0.19 for the year ended 31 December 2011 to US$0.23 for the year ended 31 December 2012 as we improved the monetisation of our games in 2012 by (i) creating fresh content, new features and virtual items to enhance player engagement and experience, (ii) lengthening user playtime and life cycle of our games, and (iii) increasing in-game purchases.

Cost of sales

Our cost of sales increased 35.1% from US$7.7 million for the year ended 31 December 2011 to US$10.4 million for the year ended 31 December 2012, primarily due to the increase in our channel cost. In spite of the 38.9% growth in our revenue, our channel cost increased significantly by 93.1% because Facebook designated Facebook Payments as its exclusive payment channel on 1 July 2011, which deducts 30% of the proceeds collected from its users who play our games on its platform as service fee. Accordingly, we paid US$1.3 million and US$2.7 million service fee to Facebook, representing 44.8% and 48.2% of our total channel cost for the year ended 31 December 2011 and 2012, respectively. The increase in our channel cost was partially offset by (i) the decrease in our royalty fee from US$2.0 million for the year ended 31 December 2011 to US$1.6 million for the year ended 31 December 2012, primarily because (i) the revenue we received from the client-based games we licensed from third party decreased and therefore, the royalty fee, which represents a percentage of revenue we shared with the licensors, decreased accordingly; and (ii) a decrease of salaries and welfares of our employees in our operational department as a result of streamlining our business operations in November 2012.

Gross profit and gross profit margin

Gross profit increased by 40.8%, from US$23.3 million for the year ended 31 December 2011 to US$32.8 million for the year ended 31 December 2012, primarily as a result of the increase of our revenue. Our gross profit margin increased from 74.9% for the year ended 31 December 2011 to 75.9% for the year ended 31 December 2012. This was mainly attributable to increased economies of scale as our revenue grew significantly.

Other income and gains

Other income and gains remained relatively stable at US$0.4 million for the years ended 31 December 2011 and 2012.

Selling and distribution expenses

Selling and distribution expenses increased by 24.7% from US$9.7 million for the year ended 31 December 2011 to US$12.1 million for the year ended 31 December 2012, primarily due to the launch of Texas HoldEm Poker Deluxe (mobile version) in late 2011 and Wings of Destiny in September 2012. Normally, when a new game is launched, we determine the amount of advertisement and promotional expenses we intend to spend based on the popularity of such game. In 2012, we spent US$1.9 million for the advertising and promotion for Wings of Destiny and US$2.7 million for advertising and promotion for the Texas HoldEm Poker Deluxe (mobile version) on several mobile game marketing platforms, such as Apple App Store and Google Play.

Administrative expenses

Administrative expenses increased by US$1.9 million, or 36.5%, from US$5.2 million for the year ended 31 December 2011 to US$7.1 million for the year ended 31 December 2012, primarily due to the increase of the salaries and welfares of our administrative personnel due to an increase in headcount and an increase in our performance-based bonus paid to our administrative employees. In addition, we increased the average salary of our staff because of the inflation.

Research and development costs

Research and development costs increased by 18.9% from US$5.3 million for the year ended 31 December 2011 to US$6.3 million for the year ended 31 December 2012, primarily due to the increase in salaries and welfare costs paid with respect to our game developing personnel over the period, and partially offset by a decrease in the development costs of outsourced games. We had 242 personnel in development department for the year ended 31 December 2011 and 292 personnel for the year ended 31 December 2012, and plan to continue to recruit more developing personnel for the year ended 31 December 2013. Our outsourced game development costs decreased from US$2.3 million for the year ended 31 December 2011 to US$1.0 million for the year ended 31 December 2012, primarily due to a decrease in the amount of work we outsourced to third parties.

Fair value loss of the Preferred Shares

Fair value loss of the Preferred Shares increased by US$9.0 million, or 77.6%, from US$11.6 million for the year ended 31 December 2011 to US$20.6 million for the year ended 31 December 2012, primarily due to the increase of fair value of the Preferred Shares as a result of our business growth. The fair value of the Preferred Shares was valued by Jones Lang LaSalle, based on the estimation of the value of our Group.

Income tax expense

We incurred income tax expense of US$0.3 million in 2011 and US$0.2 million in 2012 due to utilising deductible operating loss to offset taxable income in IGG Singapore in 2011 and 2012.

Loss for the year

As a result of the factors described above, especially fair value loss of the Preferred Shares, our net loss from continuing operations increased by 54.0% from a loss of US$8.7 million for the year ended 31 December 2011 to a loss of US$13.4 million for the year ended 31 December 2012.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period, we principally financed our operations through a combination of issuance of the Preferred Shares and internally generated cashflow from our operations. And we principally used our cash to finance our working capital and capital expenditures.

The following table is a condensed summary of our audited consolidated cash flow statements for the periods indicated:

	Year ended 31 December		Five months ended 31 May	
	2011	**2012**	**2012**	**2013**
	US$'000	*US$'000*	*US$'000*	*US$'000*
			(Unaudited)	
Net cash flows from operating activities	4,718	9,748	5,459	6,266
Net cash flow used in investing activities	(1,356)	(863)	(208)	346
Net cash flows from financing activities	—	42	41	57
Net increase in cash and cash equivalents	3,362	8,927	5,292	5,977
Cash and cash equivalents at end of year/period	6,248	15,135	11,614	21,017

Cash flow from operating activities

For the year ended 31 December 2011, we recorded net cash inflow from operating activities of US$4.7 million, which mainly comprised of operating loss of US$8.3 million, which have been adjusted by increase in funds receivable of US$1.4 million due to time difference in settling with on-line payment platform partners, and offset by (i) non-cash fair value loss of the Preferred Shares of US$11.6 million, (ii) increase in other payables and accruals of US$1.7 million due to increase in accrual of social insurance, bonus payables and chargeback, and (iii) non-cash depreciation and amortization of US$1.4 million.

For the year ended 31 December 2012, we recorded net cash inflow from operating activities of US$9.7 million, which mainly comprised of operating loss of US$13.0 million which have been adjusted by increase in funds receivable of US$0.9 million due to time difference in settling with on-line payment platform partners, and offset by (i) non-cash fair value loss of Preferred Shares of US$20.6 million, (ii) increase in accounts payable US$1.7 million due to extended credit term with certain of our advertising suppliers, and (iii) non-cash depreciation and amortization of US$1.3 million.

For the five months ended 31 May 2013, we recorded net cash inflow from operating activities of US$6.3 million, which mainly comprised of operating loss of US$7.9 million, which have been adjusted by an increase in funds receivable of US$0.4 million and an increase in prepayments, deposits and other receivables of US$0.4 million, and offset by non-cash fair value loss of the Preferred Shares of US$14.2 million.

Cash flow used in investing activities

Our cash outflow used in investing activities is primarily for purchases of computers and servers in connection with game development and operation.

Net cash used in investing activities was US$1.4 million for the year ended 31 December 2011, which mainly consisted of purchases of items of computers and servers of US$1.2 million and purchases of software and trademarks of US$0.1 million.

Net cash used in investing activities was US$0.9 million for the year ended 31 December 2012, which mainly consisted of purchases of items of computers and servers of US$0.7 million, the purchase of intangible software and trademarks of US$0.1 million and the cash outflow in disposal of a discontinued operation of US$0.1 million.

Net cash used in investing activities was US$0.3 million for the five months ended 31 May 2013, which mainly consisted of purchases of items of computers and servers of US$0.3 million.

Cash flow from financing activities

We derive our cash inflow from financing activities principally from proceeds from exercise of stock option by our employees.

For the year ended 31 December 2011, we did not record any cash flows from financing activities.

For the year ended 31 December 2012, we recorded net cash generated from financing activities of US$42,000, representing the proceeds from exercise of stock options by our employees.

For the five months ended 31 May 2013, we recorded net cash generated from financing activities of US$57,000, representing the proceeds from the exercise of stock options by our employees.

COMMITMENTS

Other than operating lease commitments, we had no other capital commitments as at 31 December 2011 and 2012 and 31 May 2013. The following table sets out our operating lease commitments as at the dates indicated:

	As at 31 December		As at 31 May	As at 31 August
	2011	**2012**	**2013**	**2013**
	US$'000	*US$'000*	*US$'000*	*US$'000*
				(Unaudited)
Operating Lease Commitments				
Within one year	649	2,000	1,935	1,945
In the second to fifth year, inclusive	—	1,692	1,873	1,445
Total	649	3,692	3,808	3,390

CAPITAL EXPENDITURE

Our capital expenditures were US$1.3 million, US$0.8 million and US$0.4 million for the year ended 31 December 2011, 2012 and 31 May 2013, respectively, and were primarily attributable to the purchases of servers and computer equipment and intangible assets such as software and trademark. Our planned future capital expenditures mainly include purchases of additional servers and computer equipment as well as software and trademark. For the remaining seven months of 2013, we estimate that capital expenditures will be approximately US$0.7 million.

NET CURRENT LIABILITIES/ASSETS

Details of our current assets and liabilities as at the dates indicated are as follow:

	As at 31 December		As at 31 May	As at 31 August
	2011	2012	2013	2013
	US$'000	*US$'000*	*US$'000*	*US$'000*
				(Unaudited)
Current assets				
Accounts receivable	513	496	349	252
Prepayments, deposits and other receivables	257	476	892	1,454
Funds receivable	2,350	3,233	3,654	5,430
Cash and cash equivalents	6,248	15,135	21,017	23,902
Total current assets	9,368	19,340	25,912	31,038
Current liabilities				
Accounts payable	(428)	(1,841)	(2,012)	(2,302)
Other payables and accruals	(2,696)	(3,124)	(3,052)	(5,218)
Deferred revenue	(5,291)	(5,556)	(5,630)	(5,895)
Preferred Shares	(45,984)	(66,596)	—	—
Dividend payable	—	—	—	(4,923)
Tax payable	—	—	(336)	(660)
Total current liabilities	(54,399)	(77,117)	(11,030)	(18,998)
Net current (liabilities)/assets	(45,031)	(57,777)	14,882	12,040

As at 31 December 2011, we had net current liabilities of US$45.0 million. The key components of our current assets as at such date included cash and cash equivalents of US$6.2 million and funds receivable of US$2.4 million. The components of our current liabilities as at such date included the Preferred Shares of US$46.0 million, deferred revenue of US$5.3 million and other payables and accruals of US$2.7 million.

As at 31 December 2012, we had net current liabilities of US$57.8 million. The key components of our current assets as at such date included cash and cash equivalents of US$15.1 million and funds receivable of US$3.2 million. The components of our current liabilities as at such date included the Preferred Shares of US$66.6 million, deferred revenue of US$5.6 million and other payables and accruals of US$3.1 million.

As at 31 May 2013, we had net current assets of US$14.9 million. The key components of our current assets as at such date included cash and cash equivalents of US$21.0 million and funds receivable of US$3.7 million. The main components of our current liabilities as at such date included deferred revenue of US$5.6 million and other payable and accruals of US$3.1 million. The primary reason we had net current assets as at 31 May 2013 as compared to net current liabilities for each of 31 December 2011 and 2012 was the conversion of the Preferred Shares on 31 May 2013.

As at 31 August 2013, we had net current asset of US$12.0 million, which primarily consisted of cash generated from our business operations.

Accounts receivable

Our accounts receivable as at 31 December 2011, 2012 and 31 May 2013 was US$513,000, US$496,000 and US$349,000, respectively, accounting for 5.5%, 2.6% and 1.3%, respectively, of our total current assets. We generate substantial portion of our revenue from our proprietary online games by selling virtual items through enhancing the content of our games and the experience of our players. Since our players must pay for the virtual items before being able to use them in our games, we generally do not have accounts receivable relating to payments from our players.

The following table sets out the aging analysis of our accounts receivable at the balance sheet dates:

	As at 31 December		As at 31 May
	2011	2012	2013
	US$'000	*US$'000*	*US$'000*
Age			
within 3 months	453	450	296
3 to 6 months	42	46	53
6 months to 1 year	13	—	—
Over 1 year	5	—	—
Total accounts receivable	513	496	349

The following table sets forth the breakdown of accounts receivable by different category of debtors.

	As at 31 December				As at 31 May	
	2011		2012		2013	
	US$'000	*Average credit period*	*US$'000*	*Average credit period*	*US$'000*	*Average credit period*
Advertising customers	446	90 days	—	—	—	—
Licensees of our games or third parties who jointly operate our games with us . .	—	—	383	33 days	239	33 days
Players	67	—	113	—	110	—
Total	513		496		349	

As at 31 December 2011, 86.9% of our accounts receivable was generated from the advertisement service fees charged for the advertisements posted on advertising platforms provided by Fuzhou Online Game, one of our disposed subsidiaries, with an average credit period of 90 days. After the disposal of Fuzhou Online Game in October 2012, we did not generate any accounts receivable from advertising services. As at 31 December 2012 and 31 May 2013, 77.2% and 68.5% of our account receivables, respectively, related to the royalty fees from our games licensed to third parties or jointly operated with third parties with an average credit period of 33 days. We generally granted credit period up to 30 days to our licensees and co-operators of our games and up to 60 days to those with good relationship with us.

In addition, the remaining 13.1%, 22.8% and 31.5% account receivable as at 31 December 2011 and 2012 and 31 May 2013, respectively, increased primarily due to the time lag in clearing transactions through external payment networks. When players fund their account using their bank account or credit card, there is a clearing period before the cash is received by our payment channel partners, usually one business day.

The following table sets out our average accounts receivable turnover days for the Track Record Period:

	Year ended 31 December		Five months ended 31 May
	2011	**2012**	**2013**
Average account receivable turnover days			
For the overall portfolio calculated based on the total revenue[(1)]	5	4	3
For advertising customers calculated based on the advertising revenue	91	NA[(2)]	NA[(2)]
For Licensees of our games or third parties who jointly operate our games with us	—	51	40
For players	1	1	1

Note:

(1) Average accounts receivable turnover days for the years ended 31 December 2011 and 2012 and the five months ended 31 May 2013 are computed by the average of the opening and closing balance of account receivables for the year divided by total revenue for the year/period multiplied by the number of days for the year/period.

(2) NA means data is not available.

Our average account receivable turnover days for the overall portfolio calculated based on the total revenue were five days, four days and three days for the years ended 31 December 2011 and 2012 and the five months ended 31 May 2013, respectively, which remained relatively stable for both years. The average account receivable turnover days for advertising customers calculated based on the advertising revenue was 91 days for the year ended 31 December 2011, which was largely consistent with the credit period of 90 days granted to our advertising customers. The average accounts receivable turnover days for our licensees and co-operators of our games was 51 days for the year ended 31 December 2012, which was higher than the average credit period of 33 days. This was primarily due to us granting a 60-day credit period to one of our co-operators, the balance of account receivable from which accounted for 75.3% of the total balance of the account receivables from our licensees and co-operators as at 31 December 2012. The average receivable account receivable turnover days for players was one day for the two years ended 31 December 2011 and 2012 and the five months ended 31 May 2013 as a result of the above-mentioned clearing period.

Accounts payable

Our accounts payable primarily related to payable of advertising fee and as at 31 December 2011, 2012 and 31 May 2013 were US$0.4 million, US$1.8 million and US$2.0 million, respectively, accounting for 0.7%, 2.3% and 18.2%, respectively, of our total current liabilities.

The following table sets out the aging analysis of our accounts payable at the balance sheet dates:

	As at 31 December		As at 31 May
	2011	**2012**	**2013**
	US$'000	*US$'000*	*US$'000*
Age			
within 3 months	376	1,742	1,459
3 to 6 months	5	44	490
6 months to 1 year	20	17	19
Over 1 year	27	38	44
Total accounts payable	428	1,841	2,012

The accounts payable are non-interest-bearing and are normally settled within three months.

The following table sets out our average account payables turnover days for the Track Record Period:

	Year ended 31 December		Five months ended 31 May
	2011	**2012**	**2013**
Average account payables turnover days(1)	18	40	50

Note:

(1) Average account payables turnover days for the years ended 31 December 2011 and 2012 and the five months ended 31 May 2013 are computed by the average of the opening and closing accounts payable balances for the year/period, divided by the cost of sales for the year/period and multiplied by the number of days for the year/period.

Our average account payable turnover days increased from 18 days for the year ended 31 December 2011 to 40 days for the year ended 31 December 2012, and further increased to 50 days for the five months ended 31 May 2013, primarily as a result of increased in number of advertising platforms and in connection therewith, we were granted longer credit terms by these new suppliers.

Funds receivable

Our funds receivable as at 31 December 2011, 2012 and 31 May 2013 was US$2.4 million, US$3.2 million and US$3.7 million, respectively, accounting for 25.5%, 16.6% and 14.3%, respectively, of our total current assets. Funds receivable represents balance due from third-party payment service providers for the cash collected from game players in the purchase of virtual currency. Our Group periodically transfers the funds receivable from third party payment platform to our bank.

Other payables and accruals

	As at 31 December		As at 31 May
	2011	**2012**	**2013**
	US$'000	*US$'000*	*US$'000*
Other tax payables	461	356	390
Other payables	170	78	152
Provision for chargebacks	407	277	274
Other accruals	149	263	542
Salary and welfare payables	1,509	2,150	1,694
	2,696	3,124	3,052

Other payables and accruals were US$2.7 million, US$3.1 million and US$3.1 million, respectively, as at 31 December 2011 and 2012 and the five months ended 31 May 2013, accounting for 5.0%, 4.0% and 28.2%, respectively, of our total current liabilities. The key component of other payables and accruals was salary and welfare payables, which were US$1.5 million, US$2.2 million and US$1.7 million as at 31 December 2011 and 2012 and the five months ended 31 May 2013, respectively, of which US$0.5 million, US$0.7 million and US$0.7 million represented the amounts accrued for social security contribution required in the PRC, respectively. Further information about the social security contribution are set out in the section headed "Business — Regulatory Non-Compliance" of this document.

In spite of the 38.9% growth in our revenue from 2011 to 2012, our provision for charge-backs decreased by 31.9% for the same period primarily because we have strengthened the management and control of charge-back claims by (i) conducting routine charge-back investigation and pattern analysis; (ii) enhancing our multi-tier risk control policies; and (iii) combining automated risk control with human intervention, all of which enable us to find the abnormal fluctuations as soon as possible and adopt corresponding measures. In addition, our leading games, such as Galaxy Online II, are at a stage of steady development after a period of rapid growth, and therefore had higher level of player retention and royalty, which also contributed to the decrease in our provision for charge-backs. Our provision for charge-back further decreased as at 31 May 2013 primarily because we continued to effectively manage and control charge-back claims.

The large increase in other payables and accruals as a percentage of total current liabilities as at 31 May 2013 was primarily due to the substantial decrease in total current liabilities as our Preferred Shares were converted to ordinary Shares on 31 May 2013.

Deferred revenue

Deferred revenue mainly represents service fees prepaid by game players or licensees for online game services of which related services have not been rendered as at the end of each year of the Track Record Period.

Preferred Shares

As at 31 December 2011 and 2012, the Preferred Shares were US$46.0 million and US$66.6 million, respectively, accounting for 84.6% and 86.4%, respectively, of our total current liabilities.

On 30 November 2007, 5,375,000 Series A Preferred Shares were issued to IDG and Winston Investors at an aggregate purchase price of US$3.0 million, and 1,209,375 Series A-1 Preferred Shares were issued to each of the Series A Investors at an aggregate price of US$1.4 million. On 12 November 2008, 49,675 Series B Preferred Shares were issued to Mr. Zongjian Cai, Mr.Yuan Chi, Ms. Xiuping Wang and Mr. Hong Zhang in return for them to transfer their equity interest in IGG USA to our Company, and 5,216,091 Series B Preferred Shares were issued to Vertex, Hearst, IDG, Tian Xiang Limited, Mr. Yi Zhang, Mr. Yuan Xu and the Martin Living Trust at an aggregate purchase price of US$10.5 million. Series A Preferred Shares, Series A-1 Preferred Shares and Series B Preferred Shares are denominated in United States dollars.

The initial carrying value of the Series A Preferred Shares and B Preferred Shares is their issuance price at their respective issuance dates. The initial carrying value of the Series A-1 Preferred Shares is the fair value of the warrants on the exercise date plus the cash proceeds from the exercise. They are measured at fair value at each period end with subsequent changes in fair value recognised in the income statement. The increase in the fair value of the Preferred Shares in 2012 was primarily due to our business expansion and revenue growth as determined based on valuations performed by Jones Lang LaSalle. The Preferred Shares have been converted to ordinary Shares on 31 May 2013 and they have been transferred to equity.

For details of the Preferred Shares, please refer to the section headed "History and Corporate Structure — [●] Investments" and note 26 of the Accountants' Report in Appendix I to this document.

ADDITIONAL KEY FINANCIAL RATIOS

	As at 31 December		As at 31 May
	2011	**2012**	**2013**
Current ratio[1]	0.17	0.25	2.35

Note:

(1) Current ratio equals our current assets divided by current liabilities as at the end of the year.

Current Ratio

The current ratio was 0.17 and 0.25 as at 31 December 2011 and 2012, respectively, primarily due to the Preferred Shares of US$46.0 million and US$66.6 million as at 31 December 2011 and 2012, respectively, which were classified as financial liability at fair value. The increase in current ratio in 2012 is primarily as a result of an increase in our current assets in the form of cash and timed deposits with commercial banks and an increase in funds receivable due from third-party payment service providers for cash collected from game players in the purchase of virtual currency. As at 31 May 2013, the curent ratio was 2.35 primarily because the Preferred Shares were converted to ordinary Shares on 31 May 2013 in accordance with the then applicable Articles of Association and have been transferred to equity. Accordingly, our current liabilities decreased by 85.7% as at 31 May 2013.

WORKING CAPITAL

Our Directors believe that after taking into account the financial resources presently available to us, including internally generated funds. we have sufficient working capital for our present working capital requirements for at least the next 12 months from the date of this document.

CONTINGENT LIABILITIES

As at 31 August 2013, we did not have any material contingent liabilities, guarantees or any litigation or claims of material importance pending or threatened against any members of our Group.

QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT MARKET RISKS

We are exposed to foreign currency risk and liquidity risk in our normal course of business. We mainly manage our exposure to these market risks by adopting relevant internal policies and practices to constantly monitor such risks.

Foreign currency risk

We have transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. 17.6%, 24.5% and 15.7% of our sales are denominated in currencies other than the functional currency of the operating units making the sales for the year ended 31 December 2011 and 2012 and the five months ended 31 May 2013, respectively.

Liquidity risk

The principal method we uses to manage liquidity risk arising from financial liabilities is maintaining an adequate level of cash and cash equivalents with different banks. Our liquidity is primarily dependent on our ability to maintain adequate cash inflows from operations to meet our debt obligations as they fall due, and our ability to obtain external financing to meet our committed future capital expenditure.

OFF-BALANCE SHEET ARRANGEMENTS

As of the Latest Practical Date, we do not have any off-balance sheet arrangements.

INDEBTEDNESS

Save as aforesaid and apart from intra-group liabilities, we did not have any bank loans or other borrowings, or any other outstanding loan capital issued and outstanding or agreed to be issued, term loans, bank overdrafts or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other material contingent liabilities as at 31 August 2013.

DISCLAIMER

Our Directors confirm that, up to the Latest Practicable Date, there have been no material changes in our indebtedness, capital commitments and contingent liabilities of our Group from 31 August 2013. Our Directors further confirm that we did not have any material default in payment of accounts and other payables during the Track Record Period.

DISTRIBUTABLE RESERVES

Our Company was incorporated in Cayman Islands. As at 31 May 2013, we had reserves of US$14.3 million available for distribution to our equity holders.

DIVIDEND AND DIVIDEND POLICY

During the Track Record Period, no dividend has been declared and paid to our Shareholders. On 29 July 2013, we declared a dividend in the amount of US$4.9 million payable to our then existing Shareholders, representing US$0.19 per Share. All declared and unpaid dividends will be fully settled prior to the [●] through our available cash.

The payment and the amount of any dividends, if paid, will depend on the results of operations, cash flows, financial condition, statutory and regulatory restrictions on the payment of dividends by us, future prospects and other factors that we may consider relevant. Holders of the Shares will be entitled to receive such dividends pro rata according to the amounts paid up or credited as paid up on the Shares. The declaration, payment, and amount of dividends will be subject to our discretion.

Dividends may be paid out of our distributable profits and share premium as permitted under the relevant laws. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations. Share premium is to be used, only if we are able to pay our debts as they fall due in the ordinary course of business. Cash dividends on Shares, if any, will be paid in Hong Kong dollars. There can be no assurance that we will be able to declare or distribute any dividend in the amount set out in any plan of the Board or at all.

NO MATERIAL ADVERSE CHANGE

After performing all of the due diligence which our Directors consider appropriate, our Directors confirm that, as of the date of this document, there has been no material adverse change to our financial or trading position or prospects since 31 May 2013, being the date to which our most recent audited consolidated financial statements were prepared, and since that date, there has been no event up to the date of this document that would materially affect the information shown in our consolidated financial statements included in the accountants' report set out in Appendix I to this document, in each case except as otherwise disclosed in this document.