The following is the text of a report, prepared for inclusion in this document, received from [●].

[●]

[●] [●] 2013

The Board of Directors
IGG Inc

Dear Sirs,

We set out below our report on the financial information regarding IGG Inc (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") comprising the consolidated income statements, statements of comprehensive income, statements of changes in equity and the statements of cash flows of the Group for each of the two years ended 31 December 2011 and 2012, and the five months ended 31 May 2013 (the "Relevant Periods"), and the consolidated statements of financial position of the Group and the statements of financial position of the Company as at 31 December 2011 and 2012 and 31 May 2013, together with the notes thereto (the "Financial Information"), and the consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows of the Group for the five months ended 31 May 2012 (the "Interim Comparative Information"), prepared on the basis of presentation set out in note 2.1 of Section II below.

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 16 August 2007 under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

As at the end of the Relevant Periods, no statutory financial statements have been prepared for the Company because it is not subject to statutory audit requirements under the relevant rules and regulations in its jurisdiction of incorporation.

As at the end of the Relevant Periods, the Company has direct and indirect interests in the subsidiaries as set out in note 1 of Section II below. All companies now comprising the Group have adopted 31 December as their financial year end date. The statutory financial statements or management accounts of the companies now comprising the Group were prepared in accordance with the relevant accounting principles applicable to these companies in the countries in which they were incorporated and/or established. Details of their statutory auditors during the Relevant Periods are set out in note 1 of Section II below.

For the purpose of this report, the directors of the Company (the "Directors") have prepared the consolidated financial statements of the Group (the "Underlying Financial Statements") in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"). The Underlying Financial Statements for each of the years ended 31 December 2011 and 2012 and the five months ended 31 May 2013 were audited by us in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustments made thereon.

Directors' responsibility

The Directors are responsible for the preparation of the Underlying Financial Statements, the Financial Information and the Interim Comparative Information that give a true and fair view in accordance with IFRSs, and for such internal control as the Directors determine is necessary to enable the preparation of the Underlying Financial Statements, the Financial Information and the Interim Comparative Information that are free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

It is our responsibility to form an independent opinion and a review conclusion on the Financial Information and the Interim Comparative Information, respectively, and to report our opinion and review conclusion thereon to you.

For the purpose of this report, we have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 *[●] and the Reporting Accountant* issued by the HKICPA.

We have also performed a review of the Interim Comparative Information in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an opinion on the Interim Comparative Information.

Opinion in respect of the Financial Information

In our opinion, for the purpose of this report and on the basis of presentation set out in note 2.1 of Section II below, the Financial Information gives a true and fair view of the state of affairs of the Group and the Company as at 31 December 2011 and 2012 and 31 May 2013, and of the consolidated results and cash flows of the Group for each of the Relevant Periods.

Review conclusion in respect of the Interim Comparative Information

Based on our review which does not constitute an audit, for the purpose of this report, nothing has come to our attention that causes us to believe that the Interim Comparative Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

I. FINANCIAL INFORMATION

Consolidated income statements

		Year ended 31 December		Five months ended 31 May	
	Notes	**2011**	**2012**	**2012**	**2013**
		US$'000	*US$'000*	*US$'000*	*US$'000*
				(Unaudited)	
CONTINUING OPERATIONS					
REVENUE	7	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	7	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	26	(11,571)	(20,612)	(8,460)	(14,167)
Other expenses		(304)	(57)	(182)	(44)
LOSS BEFORE TAX	8	(8,343)	(12,946)	(3,836)	(7,858)
Income tax expense	11	(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/period from a discontinued operation	13	(12)	(326)	(58)	—
LOSS FOR THE YEAR/PERIOD		(8,701)	(13,435)	(4,086)	(8,254)

		Year ended 31 December		Five months ended 31 May	
	Notes	**2011**	**2012**	**2012**	**2013**
		US$'000	*US$'000*	*US$'000*	*US$'000*
				(Unaudited)	
Attributable to:					
Owners of the parent		(8,690)	(13,435)	(4,086)	(8,254)
Non-controlling interests		(11)	—	—	—
		(8,701)	(13,435)	(4,086)	(8,254)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	15				
Basic					
- For loss for the year/period		US$(0.0165)	US$(0.0251)	US$(0.0077)	US$(0.0151)
- For loss from continuing operations		US$(0.0164)	US$(0.0245)	US$(0.0076)	US$(0.0151)
Diluted					
- For loss for the year/period		US$(0.0165)	US$(0.0251)	US$(0.0077)	US$(0.0151)
- For loss from continuing operations		US$(0.0164)	US$(0.0245)	US$(0.0076)	US$(0.0151)

Consolidated statements of comprehensive income

	Year ended 31 December		Five months ended 31 May	
	2011	**2012**	**2012**	**2013**
	US$'000	*US$'000*	*US$'000*	*US$'000*
			(Unaudited)	
LOSS FOR THE YEAR/PERIOD	(8,701)	(13,435)	(4,086)	(8,254)
OTHER COMPREHENSIVE INCOME/(LOSS)				
Other comprehensive income to be reclassified to profit or loss in subsequent periods:				
Exchange differences on translation of foreign operations	(267)	(55)	68	(85)
OTHER COMPREHENSIVE INCOME/(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)

Consolidated statements of financial position

	Notes	As at 31 December 2011	As at 31 December 2012	As at 31 May 2013
		US$'000	*US$'000*	*US$'000*
NON-CURRENT ASSETS				
Property, plant and equipment	16	1,942	1,517	1,542
Other intangible assets	17	303	152	126
Non-current rental deposits		—	152	154
Deferred tax assets	27	472	365	290
Total non-current assets		2,717	2,186	2,112
CURRENT ASSETS				
Accounts receivables	19	513	496	349
Prepayments, deposits and other receivables	20	257	476	892
Funds receivable	21	2,350	3,233	3,654
Cash and cash equivalents	22	6,248	15,135	21,017
Total current assets		9,368	19,340	25,912
CURRENT LIABILITIES				
Accounts payables	23	428	1,841	2,012
Other payables and accruals	24	2,696	3,124	3,052
Tax payable		—	—	336
Deferred revenue	25	5,291	5,556	5,630
Redeemable convertible preferred shares	26	45,984	66,596	—
Total current liabilities		54,399	77,117	11,030
NET CURRENT ASSETS/(LIABILITIES)		(45,031)	(57,777)	14,882
TOTAL ASSETS LESS CURRENT LIABILITIES		(42,314)	(55,591)	16,994
NON-CURRENT LIABILITIES				
Deferred tax liabilities	27	205	250	235
Total non-current liabilities		205	250	235
NET ASSETS/(LIABILITIES)		(42,519)	(55,841)	16,759

	Notes	As at 31 December 2011 *US$'000*	As at 31 December 2012 *US$'000*	As at 31 May 2013 *US$'000*
EQUITY				
Equity attributable to owners of the parent				
Issued capital	28	1	1	2
Reserves	30(a)	(42,520)	(55,842)	16,757
Equity attributable to owners of the parent		(42,519)	(55,841)	16,759
Non-controlling interests		—	—	—
Total equity/(deficits)		(42,519)	(55,841)	16,759

Consolidated statements of changes in equity

	Attributable to owners of the parent								Non-controlling interests	Total deficits
	Issued capital	Share premium	Share option reserve	Reserve funds (note 30(a))	Other reserve	Exchange fluctuation reserve	Accumulated deficits	Total		
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
As at 1 January 2011	1	3,453	746	—	—	212	(38,032)	(33,620)	(26)	(33,646)
Loss for the year	—	—	—	—	—	—	(8,690)	(8,690)	(11)	(8,701)
Other comprehensive loss for the year:										
Exchange differences on translation of foreign operations	—	—	—	—	—	(267)	—	(267)	—	(267)
Total comprehensive loss for the year	—	—	—	—	—	(267)	(8,690)	(8,957)	(11)	(8,968)
Equity-settled share option arrangement	—	—	50	—	—	—	—	50	—	50
Transfer of share option reserve upon the expiry of share options	—	—	(9)	—	—	—	9	—	—	—
Acquisition of non-controlling interests	—	—	—	—	8	—	—	8	31	39
Disposal of subsidiaries (note 31)	—	—	—	—	—	—	—	—	6	6
At 31 December 2011	1	3,453*	787*	—*	8*	(55)*	(46,713)*	(42,519)	—	(42,519)

	Attributable to owners of the parent									
	Issued capital	**Share premium**	**Share option reserve**	**Reserve funds (note 30(a))**	**Other reserve**	**Exchange fluctuation reserve**	**Accumulated deficits**	**Total**	**Non-controlling interests**	**Total deficits**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
At 1 January 2012	1	3,453	787	—	8	(55)	(46,713)	(42,519)	—	(42,519)
Loss for the year	—	—	—	—	—	—	(13,435)	(13,435)	—	(13,435)
Other comprehensive loss for the year:										
Exchange differences on translation of foreign operations	—	—	—	—	—	(55)	—	(55)	—	(55)
Total comprehensive loss for the year	—	—	—	—	—	(55)	(13,435)	(13,490)	—	(13,490)
Equity-settled share option arrangement	—	—	126	—	—	—	—	126	—	126
Transfer of share option reserve upon the expiry of share options	—	—	(23)	—	—	—	23	—	—	—
Exercise of share option	—	127	(85)	—	—	—	—	42	—	42
Transfer from retained profits	—	—	—	88	—	—	(88)	—	—	—
At 31 December 2012	1	3,580*	805*	88*	8*	(110)*	(60,213)*	(55,841)	—	(55,841)

	Attributable to owners of the parent									
	Issued capital	**Share premium**	**Share option reserve**	**Reserve funds (note 30(a))**	**Other reserve**	**Exchange fluctuation reserve**	**Accumulated deficits**	**Total**	**Non-controlling interests**	**Total equity**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
At 1 January 2013	1	3,580	805	88	8	(110)	(60,213)	(55,841)	—	(55,841)
Loss for the period	—	—	—	—	—	—	(8,254)	(8,254)	—	(8,254)
Other comprehensive loss for the period:										
Exchange differences on translation of foreign operations	—	—	—	—	—	(85)	—	(85)	—	(85)
Total comprehensive loss for the period	—	—	—	—	—	(85)	(8,254)	(8,339)	—	(8,339)
Equity-settled share option arrangement	—	—	119	—	—	—	—	119	—	119
Exercise of share option	—	250	(193)	—	—	—	—	57	—	57
Conversion of Redeemable convertible preferred shares (note 26)	1	80,762	—	—	—	—	—	80,763	—	80,763
Transfer from retained profits	—	—	—	—	—	—	—	—	—	—
At 31 May 2013	2	84,592*	731*	88*	8*	(195)*	(68,467)*	16,759	—	16,759

	Attributable to owners of the parent									
	Issued capital	**Share premium**	**Share option reserve**	**Reserve funds (note 30(a))**	**Other reserve**	**Exchange fluctuation reserve**	**Accumulated deficits**	**Total**	**Non-controlling interests**	**Total deficits**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Unaudited										
As at 1 January 2012	1	3,453	787	—	8	(55)	(46,713)	(42,519)	—	(42,519)
Loss for the period	—	—	—	—	—	—	(4,086)	(4,086)	—	(4,086)
Other comprehensive income for the period:										
Exchange differences on translation of foreign operations	—	—	—	—	—	68	—	68	—	68
Total comprehensive loss for the period	—	—	—	—	—	68	(4,086)	(4,018)	—	(4,018)
Equity-settled share option arrangement	—	—	54	—	—	—	—	54	—	54
Exercise of share option	—	57	(16)	—	—	—	—	41	—	41
At 31 May 2012	1	3,510	825	—	8	13	(50,799)	(46,442)	—	(46,442)

* These reserve accounts comprise the consolidated reserves of US$(42,520,000), US$(55,842,000) and US$16,757,000, as at 31 December 2011, 2012 and 31 May 2013, respectively, in the consolidated statements of financial position.

Consolidated statements of cash flows

	Notes	Year ended 31 December 2011	Year ended 31 December 2012	Five months ended 31 May 2012	Five months ended 31 May 2013
		US$'000	*US$'000*	*US$'000*	*US$'000*
				(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES					
Loss before tax:					
From continuing operations		(8,343)	(12,946)	(3,836)	(7,858)
From a discontinued operation		(12)	(326)	(58)	—
Adjustments for:					
Interest income	8	(3)	(24)	(4)	(15)
Loss/(gain) on disposal of items of property, plant and equipment	8	2	(6)	(8)	7
Fair value loss of redeemable convertible preferred shares	8	11,571	20,612	8,460	14,167
Depreciation	8	1,156	1,014	423	316
Amortisation of other intangible assets	8	259	264	110	43
Loss on disposal of subsidiaries and associates	8	274	—	—	—
Loss on disposal of a discontinued operation	13	—	405	—	—
Equity-settled share compensation costs	8	50	126	54	119
		4,954	9,119	5,141	6,779
(Increase)/decrease in funds receivable		(1,389)	(883)	876	(421)
(Increase)/decrease in accounts receivable		(198)	(561)	(178)	137
Increase in prepayments, deposits and other receivables		(82)	(392)	(299)	(416)
Increase/(decrease) in accounts payable		128	1,650	32	171
Increase/(decrease) in deferred revenue		(318)	265	(761)	74
Increase in other payables and accruals		1,650	689	648	(72)
Increase in non-current rental deposits		—	(152)	—	—
Cash flow generated from operations		4,745	9,735	5,459	6,252
Interest received		3	24	4	15
Income tax paid		(30)	(11)	(4)	(1)
Net cash flows from operating activities		4,718	9,748	5,459	6,266

	Notes	Year ended 31 December 2011	2012	Five months ended 31 May 2012	2013
		US$'000	*US$'000*	*US$'000* (*Unaudited*)	*US$'000*
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from disposal of items of property, plant and equipment		—	25	16	7
Purchases of items of property, plant and equipment		(1,211)	(658)	(123)	(348)
Purchases of other intangible assets		(115)	(112)	(101)	(15)
Cash inflow/(outflow) in respect of the disposal of a discontinued operation	13	—	(118)	—	10
Cash outflow in respect of the disposal of subsidiaries and associate	31	(30)	—	—	—
Net cash flows used in investing activities		(1,356)	(863)	(208)	(346)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from exercise of share options		—	42	41	57
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 beginning of year/period		3,169	6,248	6,248	15,135
Effect of foreign exchange rate changes, net		(283)	(40)	74	(95)
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		6,248	15,135	11,614	21,017
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS					
Cash and cash equivalents as stated in the consolidated statements of financial Position	22	6,248	15,135	11,614	21,017

Statements of financial position

	Notes	As at 31 December 2011 *US$'000*	As at 31 December 2012 *US$'000*	As at 31 May 2013 *US$'000*
NON-CURRENT ASSETS				
Investments in subsidiaries	18	3,004	3,107	3,226
Total non-current assets		3,004	3,107	3,226
CURRENT ASSETS				
Due from subsidiaries	18	12,076	11,732	11,028
Cash and cash equivalents	22	165	121	397
Total current assets		12,241	11,853	11,425
CURRENT LIABILITIES				
Due to subsidiaries	18	234	235	236
Other payables and accruals	24	70	263	110
Redeemable convertible preferred shares	26	45,984	66,596	—
Total current liabilities		46,288	67,094	346
NET CURRENT ASSETS/(LIABILITIES)		(34,047)	(55,241)	11,079
TOTAL ASSETS LESS CURRENT LIABILITIES		(31,043)	(52,134)	14,305
Net assets/(liabilities)		(31,043)	(52,134)	14,305
EQUITY				
Equity attributable to owners of the parent				
Issued capital		1	1	2
Reserves	30(b)	(31,044)	(52,135)	14,303
Total equity/(deficits)		(31,043)	(52,134)	14,305

II. NOTES TO THE FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands. The registered address of the Company is Floor 4, Willow House, Cricket Square, P.O. Box 2804, Grand Cayman, KY1-1112, Cayman Islands.

The Company is an investment holding company. During the Relevant Periods, the Group was principally engaged in development and operation of online games in the international market.

As at the end of the Relevant Periods, the Company had direct and indirect interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Name	Notes	Place and date of incorporation/ registration and place of operations	Issued and paid-up/ registered capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Skyunion Hong Kong Holdings Limited	(1)	Hong Kong 20 February 2006	HK$1,500,000	100	—	Operation and licensing of online games in overseas market
IGG Singapore Pte. Ltd.	(2)	Singapore 30 June 2009	SGD1,500,000	100	—	Operation and licensing of online games in overseas market
Sky Union, LLC ("IGG US")	(3)	USA 25 October 2005	US$266,236.86	100	—	As the agent of sale & marketing, as well as server hosting function for group company including collecting fees from the players globally
Fuzhou TJ Digital Entertainment Co., Ltd ("Fuzhou Tianji")*	(4)	PRC 15 November 2007	US$5,000,000	—	100	Research and development of games and provision of global customer support services

Name	Notes	Place and date of incorporation/ registration and place of operations	Issued and paid-up/ registered capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Fuzhou Skyunion Digital Co., Ltd ("Fuzhou Tianmeng")**	(4)	PRC 12 December 2006	RMB10,000,000	—	100#	Research and development of games and operation of online games in China
Fuzhou Tianjie Information Technology Co., Ltd**	(4)	PRC 3 June 2008	RMB1,000,000	—	100	Research and development of games
IGG Philippines Corp.	(5)	Philippines 11 January 2013	Php4,000,000	100	—	Provision of global customer support services

Notes:

(1) The statutory audited financial statements for the year ended 31 December 2011 and 2012 were prepared in accordance with Hong Kong Financial Reporting Standards and were audited by LEE CHI FAI & CO., certified public accountants registered in Hong Kong.

(2) The statutory audited financial statements for the year ended 31 December 2011 were prepared in accordance with Singapore Financial Reporting Standards and were audited by C.S. Choong & Co. PAC, certified public accountants registered in Singapore. The statutory and audited financial statement for the year ended 31 December 2012 were prepared in accordance with Singapore Financial Reporting Standards and were audited by [●].

(3) No audited financial statements have been prepared for this entity for two years ended 31 December 2011 and 2012 as there are no statutory audit requirements under the relevant rules and regulations in its jurisdiction of incorporation.

(4) The statutory audited financial statements for the two years ended 31 December 2011 and 2012 were prepared in accordance with Accounting Standards for Business Enterprise issued by the Ministry of Finance on 15 February 2006 and other related regulations (collectively "PRC GAAP") and were audited by Dejian Certified Public Accountants Co., Ltd. (德健會計師事務所有限公司), certified public accountants registered in the PRC.

(5) No audited financial statements has been prepared for this entity for the Relevant Periods as the entity was newly established in 2013.

* Registered as a wholly-foreign-owned enterprise under the law of the PRC

** Registered as limited liability companies under the law of the PRC

During the Relevant Periods, the Company disposed of its indirect interests in the following subsidiaries, which are private limited liability companies and their particulars are set out below:

Name	Notes	Place and date of incorporation/ registration and place of operations	Issued and paid-up/ registered capital	Percentage of equity attributable to the Company	Date of disposal	Principal activities
Fuzhou Onlinegame Information Technology Co.,Ltd. ("Fuzhou Online Game")	(6)	PRC 25 May 2005	RMB10,000,000	100#	8 October 2012	On-line advertising
Fuzhou Chuangyou Information Technology Co., Ltd.		PRC 4 November 2009	RMB70,000	51	12 September 2011	Research and development of games
Xi'an Xiaoyao Tianxia Internet Science and Technology		PRC 15 February 2011	RMB100,000	51	16 September 2011	Research and development of games

(6) The statutory audited financial statements for year ended 31 December 2011 were prepared in accordance with PRC GAAP and were audited by Dejian Certified Public Accountants Co., Ltd. (德健會計師事務所有限公司), certified public accountants registered in the PRC.

\# Fuzhou Tianmeng and Fuzhou Online Game were both legally owned by Mr. Zongjian Cai and Mr. Yuan Chi (the "Registered Shareholders"). Fuzhou Tianji entered into a series of contractual agreements ("Structured Contracts") with Fuzhou Tianmeng and Fuzhou Online Game and their Registered Shareholders. As a result of the contractual arrangements, Fuzhou Tianmeng and Fuzhou Online Game were ultimately controlled by Fuzhou Tianji, which is a wholly-owned subsidiary of the Company. Please refer to note 2.1 to the Financial Information for details. Registered Shareholders transferred their entire equity interest in Fuzhou Online Game to Fuzhou Tianmeng on 24 April 2012 and subsequently Fuzhou Online Game was disposed by the Group to unrelated third parties on 8 October 2012. Please refer to note 13 to the Financial Information for details.

2.1 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 Mainland China. The Group historically operated its online games and online advertising in Mainland China through Fuzhou Tianmeng and Fuzhou Online Game (collectively, the "PRC Operating Entities"). Fuzhou Online Game was disposed by the Group in 2012 as set out in note 13 to the Financial Information.

Certain Structured Contracts 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 the Company. The Structured Contracts for Fuzhou Tianmeng and Fuzhou Online Game were effectuated in November 2007 and August 2009, respectively.

The Structured Contracts provide the Group through Fuzhou Tianji with effective control over the PRC Operating Entities. In particular, Fuzhou Tianji undertakes to provide the PRC Operating Entities with certain technical services as required by to support their operations. In return, the 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 the Group or the Group's designee upon a request made by the Group when permitted by the PRC laws for a 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 the Group in respect of the continuing obligations of the PRC Operating Entities. Fuzhou Tianji has not provided any financial support that it was not previously contractually required to do so to the PRC Operating Entities during the Relevant Record Period. Fuzhou Tianji intends continuously to provide to or assist PRC Operating Entities in obtaining financial support when deemed necessary. Accordingly, the Group has 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 the Company. 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 at their existing carrying values at the date of consolidation. The Group acquired Fuzhou Online Game from independent third parties through formation of Structured Contracts which was accounted for as business combination by using acquisition method where the assets and liabilities of Fuzhou Online Game are reflected at their fair values at the date of consolidation.

2.2 BASIS OF PREPARATION

The Financial Information has been prepared in accordance with IFRSs which comprise all standards and interpretations approved by the IASB, the disclosure requirements of the Hong Kong Companies Ordinance and [●]. All IFRSs effective for the accounting periods commencing from 1 January 2013, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Financial Information throughout the Relevant Periods.

The Financial Information prepared under the historical cost convention, except for redeemable convertible preferred shares which have been measured at fair value. The Financial Information is presented in United States Dollar and all values are rounded to the nearest thousand except when otherwise indicated.

3. IMPACT OF ISSUED BUT NOT YET EFFECTIVE IFRSs

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in the Financial Information.

IFRS 9	*Financial Instruments*[2]
IFRS 10, IFRS 12 and IAS 27 (Revised) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised) *Investment Entities*[1]
IAS 32 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities*[1]
IAS 36 Amendments	Amendments to IAS 36 *Recoverable Amount Disclosures for Non-Financial Assets*[1]
IFRIC Interpretation 21	*Levie1*[1]

1 Effective for annual periods beginning on or after 1 January 2014

2 Effective for annual periods beginning on or after 1 January 2015

The directors of the Group expect that the application of these new and revised IFRSs will have no material impact on the Financial Information.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted by the Group in arriving at the Financial Information set out in this report, are set out below:

Basis of consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries and PRC Operating Entities (collectively referred to as the "Group") for the Relevant Periods. The financial statements of the subsidiaries and PRC Operating Entities are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries and PRC Operating Entities are consolidated from the date of acquisition, being the date on which the 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 section History and Corporate Structure of the [●] and note 2.1 for the PRC Operating Entities 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 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 PRC Operating Entity, without a loss of control, is accounted for as an equity transaction.

If the 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. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

Subsidiaries and PRC Operating Entities

Subsidiaries and PRC Operating Entities are entities which are controlled by the Company and/or its other subsidiaries.

The Group controls an investee when the Group is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., the existing rights that give the Group the current ability to direct the relevant activities of the investee). The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control described above.

The results of subsidiaries and PRC Operating Entities are included in the Company's income statement to the extent of dividends received and receivable.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates and is not individually tested for impairment.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed in these circumstances is measured based on the relative value of the disposed operation and the portion of the cash-generating unit retained.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each of the Relevant Periods as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person (i) has control or joint control over the Group; (ii) has significant influence over the Group; or (iii) is a member of the key management personnel of the Group or of a parent of the Group; or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates (after taking account of the residual value) used for this purpose are as follows:

Leasehold improvements	Over the shorter of the lease terms and 20%
Computer equipment	31.7%
Office equipment and furniture	31.7%
Motor vehicles	19%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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 licence fees from exclusive operation licences of the 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 the 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.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases.

Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate less any allowance for impairment. The effective interest rate amortisation is included in other income and gains in the income statement. The loss arising from impairment is recognised in the income statement in finance costs for loans and in other expenses for receivables.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the assets. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each of the Relevant Periods whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the income statement.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivative designated as hedging instruments in effective hedges, as appropriate. The 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.

The Group's financial liabilities include accounts payable, financial liabilities included in other payables and accruals, and redeemable convertible preferred shares.

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.

Redeemable convertible preferred shares

The redeemable convertible preferred shares were designated at fair value through profit or loss on initial recognition.

A financial liability may be designated as 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 the Group's 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 redeemable convertible 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 redeemable convertible 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.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, there is currently an enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of each of the Relevant Periods of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

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 of the Relevant Periods, taking into consideration interpretations and practices prevailing in the jurisdictions in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of each of the Relevant Periods 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 of the Relevant Periods 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 of the Relevant Periods 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 of the Relevant Periods.

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.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual installments.

Revenue recognition

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

(a) *Online game revenue*

The Group operates its online games that allow players to play for free. Players can purchase virtual currency to obtain in-game items and premium features, commonly known as virtual items, to enhance their game-playing experience. Players can pay for virtual currency using different payment platforms such as Facebook Payments, credit cards or PayPal. The third-party payment platforms are entitled to the 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 the Group. 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 the consolidated statement of financial position. The Group recognises revenue on a gross basis and treats 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 whole game life. The revenue from these virtual items is recognised either upon consumption or ratably over the practical usage period predetermined in the game or throughout the estimated user life of paying players as appropriate. Future usage patterns may differ from the historical usage patterns on which the Group's revenue recognition policy is based. The Group monitors 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 the 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. The Group determines that the likelihood that the Group would provide further online game service with respect to the players whose account has been inactive for 360 consecutive days is remote.

The Group entered into an agreement with Facebook, which required the Group to accept Facebook Credits as the primary in-game payment method for the Group's games played through the Facebook platform. Facebook Credit is Facebook's proprietary virtual currency that Facebook sells for use 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 $0.10. For each Facebook Credit purchased by players and redeemed in the games, Facebook remits to the Group $0.07. The Group recognises 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.

The Group is 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 may not substantially review the claim and will normally refund the credit card. The Group estimates 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. The Group enters into advertising arrangements with advertisers to allow them to place advertisements on particular areas of the 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 collectability is reasonably assured.

(c) *Licensing revenue*

The Group receives royalty income from third-party licensees in exchange for exclusive operation of the Group's self-developed games in certain regions and providing related technical support. The royalty fees include an upfront fee and a monthly fee, which is 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 ratably over the contracted licence period. The Group is unable to reliably estimate the monthly royalty fee because it has 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 the Group's games are jointly operated through the websites of third-party joint operators, the Group views the third-party joint operators as its customers and recognises revenue on a net basis as it acts as an agent in the arrangement. The Group does not have the primary responsibility for fulfilment and acceptability of the game services. The Company has 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 Group's virtual currency. The amount of revenue is measured based on the portion to which the Company is entitled and the amount of game players' purchase of the 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.

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the 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 financial statements.

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 of the Relevant Periods until the vesting date reflects the extent to which the vesting period has expired and the 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.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Other employee benefits

Pension schemes — Mainland China

The employees of the Group's subsidiaries, which operate in Mainland China, are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Pension schemes — non-China

The Group contributes on a monthly basis to various defined contribution plans organised by the relevant governmental authorities in various areas other than Mainland China. The Group's liability in respect of these plans is limited to the contributions payable at the end of each period. Contributions to these plans are expensed as incurred.

Foreign currencies

These financial statements are presented in United States dollar, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than the United States dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their income statements are translated into United States dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into United States dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into United States dollars at the weighted average exchange rates for the year.

5. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

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.

Fair value of share based compensation expenses

As mentioned in note 29, the Group has granted share options to its employees. The directors have used the binominal 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 binominal 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.

Fair value of redeemable convertible preferred shares

As described in note 26, the Company's redeemable convertible preferred shares are measured as fair value through profit or loss. The Company 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: the Group's financial and operating results; the global economic outlook in general and the specific economic and competitive factors affecting the Group's business; business risks the 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.

Online game revenue recognition

Estimation of the sales value of unutilised virtual items

Online game revenue is recognised based on the actual consumption of the virtual items 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 those unutilised virtual items because the Company is unable to track the sales value of each individual unutilised virtual item.

A number of promotion activities by offering to game players volume discounts of virtual currency were conducted throughout the Relevant Periods. 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 promotion 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 Relevant Periods. In addition, a number of unutilised virtual items were granted free of charge by completing certain tasks or entering into lucky draw within the games. The portion of unutilised virtual items obtained within the games by means other than paying with virtual currency is estimated based on the Company's statistics. The average sales value of each virtual item paid with virtual currency is then determined by factoring the average discount rate to the face value of the virtual currency and standard price of the virtual items measured in virtual currency.

Estimation of the user life of paying players

The Group recognises revenue from the sales of virtual items and virtual currency ratably over the estimated average user life of paying players for the applicable games in which the Group is not able to track the consumption of virtual items. 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.

The Group will continue to monitor the estimation 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.

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.

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of the Relevant Periods. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Estimates of current and deferred tax

The Group is subject to taxation in various jurisdictions. Significant judgement 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.

6. OPERATING SEGMENT INFORMATION

For management purpose, the directors of the Company consider that the Group generates revenue primarily from the provision of online game services which is the sole operating segment of the Group; therefore no further information about the operating segment is presented.

Geographical information

(a) ***Revenue from external customers based on IP locations of the game players***

	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	14,587	5,681	9,754
Asia	8,806	13,582	5,188	6,359
Europe	7,230	10,532	4,445	5,619
Oceania	1,710	2,297	849	1,191
South America	1,520	2,032	778	1,252
Africa	104	124	48	83
	31,080	43,154	16,989	24,258

(b) ***Non-current assets***

	As at 31 December		As at 31 May
	2011	**2012**	**2013**
	US$'000	*US$'000*	*US$'000*
Mainland China	1,240	959	824
North America	898	824	902
Singapore	579	403	368
Philippines	—	—	18
	2,717	2,186	2,112

The non-current assets information above is based on the locations of the assets.

7. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the services rendered after allowances for charge backs, and the royalties derived from licensing agreements.

An analysis of revenue, other income and gains from continuing operations is as follows:

	Year ended 31 December		Five months ended 31 May	
	2011	**2012**	**2012**	**2013**
	US$'000	*US$'000*	*US$'000*	*US$'000*
			(Unaudited)	
Revenue				
Online game revenue	30,626	41,810	16,686	23,062
Licensing revenue	454	548	303	131
Joint operation revenue	—	796	—	1,065
	31,080	43,154	16,989	24,258
Other income and gains				
Government grant*	218	261	—	—
Bank interest income	3	24	4	15
Gain on disposal of items of property, plant and equipment	—	6	8	—
Exchange gain	224	—	—	—
Rental income**	—	95	—	—
Others	3	36	4	5
	448	422	16	20

* Government grants were received from the government of the PRC mainly for subsidising the staff training costs incurred by the Group for its service outsourcing and technology export businesses. There are no unfulfilled conditions or contingencies relating to the grants.

** Rental income was generated from sub-lease to an unrelated party portion of our office spaces in Fuzhou.

8. LOSS BEFORE TAX

The Group's loss before tax from continuing operations is arrived at after charging/(crediting):

		Year ended 31 December		Five months ended 31 May	
		2011	**2012**	**2012**	**2013**
	Notes	*US$'000*	*US$'000*	*US$'000*	*US$'000*
				(Unaudited)	
Channel cost		2,914	5,636	2,039	3,441
Royalty fee		2,030	1,598	629	715
Depreciation	16	1,156	1,014	423	316
Amortisation of other intangible assets	17	259	264	110	43
Minimum lease payments under operating leases of building		1,553	2,228	740	1,075
Auditors' remuneration		23	42	16	156
Employee benefit expense (including directors' and chief executive's remuneration, note 9):					
Salaries and wages		5,824	7,312	2,763	3,641
Staff welfare expenses		181	343	49	123
Equity-settled share compensation costs		50	126	54	119
Pension scheme contributions		234	450	158	165
Foreign exchange differences, net		(224)	18	29	181
Fair value loss of redeemable convertible preferred shares		11,571	20,612	8,460	14,167
Loss /(gain) on disposal of items of property, plant and equipment		2	(6)	(8)	7
Loss on disposal of subsidiaries and associates	31	274	—	—	—
Bank interest income	7	(3)	(24)	(4)	(15)
Government grant	7	(218)	(261)	—	—

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the Relevant Periods and the five months ended 31 May 2012, disclosed pursuant to the [●] and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Year ended 31 December		Five months ended 31 May	
	2011	**2012**	**2012**	**2013**
	US$'000	*US$'000*	*US$'000*	*US$'000*
			(Unaudited)	
Fees	120	120	50	50
Other emoluments:				
Salaries, allowances and benefits in kind	105	110	44	63
Performance related bonuses*	168	271	102	7
Pension scheme contributions	6	6	2	2
	399	507	198	122

* Executive directors of the Company are entitled to bonus payments which are determined based on the operating results of the Group.

(a) **Non-executive directors**

Mr. Kee Lock Chua and Mr. Xiaojun Li acted as non-executive directors of the Company during the Relevant Periods. There were no emoluments payable to non-executive directors during the Relevant Periods and the five months ended 31 May 2012.

(b) **Executive directors**

	Fees	**Salaries, allowances and benefits in kind**	**Performance related bonuses**	**Pension scheme contributions**	**Total remuneration**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
2011					
Executive directors:					
Mr. Zongjian Cai	60	57	101	3	221
Mr. Yuan Chi	60	48	67	3	178
	120	105	168	6	399

Included in the total remuneration in 2011, US$162,000 and US$128,000 were paid to two companies wholly owned by Mr. Zongjian Cai and Mr. Yuan Chi, respectively.

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total remuneration
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
2012					
Executive directors:					
Mr. Zongjian Cai	60	62	175	3	300
Mr. Yuan Chi	60	48	96	3	207
	120	110	271	6	507

Included in the total remuneration in 2012, US$235,000 and US$152,000 were paid to two companies wholly owned by Mr. Zongjian Cai and Mr. Yuan Chi, respectively.

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total remuneration
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Five months ended 31 May 2013					
Executive directors:					
Mr. Zongjian Cai	25	35	7	1	68
Mr. Yuan Chi	25	28	—	1	54
	50	63	7	2	122

Included in the total remuneration in the five months ended 31 May 2013, US$31,746 and US$24,762 were paid to two companies wholly owned by Mr. Zongjian Cai and Mr. Yuan Chi, respectively.

	Fees	**Salaries, allowances and benefits in kind**	**Performance related bonuses**	**Pension scheme contributions**	**Total remuneration**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Five months ended 31 May 2012 (Unaudited)					
Executive directors:					
Mr. Zongjian Cai	25	24	68	1	118
Mr. Yuan Chi	25	20	34	1	80
	50	44	102	2	198

Included in the total remuneration in the five months ended 31 May 2012, US$92,715 and US$59,327 were paid to two companies wholly owned by Mr. Zongjian Cai and Mr. Yuan Chi, respectively.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the Relevant Periods and the five months ended 31 May 2012.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the Relevant Periods and the five months ended 31 May 2012 included 2 directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining 3 non-directors, highest paid employees for the Relevant Periods and the five months ended 31 May 2012 are as follows:

	Year ended 31 December		**Five months ended 31 May**	
	2011	**2012**	**2012**	**2013**
	US$'000	*US$'000*	*US$'000*	*US$'000*
			(Unaudited)	
Salaries, allowances and benefits in kind	372	374	156	165
Performance related bonuses	162	288	103	—
Equity-settled share option expense	47	74	19	41
Pension scheme contributions	—	22	8	7
	581	758	286	213

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Year ended 31 December		**Five months ended 31 May**	
	2011	**2012**	**2012**	**2013**
			(Unaudited)	
Nil to US$100,000	—	—	3	3
US$100,001 to US$150,000	2	—	—	—
US$150,001 to US$200,000	1	3	—	—
	3	3	3	3

During the Relevant Periods and the five months ended 31 May 2012, share options were granted to non-directors, highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 29 to the Financial Information. The fair value of such options, which has been recognised to the income statement over the vesting period, was determined as at the date of grant and the amount included in the Financial Information for the Relevant Periods and the five months ended 31 May 2012 is included in the above non-director, highest paid employees' remuneration disclosures.

11. INCOME TAX

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly is not subject to income tax.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

IGG Singapore Pte., Ltd. ("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 being an intellectual property owner and international headquarter for the Group's on-line game business. The incentive period covers a time frame of 7 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. For the five months ended 31 May 2013, IGG Singapore expects to meet the conditions so as to be entitled to the preferential tax rate of 5% in 2013 and thus 5% preferential tax rate was applied.

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the Relevant Periods.

Under the relevant income tax law, the PRC subsidiaries are subject to corporate income tax ("CIT") at a statutory rate of 25% for the Relevant Periods on their respective taxable income, except for Fuzhou Tianmeng which was certified as Software Enterprises and is exempted from CIT for two years starting from the first year in which it generate taxable profit, followed by a 50% reduction for the next three years. In the year ended 31 December 2012, Fuzhou Tianmeng started generating taxable profit and therefore is exempted from CIT for the year ended 31 December 2012 and the year ending 31 December 2013.

For each of the Relevant Periods, IGG US, a subsidiary of the Company in the United States, was subject to federal income tax at graduated rates ranging from 15% to 39%. In addition, IGG US is also subject to a California state income tax rate of 8.84%.

	Year ended 31 December		Five months ended 31 May	
	2011	**2012**	**2012**	**2013**
	US$'000	*US$'000*	*US$'000*	*US$'000*
			(Unaudited)	
Group:				
Current year provision:				
US	24	11	6	37
Hong Kong	—	—	—	—
Singapore	—	—	73	299
PRC	—	—	—	—
Subtotal of current tax	24	11	79	336
Deferred tax (note 27)				
US	41	45	(19)	(16)
Singapore	367	116	134	12
PRC	(86)	(9)	(2)	64
Subtotal of deferred tax	322	152	113	60
Total tax charge for the year/period	346	163	192	396

During the Relevant Periods and five months ended 31 May 2012, IGG Singapore was the headquarters of the Group where it recorded majority of its revenue. A reconciliation of the tax expense applicable to loss before tax at IGG Singapore's statutory tax rate to the tax expense at the effective tax rates is as follows:

	Year ended 31 December				Five months ended 31 May			
	2011		2012		2012		2013	
	US$'000	*%*	*US$'000*	*%*	*US$'000*	*%*	*US$'000*	*%*
					(Unaudited)			
Group								
Loss before tax from continuing operations	(8,343)		(12,946)		(3,836)		(7,858)	
Tax at the applicable tax rate	(1,418)	17.0	(2,201)	17.0	(652)	17.0	(1,336)	17.0
Effect in tax rates for different tax jurisdictions or enacted by local authority	1,677	(20.1)	3,548	(27.4)	1,394	(36.3)	2,598	(33.1)
Effect of tax holidays applicable to the subsidiaries and PRC Operating Entities	(473)	5.7	(1,868)	14.4	(957)	24.9	(891)	11.3
Tax losses not recognised	674	(8.1)	892	(6.9)	390	(10.2)	19	(0.2)
Tax losses utilised	—	—	—	—	—	—	(267)	3.4
Effect on different rates applicable to deferred tax and current tax	(55)	0.7	24	(0.2)	(95)	2.5	87	(1.1)
Income not subject to tax	(92)	1.1	(98)	0.8	(52)	1.4	(46)	0.6
Expenses not deductible for tax	33	(0.4)	47	(0.4)	164	(4.3)	232	(3)
Enhanced deduction for qualifying spending under Productivity and Innovation Credit	—	—	(181)	1.4	—	—	—	—
Tax charge at the Group's effective rate	346	(4.1)	163	(1.3)	192	(5.0)	396	(5.0)

12. LOSS ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated loss attributable to owners of the parent for the years ended 31 December 2011 and 2012 and for the five months ended 31 May 2012 and 2013 include losses of US$12,062,000, US$21,236,000, US$8,726,000 and US$14,500,000 respectively, which have been dealt with in the financial statements of the Company (note 30 (b)).

13. DISCONTINUED OPERATION

Registered Shareholders transferred their entire equity interests in Fuzhou Online Game to Fuzhou Tianmeng on 24 April 2012. Subsequently on 8 October 2012, the Group entered into a sale and purchase agreement with two third-party individuals to dispose of its 100% equity interests in Fuzhou Online Game for a cash consideration of RMB100,000 (equivalent to US$16,096), plus a contingent consideration based on certain percentage of future profits earned by Fuzhou Online Game. The Group immediately recognised a loss on disposal of Fuzhou Online Game of approximately US$405,000 and the contingent consideration will be recognised into income statement once becoming receivable. Up to May 2013, the Group has not recognised any profits in relation to the contingent consideration as Fuzhou Online Game did not make any profits.

Fuzhou Online Game was engaged in online advertising business which was a major individual line of business, therefore the operating results of Fuzhou Online Game together with the loss on disposal were presented as a discontinued operation during the Relevant Periods.

The results of Fuzhou Online Game for the Relevant Periods and five months ended 31 May 2012 are presented below:

	Year ended 31 December		**Five months ended 31 May**	
	2011	**2012**	**2012**	**2013**
	US$'000	*US$'000*	*US$'000* *(Unaudited)*	*US$'000*
Revenue	1,406	1,405	581	—
Expenses	(1,418)	(1,326)	(639)	—
Profit/(loss) before tax	(12)	79	(58)	—
Loss recognised on the disposal	—	(405)	—	—
Income tax impact	—	—	—	—
Loss for the year/period from the discontinued operation	(12)	(326)	(58)	—

The net cash flows incurred by Fuzhou Online Game are as follows:

	Year ended 31 December		Five months ended 31 May	
	2011	**2012**	**2012**	**2013**
	US$'000	*US$'000*	*US$'000* *(Unaudited)*	*US$'000*
Operating activities	(2)	(51)	(94)	—
Investing activities	—	6	15	—
Net cash outflow	(2)	(45)	(79)	—
Loss per share:				
Basic and diluted, from the discontinued operation	US$(0.0001)	US$(0.0006)	US$(0.0001)	

The calculations of basic and diluted loss per share from the discontinued operation are based on:

	Year ended 31 December		Five months ended 31 May	
	2011	**2012**	**2012**	**2013**
	US$'000	*US$'000*	*US$'000* *(Unaudited)*	*US$'000*
Loss attributable to ordinary equity holders of the parent from the discontinued operation	(12)	(326)	(58)	—

	Year ended 31 December		Five months ended 31 May	
	2011	**2012**	**2012**	**2013**
Weighted average number of ordinary shares in issue during the year/period used in the basic loss per share calculation (note 15)	528,000,000	534,807,320	529,612,000	546,520,000
Weighted average number of ordinary shares used in the diluted loss per share calculation (note 15)	528,000,000	534,807,320	529,612,000	546,520,000

The assets and liabilities of Fuzhou Online Game at the date of disposal and the loss on disposal are as follows:

	2012
	US$'000
Net assets disposed of:	
Property, plant and equipment (note 16)	52
Accounts receivable	593
Prepayments, deposits and other receivables	173
Cash and cash equivalents	124
Accounts payable	(237)
Other payables and accruals	(262)
Exchange realignment	(22)
	421
Loss on disposal of a discontinued operation	(405)
Satisfied by:	
Cash	6
Receivables*	10
	16

* The consideration receivable of US$10,000 was collected in April 2013.

An analysis of the net flow of cash and cash equivalents in respect of the disposal is as follows:

	2012
	US$'000
Cash consideration	6
Cash and cash equivalents disposed of	(124)
Net outflow of cash and cash equivalents in respect of the disposal of a discontinued operation	(118)

14. DIVIDEND

No dividend has been paid or declared by the Company since its incorporation.

On 29 July 2013, the Company declared a dividend in the amount of US$4,923,497 payable to the Company's then existing Shareholders, amounting to US$0.19 per share.

15. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

For the purpose of computing loss per share, the number of ordinary shares outstanding during the Relevant Periods has been adjusted retroactively as a result of share subdivision described in Note 39.

The calculation of basic loss per share amounts is based on the respective losses for each of the Relevant Periods and five months ended 31 May 2012 attributable to ordinary equity holders of the parent, and the weighted average numbers of ordinary shares of 528,000,000, 534,807,320 and 546,520,000 and 529,612,000 in issue during each of the Relevant Periods and five months ended 31 May 2012, respectively.

The calculation of diluted loss per share amounts is based on the loss for the year attributable to ordinary equity holders of the parent. The weighted average numbers of ordinary shares used in the calculation are the numbers of ordinary shares in issue during the Relevant Periods, as used in the basic loss per share calculation.

No adjustment has been made to the basic loss per share amounts presented for each of the Relevant Periods and five months ended 31 May 2012 in respect of a dilution as the impact of the share options and redeemable convertible preferred shares outstanding had an anti-dilutive effect on the basic loss per share amounts presented.

The calculations of basic and diluted loss per share are based on:

	Year ended 31 December		**Five months ended 31 May**	
	2011	**2012**	**2012**	**2013**
	US$'000	*US$'000*	*US$'000*	*US$'000*
			(Unaudited)	
Loss attributable to ordinary equity holders of the parent used in the basic and diluted loss per share calculation:				
From continuing operations	(8,689)	(13,109)	(4,028)	(8,254)
From a discontinued operation	(12)	(326)	(58)	—
	(8,701)	(13,435)	(4,086)	(8,254)

	Year ended 31 December		**Five months ended 31 May**	
	2011	**2012**	**2012**	**2013**
			(Unaudited)	
Weighted average number of ordinary shares in issue during the year /(period) used in the basic loss per share calculation	528,000,000	534,807,320	529,612,000	546,520,000
Weighted average number of ordinary shares used in the diluted loss per share calculation	528,000,000	534,807,320	529,612,000	546,520,000

16. PROPERTY, PLANT AND EQUIPMENT

Group	Lease hold improvements	Computer equipments	Office equipment and furniture	Motor vehicles	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
31 December 2011					
At 31 December 2010 and at 1 January 2011:					
Cost	777	3,370	266	62	4,475
Accumulated depreciation	(524)	(1,893)	(166)	(34)	(2,617)
Net carrying amount	253	1,477	100	28	1,858
At 1 January 2011, net of accumulated depreciation	253	1,477	100	28	1,858
Additions	16	1,185	10	—	1,211
Disposal of subsidiaries (note 31)	—	(12)	(2)	—	(14)
Disposals	—	(2)	—	—	(2)
Depreciation provided during the year	(193)	(896)	(55)	(12)	(1,156)
Exchange realignment	8	31	5	1	45
At 31 December 2011, net of accumulated depreciation	84	1,783	58	17	1,942
At 31 December 2011:					
Cost	830	4,568	286	65	5,749
Accumulated depreciation	(746)	(2,785)	(228)	(48)	(3,807)
Net carrying amount	84	1,783	58	17	1,942

Group	Lease hold improvements	Computer equipments	Office equipment and furniture	Motor vehicles	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
31 December 2012					
At 31 December 2011 and at 1 January 2012:					
Cost	830	4,568	286	65	5,749
Accumulated depreciation	(746)	(2,785)	(228)	(48)	(3,807)
Net carrying amount	84	1,783	58	17	1,942
At 1 January 2012, net of accumulated depreciation	84	1,783	58	17	1,942
Additions	14	637	7	—	658
Disposals	(9)	(9)	(1)	—	(19)
Disposal of assets included in a discontinued operation (note 13)	(13)	(37)	(2)	—	(52)
Depreciation provided during the year	(76)	(893)	(33)	(12)	(1,014)
Exchange realignment	—	6	(3)	(1)	2
At 31 December 2012, net of accumulated depreciation	—	1,487	26	4	1,517
At 31 December 2012:					
Cost	—	4,865	280	65	5,210
Accumulated depreciation	—	(3,378)	(254)	(61)	(3,693)
Net carrying amount	—	1,487	26	4	1,517

Group	**Computer equipments**	**Office equipment and furniture**	**Motor vehicles**	**Total**
	US$'000	*US$'000*	*US$'000*	*US$'000*
31 May 2013				
At 31 December 2012 and at 1 January 2013:				
Cost	4,865	280	65	5,210
Accumulated depreciation	(3,378)	(254)	(61)	(3,693)
Net carrying amount	1,487	26	4	1,517
At 1 January 2013, net of accumulated depreciation	1,487	26	4	1,517
Additions	313	35	—	348
Disposals	(12)	(2)	—	(14)
Depreciation provided during the period	(309)	(6)	(1)	(316)
Exchange realignment	5	1	1	7
At 31 May 2013, net of accumulated depreciation	1,484	54	4	1,542
At 31 May 2013:				
Cost	5,028	283	66	5,377
Accumulated depreciation	(3,544)	(229)	(62)	(3,835)
Net carrying amount	1,484	54	4	1,542

17. OTHER INTANGIBLE ASSETS

Group	Trademarks and domain names	Software	Copyright	Royalty fees	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
31 December 2011					
At 1 January 2011, net of accumulated amortisation	69	175	16	177	437
Additions	15	97	3	—	115
Amortisation provided during the year	(33)	(124)	(7)	(95)	(259)
Exchange realignment	1	8	1	—	10
At 31 December 2011	52	156	13	82	303
At 31 December 2011:					
Cost	158	481	21	278	938
Accumulated amortisation	(106)	(325)	(8)	(196)	(635)
Net carrying amount	52	156	13	82	303
31 December 2012					
At 1 January 2012, net of accumulated amortisation	52	156	13	82	303
Additions	18	93	1	—	112
Amortisation provided during the year	(31)	(145)	(7)	(81)	(264)
Exchange realignment	—	1	—	—	1
At 31 December 2012	39	105	7	1	152
At 31 December 2012:					
Cost	177	578	22	278	1,055
Accumulated amortisation	(138)	(473)	(15)	(277)	(903)
Net carrying amount	39	105	7	1	152

Group	**Trademarks and Domain names**	**Software**	**Copyright**	**Royalty fees**	**Total**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
31 May 2013					
At 1 January 2013, net of accumulated amortisation	39	105	7	1	152
Additions	3	12	—	—	15
Amortisation provided during the year	(9)	(30)	(3)	(1)	(43)
Exchange realignment	—	2	—	—	2
At 31 May 2013	33	89	4	—	126
At 31 May 2013:					
Cost	181	598	22	—	801
Accumulated amortisation	(148)	(509)	(18)	—	(675)
Net carrying amount	33	89	4	—	126

18. INVESTMENTS IN SUBSIDIARIES

Company	**As at 31 December**		**As at 31 May**
	2011	**2012**	**2013**
	US$'000	*US$'000*	*US$'000*
Unlisted shares, at cost	2,217	2,217	2,217
Capital contribution in respect of employee share-based compensation	787	890	1,009
	3,004	3,107	3,226

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities are unsecured, interest-free and are repayable on demand.

19. ACCOUNTS RECEIVABLE

Group	As at 31 December		As at 31 May
	2011	2012	2013
	US$'000	*US$'000*	*US$'000*
Accounts receivable	513	496	349
Impairment	—	—	—
	513	496	349

The Group's trading terms with its customers are mainly on cash settlement, except for well established, corporate customers in advertising business and online game joint operation business, for which the credit term is generally one to six months. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancement over its accounts receivable balances. Accounts receivable are non-interest-bearing.

An aged analysis of the accounts receivable as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

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

No provision has been made for impairment of accounts receivable in the Relevant Periods.

The aged analysis of the accounts receivable that are not considered to be impaired is as follows:

Group	As at 31 December		As at 31 May
	2011	2012	2013
	US$'000	*US$'000*	*US$'000*
Neither past due nor impaired	495	496	349
Less than 6 months past due	13	—	—
Over 6 months past due	5	—	—
	513	496	349

Receivables that were neither past due nor impaired relate to a number of customers for whom there was no recent history of default.

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group	As at 31 December		As at 31 May
	2011	2012	2013
	US$'000	*US$'000*	*US$'000*
Prepayments	84	128	411
Rental deposit	99	63	58
Other receivables	74	285	171
[●] deferred expenses	—	—	252
	257	476	892

None of the above asset is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

21. FUNDS RECEIVABLE

Funds receivable represent balances due from third-party payment service providers for the cash collected from game players that purchased virtual currency. The Company carefully considers and monitors the credit worthiness of the third-party payment service providers.

An allowance for doubtful accounts is recorded in the period in which a loss is determined to be probable. Receivable balances are written off after all collection efforts have been exhausted. As of 31 December 2011, 31 December 2012, and 31 May 2013, no allowance for doubtful accounts was provided for the funds receivable.

As at the end of the Relevant Periods, the funds receivable were aged within 3 months.

22. CASH AND CASH EQUIVALENTS

	Group			Company		
	As at 31 December		As at 31 May	As at 31 December		As at 31 May
	2011	2012	2013	2011	2012	2013
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Cash and bank balances	6,190	12,786	19,428	165	121	33
Time deposits	58	2,349	1,589	—	—	364
	6,248	15,135	21,017	165	121	397

The cash and bank balances of the Group denominated in RMB amounted to approximately US$1,958,000, US$2,049,000 and US$3,199,000 as at 31 December 2011 and 2012 and 31 May 2013, respectively. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between seven days and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and non-pledged time deposits are deposited with creditworthy banks with no recent history of default.

23. ACCOUNTS PAYABLE

An aged analysis of the accounts payable as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

Group	As at 31 December		As at 31 May
	2011	2012	2013
	US$'000	*US$'000*	*US$'000*
Within 3 month	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
	428	1,841	2,012

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

24. OTHER PAYABLES AND ACCRUALS

	Group			Company		
	As at 31 December		As at 31 May	As at 31 December		As at 31 May
	2011	2012	2013	2011	2012	2013
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Other tax payables	461	356	390	—	—	—
Other payables	170	78	152	70	35	59
Provision for chargebacks	407	277	274	—	—	—
Salary and welfare payables	1,509	2,150	1,694	—	—	—
Other accruals	149	263	542	—	228	51
	2,696	3,124	3,052	70	263	110

Other payables are non-interest-bearing and are mainly settled within three months. The salary and welfare payables are non-interest-bearing and payable on demand.

Salary and welfare payable include amounts of US$491,000, US$650,000 and US$698,000 accrued for underpaid social security contribution in relation to the past two years for all of current employees.

25. DEFERRED REVENUE

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

26. REDEEMABLE CONVERTIBLE PRFERRED SHARES

On 30 November 2007, the Company issued an aggregate of 5,375,000 Series A convertible contingently redeemable preferred shares ("Series A shares") at an aggregate purchase price of US$3,000,001. On 30 November 2007, the Company issued the warrants which shall be exercisable at an aggregate price of US$1,500,000 for 1,343,750 Series A1 convertible contingently redeemable preferred shares ("Series A1 shares") with an exercise period expired upon (i) the expiry of eighteen (18) months from the closing date, (ii) a qualified [●] (the "[●]"), or (iii) in the event of any liquidation, dissolution or winding up of the Company, whichever is the earlier. On 1 June 2009, the expiry date of the warrant exercise period, the warrant holders exercised the warrants for 1,209,375 Series A1 shares at the consideration of US$1,350,000. The warrants exercisable for 134,375 Series A1 shares were lapsed on that day. On 12 November 2008, the Company issued an aggregate of 49,675 Series B convertible contingently redeemable preferred shares ("Series B shares") to the shareholders and investors of IGG US which has become a wholly-owned subsidiary of the Company ever since. On 12 November 2008, the Company issued an aggregate of 5,216,091 Series B shares at an aggregate purchase price of US$10,499,991.

Series A, B and A1 shares (collectively "Series Shares") shall automatically be converted into ordinary shares ("Automatic Conversion"), at the applicable Series Shares conversion price (i) upon the closing of an underwritten public offering of the ordinary shares of the Company in the United States, with an implied market capitalisation of at least two hundred and fifty million US dollars (US$250,000,000) and the aggregate net proceeds of the Company in excess of fifty million US dollars (US$50,000,000), or in a similar public offering of the ordinary shares of the Company in Hong Kong or another jurisdiction which results in the ordinary shares trading publicly on a recognised international securities exchange; provided that (a) the implied market capitalization of the Company after such offering shall be at least one hundred million US dollars (US$100,000,000) and the aggregate net proceeds of the Company in excess of twenty million US dollars (US$20,000,000); and (b) the board of directors have decided to have the Company listed on Hong Kong securities exchange or other recognised international securities exchange (a "Qualified Public Offering"), or (ii) upon the prior written approval of the holders of at least a majority of the Series Shares, which holders in each case shall include certain investors. In addition to the Automatic Conversion, each holder of Series Shares shall have the right, at such holder's sole discretion, to convert all or any portion of the Series Shares into ordinary shares at any time. The initial conversion price will be the Series Share issue price (i.e., a 1-to-1 initial conversion ratio), which will be subject to adjustments to reflect stock dividends, stock splits and other events.

The preferred shares have no expiry date. However, at any time commencing on 1 December 2011 (inclusive), then subject to the applicable laws of the Cayman Islands and, if so requested by the holders of more than seventy-five percent (75%) of the Series Shares, the Company shall redeem all of the outstanding Series Shares out of funds legally available therefore. At 31 December 2011 and 2012, the Series Shares were presented as current liability as they were subject to redemption at any time on the request of the holders of the Series Shares.

The Series Shares contain the financial liability and embedded derivatives and the entire instrument was designated as financial liability at fair value through profit or loss on initial recognition. The initial carrying values of the Series A and B Shares are their issuance price at their respective issuance dates. The initial carrying value of the Series A1 Shares is the fair value of the warrants on the exercise date plus the cash proceeds from the exercise. They are measured subsequently at fair value at each period end with changes in fair value recognised in the income statement. The Company determined the fair value of Series Shares based on valuations performed by Jones Lang LaSalle.

On 31 May 2013, a written approval was signed by all holders of the Series Shares regarding the Automatic Conversion of the Series Shares, As a result, the Company issued 11,850,141 ordinary shares of the Company upon the Automatic Conversion of the Series Shares on 31 May 2013. Upon conversion, the balance of the Series Shares was transferred to equity, at the fair value of the date of conversion.

The movements in the carrying value of the Series Shares are as follows:

	Year ended 31 December		Five months ended 31 May
	2011	**2012**	**2013**
	US$'000	*US$'000*	*US$'000*
At 1 January	34,413	45,984	66,596
Fair value changes in the Series Shares recognized in the income statement	11,571	20,612	14,167
Conversion of the Series Shares	—	—	(80,763)
At 31 December / 31 May	45,984	66,596	—

27. DEFERRED TAX

The movements in deferred tax assets during the Relevant Periods are as follows:

Deferred tax assets

Group	Deferred revenue	Intangible assets	Loss available for offsetting against future taxable profits	Others	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
At 1 January 2011	231	149	367	3	750
Deferred tax (charged)/ credited to the income statement during the year	(16)	(131)	(228)	94	(281)
Exchange realignment	—	3	—	—	3
Deferred tax assets at 31 December 2011 and 1 January 2012	215	21	139	97	472
Deferred tax (charged)/ credited to the income statement during the year	29	9	(139)	(6)	(107)
Deferred tax assets at 31 December 2012 and 1 January 2013	244	30	—	91	365
Deferred tax (charged)/ credited to the income statement during the five month ended 31 May 2013	14	(12)	—	(77)	(75)
Deferred tax assets at 31 May 2013	258	18	—	14	290

Deferred tax liabilities

Group	**Property, plant and equipment**
	US$'000
At 1 January 2011	164
Deferred tax charged to the income statement during the year	41
Deferred tax liabilities at 31 December 2011 and 1 January 2012	205
Deferred tax charged to the income statement during the year	45
Deferred tax liabilities at 31 December 2012 and 1 January 2013	250
Deferred tax credited to the income statement during the period	(15)
Deferred tax liabilities at 31 May 2013	235

The Group had tax losses arising in the PRC of approximately US$7,057,000, US$10,891,000 and US$9,688,000 as at 31 December 2011 and 2012 and 31 May 2013, respectively, that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the taxable losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law (the "New CIT Law") which was approved and became effective on 1 January 2008, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective on 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding tax on dividends distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008. There was no undistributed earnings of Fuzhou Tianji and Fuzhou Tianjie as at 31 December 2011 and 2012 and 31 May 2013.

At 31 December 2012, no deferred tax has been recognised for income taxes that would be payable on the Group's PRC Operating Entities' unremitted earnings that are subject to income taxes if being distributed. In the opinion of the directors, it is not probable that these PRC Operating Entities will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in the PRC Operating Entities in Mainland China for which deferred tax liabilities have not been recognised totalled approximately nil, US$1,571,156 and US$1,686,589 at 31 December 2011 and 2012 and 31 May 2013, respectively.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

28. SHARE CAPITAL

	As at 31 December		**As at 31 May**
	2011	**2012**	**2013**
Number of Ordinary Shares			
Authorised:			
Ordinary shares of US$0.0001 each	28,600,450	29,300,450	29,300,450
Issued and fully paid or credited as fully paid:			
Ordinary shares of US$0.0001 each	13,200,000	13,463,000	25,913,141

	As at 31 December		**As at 31 May**
	2011	**2012**	**2013**
Ordinary Shares	*US$'000*	*US$'000*	*US$'000*
Authorised:			
Ordinary shares of US$0.0001 each	3	3	3
Issued and fully paid or credited as fully paid:			
Ordinary shares of US$0.0001 each	1	1	2

A summary of the transactions during the Relevant Periods with reference to the above movements in the Company's issued share capital is as follows:

	Number of shares in issue	Issued capital *US$'000*	Share premium account *US$'000*
At 1 January 2011	13,200,000	1	3,453
At 31 December 2011 and 1 January 2012	13,200,000	1	3,453
Share options exercised	263,000	—	127
At 31 December 2012	13,463,000	1	3,580
Share options exercised	600,000	—	250
Conversion of redeemable convertible preferred shares	11,850,141	1	80,762
At 31 May 2013	25,913,141	2	84,592

29. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include employees, the Company's outside shareholders and consultants. The Scheme became effective on 31 October 2008 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum numbers of unexercised share options currently permitted but yet to be granted under the Scheme are 383,752 shares, 1,344,152 shares and 1,674,052 shares as at 31 December 2011 and 2012 and 31 May 2013 respectively. The maximum number of shares issuable under share options to each eligible participant in the Scheme is limited to 10% of total combined voting power of all classes of outstanding shares of the Company, its parent or any of its subsidiaries unless (i) the exercise price is at least 110% of the fair market value of a share on the date of grant, and (ii) such share options are not exercisable after the expiration of 10 years from the date of grant.

Generally the option is exercisable to the extent of the option that has been vested. Certain options are exercisable to the extent of the options that have been vested following the [●] and subject to the conditions and terms of the Scheme.

The exercise price of share options is determinable by the board of directors at its sole discretion, but may not be less than the fair value of a share at the date of grant, or, if higher, the par value of such share.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Scheme during the Relevant Periods:

	As at 31 December				As at 31 May	
	2011		2012		2013	
	Weighted average exercise price per share	Number of Options	Weighted average exercise price per share	Number of options	Weighted average exercise price per share	Number of options
	US$		*US$*		*US$*	
At 1 January	1.00	2,549,200	1.02	3,026,000	1.40	2,765,600
Granted during the year/period	2.27	815,800	3.46	343,000	3.46	330,000
Forfeited during the year/period	0.84	(319,000)	1.13	(270,400)	2.63	(57,700)
Lapsed during the year/period	2.00	(20,000)	0.15	(70,000)	—	—
Exercised during the year/period	—	—	0.16	(263,000)	0.09	(600,000)
At 31 December/31May	1.02	3,026,000	1.38	2,765,600	1.95	2,437,900

The exercise prices and exercise periods of the share options outstanding as at the end of the Relevant Periods are as follows:

2011

Number of options	Exercise price per share *US$*	Exercise period
500,000	0.07	since [●] to 19-12-2016
55,000	0.15	since [●] to 19-01-2017
50,000	0.15	01-07-2008 to 30-06-2012
50,000	0.15	01-07-2008 to 30-06-2017
484,000	0.15	since [●] to 30-06-2017
260,000	0.16	23-07-2008 to 22-07-2012
20,000	—	01-12-2007 to 30-11-2012
3,000	0.16	01-01-2009 to 31-12-2012
40,000	0.31	since [●] to 01-06-2018
179,200	0.31	since [●] to 30-06-2018
100,000	1.51	05-12-2009 to 04-12-2018
150,000	1.51	19-03-2010 to 18-03-2019
93,000	2.00	01-08-2010 to 01-08-2013
206,500	2.00	since [●] to 31-07-2019
30,000	1.51	01-08-2009 to 31-07-2014
20,000	2.00	since [●] to 02-08-2019
3,000	2.00	since [●] to 16-08-2019
3,000	2.00	since [●] to 13-09-2019
5,000	2.00	since [●] to 31-10-2019
1,500	2.10	since [●] to 17-04-2021
538,800	2.10	since [●] to 20-04-2021
85,000	2.10	21-04-2012 to 20-04-2015
9,000	2.10	since [●] to 24-04-2021
4,000	2.10	since [●] to 02-05-2021
6,000	2.10	since [●] to 15-05-2021
20,000	2.10	since [●] to 12-06-2021
10,000	2.10	since [●] to 02-07-2021
5,000	3.46	14-09-2012 to 13-09-2015
95,000	3.46	since [●] to 13-08-2021
3,026,000		

2012

Number of options	Exercise price* per share *US$*	Exercise period
500,000	0.07	since [●] to 19-12-2016
55,000	0.15	since [●] to 19-01-2017
50,000	0.15	01-07-2008 to 30-06-2017
446,000	0.15	since [●] to 30-06-2017
164,200	0.31	since [●] to 30-06-2018
100,000	1.51	05-12-2009 to 04-12-2018
150,000	1.51	19-03-2010 to 18-03-2019
93,000	2.00	01-08-2010 to 01-08-2013
100,500	2.00	since [●] to 31-07-2019
30,000	1.51	01-08-2009 to 31-07-2014
20,000	2.00	Since [●] to 02-08-2019
5,000	2.00	since [●] to 31-10-2019
1,500	2.10	since [●] to 17-04-2021
508,300	2.10	since [●] to 20-04-2021
80,000	2.10	21-04-2012 to 20-04-2015
3,000	2.10	since [●] to 24-04-2021
4,000	2.10	since [●] to 02-05-2021
6,000	2.10	since [●] to 15-05-2021
20,000	2.10	since [●] to 12-06-2021
10,000	2.10	since [●] to 02-07-2021
93,000	3.46	since [●] to 13-08-2021
5,300	3.46	15-01-2013 to 14-01-2016
87,800	3.46	since [●] to 14-01-2022
112,000	3.46	21-05-2013 to 21-05-2016
121,000	3.46	since [●] to 21-05-2022
2,765,600		

31 May 2013

Number of options	Exercise price* per share *US$*	Exercise period
55,000	0.15	since [●] to 19-01-2017
396,000	0.15	01-07-2008 to 30-06-2017
162,200	0.31	since [●] to 30-06-2018
100,000	1.51	05-12-2009 to 04-12-2018
150,000	1.51	19-03-2010 to 18-03-2019
193,500	2.00	since [●] to 31-07-2019
30,000	1.51	01-08-2009 to 31-07-2014
20,000	2.00	Since [●] to 02-08-2019
5,000	2.00	since [●] to 31-10-2019
1,500	2.10	since [●] to 17-04-2021
557,800	2.10	since [●] to 20-04-2021
3,000	2.10	since [●] to 24-04-2021
4,000	2.10	since [●] to 02-05-2021
6,000	2.10	since [●] to 15-05-2021
20,000	2.10	since [●] to 12-06-2021
10,000	2.10	since [●] to 02-07-2021
88,500	3.46	since [●] to 13-08-2021
89,600	3.46	since [●] to 14-01-2022
218,500	3.46	since [●] to 21-05-2022
327,300	3.46	since [●] to 30-03-2023
2,437,900		

* The exercise price of the share options is subject to adjustment in the case of stock split or a reverse of stock split, or other similar changes in the Company's share capital.

The fair value of the share options granted during the year ended 31 December 2011 was US$759,000, of which the Group recognised share option expenses of US$77,000, US$82,000 and US$47,000 in years ended 31 December 2011 and 2012 and the five months ended 31 May 2013, respectively.

The fair value of the share options granted during the year ended 31 December 2012 was US$495,000, of which the Group recognised share option expenses of US$83,000 and US$48,000 in the year ended 31 December 2012 and the five months ended 31 May 2013, respectively.

The fair value of the share options granted during the five months ended 31 May 2013 was US$1,016,000, of which the Group recognised a share option expense US$27,000 in the five months ended 31 May 2013.

The fair value of equity-settled share options granted was valued as at the date of grant, by Jones Lang LaSalle, using a binomial model, taking into account the terms and conditions upon which the options were granted.

The following table lists the inputs to the model used for equity-settled share options granted during the Relevant Periods:

	Year ended 31 December 2011	Year ended 31 December 2012	Five months ended 31 May 2013
Dividend yield (%)	0	0	0
Expected volatility (%)	56.12-57.26	56.94	54.77
Risk-free interest rate (%)	2.09-3.51	1.64	1.93
Forfeiture rate (%)	8	8	8
Weighted average share price (US$ per share)	2.00-2.69	3.38	5.48

The expected forfeiture rate is based on the historical data and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

During the year ended 31 December 2012, a total of 263,000 share options were exercised at the exercise price of US$0.16 per share, amounting to US$42,000, which resulted in the issue of 263,000 ordinary shares of the Company during year ended 31 December 2012.

During the five months ended 31 May 2013, a total of 600,000 share options were exercised at the exercise price of US$0.09 per share, amounting to US$57,000 which resulted in the issue of 600,000 ordinary shares of the Company during five months ended 31 May 2013.

The Company had 3,026,000, 2,765,600 and 2,437,900 share options outstanding under the Scheme at 31 December 2011 and 2012 and 31 May 2013, respectively. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 3,026,000, 2,765,600 and 2,437,900 additional ordinary shares of the Company and additional share capital of US$303, US$277 and US$244, and share premium of US$3,025,697, US$3,816,251 and US$4,753,661 (before issue expenses).

30. RESERVES

(a) **Group**

(i) The amounts of the Group's reserves and the movements therein for the Relevant Periods are presented in the consolidated statement of changes in equity on pages I-[●] and I-[●] of the financial statements.

(ii) Certain subsidiaries including PRC Operating Entities incorporated in Mainland China are required to transfer 10% of their profits after tax calculated in accordance with the PRC accounting regulations to their respective statutory reserve funds until the reserve funds reach 50% of their respective registered capital, upon which any further appropriation is at the directors' recommendation. Such reserve funds are restricted from distribution to the Company in form of dividend and may be used to reduce any losses incurred by the subsidiaries or may be capitalised as paid-up capital of the subsidiaries, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

(b) **Company**

	Share premium	**Share option reserve**	**Accumulated deficits**	**Total**
	US$'000	*US$'000*	*US$'000*	*US$'000*
At 1 January 2011	3,453	746	(23,222)	(19,023)
Total comprehensive loss for the year	—	—	(12,062)	(12,062)
Equity-settled share option arrangement	—	50	—	50
Transfer of share option reserve upon the expiry of share options	—	(9)	—	(9)
At 31 December 2011	3,453	787	(35,284)	(31,044)
Total comprehensive loss for the year	—	—	(21,236)	(21,236)
Exercise of share option	127	(85)	—	42
Equity-settled share option arrangement	—	126	—	126
Transfer of share option reserve upon the expiry of share options	—	(23)	—	(23)
At 31 December 2012	3,580	805	(56,520)	(52,135)

	Share premium	Share based compensation reserve	Accumulated deficits	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*
At 1 January 2013	3,580	805	(56,520)	(52,135)
Total comprehensive loss for the period	—	—	(14,500)	(14,500)
Exercise of share option	250	(193)	—	57
Conversion of redeemable convertible preferred shares	80,762			80,762
Equity-settled share option arrangement	—	119	—	119
At 31 May 2013	84,592	731	(71,020)	14,303

	Share premium	Share based compensation reserve	Accumulated deficits	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*
Unaudited				
At 1 January 2012	3,453	787	(35,284)	(31,044)
Total comprehensive loss for the period	—	—	(8,726)	(8,726)
Exercise of share option	57	(16)	—	41
Equity-settled share option arrangement	—	54	—	54
At 31 May 2012	3,510	825	(44,010)	(39,675)

31. DISPOSAL OF SUBSIDIARIES AND ASSOCIATES

In September 2011, the Group disposed of 51% equity interests in Fuzhou Chuangyou Information Technology Co., Ltd. and Xi'an Xiaoyao Tianxia Internet Science and Technology Co., Ltd. to [●], for considerations of RMB1 and RMB1, respectively, as agreed between both parties. On the date of disposal, the Group also waived the shareholder's loan amounted to US$205,000 due from the two subsidiaries.

	2011
	US$'000
Net assets disposed of:	
Property, plant and equipment (note 16)	14
Prepayments, deposits and other receivables	47
Cash and cash equivalents	30
Accounts payable	(24)
Other payables	(7)
Non-controlling interests	6
Exchange realignment	1
	67
Satisfied by:	
Cash	—
Loss on disposal of subsidiaries	(67)
Loss on the [●] of shareholder's loan	(205)
Total loss on disposal of subsidiaries	(272)

In 2011, the Group disposed its equity interests in three associates, namely, Fuzhou Gulou District Tianhe Interactive Information Technology Co., Ltd., Shanxi Taihe Information & Technology Co., Ltd., and Fuzhou Bookman Software Techonology Co., Ltd. to [●], for consideration of RMB1, RMB1, and RMB2, respectively, as agreed amongst all parties. The loss on disposal of those associates was US$2,000.

An analysis of the net flow of cash and cash equivalents in respect of the disposal of subsidiaries and associates is as follows:

	2011
	US$'000
Cash consideration	—
Cash and cash equivalents disposed of	(30)
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries and associates	(30)

In 2012, the Group disposed its equity interests in one associate, namely, Shanghai Generic Network Technology Co., Ltd., to [●], for a consideration of RMB1, as agreed amongst all parties. The loss on disposal of this associate was immaterial.

32. CONTINGENT LIABILITIES

At the end of each of the Relevant Periods, neither the Group nor the Company had any significant contingent liabilities.

33. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its office premises and warehouses under operating lease arrangements. Leases for these properties are negotiated for terms ranging from one to three years.

At the end of each of the Relevant Periods, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

Group	**As at 31 December**		**As at 31 May**
	US$'000	*US$'000*	*US$'000*
Within one year	649	2,000	1,935
In the second to fifth years, inclusive	—	1,692	1,873
	649	3,692	3,808

34. CAPITAL COMMITMENTS

Except the operating lease commitments detailed in note 33 above, the Group and the Company had no other capital commitments at the end of each of the Relevant Periods and five months ended 31 May 2012.

35. RELATED PARTY TRANSACTIONS AND BALANCE

The Group had the following transactions with related parties during the Relevant Periods and five months ended 31 May 2012:

Compensation of key management personnel of the Group:

	Year ended 31 December		Five months ended 31May	
	2011	**2012**	**2012**	**2013**
	US$'000	*US$'000*	*US$'000*	*US$'000*
			(Unaudited)	
Short term employee benefits	1,011	1,271	494	327
Equity-settled share option expense	47	74	19	41
	1,058	1,345	513	368

Further details of directors' and the chief executive's emoluments are included in note 9.

36. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Period are as follows:

	Loans and receivables		
	As at 31 December		As at 31 May
Group	**2011**	**2012**	**2013**
	US$'000	*US$'000*	*US$'000*
Financial assets			
Non-current rental deposits	—	152	154
Funds receivable (note 21)	2,350	3,233	3,654
Accounts receivable (note 19)	513	496	349
Financial assets included in prepayments, deposits and other receivables (note 20)	173	348	229
Cash and cash equivalents (note 22)	6,248	15,135	21,017
	9,284	19,364	25,403

Group

Financial liabilities	2011 Financial liabilities at amortised cost	2011 Designated as financial liabilities at fair value through profit or loss	2011 Total	2012 Financial liabilities at amortised cost	2012 Designated as financial liabilities at fair value through profit or loss	2012 Total	2013 Financial liabilities at amortised cost	2013 Designated as financial liabilities at fair value through profit or loss	2013 Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Accounts payable (note 23)	428	—	428	1,841	—	1,841	2,012	—	2,012
Financial liabilities included in other payables and accruals	1,828	—	1,828	2,491	—	2,491	2,388	—	2,388
Redeemable convertible preferred shares (note 26)	—	45,984	45,984	—	66,596	66,596	—	—	—
	2,256	45,984	48,240	4,332	66,596	70,928	4,400	—	4,400

Company

	Loans and receivables As at 31 December 2011	Loans and receivables As at 31 December 2012	As at 31 May 2013
	US$'000	*US$'000*	*US$'000*
Financial assets			
Due from subsidiaries	12,076	11,732	11,028
Cash and cash equivalents (note 22)	165	121	397
	12,241	11,853	11,425

Company

Financial liabilities	2011 Financial liabilities at amortised cost	2011 Designated as financial liabilities at fair value through profit or loss	2011 Total	2012 Financial liabilities at amortised cost	2012 Designated as financial liabilities at fair value through profit or loss	2012 Total	2013 Financial liabilities at amortised cost	2013 Designated as financial liabilities at fair value through profit or loss	2013 Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Due to subsidiaries	234	—	234	235	—	235	236	—	236
Financial liabilities included in other payables and accruals (note 24)	70	—	70	263	—	263	110	—	110
Redeemable convertible preferred shares (note 26)	—	45,984	45,984	—	66,596	66,596	—	—	—
	304	45,984	46,288	498	66,596	67,094	346	—	346

37. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts and fair values of the Group's and the Company's financial instruments are as follows:

Group	**Carrying amounts**			**Fair values**		
	As at 31 December		**As at 31 May**	**As at 31 December**		**As at 31 May**
	2011	**2012**	**2013**	**2011**	**2012**	**2013**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Financial assets						
Non-current rental deposits	—	152	154	—	152	154
Funds receivable	2,350	3,233	3,654	2,350	3,233	3,654
Accounts receivable (note 19)	513	496	349	513	496	349
Financial assets included in prepayments, deposits and other receivables (note 20)	173	348	229	173	348	229
Cash and cash equivalents (note 22)	6,248	15,135	21,017	6,248	15,135	21,017
	9,284	19,364	25,403	9,284	19,364	25,403
Financial liabilities						
Accounts payable (note 23)	428	1,841	2,012	428	1,841	2,012
Financial liabilities included in other payables and accruals (note 24)	1,828	2,491	2,388	1,828	2,491	2,388
Redeemable convertible preferred shares (note 26)	45,984	66,596	—	45,984	66,596	—
	48,240	70,928	4,400	48,240	70,928	4,400

Company	**Carrying amounts**			**Fair values**		
	As at 31 December		**As at 31 May**	**As at 31 December**		**As at 31 May**
	2011	**2012**	**2013**	**2011**	**2012**	**2013**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Financial assets						
Due from subsidiaries	12,076	11,732	11,028	12,076	11,732	11,028
Cash and cash equivalents (note 22)	165	121	397	165	121	397
	12,241	11,853	11,425	12,241	11,853	11,425
Financial liabilities						
Due to subsidiaries	234	235	236	234	235	236
Financial liabilities included in other payables and accruals (note 24)	70	263	110	70	263	110
Redeemable convertible preferred shares(note 26)	45,984	66,596	—	45,984	66,596	—
	46,288	67,094	346	46,288	67,094	346

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of cash and cash equivalents, accounts receivable, funds receivable, accounts payable, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, amounts due from/to subsidiaries approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the non-current rental deposits have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities.

The fair values of redeemable convertible preferred shares have been estimated using a valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to make estimates about the expected future cash flows including expected future dividends and proceeds on subsequent disposal of the shares, which are discounted at the current rate of 18%. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in the consolidated income statement, are reasonable, and that they were the most appropriate values at the end of the reporting period.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

Assets measured at fair value

As at 31 December 2011	**Level 1**	**Level 2**	**Level 3**	**Total**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Redeemable convertible preferred shares (note 26)	—	—	45,984	45,984

As at 31 December 2012	**Level 1**	**Level 2**	**Level 3**	**Total**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Redeemable convertible preferred shares (note 26)	—	—	66,596	66,596

The movements in fair value measurements in Level 3 during the Relevant Periods are presented in note 26 to the Financial Information.

During the Relevant Periods, there were no transfers of fair value measurements between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3.

Valuation techniques

The following table shows the valuation technique used in the determination of fair values within Level 3 of the hierarchy, as well as the key unobservable inputs used in the valuation models.

Redeemable convertible preferred shares (note 26)	**Fair Value**	**Valuation technique**	**Unobservable input**	**Input data**
	US$'000			
As at 31 December 2011	45,984	Equity value allocation model	equity value	*
			discount rate for lack of marketability	16.67%
			risk free rate	0.24%
			volatility	48.20%
			probability of liquidation	50%
			probability of redemption/[●]	50%
As at 31 December 2012	66,596	Equity value allocation model	equity value	*
			discount rate for lack of marketability	9.33%
			risk free rate	0.14%
			volatility	39.53%
			probability of liquidation	50%
			probability of redemption/[●]	50%

* The equity value has been determined using a discounted cash flow model. The valuation requires management to make certain assumptions about unobservable inputs to the model, of which the significant unobservable inputs are disclosed in the table below. An increase in the discount rate used to discount the forecast cash flows and decrease in the average revenue growth rate and terminal growth rate would lead to a decrease in the equity value. The significant unobservable inputs are not interrelated.

	31/12/2011	**31/12/2012**
weighted average cost of capital	18%	18%
average revenue growth rate	12%	16%
terminal growth rate	3%	3%

The significant unobservable inputs used in the fair value measurement of the redeemable convertible preferred shares are equity value, discount rate for lack of marketability, risk free rate, volatility, probability of liquidation and probability of redemption/[●]. Significant increases (decreases) in equity value, risk free rate, and probability of liquidation in isolation would result in a significantly higher (lower) fair value measurement. Significant increases (decreases) in discount rate for lack of marketability, volatility and probability of redemption/[●] in isolation would result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the volatility is accompanied by a directionally similar change in the discount rate for lack of marketability and a change in the assumption used for the risk free rate is accompanied by a directionally opposite change in the discount rate for lack of marketability. A change in the probability of liquidation would result in the same opposite change in the probability of redemption/[●].

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents and preferred shares. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as accounts receivable and accounts payable, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk and liquidity risk. The directors review and agree policies for managing each of these risks and they are summarised below:

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 17.6%, 24.5% and 15.7% of the Group's sales were denominated in currencies other than the functional currencies of the operating units making the sales for the years ended 31 December 2011 and 2012 and five months ended 31 May 2013, respectively.

The following table demonstrates the sensitivity at the end of each of the Relevant Periods to a reasonably possible change in the exchange rate of United States dollars ("US$") against RMB exchange rate, with all other variables held constant, of the Group's loss before tax (due to changes in the fair value of monetary assets and liabilities):

	Increase/ (decrease) in US$ rate	Increase/ (decrease) in loss before tax
	%	*US$*
2011		
If US$ weakens against RMB	(5%)	(381)
If US$ strengthens against RMB	5%	381
2012		
If US$ weakens against RMB	(5%)	(283)
If US$ strengthens against RMB	5%	283
Five months ended 31 May 2013		
If US% weakens against RMB	(5%)	(288)
If US$ strengthens against RMB	5%	288

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of each of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The maturity profile of the Group's financial liabilities at the each of end of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

	31 December 2011	
	Within 1 year	**Total**
	US$'000	*US$'000*
Accounts payable (note 23)	428	428
Financial liabilities included in other payables and accruals	1,828	1,828
Redeemable convertible preferred shares*	19,036	19,036
	21,292	21,292

	31 December 2012	
	Within 1 year	Total
	US$'000	*US$'000*
Accounts payable (note 23)	1,841	1,841
Financial liabilities included in other payables and accruals	2,491	2,491
Redeemable convertible preferred shares*	20,563	20,563
	24,895	24,895

	31 May 2013	
	Within 1 year	Total
	US$'000	*US$'000*
Accounts payable (note 23)	2,012	2,012
Financial liabilities included in other payables and accruals	2,388	2,388
	4,400	4,400

* The carrying value represents the redemption value of the redeemable convertible preferred shares.

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group monitors capital using an adjusted debt asset ratio, which is total debt including accounts payable and other payables and accruals, divided by total assets. The adjusted debt asset ratios as at the end of each of the Relevant Periods were as follows:

Group	**As at 31 December**		**As at 31 May**
	2011	**2012**	**2013**
	US$'000	*US$'000*	*US$'000*
Accounts payable	428	1,841	2,012
Other payables and accruals	2,696	3,124	3,052
Adjusted debt	3,124	4,965	5,064
Total assets	12,085	21,526	28,024
Adjusted debt asset ratio	25.9%	23.1%	18.1%

39. EVENTS AFTER THE RELEVANT PERIODS

On 16 September 2013, the Company's shareholders resolved to approve the subdivision of each issued and unissued ordinary share of US$0.0001 each in the capital of the Company to 40 shares of US$0.0000025 each.

On 19 August, 21 August and 2 September 2013, total of 264,000 share options were exercised which resulted in the issue of 264,000 ordinary shares of the Company.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group or any of its subsidiaries in respect of any period subsequent to 31 May 2013.

Yours faithfully,
[●]