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Web Proof Information Pack of



**IGG Inc**

*(Incorporated in the Cayman Islands with limited liability)*

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**YOU SHOULD READ THE SECTION “WARNING” ON THE COVER OF THIS WEB PROOF INFORMATION PACK.**

## **SUMMARY**

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### **OVERVIEW**

We are a fast-growing global online games developer and operator with headquarters in Singapore and regional offices in the United States, China, and the Philippines. We offer multi-language browser games, client-based games and mobile games to players around the world. We target our games to mid-core and hard-core players who usually spend not less than one hour per day for game playing. We place most of our development personnel in China, which allows us to leverage our cost advantage and develop our games in a cost-effective manner. We operate our online games under the F2P model, which encourages players to experience our games and facilitates the growth of our gamer communities. Under this model, our players can download and play our games for free. Our revenue is generated by selling virtual items to players, which could be purchased by virtual currency sold by us, to enhance their game-playing experience. Once the players have purchased such virtual currency through our payment channel partners, including PayPal, Facebook Payments, Skrill, MOL, Amazon Payments and Google Checkout, among others, they are able to charge items directly to their accounts.

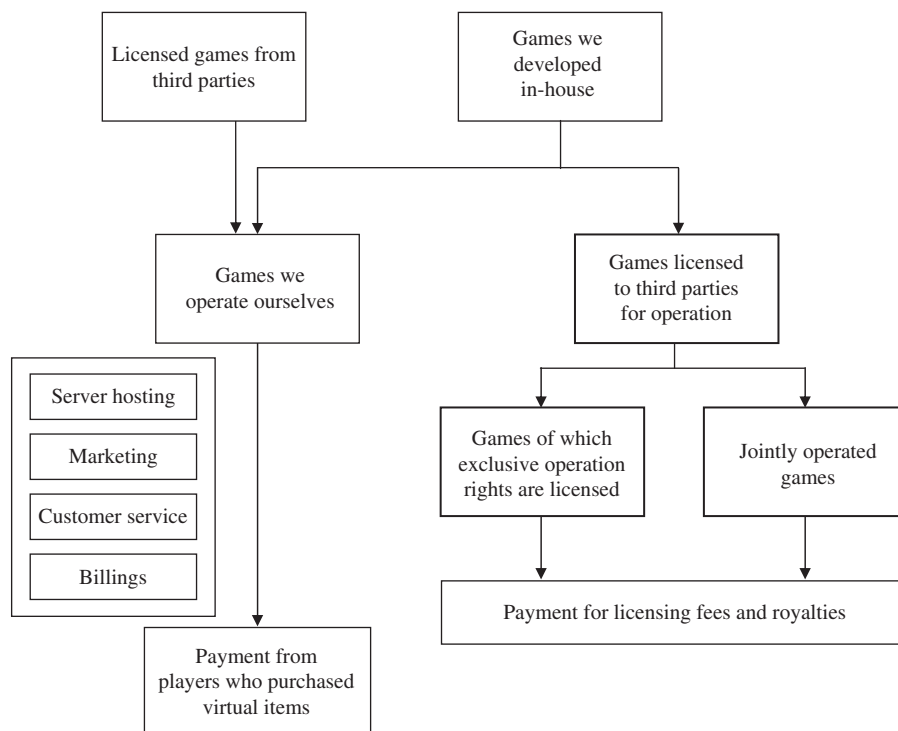
While we traditionally focused on the development and operation of client-based games and browser games, we have recently shifted our attention to developing and operating browser games and mobile games in response to the evolving market trend. According to Distimo.com, an independent third party provider of mobile application analytics, we were ranked in the top ten mobile game publishers globally, top three in Hong Kong and Singapore, top five in Taiwan and Australia, top six in the United States and Canada, and top seven in Russia and United Kingdom, in terms of weekly gross sales generated by our mobile games on Google Play for the week ended 22 September 2013.

During the Track Record Period, we generated a substantial portion of our revenue from sales of virtual items in our proprietary online games to a large and diversified user bases around the world. Development and distribution of these games was facilitated by our strong game development capability and successful multi-language game design and marketing strategy. Our player community consisted of over 70 million player accounts around the world, including a total MAU of approximately 6.1 million as at 31 May 2013. For the five months ended 31 May 2013, 40.2%, 23.2% and 26.2% of our total revenue was generated from players with IP addresses in North America, Europe and Asia, respectively. Our largest customer for each of the two years ended 31 December 2011 and 31 December 2012 and for the five months ended 31 May 2013 accounted for 0.3%, 1.5% and 2.5% of our revenue during those periods, respectively. Our five largest customers for each of the two years ended 31 December 2011 and 31 December 2012 and for the five months ended 31 May 2013 accounted for 1.1%, 2.8% and 4.7% of our revenue during those periods. Please refer to the section headed “Business — Customers” on page [●] of this document for more details.

## SUMMARY

### OUR OPERATIONS

We develop games in-house and operate games we develop and games we license from third party licensors. For the five months ended 31 May 2013, 95.1% of our total revenue was generated from games operated by us. In addition, we license some of the games we develop to third party licensees to operate in certain designated countries and regions, and we jointly operate several of the games we develop with third party game operators. As at 31 May 2013, three of the games we developed were licensed to certain third party licensees located in the PRC and overseas, who paid us upfront licensing fees and royalties. Another six of the games we developed were jointly operated by us and other third party game operators. We generally obtain royalties in amounts between 50% to 70% of the revenue generated pursuant to these arrangements. The payment we received from players who purchase virtual items accounted for 95.1% of our total revenue for the five months ended 31 May 2013 and license fees and royalties accounted for 4.9% of our total revenue for the period. Please see “Business — Our Operations — Licensing” of this document for more information. The following chart illustrates our business operations:



For the years ended 31 December 2011 and 2012 and the five months ended 31 May 2013, most of the revenue we earned from various games was collected and held by a number of payment channels. At the end of each month, we settle with these payment channels after deducting applicable services fees and directly record revenue generated from our operation of these games in the account of the relevant subsidiary that owns the IP right of that game. Payment is generally made upfront by our players directly to the payment channels when purchasing virtual currency and we do not provide users with any right of refund once payment is made. Our user agreements also stipulate that we have no obligation to continue hosting games although we agree to provide one-month concessionary

## SUMMARY

service period after payment is made by the players. Because IGG Singapore owns most of the intellectual property rights for the games we operate, 91.0%, 94.5% and 94.2% of our revenue was recorded by IGG Singapore for the years ended 31 December 2011 and 2012 and the five months ended 31 May 2013, respectively.

### OUR GAMES

As at the Latest Practicable Date, we offered a total of 30 games, among which, 13 were browser games, eight were client-based games and nine were mobile games. Of these 30 games, 25 were developed in-house and five were licensed from third parties. In addition, 17 of these games were MMORPGs, one was a card game, two were tower defense games, four were casino games, and six were strategy games. The following table sets forth the details of our most popular proprietary online games in terms of revenue generated or revenue growth during the Track Record Period:

	Godswar		Texas HoldEm Poker Deluxe			Galaxy Online II			Wing of Destiny			
	As at 31 December 2011	As at 31 May 2012	As at 31 December 2011	As at 31 December 2012	As at 31 May 2013	As at 31 December 2011	As at 31 December 2012	As at 31 May 2013	As at 31 December 2011	As at 31 December 2012	As at 31 May 2013	
<b>Game type</b> . . .	MMORPG		Casino			Strategy			MMORPG			
<b>Platform</b> . . .	Browser and client-based		Browser and mobile			Browser and mobile			Browser			
<b>Total revenue</b> <b>(US\$'000)</b> . . .	6,358	6,728	2,424	1,432	4,727	4,387	14,108	21,319	8,180	—	1,487	4,199
<b>MAU<sup>(1)</sup></b> . . . .	434,321	146,858	127,550	520,600	1,904,071	2,280,313	675,363	494,225	359,677	—	1,258,394	803,460

*Note:*

(1) MAU is the number of individuals who login to a particular game during a 30-day period ending at the measured date.

As at the Latest Practicable Date, we had six online games in development. These new games will run on mobile phone platforms and offer different themes and gaming experience to attract various types of players. We expect most of these new online games will be available for open beta testing in the fourth quarter of 2013. For the details of our online games in development, please refer to “Business — Our Games — Our pipeline” on page [●] of this document.

### SUPPLIERS

Our primary suppliers include advertising service providers, payment service providers, licensors of games, and server, data center and bandwidth providers. Our largest supplier for the years ended 31 December 2011 and 2012 and the five months ended 31 May 2013 was Facebook, which

## **SUMMARY**

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provided us both advertising services and payment channel services. Further details of our payment channels and methods are set out in “Business — Our Operations — Payment” of this document. For the years ended 31 December 2011 and 2012 and the five months ended 31 May 2013, Facebook accounted for 47.7%, 44.0% and 20.0%, respectively, of our total purchases during those periods. Purchases from our five largest suppliers for the years ended 31 December 2011 and 2012 and the five months ended 31 May 2013 accounted for 56.2%, 52.6% and 41.5%, respectively, of our total purchases during those periods. For the years ended 31 December 2011 and 2012 and the five months ended 31 May 2013, revenue generated by users we paid to acquire from Facebook, our largest advertising and promotion platform for browser games, accounted for 34.4%, 35.6% and 23.7% of our total revenue, respectively. Revenue generated by users we paid to acquire from our five largest advertising and promotion platforms for browser games for the years ended 31 December 2011 and 2012 and the five months ended 31 May 2013 accounted for 36.4%, 37.8% and 30.6% of our total revenue, respectively.

### **MARKETING STRATEGY**

Our marketing strategy focuses on cooperation with leading Internet platforms, such as Facebook, Apple App Store and Google Play. In addition, we have established business relationships with more than 40 other game promotional platforms. As at 31 May 2013, we provided 36 payment channels for players to purchase virtual currency to be used in our games.

### **COMPETITIVE STRENGTHS**

We believe that our competitive strengths are as follows, each of which is discussed in detail in the section headed “Business — Competitive Strengths” beginning on page [●] in this document

- Our large and multifarious player base affords us access to clients worldwide and decreases the risks associated with operating in a single market;
- We have a strong development team with diverse backgrounds, most of whom are located in China, which enables us to design games in a cost effective manner, broaden our market appeal and keep us aligned with trends in the online game industry;
- Our effective marketing strategy and our broad relationships with other leading Internet companies worldwide help us to target and attract more potential clients and to build brand recognition;
- We develop most of our games in-house, which allows us to create different versions of the same game in an efficient manner to keep up with our global player preferences;
- Our global service platform and various regional offices allow us to conduct our international operations more efficiently; and
- Our skilled management team possesses the extensive overseas operational experience and industry knowledge necessary to continue leading us to success.

## SUMMARY

### OUR STRATEGIES

Our objective is to create popular online games for players around the world and promote them globally to enhance our profitability and expand into new game markets. We will focus on the following strategies, each of which is discussed in details in the section headed “Business — Our Strategies” beginning on page [●] in this document:

- Expand and diversify our game portfolio;
- Enhance and diversify our game development and localization capabilities;
- Enhance our corporate image and effectively promote our games on a variety of platforms; and
- Pursue potential outsourcing or acquisition opportunities.

### SUMMARY HISTORICAL CONSOLIDATED FINANCIAL INFORMATION

The following tables present selected historical financial information during the Track Record Period. The financial information as of and for the years ended December 31, 2011 and 2012 and the five months ended 31 May 2012 and 2013 is derived from and should be read in conjunction with our consolidated audited financial statements, including the accompanying notes, set forth in the accountants’ report included as Appendix I to this document. Our financial statements for each of these periods are prepared and presented in accordance with International Financial Reporting Standards, or IFRS.

	Year ended 31 December		Five months ended 31 May	
	2011	2012	2012	2013
Key income statement information	US\$'000	US\$'000	US\$'000	US\$'000
	<i>(Unaudited)</i>			
Revenue . . . . .	31,080	43,154	16,989	24,258
Cost of sales . . . . .	(7,745)	(10,358)	(3,873)	(5,642)
Gross profit . . . . .	23,335	32,796	13,116	18,616
Fair value loss of the Preferred Shares <sup>(1)</sup> . . . . .	(11,571)	(20,612)	(8,460)	(14,167)
Total expenses <sup>(2)</sup> . . . . .	(27,852)	(35,488)	(12,381)	(17,969)
Loss before tax . . . . .	(8,343)	(12,946)	(3,836)	(7,858)
Income tax expense . . . . .	(346)	(163)	(192)	(396)
Loss for the year/period from continuing operations . . . . .	(8,689)	(13,109)	(4,028)	(8,254)
Loss for the year/period from a discontinued operation . . . . .	(12)	(326)	(58)	—
Loss for the year/period . . . . .	(8,701)	(13,435)	(4,086)	(8,254)
Adjusted profit for the year/period <sup>(3)</sup> . . . . .	2,870	7,177	4,374	5,913
Adjusted profit per Share for the year/period <sup>(4)</sup> . . .	0.0054	0.0134	0.0083	0.0108

## SUMMARY

*Note:*

- (1) We issued Series A and Series A-1 Preferred Shares on 30 November 2007 and Series B Preferred Shares subsequently on 12 November 2008 to certain corporate investors, which were measured at fair value. The Preferred Shares have been classified as financial liability at fair value. The initial carrying value of the Series A and Series B Preferred Shares is their issuance price at their respective issuance dates. The initial carrying value of the Series A-1 Preferred Shares is the fair value of the warrants on the exercise date plus the cash proceeds from the exercise. While we incurred losses on changes in fair value of the Preferred Shares and such loss negatively impacted our income statement, such losses had no impact on the cash flows of our Group. Furthermore, the Preferred Shares were converted to ordinary Shares on 31 May 2013 in accordance with the then applicable Articles of Association and have been transferred to equity. Please refer to the section headed “Financial Information — Principal Income Statement Components — Fair value loss of the Preferred Shares” beginning on page [●] for more details.
- (2) Total expenses include cost of sales, selling and distribution expenses, administrative expenses, research and development costs and other expenses.
- (3) Adjusted profit for the year/period is derived by excluding the fair value loss of the Preferred Shares from loss for the year/period. Adjusted profit for the year/period is not a calculation based on IFRS. The amounts included in the adjusted profit for the year/period calculation, however, are derived from amounts included in the consolidated income statement data. We have presented adjusted profit for the year/period data in this document as we believe that adjusted profit for the year/period is a useful supplement to income statement data because it enables us to measure our profitability without taking into consideration of fair value loss of the Preferred Shares, which were converted to our ordinary Shares on 31 May 2013. We believe adjusted profit for the year/period is a more accurate indication of our profitability and operating performance for the Track Record Period and beyond. However, adjusted profit for the year/period should not be considered in isolation or construed as an alternative to net income or operating income, or as an indicator of our operating performance or other consolidated operations or cash flow data prepared in accordance with IFRS, or as an alternative to cash flow as a measurement of liquidity. Potential investors should be aware that the adjusted profit for the year measure presented in this document may not be comparable to similarly titled measures reported by other companies due to differences in the components of the calculation.
- (4) Adjusted profit per Share for the year/period is calculated using adjusted profit for the year/period divided by the weighted average number of Shares in issue.

<b>Key financial position information</b>	<b>As at 31 December</b>	<b>As at 31 May</b>	
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Non-current assets . . . . .	2,717	2,186	2,112
Current assets . . . . .	9,368	19,340	25,912
Total current liabilities <sup>(1)</sup> . . . . .	(54,399)	(77,117)	(11,030)
Total assets less current liabilities . . . . .	(42,314)	(55,591)	16,994
Non-current liabilities . . . . .	(205)	(250)	(235)
Net (liabilities)/assets . . . . .	(42,519)	(55,841)	16,759



## SUMMARY

*Note:*

- (1) The main components of our current liabilities as at 31 December 2011 and 2012 included the Preferred Shares, deferred revenue and other payables and accruals. These Preferred Shares were converted to ordinary Shares on 31 May 2013 in accordance with the then applicable Articles of Association. In spite of our net liabilities position as at 31 December 2011 and 2012, our Directors do not regard our Group as having any going concern issue. As at 31 May 2013, we had net assets after the conversion of the Preferred Shares to ordinary Shares. Please see the section headed “Financial Information — Net Current Liabilities/Assets” beginning on page [●] for detailed information.

### KEY OPERATING DATA

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

	Year ended 31 December				Five months ended 31 May			
	2011		2012		2012		2013	
	US\$'000	%	US\$'000	%	US\$'000	%	US\$'000	%
	<i>(Unaudited)</i>							
<b>Games operated by us</b>								
Browser games . . . . .	22,118	71.2	32,627	75.6	13,319	78.4	16,661	68.7
Client-based games . . . . .	8,496	27.3	6,991	16.2	3,064	18.0	2,803	11.6
Mobile games . . . . .	12	0.0	2,192	5.1	303	1.8	3,598	14.8
<b>Games licensing</b> . . . . .	454	1.5	548	1.3	303	1.8	131	0.5
<b>Joint operation</b> . . . . .	—	0.0	794	1.8	—	0.0	1,065	4.4
<b>Total</b> . . . . .	<u>31,080</u>	<u>100.0</u>	<u>43,154</u>	<u>100.0</u>	<u>16,989</u>	<u>100.0</u>	<u>24,258</u>	<u>100.0</u>

For each of the two years ended 31 December 2011 and 2012, over 70% of our revenue was derived from our three most popular games, Galaxy Online II, Godswar and Texas HoldEm Poker Deluxe. For the five months ended 31 May 2013, Wings of Destiny became our third popular game in terms of revenue, and we derived 79.1% of our revenue from these four most popular games. The following table sets out a breakdown of our revenue by major games during the Track Record Period:

	Year ended 31 December				Five months ended 31 May			
	2011		2012		2012		2013	
	US\$'000	%	US\$'000	%	US\$'000	%	US\$'000	%
	<i>(Unaudited)</i>							
Galaxy Online II. . . . .	14,108	45.4	21,319	49.4	9,288	54.7	8,180	33.7
Godswar . . . . .	6,358	20.5	6,728	15.6	2,839	16.7	2,424	10.0
Wings of Destiny . . . . .	—	—	1,487	3.4	17	0.1	4,199	17.3
Texas HoldEm Poker Deluxe (browser) . . . . .	1,420	4.6	2,649	6.1	1,097	6.5	1,454	6.0
Texas HoldEm Poker Deluxe (mobile) . . . . .	12	0.0	2,078	4.8	279	1.6	2,933	12.1
Others . . . . .	9,182	29.5	8,893	20.7	3,469	20.4	5,068	20.9
<b>Total</b> . . . . .	<u>31,080</u>	<u>100.0</u>	<u>43,154</u>	<u>100.0</u>	<u>16,989</u>	<u>100.0</u>	<u>24,258</u>	<u>100.0</u>

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## SUMMARY

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The following table sets forth the ARPDau, MAU and DAU of our browser games, client-based games and mobile games as at 31 December 2011 and 2012 and 31 May 2013. Unless otherwise indicated, these metrics are based on internally-derived measurements across all platforms on which our games are played. In addition, the metrics we have developed or those available from third parties regarding our industry and the performance of our games, including ARPDau, MAU and DAU, may not be indicative of our financial performance.

Game	As at 31 December 2011			As at 31 December 2012			As at 31 May 2013		
	ARPDau	MAU	Average DAU	ARPDau	MAU	Average DAU	ARPDau	MAU	Average DAU
	(US\$)			(US\$)			(US\$)		
Browser games . . . . .	0.18	1,859,665	341,493	0.26	2,747,064	338,636	0.31	2,450,243	360,553
Client-based games . . . . .	0.21	442,182	109,405	0.24	361,026	80,330	0.27	269,310	69,364
Mobile games . . . . .	0.55	4,399	468	0.07	1,459,093	84,665	0.08	3,379,331	317,497

### RECENT DEVELOPMENT

Based on our unaudited consolidated financial statements prepared by our management for the nine months ended 30 September 2013, we recorded gross billings of approximately US\$52.2 million, which increased from approximately US\$32.0 million for the nine months ended 30 September 2012, primarily as a result of the rapid expansion of our mobile game business. Gross billings is a non-GAAP financial measure that is equal to revenue recognised during the period plus the change in deferred revenue and provision for charge backs during the period. Accordingly, our gross billings was generally slightly more than our revenue during the Track Record Period. For the three months ended 30 September 2013, our gross billings was approximately US\$22.9 million and the gross billings for our mobile games accounted for over 50% of our total gross billings for the period. As at 31 August 2013, we had net current assets of US\$12.0 million primarily consisting of cash generated from our business operations. Our net current assets decreased from US\$14.9 million as at 31 May 2013 primarily due to an increase in total current liabilities as a result of a dividend we declared in July 2013.

In July 2013, we launched three mobile games, among which, Castle Clash, which is a fast-paced tower defense game, quickly rose in popularity to become a top ten most popular game in nine countries, including Singapore, the United Kingdom and Canada, and a top five game in terms of revenue in seven countries, including Singapore, Hong Kong and the Netherlands, according to Appannie.com, an independent third party provider mobile application analytics. For the nine months ended 30 September 2013, gross billings generated from Castle Clash was approximately US\$7.2 million, and the MAU for this game was approximately 5.2 million as at 30 September 2013. Please refer to the section headed “Business — Our Games — Our pipeline” of this document for details. As at 30 September 2013, our player community consisted over 90 million player accounts globally, including a total MAU of approximately 9.3 million.

## **SUMMARY**

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Our Directors confirm that, as of the date of this document, there has been no material adverse change in our financial and trading position or prospects since 31 May 2013, and since that date, there has been no event up to the date of this document that would materially affect the information shown in our consolidated financial statements included in the accountants’ report set out in Appendix I to this document, in each case as otherwise disclosed in this document.

### **STRUCTURED CONTRACTS**

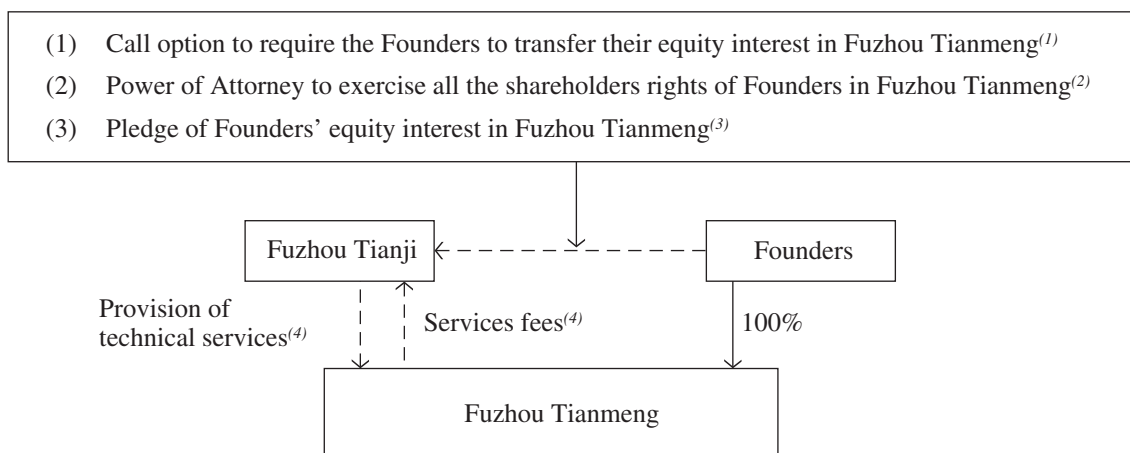
#### **Structured contract arrangement**

The existing PRC laws and regulations restrict foreign investment in value-added telecommunication, Internet content and information services, and online games in the PRC. Our wholly-owned subsidiary, Fuzhou Tianji, being a foreign owned enterprise, does not have the requisite licenses to provide services regarding value-added telecommunication, Internet content and information services, and online games in the PRC.

In order to comply with PRC laws restricting foreign ownership in the value-added telecommunication, in China, or foreign ownership prohibitions on Internet content and information services, we historically operated our licensing and publishing of self-developed browser games and client-based games in China through Fuzhou Tianmeng, whose equity interests are owned as to 50% by Mr. Zongjian Cai and 50% by Mr. Yuan Chi. The principal business operation of Fuzhou Tianmeng includes (i) designing and developing browser games, client-based games and mobile games; (ii) providing online customer support services to end users in the PRC; (iii) operating and ongoing maintenance of Chinese versions of developed games in the PRC, which includes (a) uploading and maintaining the self-developed games for download and play by players in the PRC; (b) licensing games to third party licensees in the PRC; and (c) co-operating games our Group developed in-house with third party game operators in the PRC; and (iv) Fuzhou Tianmeng holds certain number of intellectual property rights in relation to the operation of our Chinese version of the online games. Fuzhou Tianmeng, as a domestic company, holds an ICP license, Internet Culture Operating License and Internet Publishing License, which are required to carry out the above-described operation and ongoing maintenance of developed games in the PRC, which licenses, PRC laws currently restrict or prohibit foreign-invested companies from obtaining. Therefore, despite the fact that the revenue contribution by Fuzhou Tianmeng was only 4.8%, 3.2% and 3.7% of our Group’s total revenue during the Track Record Period, by maintaining Fuzhou Tianmeng and the Structured Contracts arrangement, our Group retains the flexibility to expand our online games business in the PRC if and when an opportunity emerges in the future.

## SUMMARY

The following chart illustrates the arrangement stipulated under the Structured Contracts:



*Note:*

- (1) Please refer to the paragraph headed “Call Option Agreement” in the section headed “History and Corporate Structure” of this document for further details.
- (2) Please refer to the paragraph headed “Power of Attorney” in the section headed “History and Corporate Structure” of this document for further details.
- (3) Please refer to the paragraph headed “Equity Pledge Agreement” in the section headed “History and Corporate Structure” of this document for further details.
- (4) Please refer to the paragraph headed “Exclusive Service Agreement” in the section headed “History and Corporate Structure” of this document for further details.

Through the Structured Contracts, Fuzhou Tianji has effective control over and (to the extent permitted by the PRC laws) the right to acquire the equity interests in and/or assets of Fuzhou Tianmeng. Pursuant to the Structured Contracts, our Group was also able to recognise and receive the economic benefits of the business and operation of Fuzhou Tianmeng. We intend to exercise such right and unwind the Structured Contracts as soon as possible, if and when the relevant PRC laws permit majority foreign ownership in the value-added telecommunication or foreign ownership in Internet content and information services which we operate. For the two years ended 31 December 2012, Fuzhou Tianmeng did not pay any technical service fee to Fuzhou Tianji. Please see “Risk Factors — Risks Relating to our Contractual Arrangements — There is no assurance that the contractual arrangements between Fuzhou Tianji and Fuzhou Tianmeng are in compliance with existing or future PRC laws and regulations and if the relevant regulations or their interpretations change in the future, we could be forced to relinquish our interests in our PRC operation company” of this document. However, during the five months ended 31 May 2013, Fuzhou Tianji began to provide technical service to Fuzhou Tianmeng and Fuzhou Tianmeng paid technical service fees to Fuzhou Tianji in the aggregate amount of US\$0.8 million and is expected to continue to do so in accordance with the terms of the Structured Contracts.

## **SUMMARY**

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In the opinion of Jingtian & Gongcheng, our PRC legal advisers, (i) Fuzhou Tianmeng has been duly incorporated and is validly existing, and its establishment is valid, effective and complies with the relevant PRC laws, and Fuzhou Tianmeng has also obtained all necessary approvals and finished all registration as required by PRC laws and regulations and has the capacity to carry out business operations in accordance with its licence; (ii) each of the Structured Contracts among Fuzhou Tianji, Fuzhou Tianmeng, Mr. Zongjian Cai and Mr. Yuan Chi is valid and binding on the parties thereto; (iii) each of the Structured Contracts complies with provisions of the articles of association of Fuzhou Tianmeng and Fuzhou Tianji; and (iv) each of the Structured Contracts does not violate any compulsory requirements of any PRC laws, administrative regulations or the articles of association of Fuzhou Tianmeng and Fuzhou Tianji. For the details of the Structured Contracts, please refer to the section headed “History and Corporate Structure — Structured Contracts” beginning on page [●] in this document.

However, with regard to the Structured Contracts, we are exposed to substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations. According to an article published on 2 June 2013 in the New York Times, there has been one recent court decision involving a dispute on the validity of contractual arrangements for obtaining control on certain foreign-restricted company(ies) incorporated in the PRC through a trust and lending structure, and two arbitration decisions purportedly involving disputes on the validity of contractual arrangement for obtaining control on certain foreign-restricted companies incorporated in the PRC through the use of variable interest entities. For details of risks relating to our Contractual Arrangements, please refer to “Risk Factors — Risks Relating to Our Contractual Arrangements” beginning on page [●] of this document.

Our PRC legal adviser, Jingtian & Gongcheng, has taken all possible actions and steps to enable it to reach the said conclusion. To reach its legal conclusions, our PRC legal adviser has conducted due diligence on our interests in the PRC, studied relevant PRC legal issues, and through anonymous telephone interviews, consulted the market management department under the information bureau of MIIT, which is responsible for supervising and administrating the value-added telecommunications business in the PRC, as well as GAPP. In the verbal consultations, the relevant authorities have confirmed that they have not rendered or claimed any of the Structured Contracts as void, or requested for confirmation on the validity and legality of any Structured Contracts. As (i) each of the Structured Contracts has been duly authorized, executed and delivered by the parties to the Structured Contracts and does not contravene any compulsory provision of applicable PRC laws as promulgated by the National People’s Congress and administrative regulations; (ii) Fuzhou Tianmeng complies with the provisions in the MIIT Notice, including but not limited to the requirements on Fuzhou Tianmeng relating to its ownership of domain names, trademarks and operating facilities; and (iii) according to our PRC legal adviser’s consultation, the relevant and competent authorities have not requested for confirmation on the validity and legality of the Structured Contracts since the issuance of the MIIT Notice or the “Three Determinations”, our PRC legal adviser has advised that no confirmation on the validity and legality of the Structured Contracts was required to be obtained from any authorities in the PRC under the PRC Contract Law. Our Directors confirmed that the Structured Contracts had not been challenged by the relevant authorities in the PRC as at the Latest Practicable Date. In addition, the Directors confirmed that as at the Latest Practicable Date, our Group had not encountered any

## **SUMMARY**

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interference or encumbrance from any PRC governing bodies in operating their business through Fuzhou Tianmeng under the Structured Contracts. Taking the abovementioned into account, our PRC legal adviser is of the view that each of the Structured Contracts is enforceable under the PRC Contract Law.

### **Key potential risks**

Our business and operations are exposed to several tax-related risks. Currently we enjoy preferential tax treatment in both Singapore and the PRC. Through IGG Singapore, which entity recorded 91.0%, 94.5% and 94.2% of our total revenue in each of the two years ended 31 December 2011 and 2012 and the five months ended 31 May 2013, respectively, we have been granted preferential income tax rate and royalties tax rate by Singapore Economic Development Board. In the PRC, Fuzhou Tianmeng, which was certified as Software Enterprise, is exempted from corporate income tax in the year ending 31 December 2013. We cannot guarantee that we will continue to enjoy such preferential tax treatment in the future. Further details of the risks relating to our preferential tax treatment are set forth in “Risk Factors—Risks Related to Our Business—We cannot guarantee that we will continue to enjoy preferential tax treatment in the future”. In addition, during the Track Record Period, IGG Singapore, IGG USA, IGG HK, Fuzhou Tianmeng and Fuzhou Tianji were all involved in intra-group transactions, the transfer prices of which, we believe, were decided at arm’s length. However, there can be no assurance that tax authorities reviewing such arrangements would agree that we were in compliance with transfer pricing laws and could require our relevant subsidiaries to re-determine the transfer prices and thereby reallocate the income or adjust the taxable income, which could increase our consolidated tax liability. Further details of the risk relating to intra-group transfer pricing are set forth in “Risk Factors — Risks Related to Our Business — Taxation authorities could challenge our allocation of taxable income which could increase our consolidated tax liability”. In addition, we are also exposed to the risk of being treated as a PRC resident enterprise. As a large percentage of our personnel, including some of our management, is currently based in the PRC and will likely remain in the PRC in the future, relevant PRC authorities could decide to treat us as a PRC resident enterprise for tax purposes, which will make us to be subject to PRC EIT at the rate of 25% on our worldwide income. Further details of the risk of being treated as a PRC resident enterprise are set forth in “Risk Factors—We may be deemed to be a PRC resident enterprise under the EIT Law and be subject to the PRC taxation on our worldwide income”.

## **DEFINITIONS**

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*In this document, unless the context otherwise requires, the following expressions have the following meanings:*

“affiliate(s)”	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“Amazon Payment”	an online payment platform, provided by Amazon Payments, Inc., [●]
“Analysys Consulting”	Analysys Consulting Ltd., an independent market research consulting firm focused on China and international Internet market
“Apple App Store”	a smartphone applications and smartphone games distribution platform developed for iOS-based mobile device and is developed and maintained by Apple Inc., [●], whereby users can browse and download smartphone apps or smartphone games either for free or at a cost
“Articles of Association” or “Articles”	the articles of association of our Company adopted by the Shareholders of our Company and as amended, supplemented and otherwise modified from time to time, a summary of which is set out in Appendix III to this document
“associate(s)”	has the meaning ascribed thereto under the [●]
“Board” or “Board of Directors”	the board of Directors of our Company
“Business Day” or “business day”	a day on which banks in Hong Kong and Cayman Islands are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong or Cayman Islands
“BVI”	British Virgin Islands
“CAGR”	compound annual growth rate
“Call Option Agreement”	a call option agreement dated 30 November 2007 and a supplemental agreement dated 16 September 2013 entered into between Fuzhou Tianji, Fuzhou Tianmeng and the Founders, being part of the Structured Contracts, further information of which is set out in the paragraph headed “Structured Contracts” in the section headed “History and Corporate Structure” in this document

## **DEFINITIONS**

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“China” or “PRC”	the People’s Republic of China, excluding for the purpose of this document, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as amended, supplemented and otherwise modified from time to time
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Company”, “our Company”, “we”, “us” or “IGG”	IGG Inc, an exempted company incorporated under the laws of Cayman Islands on 16 August 2007 with limited liability
“Corporate Reorganisation”	the reorganisation to be carried out for the purpose of the implementation of the proposed [●] of our Company on the
“Director(s)”	the director(s) of our Company
“Duke Online”	Duke Online Holdings Limited, an exempted company incorporated under the laws of the BVI on 10 September 2007 with limited liability, the entire issued share capital of which is owned by Mr. Zongjian Cai, one of the Controlling Shareholders
“Edmond Online”	Edmond Online Holdings Limited, an exempted company incorporated under the laws of the BVI on 10 September 2007 with limited liability, the entire issued share capital of which is owned by Mr. Yuan Chi, one of the Controlling Shareholders
“Equity Pledge Agreement”	an equity pledge agreement dated 30 November 2007 and supplemental agreements dated 5 January 2009 and 16 September 2013, respectively, entered into between Fuzhou Tianji and the Founders, being part of the Structured Contracts, further information of which is set out in the paragraph headed “Structured Contracts” in the section headed “History and Corporate Structure” in this document
“Exclusive Service Agreement”	an exclusive technical consulting service agreement dated 30 November 2007 and supplemental agreements dated 5 January 2009 and 16 September 2013, respectively entered into between Fuzhou Tianji and Fuzhou Tianmeng, being part of the Structured Contracts, further information of which is set out in the paragraph headed “Structured Contracts” in the section headed “History and Corporate Structure” in this document



## **DEFINITIONS**

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“Facebook”	a social networking service, owned and operated by Facebook Inc., an [●]
“Facebook Payments”	an online payments infrastructure operated by Facebook Payments Inc. and Facebook Payments International Ltd., subsidiaries of Facebook Inc., all of which are [●]
“Founders”	Mr. Zongjian Cai and Mr. Yuan Chi
“Fuzhou Bookman”	Fuzhou Bookman Software Technology Co., Ltd.* (福州百曉生軟件技術服務有限公司), a limited liability company established under the laws of the PRC on 11 September 2003, which was acquired and subsequently disposed of by Fuzhou Tianji to [●] during the Corporate Reorganisation
“Fuzhou Chuangyou”	Fuzhou Gulou District Chuangyou Information Technology Co., Ltd.* (福州市鼓樓區創遊計算機信息技術有限公司), a limited liability company established under the laws of the PRC on 4 November 2009, which was acquired and subsequently disposed of by Fuzhou Tianmeng to [●] during the Corporate Reorganisation
“Fuzhou Online Game”	Fuzhou OnlineGame Information Technology Co., Ltd.* (福州網遊信息科技有限公司), a limited liability company established under the laws of the PRC on 25 May 2005, which became controlled by our Group through a series of structured contracts since 14 August 2009 and was subsequently disposed of by Fuzhou Tianmeng to [●] during the Corporate Reorganisation
“Fuzhou Tianhe”	Fuzhou Gulou District Tianhe Interactive Information Technology Co., Ltd. (福州市鼓樓區天合互動信息技術有限公司), a limited liability company established under the laws of the PRC by Fuzhou Tianmeng and [●] on 21 January 2010, which was subsequently disposed of by Fuzhou Tianmeng to [●] during the Corporate Reorganisation
“Fuzhou Tianji”	Fuzhou TJ Digital Entertainment Co., Ltd.* (福州天極數碼有限公司), a limited liability company established under the laws of the PRC on 15 November 2007, a wholly-owned subsidiary of our Group

## **DEFINITIONS**

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“Fuzhou Tianjie”	Fuzhou Tianjie Information Technology Co., Ltd* (福州天杰信息技術有限公司), a limited liability company established under the laws of the PRC on 3 June 2008, a wholly-owned subsidiary of our Group
“Fuzhou Tianmeng”	Fuzhou Skyunion Digital Co., Ltd* (福州天盟數碼有限公司), a limited liability company established under the laws of the PRC on 12 December 2006, which is owned as to 50% by Mr. Zongjian Cai and 50% by Mr. Yuan Chi, respectively
“GAPP”	the General Administration of Press, Publication, Radio, Film and Television of the State (formerly the General Administration of Press and Publication of the PRC and the State Administration of Radio, Film and Television) (國家新聞出版廣電總局)
“GAPP Notice”	a Notice on Further Strengthening of the Administration of Pre-examination and Approval of Online Game and the Examination and Approval of Imported Online Game (關於貫徹落實國務院《“三定”規定》和中央編辦有關解釋，進一步加強網絡遊戲前置審批和進口網絡遊戲審批管理的通知), jointly issued by GAPP and the National Copyright Administration and National Office of Combating Pornography and Illegal Publications on 28 September 2009
“Google Checkout”	an online payment platform, provided by Google Inc., [●]
“Google Play”	(formerly known as the Android Market) a digital application distribution platform for Android-based smartphone apps, developed and maintained by Google Inc., [●]
“Group” or “our Group” or “we” or “us”	our Company and its subsidiaries or any of them or, where the context so requires, in respect of the period before our Company became the holding company of our present subsidiaries
“Hearst”	Hearst Interactive Media, a division of Hearst Communications, Inc. and one of the Series B Investors prior to the conversion of the Preferred Shares into ordinary shares, which is, apart from holding Shares in our Company, [●]
“HK\$” or “Hong Kong dollar(s)” or “HKD” or “cents”	Hong Kong dollars and cents, respectively, the lawful currency for the time being of Hong Kong
“HKICPA”	Hong Kong Institute of Certified Public Accountants

## **DEFINITIONS**

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“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“ICP license”	a value-added telecommunications business operation license with a service scope of information services of category 2 value-added telecommunication services
“IDG Group”	collectively, IDG-Accel China Growth Fund II L.P. and IDG-Accel China Investors II L.P., two exempted limited partnerships formed under the laws of Cayman Island on 8 June 2007 and 3 July 2007, respectively, both of which are managed by their respective general partners and holders of Series A Shares, Series A-1 Shares and Series B Shares prior to the conversion of the Preferred Shares into ordinary Shares [●]
“IFRS(s)”	International Financial Reporting Standard(s)
“IGG HK”	Skyunion Hong Kong Holdings Limited (天盟香港控股有限公司), a company incorporated under the laws of Hong Kong on 20 February 2006, a wholly-owned subsidiary of our Group
“IGG Philippines”	IGG Philippines Corp., a company incorporated under the laws of the Philippines on 11 January 2013, which is wholly owned by IGG Singapore
“IGG Singapore”	IGG Singapore Pte. Ltd. (formerly known as Skyunion Pte. Ltd.), a company incorporated under the laws of Singapore on 30 June 2009, a wholly-owned subsidiary of our Group
“IGG USA”	Sky Union, LLC, a limited liability company formed in the State of Nevada, the United States, on 21 October 2005, a wholly-owned subsidiary of our Group
“Jones Lang LaSalle”	Jones Lang LaSalle Corporate Appraisal and Advisory Limited, the valuer of our Group
“Latest Practicable Date”	30 September 2013, being the latest practicable date for the purpose of ascertaining certain information in this document prior to its publication
“Management Team”	Ms. Kai Chen, Mr. Zhixiang Chen, Mr. Yuan Xu, Mr. Hong Zhang and Mr. Guo Wu (Mr. Guo Wu, a former employee, ceased to be a member of the Management Team after March 2008)

## **DEFINITIONS**

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“Martin Living Trust”	The Martin Living Trust dated August 29, 2000, and one of the Series B Investors prior to the conversion of the Preferred Shares into ordinary Shares, a trust created and managed by Raymond S. Martin III and Ling Li Martin, both of whom are [●], apart from holding in our Company through Martin Living Trust
“Memorandum of Association” or “Memorandum”	the memorandum of association of our Company adopted on 16 September 2013, as amended from time to time
“MIIT”	the Ministry of Industry and Information Technology of the PRC (formerly known as the Ministry of Information Industry of the PRC) (中華人民共和國工業和信息化部)
“MIIT Notice”	the Notice on Strengthening Administration of Foreign Invested Value-Added Telecommunications Business Operation (關於加強外商投資經營增值電信業務管理的通知), issued by MIIT on 13 July 2006
“MOC”	the Ministry of Culture of the PRC (中華人民共和國文化部)
“MOFCOM”	the Ministry of Commerce of the PRC (formerly known as the Ministry of Foreign Trade and Economic Cooperation of the PRC) (中華人民共和國商務部)
“MOL”	MOL AccessPortal, an online payment platform, provided by MOL AccessPortal Sdn Berhad, [●]
“NAV”	net asset value
“NCAC”	the National Copyright Administration of the PRC (中華人民共和國國家版權局)
“Online Game Licensing Agreement”	an online game licensing agreement dated 16 September 2013 entered into between Fuzhou Tjianji and Fuzhou Tianmeng, being part of the Structured Contracts, further information of which is set out in the paragraph headed “Structured Contracts” in the section headed “History and Corporate Structure” in this document
“Original LLC Members”	Mr. Zongjian Cai, Mr. Yuan Chi, Ms. Xiuping Wang (mother of Mr. Hong Zhang), and Mr. Hong Zhang
“PayPal”	an online payment platform, provided by PayPal Inc, which is an [●]

## **DEFINITIONS**

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“Power of Attorney”	power of attorney of each of Mr. Zongjian Cai and Mr. Yuan Chi dated 30 November 2007 and supplemental power of attorney of each of Mr. Zongjian Cai and Mr. Yuan Chi dated 16 September 2013, being part of the Structured Contracts, further information of which is set out in the paragraph headed “Structured Contracts” in the section headed “History and Corporate Structure” in this document
“PRC”	the People’s Republic of China and, for the purpose of this memorandum, excluding Hong Kong, Macau and Taiwan
“PRC Company Law”	the Company Law of the PRC (中華人民共和國公司法), enacted by the Standing Committee of the Eighth National People’s Congress on 29 December 1993 and effective on 1 July 1994, and subsequently amended on 25 December 1999, 28 August 2004 and 27 October 2005, as amended, supplemented or otherwise modified from time to time
“PRC EIT Law”	the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法), promulgated on 16 March 2007 by the National People’s Congress and effective on 1 January 2008
“Preferred Shares”	Series A Preferred Shares, Series A-1 Preferred Shares and Series B Preferred Shares
“Productivity and Innovation Credit”	a tax benefit policy of Singapore, which is available to businesses that invest in specified productivity and innovation activities
“RMB” or “Renminbi”	Renminbi, the lawful currency for the time being of the PRC
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAIC”	the State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)
“Series A Investors”	prior to the conversion of the Preferred Shares into ordinary Shares, holders of Series A Preferred Shares, namely, IDG Group and Winston
“Series A Preferred Shares”	the series A preferred shares with a nominal value of US\$0.0001 each in the share capital of the Company
“Series A-1 Investors”	prior to the conversion of the Preferred Shares into ordinary Shares, holders of Series A-1 Preferred Shares, namely, IDG Group and Winston

## **DEFINITIONS**

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“Series A-1 Preferred Shares”	the series A-1 preferred shares with a nominal value of US\$0.0001 each in the share capital of the Company
“Series B Investors”	prior to the conversion of the Preferred Shares into ordinary Shares, holders of Series B Preferred Shares, namely, Vertex, Hearst, IDG Group, Tian Xiang, Mr. Yi Zhang, Mr. Yuan Xu and Martin Living Trust
“Series B Preferred Shares”	the series B preferred shares with a nominal value of US\$0.0001 each in the share capital of the Company
“Series B Shareholders”	the Series B Investors together with Original LLC Members
“Shaanxi Taihe”	Shaanxi Taihe Information & Technology Co., Ltd* (陝西泰合信息科技有限公司), a limited liability company established under the laws of the PRC on 19 March 2008, which was acquired and subsequently disposed of by Fuzhou Tianmeng to [●] during the Corporate Reorganisation
“Shanghai Generic”	Shanghai Generic Network Technology Co., Ltd* (上海泛型網絡科技有限公司), a limited liability company established under the laws of the PRC on 2 July 2008, which was acquired and subsequently disposed of by Fuzhou Tianmeng to the [●] during the Corporate Reorganisation
“Share(s)”	means share(s) of US\$0.0001 each in the share capital of our Company prior to the Subdivision or US\$0.0000025 each in the share capital of our Company after the Subdivision becoming effective
“Shareholder(s)”	holder(s) of the Share(s)
“Shareholders’ Agreement”	the shareholders’ agreement for the Series B investment
“S\$” or “Singapore dollars”	Singapore dollars, the lawful currency for the time being of the Singapore
“Skrill”	an online payment platform, provided by Skrill Limited, an [●]
“Software Enterprise”	enterprises or companies engaged in developing and manufacturing of computer softwares and hardwares, system integration, provisions of application services and relevant technical services, which may enjoy preferential tax treatments if meet certain statutory requirements

## **DEFINITIONS**

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“Structured Contracts”	a series of contracts (as supplemented) which include the Call Option Agreement, the Exclusive Service Agreement, the Equity Pledge Agreement, the Power of Attorney and the Online Game Licensing Agreement
“Subdivision”	each issued and unissued share of a par value of US\$0.0001 in the share capital of our Company was sub-divided into 40 Shares of a par value of US\$0.0000025 each pursuant to the Shareholders’ resolution passed on 16 September 2013
“subsidiary(ies)”	has the meaning ascribed thereto in section 2 of the Companies Ordinance
“Tian Xiang”	Tian Xiang Digital Limited, a company incorporated under the laws of BVI on 26 July 2007 with limited liability and one of the Series B Investors prior to the conversion of the Preferred Shares into ordinary Shares, [●]
“Track Record Period”	two years ended 31 December 2012 and five months ended 31 May 2013
“United States” or “U.S.”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“U.S. dollar(s)”, “US\$” or “USD”	United States dollars, the lawful currency for the time being of the United States
“Vertex”	Vertex Asia Investments Pte. Ltd. (or its affiliates or successors), a company incorporated under the law of Singapore on 20 April 2011 which is ultimately wholly owned by Temasek Holdings (Private) Limited and one of the Series B Investors prior to the conversion of the Preferred Shares into ordinary Shares, which is [●], apart from holding Shares in our Company
“WFOE”	wholly foreign-owned enterprise within the meaning prescribed under PRC laws
“Winston”	Winston Holdings International Limited, a limited liability company incorporated under the laws of BVI on 4 July 2006 and one of the Series A Investors prior to the conversion of the Preferred Shares into ordinary Shares, which is [●], apart from holding Shares in our Company

## **DEFINITIONS**

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“Xi’An Xiaoyao”	Xi’an Xiaoyao Tianxia Internet Science and Technology Co., Ltd.* (西安逍遙天下網絡科技有限公司), a limited liability company established under the laws of the PRC by Fuzhou Tianmeng on 15 February 2011, which was subsequently disposed of by Fuzhou Tianmeng to [●] during the Corporate Reorganisation
“%”	per cent

*Certain amounts and percentage figures included in this ● have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.*

*In this document, unless otherwise stated, certain amounts denominated in Renminbi have been translated into Hong Kong dollars or U.S. dollars at an exchange rate of HK\$7.7539 = US\$1.00, respectively, for illustration purpose only. Such conversions shall not be construed as representations that amounts in Renminbi were or could have been or could be converted into Hong Kong dollars or U.S. dollars at such rates or any other exchange rates on such date or any other date.*

*If there is any inconsistency between the Chinese names of entities or enterprises established in the PRC and their English translations, the Chinese names shall prevail. The English translation of company names in Chinese or another language which are marked with “\*” and the Chinese translation of company names in English which are marked with “\*” is for identification purpose only.*

*The English translations of the names of PRC laws, rules and regulations printed in this document are not official names for, and do not form any official part of, such laws, rules and regulations.*



## **GLOSSARY OF TECHNICAL TERMS**

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*This glossary contains explanations of certain terms and definitions used in this document in connection with our Group and its business. The terms and their meanings may not correspond to standard industry meaning or usage of those terms.*

“Android”	an operating system developed and maintained by Google Inc. used in touchscreen technology including, smartphones and tablets
“ARPPDAU”	average revenue per daily active user
“browser games”	games that can be played by connecting directly to game servers through Internet browsers
“CDN”	content delivery network, a large distributed system of servers deployed in multiple data centers across the Internet to serve content to and end-users with high availability and high performance
“client-based games”	games that can be played by first downloading the client base from game providers’ website and then connecting to the server through Internet browsers
“closed beta testing”	a stage during the development of a game whereas the game is released to a select group of individuals for a user test whereas players under the closed beta testing will report any technical problems that they found and sometimes minor features they would like to see in the final version
“DAU”	daily active users: the number of individuals who login to a particular game on a particular day
“download”	to transfer (data or programmes) from a server or host computer to one’s own computer or device
“F2P” or “Free to Play”	a business model used in gaming industry, under which players can play games for free, but may need to pay for virtual items sold in games to enhance their game experience also referred to as “Game as a Service” or “GAAS”
“iOS”	a mobile operating system developed and maintained by Apple Inc. used exclusively in Apple touchscreen technology including, iPhones, iPods, and iPads
“launch”	the commercially official launch of an online game after the closed beta testing under the F2P model or after the open beta testing under the pay-for-play model

## **GLOSSARY OF TECHNICAL TERMS**

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“Internet”	a global network of interconnected, separately administered public and private computer networks that uses the Transmission Control Protocol/Internet Protocol for communications
“MAU”	monthly active users: the number of individual who login to a particular game during the 30-day period ending with the measurement date.
“MMORPG”	massively multiplayer online role-playing game, in which many players participate in the same role-playing game simultaneously
“mobile games”	games that can be played on mobile devices
“open beta testing”	a stage during the development of a game whereas the game is released to a community group, usually the general public, for a user test whereas players under the open beta testing will report any technical problems that they found and sometimes minor features they would like to see in the final version
“PC”	personal computer
“server”	a computer system that provides services to other computing systems over a computer network
“virtual currency”	the virtual currency that our players need to purchase through payment channels which can be further used to purchase the virtual items we offer in our games
“virtual items”	the virtual items in the game we offer to players to enhance the strength of the character in the game or to provide additional features to the games, such as virtual weapons, armours and spells

## **RISK FACTORS**

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### **RISKS RELATED TO OUR BUSINESS**

**More than 70% of our revenue is generated from a small number of games and any significant adverse impacts to these games could materially affect our business**

Our revenue for the years ended 31 December 2011 and 2012 was primarily generated from our three proprietary online games, Galaxy Online II, Godswar and Texas HoldEm Poker Deluxe. For each of the two years ended 31 December 2011 and 2012, we derived 70.5% and 75.9%, respectively, of our revenue from these three games. For the five months ended 31 May 2013, Wings of Destiny became our third most popular game by revenue, and we derived 79.1% of our revenue from these four most popular games. We cannot assure you that the new games we plan to launch will be as popular and will attract as many paying users as our four most popular games. We expect that we will continue to derive a significant amount of our revenue from a limited number of games for the year ending 31 December 2013. Accordingly, should there be (i) any reduction in the number of paying players in such games or any decrease in their popularity in the markets we operate; (ii) any failure by us to make improvements, upgrades or enhancements to such games in a timely manner; (iii) any lasting or prolonged server interruption due to network failures or other factors out of our control; or (iv) any other adverse developments specific to such games, our business, financial condition and results of operation could be adversely affected.

**Players’ acceptance of the F2P model may change in the future**

We do not charge our players any fees to play our games, but generate revenue by selling virtual items to them to be used in our games. This F2P model enables us to quickly attract new players to experience our games and gradually attract them to our games in order to develop a habit to purchase our virtual items. However, our future revenue and profit depend substantially on the continued acceptance of this business model and willingness of our players to purchase virtual items. While the F2P model has been used by Internet companies for some time, there can be no assurance that our consumers will continue to accept and use this model in a manner that is profitable to us or that a new business model will not emerge that will make our reliance on the F2P model untenable. If any such change occurs, our business, financial condition and results of operations may be adversely affected.

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

We depend on the purchases and continued consumption of virtual items by our game players to generate revenue, which in turn depend on the continued attractiveness of our games to players and their satisfactory game-playing experience. We provide support for our games and collect players’ feedback on their game-playing experience in order to resolve any programming flaws or other game operational issues in a timely manner. However, we cannot assure you that our efforts will be effective in eliminating programming errors associated with our games, improving our game operations, satisfying our player demands or maintaining the appeal of our games.

## **RISK FACTORS**

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Our failure to address any of the issues mentioned above could adversely affect the game-playing experience of our players, damage the reputation of our Company and our games, shorten the lifespan of our games, and/or result in the loss of players and a decrease in our revenue, which would adversely affect our business, financial condition and results of operations.

### **We may not adhere to our timetable for launching new games, and our new games may not be commercially successful**

We will need to continue to introduce new games that can generate additional revenue and diversify our revenue source in order to remain competitive and maintain sustainability. As at the Latest Practicable Date, we expected to launch an additional six new games by the end of 2013. The timelines of the launches of our games depend on a number of factors, including technical difficulties and the lack of sufficient game development personnel and other resources. We cannot assure you that we will be able to meet our timetable for new game launches. In addition, there is no guarantee that our new games will be well received by the market or profitable. There are many factors that may adversely affect the popularity of our new games. For example, we may fail to anticipate and adapt to future technical trends, new business models and changing game player preferences, fail to effectively plan and organize marketing and promotional activities, or fail to differentiate our new games from our existing games or the games of our competitors. If the new games we introduce are not commercially successful, we may not be able to recover our product development and marketing costs, which can be significant. Failure on our part to launch successful new games on a timely basis, or at all, would adversely affect our business, financial condition and results of operations.

### **We may not be able to successfully implement our business strategies and sustain high gross profit margin**

We have historically focused on PC-based online games. However, as smart phones and tablet PCs have recently emerged and became major online game operational platforms, we intend to expand in the mobile game market and devote a significant portion of our development resources to the mobile game sector, while continuing to be active in the browser games and client-based games markets. We plan to launch six new games by the end of 2013 to expand our portfolio, all of which will be mobile games. Our experience in developing games for mobile platforms is limited as we only introduced our first mobile game, Texas HoldEm Poker Deluxe, in October 2011. For the five months ended 31 May 2013, only 14.8% of our revenue was generated from mobile games. We cannot guarantee that our understanding of the market trend is correct, or that our new mobile games will be as attractive to players as our existing browser games and client-based games. Our new business strategy of focusing primarily on developing mobile games in the foreseeable future may not be profitable for us, which would adversely affect our business, financial condition and results of operations.

### **We depend on our existing management, our key development personnel and qualified technical personnel, and our business may be severely disrupted if we lose their services**

Our future success depends substantially on the continued services of our executive officers and our key development personnel, such as Mr. Zongjian Cai, our chief executive officer and executive Director, Mr. Yuan Chi, our senior vice president and executive Director, Mr. Yuan Xu, our chief operating officer and Mr. Hong Zhang, our chief technology officer. If one or more of our executive

## **RISK FACTORS**

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officers or key development personnel were unable or unwilling to continue in their present positions, we might not be able to replace them easily or at all. In addition, if any of our executive officers or key employees joins a competitor or forms a competing company, we may lose know-how, key professionals and staff members as well as suppliers. These executive officers and key employees could develop and operate games that could compete with us or take game players away from our existing and future games. Each of our executive officers and key personnel has entered into an employment agreement and non-competition agreement with us. However, if any dispute arises between us and our executive officers, and key employees, these non-competition provisions may not be enforceable in China, the United States or elsewhere. If any of these were to happen, our competitive position and business prospects may be materially and adversely affected.

### **Our diversified player base exposes us to potential regulatory and litigation risks in different jurisdictions**

Our online games are offered to players in various jurisdictions around the world. As players may log-on to our online game from anywhere in the world, we are exposed to potential regulatory and litigation risks in these jurisdictions. A particular jurisdiction may have or may enact a restrictive law or regulation governing players’ behavior or activities on the Internet. We may be liable for any non-compliance with such law or regulation. In addition, we may be subject to lawsuits from our game players with respect to their game playing experience. Any breach of law or regulation in different jurisdictions in which we operate or any claims against us by our game players could adversely affect our business, financial condition and results of operations.

### **Our online games may contain undetected programming errors or other defects and encounter external interruptions**

Our online games may contain undetected programming errors or other defects and we face the challenge of external interruptions. For example, parties unrelated to us may develop programs to interrupt the operation of our online games. Players may also develop programs or use other means to infringe upon the game accounts of other players. The occurrence of undetected errors or defects in our online games, and our failure to discover and stop the external interruptions could disrupt our operations, damage our reputation and weaken our players’ game experience. As a result, such errors, defects and external interruptions could adversely affect our business, financial condition and results of operations.

### **Our technology infrastructure may experience unexpected network interruption or inadequacy or security breaches**

Our technology infrastructure is vulnerable to damage from fire, flood, power loss, telecommunications failures, computer virus, hackings and similar events. Any network interruption or inadequacy that causes unavailability of our games or deterioration in the quality of access to our games or failure to maintain the network and server or failure to solve such problems quickly could reduce our players’ satisfaction. In addition, while we did not encounter any security breach during the Track Record Period, any security breach caused by hacking, which involves efforts to gain

## **RISK FACTORS**

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unauthorized access to information of our products or our Company or private information that we collected from our customers or to cause intentional malfunctions, loss or corruption of data, software, hardware or other computer equipment, and the inadvertent transmission of computer viruses could have a material adverse effect on our business, financial condition and results of operations.

### **Unauthorised use of our intellectual property may adversely affect our business and reputation**

Our copyrights, domain names, trademarks and other intellectual property are critical to our success. As at 31 May 2013, we owned 29 domain names and 156 trademarks in China and other countries and regions. We were also the registered owner of 29 software copyrights in China, and owned 29 software copyrights in Singapore. We rely on trademark and copyright laws and regulations, and confidentiality agreements with our employees, customers, business partners and others to protect our intellectual property rights. Despite our precautions, it may be possible for third parties to obtain and use the intellectual property without authorization which may have an adverse effect to our business.

The validity, enforceability and scope of protection of intellectual property in Internet-related industries are uncertain and still evolving. In particular, the laws and enforcement procedures in the PRC and certain other countries are immature or do not protect intellectual property rights to the same extent as do the laws and enforcement procedures of the more developed countries. For example, Singapore, where we hold the majority of our software copyrights, does not require registration for software copyrights protection. Therefore, litigation may be necessary in the future to enforce our intellectual property rights. Future litigation could result in substantial costs and diversion of our resources, and could disrupt our business, as well as have a material adverse effect on our financial condition and results of operations.

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

Our success depends largely on our ability to use and develop our technology and know-how without infringing the intellectual property rights of third parties. We cannot assure you that third parties will not assert intellectual property claims against us during the course of our operation.

The validity and scope of claims relating to the intellectual property of game development and technology involve complex scientific, legal and factual questions and analyses, which results in uncertainty and ambiguity. If third parties assert copyright or patent infringement or violations of other intellectual property rights against us, we may need to defend ourselves in litigation or administrative proceedings, which can be both costly and time consuming and may significantly divert the efforts and resources of our technical and management personnel. An adverse determination in any such litigation or proceedings to which we may become a party could subject us to significant liability to third parties, require us to seek licenses from third parties, to pay ongoing royalties, or to redesign our games or subject us to injunctions prohibiting the development and operation of our games.

## **RISK FACTORS**

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Currently we are not subjected to any lawsuits, with regard to our activities infringing third party’s intellectual property rights, but we cannot guarantee that there will be no such lawsuit in the future.

### **Taxation authorities could challenge our allocation of taxable income which could increase our consolidated tax liability**

During the Track Record Period, IGG Singapore purchased game-related intellectual property from Fuzhou Tianmeng and Fuzhou Tianji, and outsourced customer support to Fuzhou Tianji. IGG Singapore has also entered into certain contractual arrangements with IGG USA, pursuant to which IGG USA provides sales and marketing and server hosting services to IGG Singapore. IGG HK has entered into contractual arrangement with IGG Singapore, pursuant to which IGG Singapore provides sales and marketing and server hosting services to IGG HK. We expect that such arrangements will continue in the foreseeable future. We have determined transfer prices that we believe are the same as the prices that would be charged by unrelated third parties dealing with each other on an arms’ length basis. However, there can be no assurance that tax authorities reviewing such arrangements would agree that we are in compliance with transfer pricing laws, or that such laws will not be modified. In the event an authority of any relevant jurisdiction finds that transfer prices were manipulated in a way that distorts true taxable income, such authority could require our relevant subsidiaries to re-determine transfer prices and thereby reallocate the income or adjust the taxable income or deduct cost and expense of the relevant subsidiary in order to accurately reflect such income. Any such reallocation or adjustment could result in a higher overall tax liability for us and adversely affect our business, financial condition and results of operations.

### **We cannot guarantee that we will continue to enjoy preferential tax treatment in the future**

Our Singapore subsidiary enjoys preferential tax treatment in accordance with the Development and Expansion Incentive and Approved Royalties Incentive issued by the Singapore Economic Development Board. This preferential tax treatment began on 1 January 2010 and will last for the duration of seven years if we can meet certain conditions required by the Singapore Economic Development Board. We enjoy a preferential income tax rate and royalties tax rate. There can be no assurance that we will continue to enjoy such preferential tax treatment after the expiry of the Development and Expansion Incentive and Approved Royalties Incentive. In addition, we may fail to meet the terms and conditions set out in the Development and Expansion Incentive and Approved Royalties Incentive and lose our preferential status earlier. Considering that in each of the years ended 31 December 2011 and 2012 and the five months ended 31 May 2013, 91.0%, 94.5% and 94.2% of our total revenue was recorded in IGG Singapore, the discontinuation of preferential tax treatment in IGG Singapore would adversely affect our financial condition.

Fuzhou Tianmeng, which was certified as a Software Enterprise, is exempted from corporate income tax for two years starting from the first year it generates taxable profit, followed by a 50% reduction for the next three years. In the year ended 31 December 2012, Fuzhou Tianmeng started generating taxable profit and therefore for the year ended 31 December 2012, Fuzhou Tianmeng was exempted from corporate income tax and is expected to continue to be exempt from corporate income tax for the year ending 31 December 2013. There can be no assurance that Fuzhou Tianmeng will continue to be certified as Software Enterprise and enjoy such preferential tax reduction in the future.

## **RISK FACTORS**

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### **We may be deemed to be a PRC resident enterprise under the EIT Law and be subject to the PRC taxation on our worldwide income**

Under the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) (the “EIT Law”), which took effect on 1 January 2008, enterprises established outside the PRC whose “de facto management bodies” are located in the PRC are considered “resident enterprises” and will generally be subject to the uniform 25% EIT rate as to their global income. Under the implementation rules of the EIT Law, “de facto management bodies” is defined as the bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise. In April 2009, the State Administration of Taxation promulgated a circular to clarify the criteria to determine whether the “de facto management bodies” are located within the PRC for enterprises incorporated overseas with controlling shareholder being PRC enterprises.

The EIT Law and its implementation rules have certain ambiguities with respect to the interpretation of the provisions relating to resident enterprise issues. As some of our management is currently based in the PRC and is likely to remain in the PRC in the future, we may be treated as a PRC resident enterprise for PRC EIT purposes. If we are deemed to be a PRC resident enterprise, we will be subject to PRC EIT at the rate of 25% on our worldwide income.

### **If IGG HK is deemed to be a Singapore resident enterprise under relevant laws and regulations of Singapore, accordingly, it may be subject to corporate income tax in Singapore**

Under the relevant Singapore tax law, a company is deemed to be a resident in Singapore for Singapore tax purposes if the control and management of its business are exercised in Singapore. Singapore resident companies are subject to Singapore corporate income tax on income accrued in or derived from Singapore, and on foreign-sourced income received or deemed received in Singapore, subject to certain exceptions.

All of IGG HK’s income during the Track Record Period was deemed non-taxable for Hong Kong profits tax as it was sourced outside Hong Kong. However, certain business activities of IGG HK have been outsourced to and performed in Singapore by IGG Singapore, including, among others, the provision of sales and marketing and server hosting services to IGG HK. Accordingly, IGG HK maybe deemed to be a Singapore tax resident. In the event all of IGG HK’s income during Track Record Period is deemed to be subject to Singapore corporate income tax, IGG HK will be subject to the 17% Singapore corporate income tax rate, and will pay Singapore corporate income tax of approximately US\$275,000 incurred during the Track Record Period.

### **Our revenue generated from diversified player base exposes us to potential taxation risks in different jurisdictions**

We offer our online games to players in various jurisdictions around the world and we are exposed to potential taxation risks in these jurisdictions. A particular jurisdiction may request us to pay corporate income taxes or sales taxes for the revenue generated from the IP locations of the players in those jurisdictions. If we are requested to pay corporate income taxes or sales taxes in those jurisdictions, it could result in a higher overall tax liability for us and adversely affect our business, financial condition and results of operations.



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### **We may not be able to pay dividends in accordance with our proposed dividend policy**

We are a holding company, and we rely principally on dividends and other distributions on equity paid by our members, including the funds necessary to repay any debt we may incur. Whilst we intend to make dividend payments in the future, the amount of dividends to be declared will be subject to, among other things, the full discretion of our Directors, taking into consideration the amount of our earnings, financial position, cash requirements and availability, the provisions of applicable laws and regulations and other relevant factors. In addition, if any of our members incurs debt on its own behalf in the future, the instruments governing the debt may restrict the ability of such subsidiary to pay dividends or make other distributions to us.

### **We do not have business interruption insurance coverage**

According to TSMP Law Corporation, our Singapore legal advisers, we are not required to maintain an insurance policy to cover losses related to our business operations in Singapore. Moreover, the insurance industry in the PRC is still at an early stage of development and as a result, PRC insurance companies offer limited business insurance products. Therefore, we have not yet taken out any insurance to cover our business operations in either the PRC or our overseas markets. The advent of any business disruption, litigation or natural disaster could result in substantial costs and diversion of resources on our part, and could adversely affect our financial conditions and results of operations.

### **Charge backs or refunds may decrease our revenue**

Some of our players use credit cards to purchase virtual currency, which is credited to players' accounts and is used by players to purchase virtual items in our games. Because of our payment structure, we are susceptible to “charge back” claims in which players report to the payment platforms certain purchases of virtual currency or virtual items as suspicious or fraudulent activity. These claims may be real, meaning there actually occurred unauthorized or fraudulent usage of the players' credit cards, or may be false, meaning the players made purchases of virtual currency or virtual items but later misrepresented that they did not. The payment platforms may not conduct thorough reviews of the claims and will normally refund the purchases, causing us to lose revenue. For the five months ended 31 May 2013, such “charge back” claims accounted for 1.7% of total gross revenue for the period. We cannot guarantee that our charge back amount will not rise in the future and negatively impact our business or financial conditions.

### **Our marketing arrangements may be subject to potential misuse which could significantly increase our advertising costs**

For some of our marketing platforms, we pay platform operators fees based on a certain rate for each click on our advertisements or for each successful registration in our games. It is possible that anyone, including any of our competitors, could falsely or maliciously click on our advertisements appearing on the websites of these marketing platforms or register for our games to significantly

## **RISK FACTORS**

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increase our marketing costs while no revenue will be generated from these click or registrations. We cannot guarantee that our procedures will be able to shield us entirely from these measures to reduce the risks of falsely inflated marketing costs, which would adversely affect our financial conditions and results of operations.

### **Any material change of policies from our payment channel partners may adversely affect our business**

Players can play our browser games on certain social network websites, such as Facebook and Google Play, which also require our game players to utilise their payment channels exclusively. In addition, as we shift our focus to developing mobile games going forward, we will rely more on Apple App Store and Google Play as the exclusive payment channels to collect payments from our mobile game customers. The payment channels deduct a certain percentage of the proceeds they collect for us as service fee. Apple App Store and Google Play both charge a flat, fixed service fee rate of 30% for all in-app purchases made by users. Our other payment channel partners usually have a lower payment service fee rate. Therefore, as we continue to derive more revenue from our mobile game business, we expect our overall cost of payment channel partners as a percentage of revenue to increase. Further details of our payment channels are set out in the section headed “Business — Our Operation — Payment” in this document. These partners may materially and unilaterally change their policies, such as raising their service fee rates. Because these partners also provide operating platforms for our games, we may be forced to accept such adverse changes in their policies. This could significantly increase our payment channel cost and thereby, materially and adversely affect our business, financial condition and results of operations.

### **We had net current liabilities and incurred net losses during the Track Record Period and may experience net losses or liquidity shortage in the future**

As at 31 December 2011 and 2012, our Group had net current liabilities of US\$45.0 million and US\$57.8 million, respectively. The net current liabilities position as at 31 December 2012 was primarily due to the classification of the Preferred Shares of our Group as current liabilities of our Group at estimated fair value based on the valuation of our Company by Jones Lang LaSalle, thereby resulting in substantially higher total current liabilities than total current assets. The Preferred Shares are treated as current liabilities due to the ability of the holders of a series of the Preferred Shares having the right, upon the necessary vote, to cause us to redeem such series of Preferred Shares in accordance with the relevant Shareholder Agreement, please see “History and Corporate Structure — [●] Investment”. The Preferred Shares are measured at fair value as at the end of each Track Record Period due to the embedded derivatives. As a result of the increase in the fair value loss of the Preferred Shares, we incurred a net loss of US\$13.4 million for the year ended 31 December 2012.

On 31 May 2013, all of the Preferred Shares were converted to ordinary Shares by conversion in accordance with the then applicable Articles of Association, and we had net current assets of US\$14.9 million as at 31 May 2013. However, there can be no assurance that we will always be able to maintain sufficient working capital or raise necessary funding to finance our working capital requirements. In such circumstances, our business, financial conditions and results of operations may be materially and adversely affected.

## **RISK FACTORS**

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### **Our ability to continue to obtain the necessary licenses and permits or to fulfill other regulatory requirements for the operation of online games in China is uncertain**

The Internet industry, including the operation of online games, in the PRC is strictly regulated by the PRC government. Various regulatory authorities of the central PRC government, including but not limited to the MIIT, the GAPP, the MOC and the NCAC, are empowered to issue and implement regulations governing various aspects of the online game industry.

Although Fuzhou Tianmeng only contributed 4.8%, 3.2% and 3.7% of our revenue for the years ended 31 December 2011 and 2012 and the five months ended 31 May 2013, respectively, it holds all necessary licenses and permits for our Group to carry out our online game business in the PRC and is required to continue to maintain all applicable permits or approvals from different PRC regulatory authorities in order to provide its services. Failure to comply with such terms and conditions may subject Fuzhou Tianmeng to monetary penalties or restrict its ability to pass the annual inspection of the ICP license or to obtain their renewal upon the expiration of its current term. If Fuzhou Tianmeng fails to obtain or maintain any of the required permits or approvals, it may be subject to various penalties, including fines and the discontinuation or restriction of its operations. Any such disruption in our business operations would adversely affect our financial condition and results of operations.

### **We did not fully contribute to the mandatory social insurance in the PRC during the Track Record Period**

Pursuant to relevant PRC laws and regulations, we are required to contribute to social welfare schemes for all of our employees. Such schemes include social insurance contributions (including unemployment insurance, medical insurance, work-related insurance, pension insurance and maternity insurance). During the Track Record Period, we did not fully comply with the social insurance contributions requirements.

As advised by Jingtian & Gongcheng, our PRC legal advisers, if we fail to pay the full amount of social insurance as scheduled, the relevant authorities may order us to make the social insurance payment or make up the difference within a stipulated period and (i) in respect of any overdue social insurance incurred before 1 July 2011, if payment is not made within the stipulated period, levy a surcharge equal to 0.2% of the overdue social insurance for each day from the date on which the social insurance became overdue; and (ii) in respect of any overdue social insurance incurred on or after 1 July 2011, levy a surcharge equal to 0.05% of the overdue social insurance for each day from the date on which the social insurance became overdue, and if payment is not made within the stipulated period, the relevant administration department may impose a fine of one to three times the amount of overdue social insurance on us.

We made a provision for the underpayment of our social security insurance contributions in the amount of US\$0.7 million as at 31 May 2013, which was equivalent to the amount of underpayment for the past two years for all of our current employees as at 31 May 2013. We have fully settled the payment of outstanding social insurance contributions as at the date of this document, however, if we do not comply with the social insurance contribution requirements in the future, our business and reputation may be adversely affected. Please refer to “Business — Legal Proceedings and Non-compliance” for more details.

## **RISK FACTORS**

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### **Our landlord does not possess or has not provided us with the relevant building ownership certificate for a property we lease**

As at 31 May 2013, for the office leased by Fuzhou Tianmeng in Fuzhou, Fujian Province, China, which has a gross floor area of approximately 3,756.7 sq.m., the landlord has not obtained proper building ownership certificate. The gross floor area of the aforementioned leased property accounts for 83.8% of the total gross floor area of the buildings we occupy. None of our landlord had agreed to indemnify us for any potential liabilities we may incur as a result of any title defects regarding our leased properties.

Before our landlord obtain and/or provide the proper building ownership certificate, our rights to such property may not be entirely protected. Any dispute or claim related to the title of the building we lease may result in the requirement to relocate our office. We cannot assure you that our use and occupation of the building will not be challenged, and there is no assurance we will be able to secure alternative space for our business if we are required to relocate. If our landlord cannot obtain the relevant building ownership certificate in a timely manner and our legal right to use or occupy the building is challenged, we may incur additional relocation costs or our business operation may be disrupted, any of which will have a material and adverse effect on our business, financial condition and results of operations.

### **RISKS RELATING TO THE INDUSTRY IN WHICH WE OPERATE**

#### **Our business may not succeed in a highly competitive market**

Competition in the online game industry in the global market, including the PRC is becoming increasingly intense. There are already several online game companies, such as Zynga.com, Electronic Arts, Perfect World, NetDragon Websoft Inc., NetEase.com, Tencent Holding Limited and Changyou.com, which have successfully listed their shares on NASDAQ, or the Hong Kong [●]. These companies all have significantly greater financial resources than we do. Moreover, there are many venture-backed private companies focusing on online game development further intensifying the competition, particularly in the global market. Recently, many of our competitors have not only been aggressively recruiting talent to bolster their game development capabilities, but also increasing their spending on game marketing. Increased competition in the online game market may make it difficult for us to retain our existing employees, attract new employees, acquire new players and sustain our growth rate.

#### **The online game industry is subject to rapid technological changes which may render our games obsolete or unattractive to our players**

We are impacted by the emergence of new technologies and games. New technologies in online game development or operations could render the games that we design or plan to develop obsolete or unattractive to players, thereby limiting our ability to recover the development costs, which could potentially adversely affect our future profitability and growth prospects.

## **RISK FACTORS**

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### **We may be adversely affected by the global economic slowdown caused by the financial crisis and European debt crisis**

We rely on the spending of our game players for our revenue, which may in turn depend on the players’ level of disposable income, job security, perceived future earnings capabilities and willingness to spend.

The global economy experienced a slowdown since the financial crisis in 2008, and the slowdown was further exacerbated by European debt crisis in 2009. It is uncertain how long and to what extent global economic difficulties will continue and how much adverse impact it will have on the economies in markets where we operate our games, such as North America, Europe, and Asia. If our game players reduce their spending on playing games due to such uncertain economic conditions, our business, financial condition and results of operations may be adversely affected.

### **RISKS RELATING TO OUR CONTRACTUAL ARRANGEMENTS**

**There is no assurance that the contractual arrangements between Fuzhou Tianji and Fuzhou Tianmeng will be deemed to be in compliance with existing or future PRC laws and regulations, and if the relevant regulations or their interpretations change in the future, we could be forced to relinquish our interests in our PRC operation company.**

According to our PRC legal advisers, Jingtian & Gongcheng, each of the Structured Contracts between Fuzhou Tianji and Fuzhou Tianmeng is valid and binding to all parties thereto and does not violate any compulsory requirements of any PRC laws as promulgated by the National People’s Congress, administrative regulations or their respective articles of association. Accordingly, to the best of their knowledge, our Directors confirm that the Structured Contracts, as at the Latest Practicable Date, have not been terminated, rendered void, or in any way challenged by any relevant PRC regulatory authorities. However, there can be no assurance that these contractual arrangements will be deemed by the relevant governmental or judicial authorities to be in compliance with existing PRC laws and regulations or that the relevant governmental or judicial authorities will not in the future interpret the existing laws or regulations in such a way that the contractual arrangements would be deemed not to be in compliance of the PRC laws and regulations.

On December 11, 2001, the State Council promulgated Regulations for the Administration of Foreign-invested Telecommunications Enterprises (the “Telecom Regulations”), which were subsequently amended on September 10, 2008. Under the Telecom Regulations, foreign ownership of companies that provide value-added telecommunication services, which include the operation of website games and mobile games, is limited to 50%. In addition, a foreign investor who invests in a value-added telecommunications business in the PRC must possess prior experience in operating value-added telecommunications businesses and a proven track record of business operations overseas (“Qualification Requirement”). Currently, none of the applicable PRC laws, regulations or rules provides clear guidance or interpretation of the Qualification Requirement. Despite our extensive experience in the overseas online game industry, because of the lack of clear guidance or interpretation of the Qualification Requirement, we cannot assure you that our overseas business experience in the online game industry will satisfy the Qualification Requirements. In addition, each of the Structured Contracts provides that Fuzhou Tianji and Fuzhou Tianmeng shall terminate the Structured Contracts

## **RISK FACTORS**

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once Fuzhou Tianji is allowed to hold equity interests in Fuzhou Tianmeng under the PRC laws. As a result, if the restriction on foreign ownership in companies providing value-added communications services under the current PRC laws is revoked, we may be required to unwind the Contractual Arrangements before we are in a position to comply with the Qualification Requirement. If requirement to restructure our Contractual Arrangements causes us to lose the rights to direct the activities of Fuzhou Tianmeng or our right to receive its economic benefits, we would no longer be able to consolidate the financial results of Fuzhou Tianmeng in our financial statements.

In addition, except for the value-added telecommunications business operation license, foreigner and foreign-invested enterprises are currently not eligible to apply for other required licenses needed to engage in the online game business in the PRC. We are a limited liability company incorporated in the Cayman Islands and we conduct a portion of our operations in the PRC through Fuzhou Tianji, our indirectly wholly-owned subsidiary. We and Fuzhou Tianji are foreign or foreign-invested enterprises under PRC laws and accordingly are ineligible to apply for the relevant licenses to engage in the online game business. In order to comply with foreign ownership restrictions, a portion of our business in the PRC is operated through Fuzhou Tianmeng. Fuzhou Tianji has entered into the Structured Contracts with Fuzhou Tianmeng and its equity holders, Mr. Zongjian Cai and Mr. Yuan Chi. Details of the Structured Contracts are set out in the section headed “History and Corporate Structure — Structured Contracts” of this document. As a result of these contractual arrangements, our Group is able to govern the financial and operating policies of Fuzhou Tianmeng and to substantially obtain all economic benefits from the activities conducted by Fuzhou Tianmeng. Accordingly, the financial position and operating results of Fuzhou Tianmeng are included in our Group’s consolidated financial statements as if Fuzhou Tianmeng is our Group’s subsidiary. If Fuzhou Tianmeng fails to remain all applicable permits and approvals, our business and operation in the PRC would be materially and adversely affected.

In addition, the MIIT Notice issued in July 2006 requires that ICP license holders or their shareholders directly own the domain names and trademarks used by such ICP license holders in their daily operations. The MIIT Notice further requires each ICP license holder to have the necessary facilities for its approved business operations and to maintain such facilities in the regions covered by its license. In addition, all value-added telecommunication service providers are required to maintain network and information security in accordance with the standards set forth under relevant PRC regulations. The MIIT Notice prohibits ICP license holders from leasing, transferring or selling its telecommunications business operating license to any foreign investors in any form, or providing any resource, sites or facilities to any foreign investors for their illegal operation of telecommunications business in the PRC. The MIIT Notice has imposed a more stringent regulatory environment on foreign investment in value-added telecommunication business, which introduces an increased risk of the contractual arrangements being challenged by the relevant PRC regulatory authorities. Therefore, we and our PRC counsel, cannot rule out the possibility that the relevant PRC regulatory authorities may require that we unwind the contractual arrangements as a result of their increased attention on companies such as ours following the introduction of the MIIT Notice.

Furthermore, on 28 September 2009, the General Administration of Press and Publication, or the GAPP, together with the National Copyright Administration, and National Office of Combating Pornography and Illegal Publications jointly issued a Notice on Further Strengthening of the Administration of Pre-examination and Approval of Online Game and the Examination and Approval

## **RISK FACTORS**

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of Imported Online Game (the “GAPP Notice”). The GAPP Notice provides, among other things, that foreign investors are not permitted to invest in online game operating businesses in China via wholly-owned, equity joint venture or cooperative joint venture investments, and expressly prohibits foreign investors from gaining control over or participating in domestic online game operators through indirect ways such as establishing other joint venture companies, or contractual or technical arrangements. We are not aware of any online game companies adopting the same or similar contractual arrangements as ours entered before the issuance of the GAPP Notice having been penalized or ordered to be terminated since the GAPP Notice first became effective. As advised by our PRC counsel, there is uncertainty with respect to the implementation of the GAPP Notice, including possible subsequent joint actions by relevant authorities in charge, such as the MOC. In the event that we, our PRC subsidiaries or PRC consolidated affiliated entities are found to be in violation of the prohibition under GAPP Notice, the GAPP, in conjunction with the relevant regulatory authorities in charge, may impose penalties, which in the most serious cases may include suspension or revocation of relevant licenses and registrations.

There are substantial uncertainties regarding the interpretation and application of PRC laws and regulations. As reported in an article published on the New York Times on 2 June 2013 (“New York Times Article”), there has been one recent court decision involving a dispute on the validity of a contractual arrangement for obtaining control on certain foreign-restricted company(ies) established in the PRC through a trust and lending structure, and two arbitration decisions purportedly involving disputes on the validity of a contractual arrangement for obtaining control on certain foreign-restricted company(ies) established in the PRC through the use of variable interest entities. Pursuant to Article 52 of the Contract Law of the PRC (“PRC Contract Law”), a contract shall be void when, amongst others, it conceals an illegitimate purpose under the guise of legitimate acts (sub-clause 3) or violates the mandatory provisions of laws and administrative regulations (sub-clause 5).

By virtue of the aforesaid law, it was ruled in the reported court decision that the contractual arrangement involved in that case was intended to circumvent restrictions on foreign investment in the PRC, and hence was void. For the two arbitration decisions, our Directors and Jingtian & Gongcheng, our PRC legal advisers, are not in a position to ascertain the relevance of such decisions to the Structured Contracts as there is insufficient public available information relating to such arbitration decisions. Although the contractual arrangement involved in the reported court decision was a trust and lending contract, and hence fundamentally different from the Structured Contracts, it is still possible for PRC courts or arbitration bodies to rule that the Structured Contracts are intended to circumvent restrictions on foreign investment in the PRC and hence will be void under the PRC Contract Law. For further details about the Structured Contracts, please refer to the paragraph headed “Structured Contracts” in the section headed “History and Corporate Structure” of this document.

If the contractual arrangement between Fuzhou Tianji and Fuzhou Tianmeng and its equity holders is deemed to be in violation of any existing or future PRC laws or regulations, the relevant regulatory authorities would have broad discretion in dealing with such violations, including:

- imposing economic penalties and/or confiscating the proceeds generated from the operation under the contractual arrangements;
- discontinuing or restricting operations of Fuzhou Tianji and/or Fuzhou Tianmeng;

## **RISK FACTORS**

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- imposing conditions or requirements with which Fuzhou Tianji or Fuzhou Tianmeng may not be able to comply;
- requiring us to restructure the relevant ownership structure or operations;
- taking other regulatory or enforcement actions that could be harmful to our business; and
- revocation of business licenses and/or the licenses of Fuzhou Tianji and/or Fuzhou Tianmeng.

Any of these actions could have a material adverse effect on our business, financial condition and results of operations.

### **We depend upon contractual arrangements with Fuzhou Tianmeng in conducting our operations and receiving payments through Fuzhou Tianmeng, which may not be as effective in providing operational control as direct ownership**

We conduct a certain portion of our operations through the Structured Contracts between Fuzhou Tianji and Fuzhou Tianmeng. In each of the two years ended 31 December 2011 and 2012 and the five months ended 31 May 2013, we generated 4.8%, 3.2% and 3.7% of our revenue from Fuzhou Tianmeng, respectively. These contractual arrangements may not be as effective in providing us with control over Fuzhou Tianmeng as if it were a direct wholly-owned subsidiary.

These contractual arrangements are governed by PRC law and provide for the resolution of disputes through arbitration in the PRC. Accordingly, these contracts would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. If Fuzhou Tianmeng fails to perform its obligations under these contractual arrangements, we may have to rely on legal remedies under PRC law, including seeking specific performance or injunctive relief, and claiming damages, which we cannot guarantee would be effective. The legal environment in the PRC is not as developed as in certain other jurisdictions. As a result, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements. In addition, during the years ended 31 December 2011 and 2012, Fuzhou Tianmeng did not pay any technical service fee to Fuzhou Tianji and we cannot predict to what extent this lack of payment of technical service fees could affect a regulator’s view on the validity of the Structured Contracts.

### **We may lose our ability to use and enjoy assets held by Fuzhou Tianmeng that are important to our operations if Fuzhou Tianmeng declares bankruptcy or becomes subject to a dissolution or liquidation proceedings**

As at 31 May 2013, Fuzhou Tianmeng employed 208 employees, representing 36.7% of our Group’s total number of employees. In addition, as at 31 May 2013, Fuzhou Tianmeng held non-current assets, such as computers, servers and office equipment, in the amount of US\$0.6 million, representing 28.6% of our Group’s total non-current assets. In the event Fuzhou Tianmeng declares bankruptcy or becomes subject to liquidation proceedings in the PRC, we will be unable to utilise the



## **RISK FACTORS**

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staff employed by Fuzhou Tianmeng and the non-current assets held by Fuzhou Tianmeng in connection with our global operations, which will have a material and adverse effect on our business, financial condition and results of operations.

### **The pricing arrangement under the contractual arrangements among our members may be challenged by tax authorities**

We could face adverse tax consequences if the PRC tax authorities determine that the Structured Contracts and/or such other contractual arrangements between Fuzhou Tianji and Fuzhou Tianmeng were not entered into based on arm’s length negotiations. If the PRC tax authorities determine that the Structured Contracts between Fuzhou Tianji and Fuzhou Tianmeng were not entered into on an arm’s length basis, they may adjust our income and expenses for PRC tax purposes which could result in higher tax liability.

### **We may be subject to higher income tax rates and incur additional taxes as a result of the Structured Contracts, which may increase our tax expenses and decrease our net profit margin**

For the years ended 31 December 2011 and 2012, Fuzhou Tianmeng did not pay any technical service fee to Fuzhou Tianji. For the five months ended 31 May 2013, it paid US\$0.8 million of technical service fee to Fuzhou Tianji, which represented a portion of its net income. The technical services fee is subject to a value-added tax at a rate of 6%. Going forward, Fuzhou Tianji will require Fuzhou Tianmeng to transfer 100% of Fuzhou Tianmeng’s total revenue after deducting all related expenses, costs and taxes in accordance with the Structured Contracts through technical service fees on a quarterly basis, which will, accordingly, increase our tax expense. In addition, Fuzhou Tianmeng was certified as a Software Enterprise and was exempted from CIT for the first two years beginning from the first year in which it generates taxable profit and enjoy a 50% reduction for the next three years. In the year ended 31 December 2012, Fuzhou Tianmeng started to generate taxable profit and therefore, was exempted from CIT for the year ended 31 December 2012 and the year ending 31 December 2013. Currently, the applicable tax rate for Fuzhou Tianji is 25%. If Fuzhou Tianji is not able to apply for beneficial tax treatments with the relevant tax authorities and entitle to a lower tax rate than Fuzhou Tianmeng, our Group’s effective income tax rate will increase as Fuzhou Tianmeng’s preferential income tax rate does not benefit us if it transfers all of its net income to Fuzhou Tianji under the Structured Contracts, which will, accordingly, decrease our net profit margin.

### **We depend on dividends and other distributions on equity paid by our members and there may be restrictions on our dividend distributions**

Through the Structured Contracts between Fuzhou Tianji and Fuzhou Tianmeng, we generated 4.8%, 3.2% and 3.7%, respectively, of our revenue for the two years ended 31 December 2011 and 2012 and the five months ended 31 May 2013 from Fuzhou Tianmeng. These transactions must be conducted on an arm’s length basis under applicable PRC tax rules and regulations and are subject to review by the relevant PRC authorities. As a result, the determination of service fees and other payments, if any, to Fuzhou Tianji may be challenged and deemed not in compliance with these rules and regulations. The relevant PRC tax authorities may also adjust our taxable income of our subsidiary and thus lower our distributable profits. In any such event, our business, financial condition and results of operations may be adversely affected. In addition, PRC legal restrictions permit payments

## **RISK FACTORS**

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of dividends by PRC entities only out of their retained earnings, if any, determined in accordance with the PRC accounting standards and regulations. Under the PRC law, our PRC subsidiary is also required to set aside at least 10% of their net profit each year to fund the designated statutory reserve fund until such reserve fund reaches 50% of its registered capital. These reserves are not distributable as cash dividends. As a result of these and other restrictions under the PRC laws and regulations, our PRC subsidiary is restricted in their ability to transfer a portion of its net assets to our Company in the form of dividends, loans or advances.

### **We do not have any insurance coverage for the risks relating to the Structured Contracts**

Our Company’s operation depends on the validity, legality and enforceability of the Structured Contracts. The insurance industry in the PRC is still at an early stage of development and there are limited business insurance products available in the market, and to the best knowledge of our Directors, no insurance products specifically designed for protecting the risks relating to the Structured Contracts are available in the PRC market. Further, it is not compulsory for an online game developer and operator to maintain an insurance policy to cover risks relating to the Structured Contracts under the applicable PRC laws and regulations. Therefore, we have not yet taken out any insurance to cover risks relating to the Structured Contracts. If the Structured Contracts and/or contractual arrangements between Fuzhou Tianji and Fuzhou Tianmeng and its equity holder are adjudicated to be in violation of any existing or future PRC laws or regulations, or in the event that the relevant PRC regulatory authorities require that we unwind the contractual arrangements under the Structured Contracts, our business will be adversely affected.

### **A substantial amount of costs and time may be involved in transferring the ownership of Fuzhou Tianmeng from Mr. Zongjian Cai and Mr. Yuan Chi to us under the Call Option Agreement**

The Call Option Agreement provides Fuzhou Tianji or its designee (a) a right to acquire part or all of the equity interest in the registered capital of Fuzhou Tianmeng; and (b) a right to acquire all or part of the assets of Fuzhou Tianmeng from Mr. Zongjian Cai and Mr. Yuan Chi. Nevertheless, such rights can only be exercised by Fuzhou Tianji as and when permitted by the relevant PRC laws and regulations, in particular, when there are no limitation on (i) foreign ownership in PRC companies that provide value-added telecommunications, Internet content and Information services, and online games and (ii) the eligibility of foreign invested enterprises to apply for the required license for engaging in online game business in the PRC. In addition, a substantial amount of costs and time may be involved in transferring the ownership of Fuzhou Tianmeng from Mr. Zongjian Cai and Mr. Yuan Chi to us if we choose to exercise the exclusive right to acquire all or part of the equity interest and assets in Fuzhou Tianmeng under the Call Option Agreement, which may have a material adverse impact on our Group’s business, prospects and results of operation.

### **The shareholders Fuzhou Tianmeng may have potential conflicts of interest with our Company**

Mr. Zongjian Cai and Mr. Yuan Chi are shareholders of Fuzhou Tianmeng. Mr. Zongjian Cai is the executive director of Fuzhou Tianmeng and Mr. Yuan Chi is the supervisor of Fuzhou Tianmeng. PRC laws provides that director and supervisor owe a fiduciary duty to the company they serve. As director and supervisor of Fuzhou Tianmeng, Mr. Zongjian Cai and Mr. Yuan Chi must therefore act in good faith and in the best interests of Fuzhou Tianmeng. On the other hand, as Directors of our

## **RISK FACTORS**

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Company, Mr. Zongjian Cai and Mr. Yuan Chi have a duty of care to our Company and our Shareholders. As a result, conflict of interests may arise due to their dual roles as our Directors and the director, and the supervisor and shareholders of Fuzhou Tianmeng. For example, Mr. Zongjian Cai and Mr. Yuan Chi may breach or cause Fuzhou Tianmeng to breach or refuse to renew the existing Structured Contracts which allow our Group to effectively control Fuzhou Tianmeng and receive economic benefits from them. If we cannot resolve any conflicts of interest or disputes between us and Mr. Zongjian Cai and Mr. Yuan Chi, we would have to rely on legal proceedings to resolve these disputes and/or enforce our agreements under the Structured Contracts, which may be costly, time-consuming and disruptive to our operations.

### **RISKS RELATING TO OVERSEAS MARKETS AND THE PRC**

#### **Our operations are subject to various laws and regulations of various jurisdictions in which we operate**

Our operations are subject to various laws and regulations of various jurisdictions in which we operate, including but not limited to laws regarding consumer protection, intellectual property, export and national security, that are continuously evolving and developing, under various jurisdictions, including but not limited to Singapore, the United States, PRC, Hong Kong and the Philippines. The scope and interpretation of the laws that are or may be applicable to us are often uncertain and may be conflicting. It is also likely that as our business grows and evolves and our games are played in a greater number of countries, we will become subject to laws and regulations in additional jurisdictions.

We are potentially subject to a number of foreign and domestic laws and regulations that affect the offering of certain types of content, such as that which depicts violence, many of which are ambiguous, still evolving and could be interpreted in ways that could harm our business or expose us to liability. In addition, certain of our games, including Texas HoldEm Poker Deluxe, may become subject to gambling-related rules and regulations and expose us to civil and criminal penalties if we do not comply. It is difficult to predict how existing laws will be applied to our business and the new laws to which we may become subject. If we are not able to comply with these laws or regulations or if we become liable under these laws or regulations, we could be directly harmed, and we may be forced to implement new measures to reduce our exposure to this liability. This may require us to expend substantial resources or to modify our games, which would harm our business, financial condition and results of operations. In addition, the increased attention focused upon liability issues as a result of lawsuits and legislative proposals could harm our reputation or otherwise impact the growth of our business. Any costs incurred as a result of this potential liability could harm our business and operating results. Furthermore, the growth and development of electronic commerce and virtual goods may prompt calls for more stringent consumer protection laws that may impose additional burdens on companies such as ours conducting business through the Internet and mobile devices. Notwithstanding our efforts to comply with applicable laws and regulations, there is no assurance that we will at all times be in full compliance with all of the laws and regulations in the jurisdictions where we operate, and the requirements and regimes thereunder that apply to our operations. Any failure, or any claim that we have failed to comply with any of them, may attract

## **RISK FACTORS**

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significant monetary penalties and cause material disruption to our operations. In addition, any tightening of the regulatory framework to which our operations are subject could result in increased costs and liabilities. If any of these events occurs, our business, results of operations and financial position may be materially and adversely affected.

**The introduction of any new policies, laws and regulations, or changes to the existing policies, laws and regulations, in Singapore may have a negative effect on our business and operations in Singapore**

Singapore policies, laws and regulations govern our operations in Singapore. The Singapore economy continues to evolve and the Singapore government is likely to develop new policies, laws and regulations so as to meet the changing needs of the economy. Any changes in policies by the Singapore government may lead to changes in laws and regulations or interpretation thereof, as well as changes in import and export restrictions and taxation policies. Should the laws and regulations applicable to our business and operations in Singapore become more stringent in the future, they may restrict our ability to operate at the same level or require us to incur unanticipated liabilities or additional compliance costs, which may in turn have a negative effect on our business and operations in Singapore.

**The PRC’s political, economic and social conditions could affect our business, financial condition, results of operations and prospects.**

Political, economic and social conditions, laws, regulations and policies in China could affect our businesses and results of operations.

China’s economy differs from the economies of most developed countries in many respects, including but not limited to structure, level of government involvement, level of development, growth rate, control of foreign exchange, and allocation of resources.

China’s economy has been transitioning from a planned economy to a more market-oriented economy. For the past three decades, the PRC government has implemented economic reform measures to emphasize the utilization of market forces in economic development. We cannot predict whether changes in China’s political, economic and social conditions, as well as its laws, regulations and policies, will have any material adverse effect on our current or future business, financial condition and results of operations.

**It may be difficult to enforce judgments obtained from non-PRC courts against our Company or our Directors or senior executive officers residing in China**

Some of our Directors and senior management members reside in China. The legal framework in China is materially different in certain areas from that of other jurisdictions, including Hong Kong and the United States, particularly with respect to the protection of minority shareholders. While the PRC Company Law (中華人民共和國公司法) was amended in 2005 and took effect in 2006 to allow shareholders to commence actions against directors, supervisors, officers or any third party on behalf of a company under certain limited circumstances, the mechanism for enforcement of rights under the corporate governance framework in China is still relatively underdeveloped and untested.

## **RISK FACTORS**

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China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with countries such as Singapore, the United States, the Cayman Islands, and therefore, enforcement of court judgments from these jurisdiction in China may be difficult or impossible.

### **Gains on the sales of our Shares by foreign investors and dividends on our Shares payable to foreign investors may become subject to the PRC income taxes**

Under the EIT Law and its implementation rules, any gain realized by “non-resident enterprises” is subject to PRC income tax at the rate of up to 10% to the extent such gain is sourced within the PRC and (i) such “non-resident enterprise” has no establishment or premise in the PRC, or (ii) it has an establishment or premise in the PRC, but its income sourced within the PRC has no real connection with such establishment or premise, unless otherwise exempted or reduced by tax treaties. The EIT Law and its implementation have certain ambiguities with respect to the interpretation of the provisions relating to identification of PRC-sourced income. If we are recognised as a PRC resident enterprise under the EIT Law by the PRC tax authorities, our foreign Shareholders that are “non-resident enterprises” may become subject to PRC income tax at the rate of up to 10% under the EIT Law as to the capital gains realized from sales of our Shares by and dividends distributed to such foreign Shareholders as such income may be regarded as income from “sources within the PRC”, unless any such foreign Shareholder is qualified for a preferential income tax rate or tax exemption under a tax treaty or tax law, and we may be required to withhold such income tax on the dividends payable by us to such foreign Shareholders.

If the PRC tax authorities recognise us as a PRC resident enterprise under the EIT Law, Shareholders who are not PRC tax residents and seek to enjoy preferential tax rates under relevant tax treaties will need to apply to the PRC tax authorities for recognition of eligibility for such benefits in accordance with the Measures on Tax Conventions Treatments for Non-Residents (for Trial Implementation)\* (非居民享受稅收協定待遇管理辦法(試行)), issued by the State Administration of Taxation on 24 August 2009. It is likely that eligibility will be based on a substantive analysis of the Shareholder’s tax residency and economic substance. With respect to dividends, the beneficial ownership tests under the Notice on Interpretation and Recognition of “Beneficial Owner” under Tax Conventions\* (關於如何理解和認定稅收協定中“受益所有人”的通知) will also apply. If determined to be ineligible for treaty benefits, such a Shareholder would become subject to the PRC tax rates higher than the preferential tax rates under the relevant tax treaties on capital gains realized from sales of our Shares and on dividends on our Shares. In such circumstances, the value of such foreign Shareholders’ investment in our [●] may be materially and adversely affected.

### **Some transactions during our Corporate Reorganisation may be subject to income tax, which could adversely affect our business, financial condition and results of operation**

The Ministry of Finance and SAT jointly issued, on 30 April 2009, the Circular on Issues Concerning Process of Enterprise Income Tax in Enterprise Restructuring Business (Cai Shui [2009] No. 59) (《關於企業重組業務企業所得稅處理若干問題的通知》) (財稅[2009]59號), which became effective retrospectively in January 2008. In addition, the SAT issued the Notice on Strengthening the Administration of Enterprise Income Tax on Non-resident Enterprises’ Equity Transfer Income (Guo Shui Han [2009] No. 698) (《國家稅務總局關於加強非居民企業股權轉讓所得企業稅管理的通知》)

## **RISK FACTORS**

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(國稅函[2009]698號) on 10 December 2009, effective on 1 January 2008. Under the aforementioned circular, the transfer of equity interest in certain PRC subsidiaries directly or indirectly held by our offshore subsidiaries to our other offshore subsidiaries is subject to an income tax of 10% on capital gains which may be determined as the difference between the fair value of the equity interests transferred and cost of investment, and special tax treatment will be applicable if certain conditions are satisfied. For more details of the Corporate Reorganisation, please refer to “History and Corporate Structure — Corporate Reorganisation” of this document. In case we are required to pay the income tax on capital gains as a result of the Reorganisation, our tax liability may increase and our net profits and cash flow may be affected.

### **Failure to comply with PRC regulations in respect of the registration of our PRC citizen employees’ share options and restricted share units may subject such employees or us to fines and legal or administrative sanctions**

Pursuant to the Implementation Rules of the Administration Measure for Individual Foreign Exchange (個人外匯管理辦法實施細則), or the Individual Foreign Exchange Rules, issued on 5 January 2007 by SAFE and relevant guidance issued by SAFE in March 2007, and Circular of the State Administration of Foreign Exchange on Issues concerning the Administration of Foreign Exchange Used for Domestic Individuals’ Participation in Equity Incentive Plans of Companies Listed Overseas (國家外匯管理局關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知) issued by SAFE on 15 February 2012, PRC citizens who are granted shares or share options by an overseas listed company according to its employee share option or share incentive plan are required, through the PRC subsidiary of such overseas listed company or other qualified PRC agents, to register with SAFE and complete certain other procedures related to the share option or other share incentive plan. We and our PRC citizen employees who will be granted share options, or PRC option holders, will be subject to these rules upon the [●]. If we or our PRC option holders fail to comply with these rules in the future, we or our PRC option holders may be subject to fines and legal or administrative sanctions. Please also refer to the paragraph headed “Regulatory Overview — PRC Regulations — Regulations Relating to Employee Share Options” in this document.

## DIRECTORS AND [●]

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### DIRECTORS

Name	Address	Nationality
<i>Executive Directors</i>		
Mr. Zongjian Cai (蔡宗建)	Room 801, No. 3 Building, Hualinyujing Gulou District Fuzhou City, Fujian Province PRC	Chinese
Mr. Yuan Chi (池元)	9A Nanfu Building No. 66 Hubin Road Gulou District Fuzhou City, Fujian Province PRC	Chinese
<i>Non-executive Directors</i>		
Mr. Xiaojun Li (李驍軍)	30 Cedar Road Chestnut Hill MA 02467 U.S.	American
Mr. Kee Lock Chua (蔡其樂)	124 Tanjong Rhu Road #03-05 Singapore 436916	Singaporean
<i>Independent non-executive Directors</i>		
Dr. Horn Kee Leong (梁漢基)	1 Oriole Crescent Singapore 288595	Singaporean
Mr. Dajian Yu (余大堅)	2618 Dean Ct. Pinole CA 94564-2812 U.S.	American
Ms. Zhao Lu (陸釗)	Unit 10, 11 Floor Tower A3, Zuohaizhujia 60 Longyao Road Gulou District Fuzhou, Fujian Province PRC	Chinese

**CORPORATE INFORMATION**

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<b>Registered office</b>	Offshore Incorporations (Cayman) Limited Floor 4, Willow House, Cricket Square P.O. Box 2804, Grand Cayman, KY1-1112 Cayman Islands
<b>Headquarters and principal place of business in the Singapore</b>	No. 10 Jalan Kilang Sime Darby Enterprise Centre #07-03 Singapore 159410
<b>Principal place of business in Hong Kong</b>	Room 3907-08, 39/F Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong
<b>Principal place of business in the PRC</b>	19-21F, A#, Xinhuaqing Plaza 155 Hualin Road Fuzhou, Fujian Province PRC
<b>Company website</b>	<a href="http://www.igg.com">www.igg.com</a>



## **INDUSTRY OVERVIEW**

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### **SOURCES OF INFORMATION**

We commissioned Analysys Consulting to conduct an analysis of the online game industry in the global market and other relevant economic data and prepare the Analysys Report. We have agreed to pay a fee of approximately RMB240,000 for the Analysys Report, which we believe reflects market rates. Our Directors are of the view that the payment of the fee does not affect the fairness of the conclusions drawn in the Analysys Report. Analysys Consulting is an independent consulting firm based in Beijing, providing data, information, and advice to companies around the world in the industry of the Internet and information technology.

The Analysys Report includes both historical and forecast information relating to the online game industry in the global market, and other relevant economic data. Analysys Consulting relies on a variety of industry sources worldwide in determining its market data, including but not limited to, interviews with market participants, publicly released corporate information and the expertise of Analysys Consulting industry analysts.

The projections in the Analysys Report relating to the global online game market are based on the following general bases and assumptions:

- **Stable political environment.** The global political environment is comparatively stable and there is no adverse political policies around the world to restrict the development of online games.
- **Gradual economic recovery.** As the global economy recovers from the recent financial crisis, individual disposable income has increased as well as the amount spent on online games. In addition, because of globalization, the development of the online payment channels worldwide has provided support for the global publishing for online games.
- **No revolutionary technological innovation.** Although the rapid development of the Internet, mobile and 3D technologies have provided Global support for the development of online games, for purposes of the projections made in the Analysys Report, we assume there will not be any revolutionary technological advances in the next five years.

### **GROWTH OF THE GLOBAL ONLINE GAME INDUSTRY**

#### **Growth in the market size of the global online game industry**

According to Analysys Consulting, as game consoles and arcade games have declined in popularity worldwide, online games have become the main driver of growth in the global electronic game market. In 2012, revenue generated from the online game market rose 19.4% to US\$27,954 million. Analysys Consulting estimates revenue will further expand to US\$40,778 million in the year ending 31 December 2015. The development of the global online game market is primarily due to the following reasons:

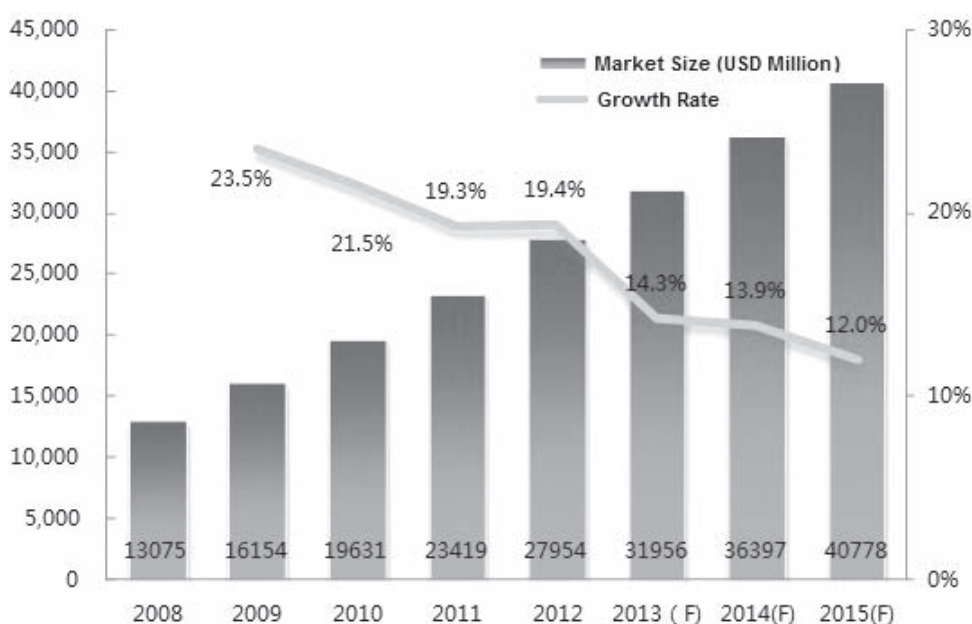
- online games are more accessible to game players, conforming to their routine habits;

## INDUSTRY OVERVIEW

- the supply of online games increased by a large margin; and
- the number of the online game providers increased due to the relatively low cost of development compared with arcade games and console games.

The following table sets forth the historical and projected revenue of the global online game industry.

**Market Size of the Global Online Game Industry**



Source: EnfoDesk © Analysys Consulting

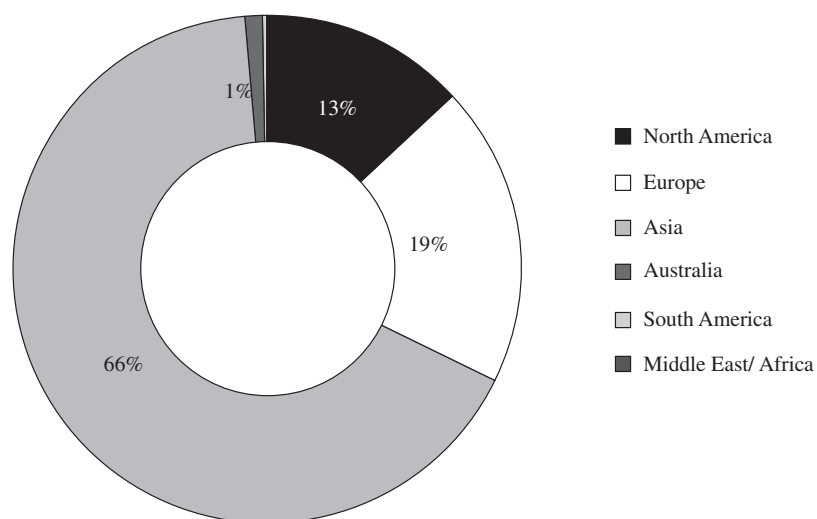
According to Analysys Consulting, Asia has become the largest online game market globally, accounting for 66% of total revenue worldwide. This is due partly to the fact that there are more online game players in Asia than in any other region of the world. Europe comprises the second largest market, accounting for 19% of the total global online game revenue, followed by North America with 13%. The following chart sets forth the breakdown of the total revenue of the global online game market by region for the year ended 31 December 2012.

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## INDUSTRY OVERVIEW

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### Revenue of the Global Online Game Market by Region in 2012



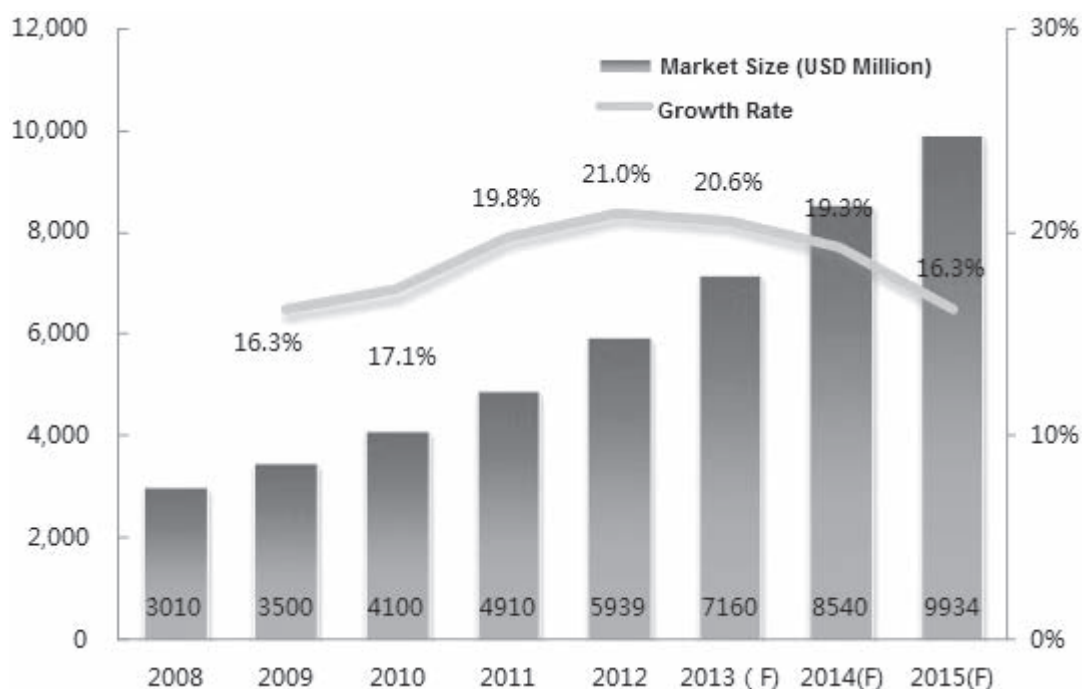
Source: EnfoDesk © Analysys Consulting

### Growth in the market size of the mobile game segment

According to Analysys Consulting, in 2012, the mobile games market segment of the online game industry expanded rapidly with a total market value of US\$5,939 million. This growth can be attributed to the development of smart mobile devices and operating systems. The market is expected to grow further as smart mobile devices become more sophisticated and as the number of mobile game players increases. The following chart sets forth the historical and projected market size of the global mobile game industry.

## INDUSTRY OVERVIEW

**Market Size of the Global Mobile Game Industry in 2012 and Future Trend Forecast**



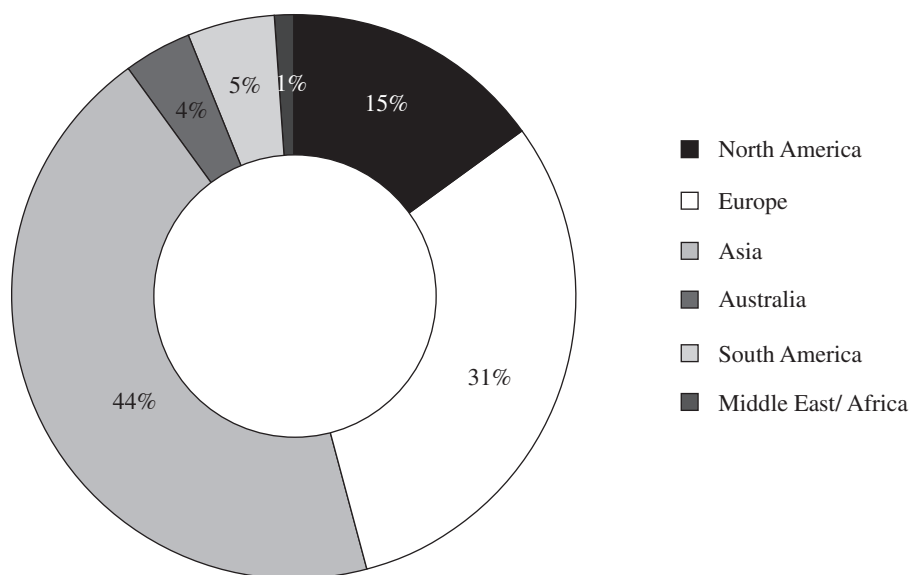
Source: EnfoDesk © Analysys Consulting

According to Analysys Consulting, Asia remains a dominant regional market globally, accounting for 44% of the total revenue of the global mobile game market. As at 31 December 2012, there were more smart mobile devices used by the population in Asia than any other region, and is expected to expand in the near future. Although Europe maintains a relatively small player base, the rate of paying users and ARPU (“Average Revenue Per User”) is relatively high. As a result, the European market ranks second in the world with 31% of the global mobile game industry. As a result of globalization and improvement of mobile game distribution systems, mobile game providers can distribute their products to players around the world. Therefore, certain mobile games were able to achieve tremendous international popularity such as Draw Something and Texas Hold’em Poker.

The advent of tablets and smart phones has greatly changed the global game market. The touch screen technology introduced a new element to game product design, facilitating the creation of novel game experiences and opportunities for profit. Because of this potential, game developers must now focus on developing family game console and PC games or developing new games for the more emerging mobile platforms. The following chart sets forth the revenue of the global mobile game market by region for the year ended 31 December 2012.

## INDUSTRY OVERVIEW

The Revenue of the Global Mobile Game Market by Region in 2012



Source: EnfoDesk © Analysys Consulting

### OVERVIEW OF THE MAJOR ONLINE GAME MARKETS

#### Asia market

According to Analysys Consulting, Asia has consistently been a major market for online games, boasting higher revenue for various online games than any other regional markets such as North America and Europe. The revenue of Asia’s online game market reached US\$17,139 million in 2012, and is expected to rise to US\$24,960 million by 2015. In Asia, browser games, client-based games and mobile games dominate the development of the game industry, underscoring the vitality and potential of the online game market in the region. Moreover, the relatively early commencement of online game development activities in Asia resulted in a higher degree of global recognition of its online game products due to the quality of the game design and the variety of game genres. More precisely, China, South Korea, Japan and Vietnam are among the leading countries in the global online game industry, all of whose products enjoy worldwide popularity.

Within Asia, China is the largest online game market. At the end of 2012, the revenue from China reached US\$7,296 million, illustrating the maturity of China’s online game market and the improvement of engagement and profitability.

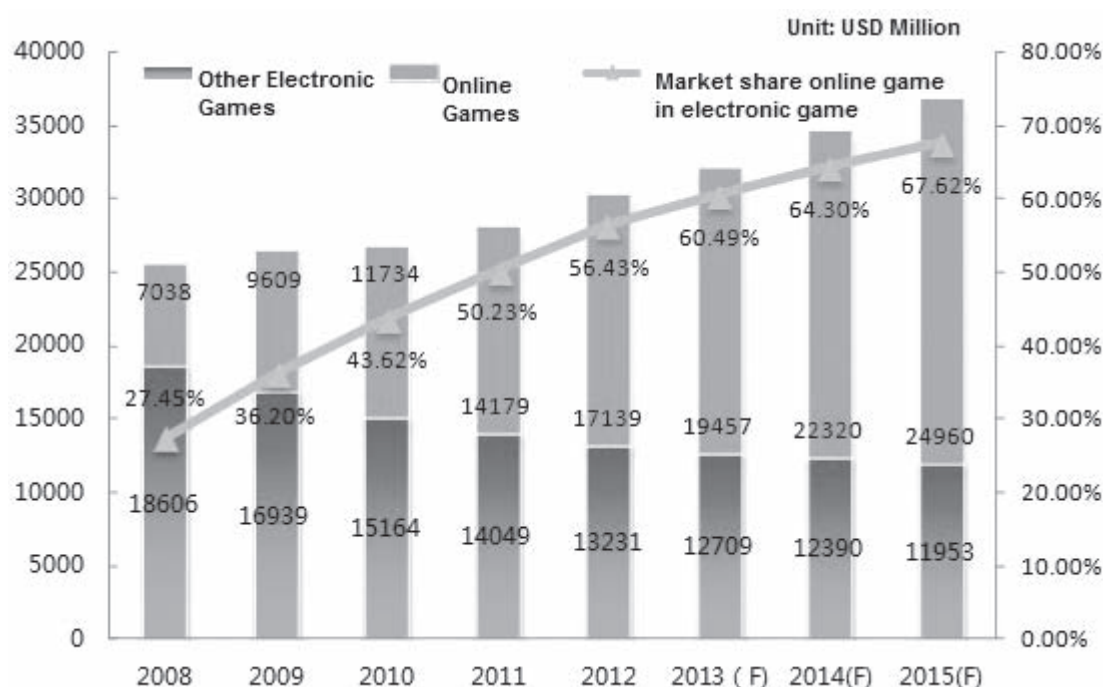
South Korea is another major producer of online games in Asia. The revenue from its online game industry reached US\$6,100 million in 2012 and is estimated to reach US\$9,600 million by 2014. In 2012, South Korea’s mobile game market grew rapidly with several world-renowned companies entering the global mobile game sector.

## INDUSTRY OVERVIEW

The demand for online games in Japan is considerable. 2012 marked the end of Japan’s five-year recession in terms of revenue from the online game market. Vietnam is the largest online game market in Southeast Asia. In 2012, its revenue reached US\$282 million.

The revenue from the Asian online game industry as a proportion of the revenue from the larger electronic game industry in which online game industry forms a part grew from 27.45% in 2008 to 56.43% in 2012. According to Analysys Consulting, the proportion is expected to reach 67.62% in 2015. The following table sets forth the historical and projected market size of the game industry in Asia and future trend forecast from 2008 to 2015.

**Market Size of the Asia Online Game Industry in 2012 and Future Trend Forecast**



Source: EnfoDesk © Analysys Consulting

### European market

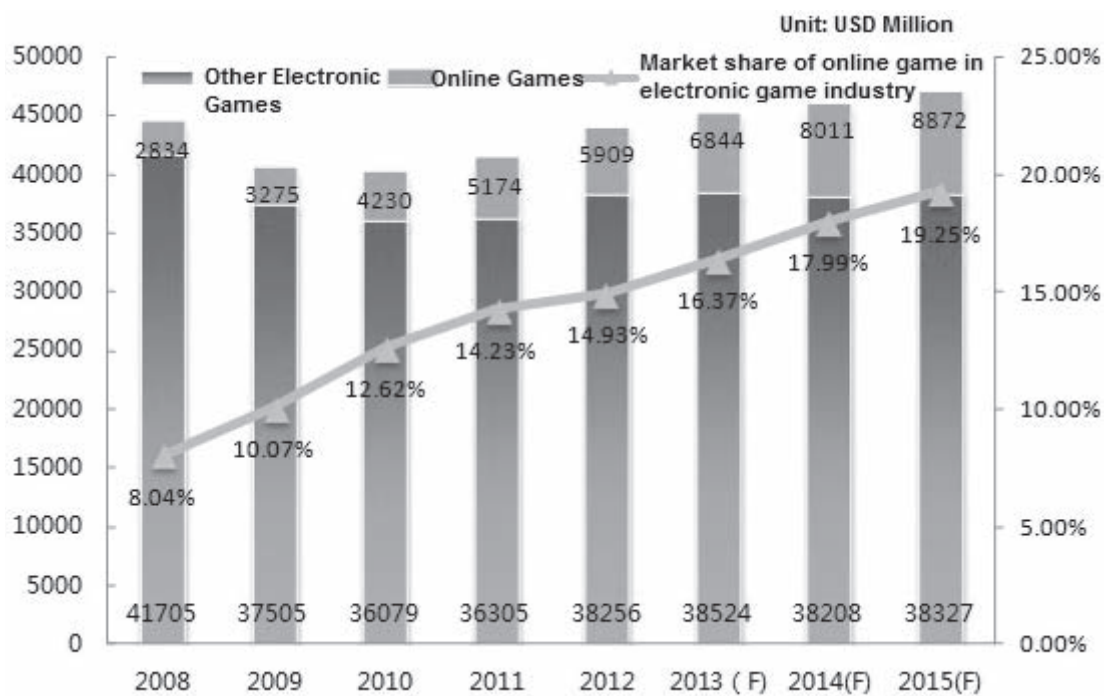
According to Analysys Consulting, in Europe, the revenue from the online game industry reached US\$5,909 million in 2012. The number of online games in the European game market rose at a faster pace than in North America. European game players rank first in the world in terms of the ability to pay for game products. To date, there are 35 million online game players in Europe, 48% of whom are paying users. European players’ acceptance of online games is relatively high, and approximately 57% of European online game players are also mobile game customers.

## INDUSTRY OVERVIEW

In Europe, Germany demonstrated the largest growth in terms of volume of online game players in 2012, with an increase of 37%, as well as in terms of industry revenue, which increased to US\$700 million. Turkey and Russia are also major markets for online games. Turkey showed great potential as a growing online game market in 2012, boasting 21.8 million total online game users and a paying user percentage of 49%. The online game market in Russia has also exhibited rapid growth. The revenue of Russia’s online game industry has increased to US\$50 million, of which client-based games constitute 65%.

The revenue from the European online game industry as a proportion of the revenue from the larger European electronic game industry grew from 8.04% in 2008 to 14.93% in 2012. Furthermore, the proportion is expected to reach 19.25% by the 2015, according to Analysys Consulting. The following chart sets forth the historical and projected revenue of the game industry in Europe from 2008 to 2015.

**Market Size of the European Online Game Industry in 2012  
and Future Trend Forecast**



Source: EnfoDesk © Analysys Consulting

### North American Market

According to Analysys Consulting, North America is unequivocally the world’s largest electronic game market in terms of its global market share. Historically, the family game console dominated the North American game market. However, as the global financial crisis limited the amount of per capita

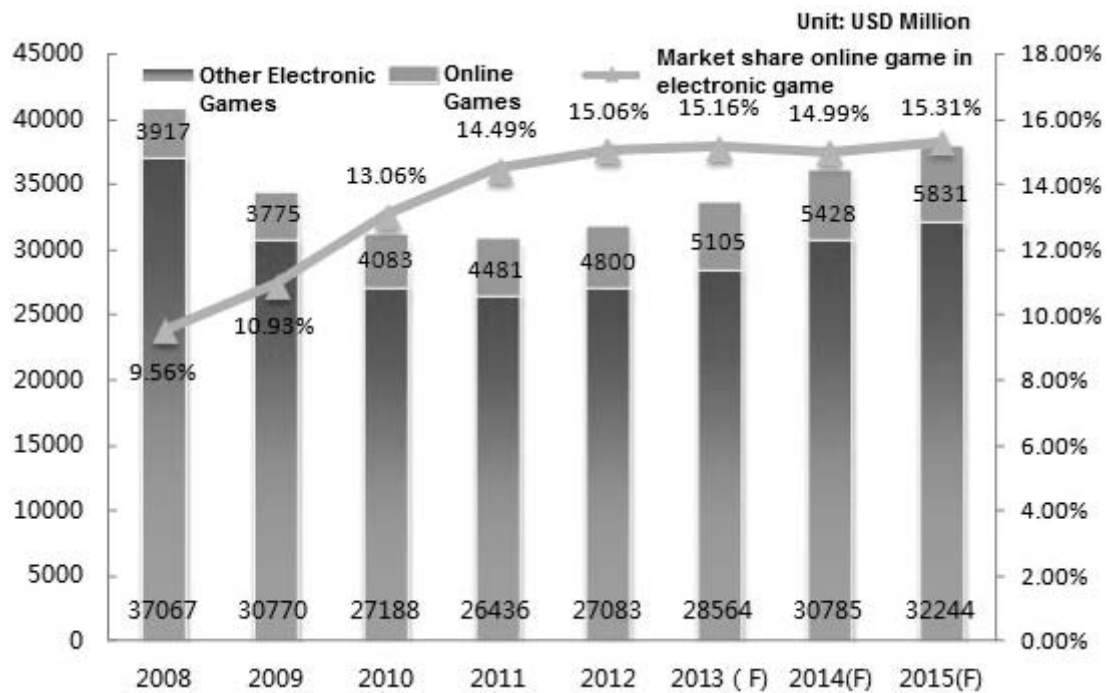
## INDUSTRY OVERVIEW

disposable income North Americans dedicated to entertainment and as new technology rendered the family game console obsolete, online games became more and more popular within the region. In 2012, the consumption volume of online games, including browser games, client-based games and mobile games, reached US\$4,800 million.

The United States is a major game market in North America, contributing nearly 90% of the region’s revenue. In 2012, American game players increased their total online gaming time by 26%. As a whole, American gamers dedicated 22% of their total gaming time to playing browser-based games, far surpassing the amount of time spent playing client-based games.

The revenue from the online game industry as a proportion of revenue from the larger North American electronic game industry increased from 9.56% in 2008 to 15.06% in 2012. According to Analysys Consulting, the proportion is expected to continue to increase slightly to 15.31% by 2015. The following chart sets forth the historical and projected market size of the game industry in North America from 2008 to 2015.

**Market Size of the North American Online Game Industry in 2012 and Future Trend Forecast**



Source: EnfoDesk © Analysys Consulting



## INDUSTRY OVERVIEW

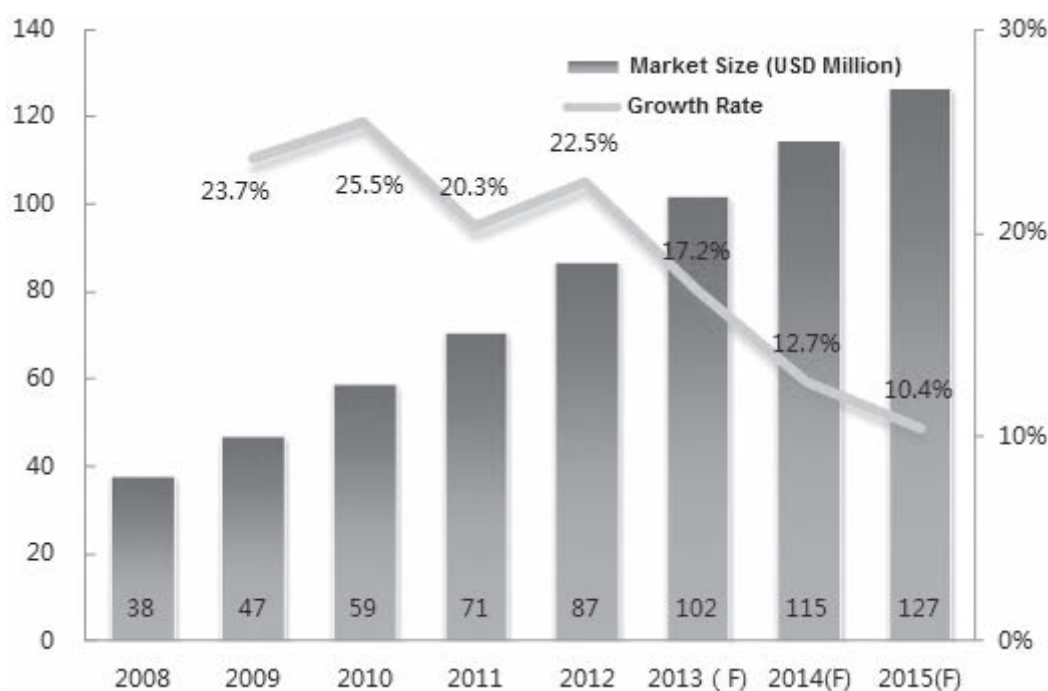
### COMPETITIVE LANDSCAPE

According to Analysys Consulting, the online game industry is comprised of three main segments: the browser games, client-based games and mobile games.

#### The Competitive landscape of the browser game segment

According to Analysys Consulting, the browser game segment has developed rapidly since 2008. The development of various social network platforms in recent years enhanced the visibility and accessibility of browser games, partly accounting for the significant expansion in the segment’s market size. In 2012, the revenue from the global browser game market reached US\$87 million, representing an increase of 22.5% from 2011. It is estimated that the market size could reach US\$127 million in 2015. The following table sets forth the historical and projected market size of the global browser game segment from 2008 to 2015.

**Market Size of the Global Browser Game Market in 2012 and Future Trend Forecast**



Source: EnfoDesk © Analysys Consulting

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## INDUSTRY OVERVIEW

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Major browser game providers include Tencent, 7 Road, Tianshenhudong.com, among others. The following table sets forth the top five browser games in the global market.

Game	Game provider	Major operating countries	Revenue <i>(USD million)</i>
Qixiongzhengba . . . . .	Tencent (China)	China and Korea	216
DanDanTang . . . . .	7 Road (China)	China, Singapore, Vietnam and US	132.3
Aojian. . . . .	Tianshenhudong.com (China)	China, Singapore and Malaysia	95.4
Shenxiandao . . . . .	Xingdong.com (China)	China and Thailand	94.1
Longjiang . . . . .	My9yu.com (China)	China and Singapore	61.9

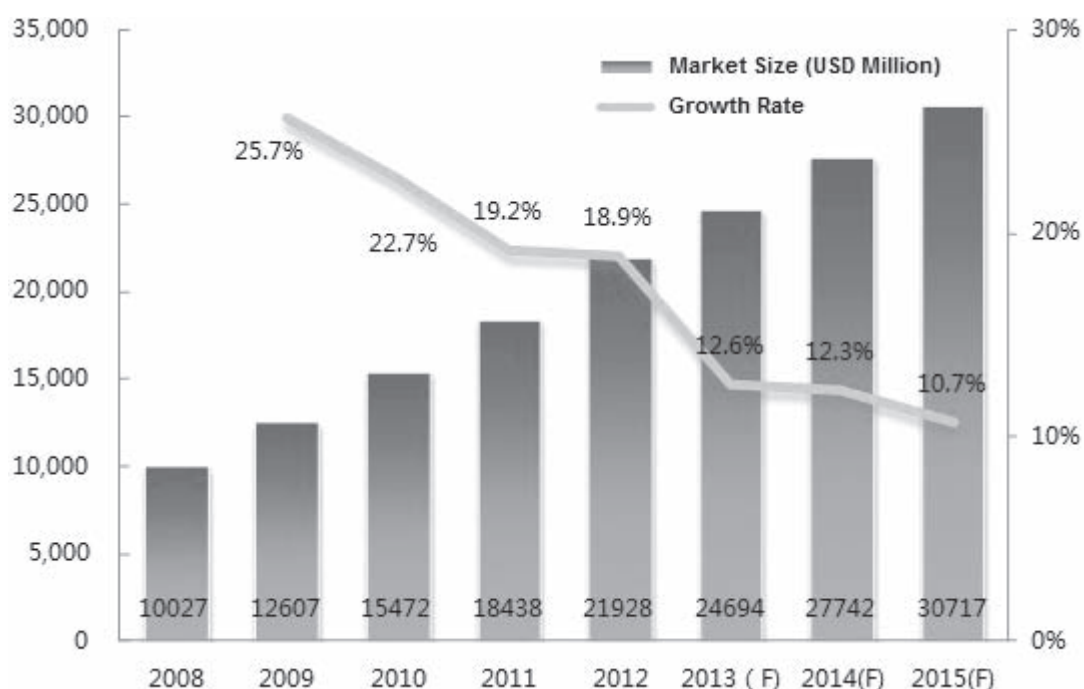
### **The competitive landscape of the client-based segment**

According to Analysys Consulting, the development of client-based games dates back to 1978. Currently, client-based games constitute the most profitable sector in the online game industry. The global market scale of client-based games reached US\$21,928 million in 2012, and is expected to hit US\$30,717 million in 2015.

According to the market breakdown prepared by Analysys Consulting, Asia generated more revenue from client-based games than any other regions in the world. Though the quality of its game products was generally inferior to that of the providers in Europe and the United States, Asia’s high revenue can be attributed to its large user base and extensive experience in cultivating client-based online games. In other words, players in Asia exhibited market-friendly consumption habits, thereby facilitating the fast development of the client-based market in the region. The following table sets forth the historical and projected market size of the global client-based game segment from 2008 to 2015.

## INDUSTRY OVERVIEW

**Market Size of the Global Client-based Game Market in 2012 and Future Trend Forecast**



Source: EnfoDesk © Analysys Consulting

Major client-based game providers include Blizzard Entertainment, Smile Gate, Perfect World, NetEase, NCSOFT, among others. The following table sets forth the top five client-based games in the global market in terms of revenue generated in 2012.

Game	Game provider	Major operating countries	Revenue (USD million)
World of Warcraft . . . . .	Blizzard Entertainment(US)	China, US and Korea	793.6
CrossFire . . . . .	Smile Gate (South Korea)	China	761.9
Fantasy Westward Journey . . . . .	NetEase (China)	China	305
Perfect World . . . . .	Perfect World (China)	China and Vietnam	256
LINEAGE II . . . . .	NCSOFT (South Korea)	Korea and Japan	210

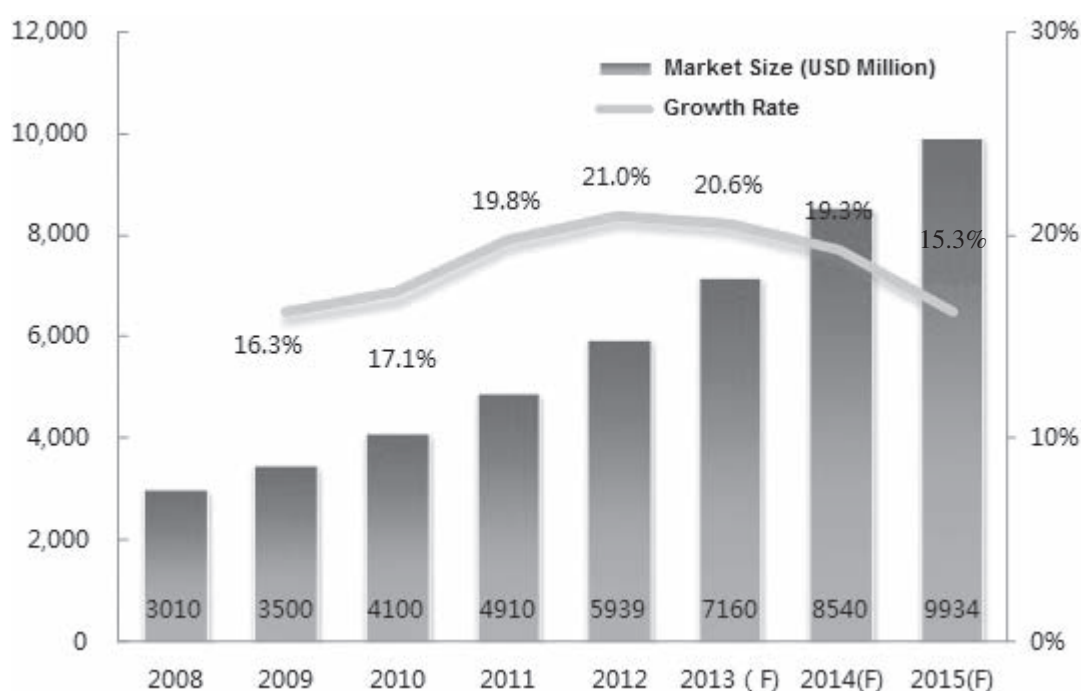
### The competitive landscape of the mobile game segment

In the past several years, as the popularity and accessibility of mobile Internet and smart devices fulfilled the hardware requirements for the development of mobile games and as providers’ increased

## INDUSTRY OVERVIEW

investments in mobile games expanded the range of products available to players, mobile game markets around the world grew with profitable points existing in many corners rather than concentrated in a certain region. The revenue from the global mobile game market reached US\$5,939 million for 2012, representing an increase of 21% compared to 2011. It is estimated that revenue will expand further to US\$9,934 million in 2015, according to Analysys Consulting. The following table sets forth the historical and projected market size of the global mobile game segment from 2008 to 2015.

**Market Size of the Global Mobile Game Market in 2012 and Future Trend Forecast**



Source: EnfoDesk © Analysys Consulting

Major mobile game providers include EA, Zynga, GREE, Gameloft, among others. The following table sets forth the top five online games in the global market.

<b>Game Provider</b>	<b>Registration Country</b>	<b>Major operating countries</b>	<b>Revenue (USD million)</b>
Electronic Arts Mobile . .	US	US, Japan and China	241
Zynga . . . . .	US	US and Japan	211
GREE . . . . .	Japan	China and Japan	135
Gameloft. . . . .	France	Western Europe and China	79
Storm8 . . . . .	US	US	55

## **INDUSTRY OVERVIEW**

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### **COMPETITIVE ADVANTAGES OF IGG**

According to Analysys Consulting, we have the following key competitive advantages, among others:

#### ***Integrated in-house development and publishing for streamline operation***

The successful integration of proprietary product development and online game publishing enhances the overall performance of an online game provider and underscores the maturity of our company. For instance, maintaining proprietary development capabilities provides flexibility in terms of upgrading and improving game products while the experience obtained in the operation of such proprietary developed products stimulates future development as well as facilitates better localization of products.

#### ***Optimization of human resources allocation***

Our development team is comprised of individuals of different nationalities and cultures. This diversity enables our team to address and solve cross-regional and cultural obstacles encountered in the process of developing and operating our products. Moreover, the strategic location of our regional office in China provides a competitive cost advantage in terms of human resource costs and development capacity.

#### ***Various marketing strategies to attract quality players to various game products***

We employ different marketing strategies for different types of games. We had in the past displayed advertisement in gaming portals such as online game forums, video sharing sites, to promote our client-based games. Additionally, we chose to cooperate with social network websites to market our browser games. We engaged these websites by providing social games that were more familiar to the European and American players. Our company demonstrated deep understanding of the online game advertising market, and comprehension of various promotion channels. As a result, we were able to achieve greater market share.

### **DIRECTORS' CONFIRMATION**

The Directors confirm, after taking reasonable care, that there is no adverse change in the market information since the date of the Analysys Report, which may qualify, contradict or have an impact on the information in this section.

## **REGULATORY OVERVIEW**

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### **PRC LAWS AND REGULATIONS**

The online game industry and mobile game industry are subject to a number of PRC laws and regulations relating to the telecommunications services, Internet information services, electronic and Internet publications, online games and cultural products, and information security and censorship, and is regulated by various PRC government authorities, including:

- the Ministry of Industry and Information Technology, or MIIT (formerly the Ministry of Information Industry, or MII);
- the General Administration of Press, Publication, Radio, Film and Television of the State, or the GAPP (formerly the General Administration of Press and Publication of the PRC and the State Administration of Radio, Film and Television);
- the Ministry of Culture, or MOC;
- the National Copyright Administration, or NCAC;
- the Ministry of Public Security;
- the State Administration for Industry and Commerce, or SAIC;
- the Ministry of Commerce, or MOFCOM (formerly the Ministry of Foreign Trade and Economic Cooperation, or MOFTEC);
- the State Council Information Office, or SCIO; and
- the State Administration of Foreign Exchange, or SAFE.

The PRC State Council and these PRC government authorities have issued a series of rules that regulate a number of different substantive areas of our business, which are discussed below.

### **Regulations on the Catalogue of Industries for Guiding Foreign Investment**

According to applicable PRC regulations on foreign-invested enterprises, capital contributions from a foreign holding company to its PRC subsidiaries, which are considered as foreign-invested enterprises (or foreign-funded enterprises), may only be made when the approval by the MOFCOM or its local counterpart is obtained. In approving such capital contributions, the MOFCOM or its local counterpart examines the business scope of each foreign-invested enterprise (or foreign-funded enterprise) to ensure that it complies with the Catalogue of Industries for Guiding Foreign Investment.

The Catalogue of Industries for Guiding Foreign Investment (外商投資產業指導目錄) promulgated on 30 November 2004 by the National Development and Reform Commission and the MOFCOM, was revised on 7 November 2007 and enforced on 1 December 2007 (the “2007 Industrial Guidance Catalogue”) and later revised on 24 December 2011 and enforced on 30 January 2012 (the “2011 Industrial Guidance Catalogue”), which classifies industries in China into three categories:

## **REGULATORY OVERVIEW**

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“encouraged foreign investment industries”, “restricted foreign investment industries” and “prohibited foreign investment industries”. Those industries which do not fall within any of these three categories are regarded as “permitted foreign investment industries”. According to the both the 2007 Industrial Guidance Catalogue and the 2011 Industrial Guidance Catalogue, the industries in which the PRC subsidiaries of the Company engage do not fall in any of the restricted foreign investment industries or prohibited foreign investment industries.

### **Regulations on Telecommunications Industry**

#### *Telecommunications Services*

On 25 September 2000, the State Council of the PRC, or the State Council, promulgated the Regulations on Telecommunications of the PRC (中華人民共和國電信條例) (the “Telecom Regulations”), which regulate the telecommunications industry and telecommunication-related activities in the PRC. Pursuant to the Telecom Regulations, telecommunications business operations in the PRC are regulated and administered by the MIIT or its provincial counterpart, depending upon the different categories of services and geographic region of operation. Telecommunications services are divided into two main categories: basic telecommunications services and value-added telecommunications services. Pursuant to the Catalogue for Classification of Telecommunications Services (電信業務分類目錄) effective as of 1 April 2003, information services business falls within the value-added telecommunications business category.

On 5 March 2009, MIIT issued the Measures on Administration of Telecommunications Business Operation Licensing (電信業務經營許可管理辦法) (the “Telecom Licensing Measures”), which became effective on 10 April 2009 and repealed previous measures issued in 2001. The Telecom Licensing Measures provides the conditions, documents required and procedures for application for the telecommunications business operation license and specify the requirements on usage of the license and the code of conduct that telecommunications services providers must comply with. According to the Telecom Licensing Measures, an applicant for value-added telecommunications business must meet the following requirements: (i) the operator shall be a legally established company; (ii) it shall have capital and professionals commensurate with its proposed business activities; (iii) it shall have the reputation for, or the capability in, providing long-term services to its subscribers; (iv) its registered capital shall be equal to or above RMB1,000,000 if it operates within a single province, autonomous region, or municipality in the PRC; its registered capital shall be equal to or above RMB10,000,000 if it operates nationwide or in multiple provinces, autonomous regions, or municipalities in the PRC; (v) it shall have sites, facilities, and plans on technology; (vi) the company, its major investors and members of the management team shall have no record of illegal conduct in violation of the system of administration of telecommunications within the preceding three years; (vii) other requirements under the PRC law. Pursuant to the Telecom Licensing Measures, telecommunications services providers are also required to file certain documents with the competent authorities in first quarter of each year and go through the annual inspection process in respect of their operations during the previous year.

## **REGULATORY OVERVIEW**

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### ***Foreign Investment Telecommunications Sector***

Foreign investment in telecommunications sector is governed by the Regulations on Administration of Foreign Invested Telecommunications Enterprises (外商投資電信企業管理規定) (the “FITE Regulations”), which were promulgated by the State Council on 11 December 2001 and amended on 10 September 2008. Pursuant to the FITE Regulations, a foreign investor must establish a Chinese-foreign equity joint venture with a Chinese partner to invest in telecommunications industry. A foreign-invested telecommunications enterprise, or FITE, is allowed to be engaged in basic telecommunications business and value-added telecommunications business. The foreign investor’s ultimate equity holding percentage in a value-added telecommunications business shall not exceed 50%. In addition, the FITE Regulations require a foreign investor to demonstrate a good track record and prior experience in providing value-added telecommunications services business before it can acquire any equity interest in a value-added telecommunications services business in the PRC.

On 13 July 2006, MIIT issued the Circular on Strengthening Administration of Foreign Invested Value-Added Telecommunications Business Operation (關於加強外商投資經營增資電信業務管理的通知) (the “MIIT Circular”). The MIIT Circular emphasizes that a foreign investor planning to invest in the value-added telecommunications sector in the PRC must set up an FITE and apply for the applicable telecommunications business operation license. A domestic value-added telecommunications services provider shall not lease, transfer or sell any telecommunications business operation license in any way to a foreign investor, or provide resources, sites, facilities or other conditions for a foreign investor to illegally operate a telecommunications business in the PRC.

### **Regulations on Online Games and Cultural Products**

On 17 February 2011, MOC issued the revised Interim Regulations on Administration of Internet Culture (互聯網文化管理暫行規定) (the “Internet Culture Regulations”) and effective as of 1 April 2011. According to the Internet Culture Regulations, the “Internet cultural products” are defined as including the online games specially produced for Internet and games reproduced or provided through Internet. Provision of Internet cultural products and related services is subject to the approval of MOC or its provincial counterpart. MOC issued the Circular on Implementation of the Newly Revised Interim Regulations on Administration of Internet Culture (關於實施新修訂《互聯網文化管理暫行規定》的通知) on 18 March 2011, which provides that temporarily the authorities will not accept applications by foreign-invested Internet content providers for operation of Internet culture business (other than online music business).

On 3 June 2010, MOC issued the Interim Measures on Administration of Online Games (網絡遊戲管理暫行辦法) (the “Online Game Measures”), which became effective from 1 August 2010. Pursuant to the Online Game Measures, a company intending to be engaged in operation of online games, including mobile games operated through wireless telecommunication networks, issuance of virtual currency and/or provision of virtual currency transaction services must have a registered capital of at least RMB10 million and obtain an Internet Culture Business License from the provincial counterpart of MOC.



## **REGULATORY OVERVIEW**

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The Online Game Measures place restrictions on the content of online games and MOC is responsible for conducting the content review. With respect to the online games developed in the PRC, the online game operators are required to complete filing procedures with MOC within thirty days after the online games are provided via Internet, and indicate the filing numbers at the designated places of their websites and in the games. Online game operators are also required to establish self-censorship systems and have dedicated personnel for the purpose to ensure the lawfulness of the content of online games.

The Online Game Measures require the online game operators to, based on the contents, functions and target users, formulate user guidance and warning information regarding the online games, and indicate such information at a conspicuous place of their websites and in the games. MOC has formulated the Essential Clauses of the Standard Agreement for Online Game Services (網絡遊戲服務格式化協議必備條款). Pursuant to the Online Game Measures, the service agreement entered into between an online game operator and a user must include all the essential clauses specified by MOC. Other clauses in the service agreement shall not contravene the essential clauses. Furthermore, the online game operators are required to take technical and managerial measures to ensure online information security, including preventing computer virus invasion, attack or damage, backing up important data and saving user registration information, operating information, maintenance logs and other information, and protect state secrets, trade secrets and users' personal information.

### **Regulations on Internet Publication**

On 27 June 2002, GAPP and MIIT jointly issued the Interim Regulations on Administration of Internet Publication (互聯網出版管理暫行規定) (the “Internet Publication Regulations”), which became effective from 1 August 2002. These regulations require business operations involving Internet publishing to be approved by GAPP prior to applying for the relevant approval from the MIIT. Under the Notice on Implementing the Provisions of the State Council on “Three Determinations” and the Relevant Explanations of the State Commission Office for Public Sector Reform and Further Strengthening the Administration of the Pre-approval of Online Games and Examination and Approval of Imported Online Games (關於貫徹落實國務院《“三定”規定》和中央編辦有關解釋，進一步加強網絡遊戲前置審批和進口網絡遊戲審批管理的通知) issued by GAPP and other government authorities on 28 September 2009, provision of online games via Internet is regarded as an Internet publishing activity and subject to the prior approval by GAPP. With such approval, the online game operator will be granted an Internet Publishing License specifically allowing online games operation. The notice prohibits any direct foreign investment in online games operation business. Furthermore, it prohibits foreign control or participation in domestic companies' online game operation business in an indirect way such as entering into relevant agreements or providing technical support, or in any other disguised manner.

### **Regulations on Software Products**

On 5 March 2009, MIIT issued the Measures on Administration of Software Products (軟件產品管理辦法) (the “Software Measures”), which took effect as of 10 April 2009 and replaced the previous measures concerning the same subject matter issued on 27 October 2000. The Software Measures regulate development, production, sales, import and export of software products in the PRC in a view

## **REGULATORY OVERVIEW**

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to promoting the development of China’s software industry. The Software Measures brought into place a registration and filing system for software products. Software products developed in China shall be registered with the provincial counterpart of MIIT and filed with MIIT, and be granted the Software Product Registration Certificates. According to the Circular on Purifying Online Games (關於淨化網絡遊戲工作的通知) jointly issued by MOC, MIIT, SAIC and other relevant government authorities on 9 June 2005, if an online game is not registered and filed under the Software Measures, it is not allowed to be operated in the PRC.

### **Regulations on Internet Security and Privacy**

On 28 December 2000, the Standing Committee of the National People’s Congress introduced legislation for protection of the Internet security. The legislation prohibits use of the Internet that violates the PRC laws and regulations or damages the public security. It also prohibits dissemination of illegal or socially destabilizing content or leakage of state secrets through the Internet, or infringement on trade secret or other legal rights and interests. According to the Regulations on Protection of Computer Information System Security (計算機信息系統安全保護條例) issued by the State Council and effective as of 18 February 1994, the public security authorities are responsible for supervising, inspecting and guiding the Internet security protection work of the information system users and investigate and penalize activities breaching the mandatory Internet security requirements.

On 11 December 1997, the State Council approved the Measures for Administration of Security Protection of Internet and Computer Information Network (計算機信息網絡國際聯網安全保護管理辦法), and the measures took effect on 30 December 1997. The measures require internet service providers to provide a monthly report of certain user information to the public security authority and assist the public security authority in investigating incidents involving breach of laws and regulations on the Internet security.

On 13 December 2005, the Ministry of Public Security issued the Regulations on Technological Measures for Internet Security Protection (互聯網安全保護技術措施規定) (the “Internet Protection Measures”), which took effect from 1 March 2006. The Internet Protection Measures require ICP operators to take proper measures including anti-virus, data back-up and other related measures, and keep records of certain information about its users (including user registration information, log-in and log-out time, IP address, content and time of posts by users) for at least 60 days, and detect illegal information, stop transmission of such information, and keep relevant records. Internet services providers are prohibited from unauthorized disclosure of users’ information to any third parties unless such disclosure is required by the laws and regulations. They are further required to establish management systems and take technological measures to safeguard the freedom and secrecy of the users’ correspondences.

Internet cafes are required to obtain a license from the MOC and the SAIC, and are subject to requirements and regulations with respect to location, size, number of computers, age limit of customers and business hours. The PRC government has promulgated several regulations administrating Internet cafes illustrating its intention of intensifying the regulation of Internet cafes, which are currently the primary venue for our players to play online games. The State Council issued the Notice on the Special Regulation against Internet Cafes and Other Internet Access Service Business (國務院辦公廳轉發文化部等部門關於開展網吧等互聯網上網服務經營場所專項整治意見的

## **REGULATORY OVERVIEW**

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通知) in February 2004 to overhaul Internet cafes and suspend the issuance of new Internet cafe licenses for a period. In November 2004, the SAIC issued the Circular for Further Strengthening the Special Regulation against Internet Cafes (關於進一步深化網吧專項整治工作的通知) further tightening the restrictions on the establishment of Internet cafes. In February 2007, fourteen PRC governmental agencies, including the MOC, MIIT and GAPP jointly promulgated the Circular for Further Strengthening the Administration of Internet Cafe and Online Games (關於進一步加強網吧及網絡遊戲管理工作的通知) (the “**Circular**”). According to the Circular, no new Internet cafe should be approved in 2007, and the regulation of existing Internet cafes should be strengthened.

During the Track Record Period and up to the Latest Practicable Date, we did not operate any Internet cafes.

### **Regulations on Virtual Currencies**

In February 2007, 14 governmental authorities, including the MOC, MIIT and GAPP, jointly promulgated the Circular for Further Strengthening the Administration of Internet Cafe and Online Games (關於進一步加強網吧及網絡遊戲管理工作的通知) (the “**Circular**”). According to the Circular, the administration of the PBOC on virtual currencies issued by online game operators for the players’ use in online games has been emphasized in order to avoid the potential impact of such virtual currencies on the live financial system. The volume of issuance and purchase of such virtual currencies shall be limited and such virtual currencies shall not be used for purchase of any physical products or refunded with a premium or otherwise illegally traded.

On 4 June 2009, the MOC and the MOFCOM jointly issued the Notice on Strengthening the Administration of Virtual Currencies for Internet Games (關於加強網絡遊戲虛擬貨幣管理工作的通知) (the “**Notice on Virtual Currencies**”). According to the Notice on Virtual Currencies, companies engaged in the issuance of virtual currencies for Internet games should follow the relevant rules and regulations, and should apply and receive the necessary approvals from the local counterparts of MOC.

During the Track Record Period and up to the Latest Practicable Date, we have received the approval from the Cultural Bureau of Fujian Province with respect to our issuance of virtual currencies for Internet games and have been in compliance with the relevant regulation on virtual currencies.

### **Regulations on Intellectual Property**

#### ***Copyright***

The Copyright Law of the PRC (中華人民共和國著作權法), adopted in 1991 and revised respectively in 2001 and 2010, protects copyright and explicitly covers computer software copyright. On 20 December 2001, the State Council promulgated the new Regulations on Computer Software Protection (計算機保護條例), effective from 1 January 2002, which are intended to protect the rights and interests of the computer software copyright holders and encourage the development of software industry and information economy. In the PRC, software developed by PRC citizens, legal person or other organizations is automatically protected immediately after its development, without an application or approval. Software copyright may be registered with the designated agency and if registered, the certificate of registration issued by the software registration agency will be the

## **REGULATORY OVERVIEW**

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preliminary evidence of the ownership of the copyright and other registered matters. On 20 February 2002, the NCAC introduced the Measures on Computer Software Copyright Registration (計算機軟件著作權登記辦法), which outline the operational procedures for registration of software copyright, as well as registration of software copyright license and transfer agreements. The Copyright Protection Center of China is mandated as the software registration agency under the regulations.

### ***Trademark***

The Trademark Law of the PRC (中華人民共和國商標法), adopted in 1982 and revised respectively in 1993 and 2001, protects registered trademarks. The China Trademark Office under the SAIC is responsible for trademark registrations. Upon the registration of a trademark, the register will have the right to exclusively use the trademark. Registered trademark license agreements are required to be filed with the China Trademark Office for record.

### ***Patent***

The National People’s Congress adopted the Patent Law of the PRC (中華人民共和國專利法) in 1984 and amended it in 1992, 2000 and 2008, respectively. A patentable invention, utility model or design must meet three conditions: novelty, inventiveness and practical applicability. Patents cannot be granted for scientific discoveries, rules and methods for intellectual activities, methods used to diagnose or treat diseases, animal and plant breeds or substances obtained by means of nuclear transformation. The Patent Office under the State Intellectual Property Office is responsible for receiving, examining and approving patent applications. A patent is valid for a twenty-year term for an invention and a ten-year term for a utility model or design, starting from the application date. Except under certain specific circumstances provided by law, any third party user must obtain consent or a proper license from the patent owner to use the patent, or else the use will constitute an infringement of the rights of the patent holder.

### ***Domain Name***

Internet domain name registration and related matters are primarily regulated by the Implementing Rules on Registration of Domain Names (域名註冊實施細則) issued by China Internet Network Information Center (the “CNNIC”), the domain name registrar of the PRC, which became effective on 29 May 2012, the Measures on Administration of Domain Names for the Chinese Internet (中國互聯網域名管理辦法), issued by MIIT on 5 November 2004 and effective as of 20 December 2004, and the Measures on Domain Name Disputes Resolution (域名爭議解決辦法) issued by CNNIC on 28 May 2012 and effective as of 28 June 2012. Domain name registrations are handled through domain name service agencies established under the relevant regulations, and the applicants become domain name holders upon successful registration.

### **Regulations on Foreign Currency Exchange**

The principal regulations governing foreign currency exchange in the PRC are the Regulations on Administration of Foreign Exchange (外匯管理條例) (the “Foreign Exchange Regulations”), promulgated by the State Council in 1996 and amended in 1997 and 2008. Under the Foreign Exchange Regulations, RMB is freely convertible for current account items, such as dividends distributions,

## **REGULATORY OVERVIEW**

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interest payments, and trade and service-related foreign exchange transactions, on a basis of true and lawful transactions; as for capital account items, such as direct investments, loans, repatriation of investments, and investments in securities outside the PRC, the prior approval of, or registration with, SAFE is required.

Pursuant to the Rules on Administration of Settlement, Sale and Payment of Foreign Exchange Provisions (結匯、售匯及付匯管理規定), issued by the PBOC on 20 June 1996 and effective from 1 July 1996, foreign-invested enterprises in the PRC may purchase foreign currency, subject to a cap approved by SAFE, to settle current account transactions, without the approval from SAFE. Foreign exchange transactions under capital account are still subject to limitations and require approvals from or registrations with SAFE.

### **SAFE Circular 75**

On 21 October 2005, SAFE issued the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents’ Financing and Roundtrip Investment through Offshore Special Purpose Vehicles (關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) (the “SAFE Circular 75”), which became effective as of 1 November 2005. Pursuant to the SAFE Circular 75, a PRC resident (whether a natural or legal person) is required to complete the initial registration with the local SAFE counterpart before incorporating or acquiring control of an offshore special purpose vehicle, or SPV, with assets or equity interests in an onshore company located in the PRC, for the purpose of offshore equity financing. The PRC resident is also required to amend the registration or make filings upon (i) injection of the assets or equity interests in an onshore company or undertaking of offshore financing, and (ii) a material change that may affect the capital structure of the SPV.

Under the SAFE Circular 75, the fulfillment of the initial and amended SAFE registrations as described above is a prerequisite for other regulatory approvals and registrations required for relevant cross-border investment activities and capital flows, such as the offshore entity’s inbound investment or provision of shareholder’s loans to the onshore entity and the onshore entity’s payment of dividends or repatriation of liquidation proceeds, equity interests disposal proceeds or capital reduction to the offshore entity.

### **Regulations on Labor and Social Security**

On 29 June 2007, the PRC government promulgated the PRC Labor Contract Law (中華人民共和國勞動合同法), which became effective on 1 January 2008. Pursuant to the PRC Labor Contract Law and the PRC Labor Law, which became effective on 1 January 1995, (i) employers must execute written labor contracts with full-time employees, (ii) employers are prohibited from forcing employees to work overtime unless they pay overtime payment to the employees and the hours worked beyond the standard working hours are within the statutory limits, (iii) employers are required to pay salaries to employees on time and the salaries paid to employees shall not be lower than the local minimum salary standard, and (iv) employers shall establish its work safety and sanitation system, and

## **REGULATORY OVERVIEW**

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provide employees with workplace safety training. In addition, in accordance with the relevant laws and regulations on social security, employers in the PRC are required to make contributions to various social insurances (including medical, pension, unemployment, work-related injury and maternity insurance) and the housing fund on behalf its employees.

Pursuant to the Social Insurance Law of the PRC (中華人民共和國社會保險法) (the “New Social Insurance Law”) promulgated on 28 November 2010 by the NPCSC and implemented on 1 July 2011, the Interim Regulations Concerning the Collection and Payment of Social Insurance Premiums (社會保險費征繳暫行條例) promulgated and implemented on 22 January 1999 by the State Council, the Interim Measures Concerning the Maternity Insurance of Employees of an enterprise (企業職工生育保險試行辦法) promulgated on 14 December 1994 and implemented on 1 January 1995 by former Ministry of Labor, the Regulation on the Administration of Housing Provident Fund (住房公積金管理條例) promulgated and implemented on 3 April 1999 and amended on 24 March 2002 by the State Council, the Regulation on Occupational Injury Insurances (工傷保險條例) promulgated on 27 April 2003 by the State Council and implemented on 1 January 2004 and amended on 20 December 2010 by the State Council, and regulations on pension insurance, medical insurance and unemployment insurance in the provincial and municipal level, the employer shall pay pension insurance fund, basic medical insurance fund, unemployment insurance fund, occupational injury insurance fund, maternity insurance fund and housing fund for the employees. After the New Social Insurance Law became effective, where an employer fails to pay social insurance premiums on time or in full amount, it will be ordered by the collection agency of social insurance premiums to pay or make up the deficit of premiums within a prescribed time limit, and a daily late fee at the rate of 0.05% of the outstanding amount from the due date will be imposed; and if it still fails to pay the premiums within the prescribed time limit, a fine of 1 to 3 times the outstanding amount might be imposed by the relevant administrative department.

### **Regulations on Taxation**

#### ***Enterprise Income Tax***

The Enterprise Income Tax Law of PRC (中華人民共和國企業所得稅法), promulgated by the National People’s Congress (the “NPC”) on 16 March 2007 and effective as of 1 January 2008, and the Regulations to the Enterprise Income Tax Law of PRC (中華人民共和國企業所得稅法實施條例), promulgated by the State Council on 28 November 2007 and effective as of 1 January 2008, provides that the enterprise income tax (“EIT”) rate applicable to all enterprises, resident or non-resident, shall be 25% generally except for individual-invested single-proprietorship and partnership established under PRC laws and regulations. Resident enterprises, including but not limited to companies, institutes, associations, and other entities established under PRC laws and regulations, should pay EIT in connection with their income from PRC and abroad; non-resident enterprises with branch(es) within PRC, including but not limited to companies and other entities established under laws of foreign countries/regions, should pay EIT in connection with any income of such branch(es) from PRC, or out of PRC but of substantial connection with such branch(es); non-resident enterprises without any branch in PRC should pay EIT in connection with their income from PRC, at the tax rate of 10%.

## **REGULATORY OVERVIEW**

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### ***Business Tax***

According to the prevailing Business Tax (the “BT”) regulation effective 1 January 2009, any unit or individual providing services as prescribed in the rules, transferring intangible assets or selling immovable properties within the territory of the PRC will be subject to BT on the income derived from BT taxable activities. BT rate on transfer of intangible assets and sales of immovable property is 5%, while those on taxable services range from 3% to 20%, depending on the nature of the industry of the services.

Fuzhou Tianmeng was recognised as a software enterprise and was granted with the Software Enterprise Certificate on 23 September 2008 by Fujian Provincial Bureau of Information Industry (福建省信息化局). Pursuant to the Several Policies on Encouraging the Development of the Software Industry and the Integrated Circuit Industry (關於鼓勵軟件產業和集成電路產業發展的若干政策) promulgated by the State Council on 24 June 2000 and effective as of 1 July 2000 and the Circular of the State Council on Printing and Distributing Policies for Further Encouraging the Development of the Software Industry and the Integrated Circuit Industry (國務院關於印發進一步鼓勵軟件產業和集成電路產業若干政策的通知) promulgated by the State Council on 28 January 2011. Fuzhou Tianmeng can enjoy tax benefits of being exempt from taxation for two years starting from the first year of its being profitable and a 50% reduction in taxation for three succeeding years. It was exempted from paying the enterprise income tax between 2012 and 2013 and has been entitled to pay 50% of the enterprise income tax from 2014 to 2016.

## **SINGAPORE LAWS AND REGULATIONS**

### **Video Game Development**

The authority that regulates the online gaming industry in Singapore is the Media Development Authority of Singapore (the “MDA”). As at the Latest Practicable Date, the MDA has not enacted any specific laws to regulate this industry.

### **Gambling Laws**

As at the Latest Practicable Date, there are no specific laws enacted to regulate online gambling and online gaming in Singapore. However, there are certain gambling-related statutes, a summary of which is provided below.

#### *Common Gaming Houses Act*

The Common Gaming Houses Act (Cap. 49) makes it an offence for any person to own, occupy, manage or permit a place which he is the owner or occupier of to be used as a common gaming house. Common gaming houses include (i) places that are used for gambling that the public may have access to and (ii) places kept or used for habitual gambling or used for the purpose of public lottery whether or not the public has access to such place. It is also an offence under the Common Gaming Houses Act to game in a common gaming house or in public. There are, however, no specific definitions in the Common Gaming Houses Act which pertain to online gambling or online gaming.

## **REGULATORY OVERVIEW**

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### *Betting Act*

It is an offence under the Betting Act (Cap. 21) to own, occupy, manage, permit a place which he is the owner or occupier of to be used as a common betting-house or betting information centre. The Betting Act also makes betting or wagering in a common betting-house or with a bookmaker in any place an offence. Betting information centres are used for receiving or transmitting by telephone information relating to horse-race or other sporting events for the purposes of betting or wagering, whilst common betting-houses include places used for (i) betting or wagering on events relating to horse-race or any sporting event to which the public has access to, (ii) places used for habitual betting or wagering for the aforesaid purposes, whether or not the public has access and (iii) places used by bookmakers to receive or negotiate bets or wagers for the aforesaid purposes. There are no specific definitions in the Betting Act pertaining to online gambling and online gaming.

### **Intellectual Property Laws**

#### *Copyright*

Copyrights in Singapore are governed by the Singapore Copyright Act (Cap. 63). In Singapore, a copyright exists immediately upon its creation. There is no system of registration of copyrights in Singapore and there are no formal steps required to be taken in order for a copyright to exist. The general position is that the person who created the work in question is the owner of the copyright and, in the case of a work created in the course of employment, the copyright would belong to the employer.

#### *Trademark*

The formal system for trade mark registration in Singapore is governed by the Singapore Trade Marks Act (Cap. 332). For registration under the Trade Marks Act, the trade mark in question has to be registered with the Singapore Registry of Trade Marks. Upon registration, the registrant will have exclusive rights to use the trademark in Singapore and this lasts for 10 years and can be renewed for additional 10-year periods.

#### *Patents*

Patents in Singapore are governed by the Singapore Patents Act (Cap. 221). Patent registration in Singapore can be either by way of a application filed in Singapore with the Intellectual Property Office of Singapore or an international application filed in accordance with the Patent Cooperation Treaty. A patent may be granted, provided the invention in question is (i) new, (ii) involves an inventive step, (iii) is capable of industrial application and (iv) the publication or exploitation of the invention would not generally be expected to encourage offensive, immoral or anti-social behavior. If a patent is granted, the patent has a duration of 20 years although it will be necessary for the patent owner to renew the patent before the expiry of the 4th year and for every year after.



## **REGULATORY OVERVIEW**

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### **Employment of Foreign Manpower Act of Singapore (“EFMA”) (Chapter 91A)**

The availability and the employment cost of skilled and unskilled foreign workers are affected by the government’s policies and regulations on the immigration and employment of foreign workers in Singapore. The policies and regulations are set out in, inter alia, the EFMA and the relevant Government Gazettes.

Under the work permit conditions, employers are required to provide acceptable accommodation for their foreign workers. Such accommodation must meet the statutory requirements set by various government agencies, including the National Environment Agency, the Public Utilities Board, the Singapore Civil Defence Force and the Building and Construction Authority (“BCA”).

An employer of foreign workers is also subject to, inter alia, the provisions as set out in the Employment Act, Chapter 91 of Singapore, the Immigration Act, Chapter 133 of Singapore (“Immigration Act”) and the regulations issued pursuant to the Immigration Act.

Since 1 January 2008, employers have been required to purchase and maintain insurance for the medical expenses of their work permit holders during their stay in Singapore. The requirement for employers to purchase and maintain insurance is included as a condition of the work permit.

### **Singapore Taxation**

The following is a discussion of certain tax matters arising under the current tax laws in Singapore and is not intended to be and does not constitute legal or tax advice. While this discussion is considered to be a correct interpretation of existing laws in force, no assurance can be given that courts or fiscal authorities responsible for the administration of such laws will agree with this interpretation or that changes in such laws will not occur. The discussion is limited to a general description of certain tax consequences in Singapore with respect to ownership of our Shares by Singapore investors, and does not purport to be a comprehensive nor exhaustive description of all of the tax considerations that may be relevant to a decision to purchase our Shares. Prospective investors should consult their tax advisors regarding Singapore tax and other tax consequences of owning and disposing our Shares. It is emphasised that neither our Company, our Directors nor any other persons involved in the Invitation accepts responsibility for any tax effects or liabilities resulting from the subscription for, purchase, holding or disposal of our Shares.

### **Singapore Income Tax**

#### *Corporate income tax*

Singapore resident and non-resident corporate taxpayers are subject to Singapore income tax on:

- (i) income accruing in or derived from Singapore; and
- (ii) foreign-sourced income received or deemed received in Singapore, unless otherwise exempted.

## **REGULATORY OVERVIEW**

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Foreign-sourced income in the form of branch profits, dividends and service income received or deemed received in Singapore by a Singapore tax resident corporate taxpayer are exempted from Singapore income tax if certain prescribed conditions are met.

A company is regarded as a tax resident in Singapore if the control and management of its business is exercised in Singapore.

The first S\$300,000 of chargeable income is exempt from tax as follows:

- (i) 75% of up to the first S\$10,000 of chargeable income; and
- (ii) 50% of up to the next S\$290,000 of chargeable income.

The remaining chargeable income (after deducting the applicable tax exemption of the first S\$300,000 of chargeable income) will be taxed at the prevailing corporate tax rate, currently 17%.

### *Dividend Distributions*

Singapore currently adopts the One-Tier Corporate Taxation System (“**One-Tier System**”). Under the One-Tier System, the tax paid by a Singapore tax resident company is a final tax and its after-tax profits can be distributed to shareholders as Tax Exempt (One-Tier) dividends.

Dividends paid by our Company will be exempt from Singapore income tax in the hands of Shareholders, regardless of the tax residence status or the legal form of the Shareholders. However, foreign Shareholders are advised to consult their own tax advisors to take into account the tax laws of their respective countries of residence and the existence of any double taxation agreement which their country of residence may have with Singapore.

## **US LAWS AND REGULATIONS**

### **Gambling Laws**

Gambling activities in the United States is subject to the concurrent jurisdiction of both Federal government and the state government where a participant is physically located. Both the Federal and state governments have laws governing gambling. With the notable exception of the Federal Wire Act, which only applies to sports wagering, rather than preempting state gambling laws, Federal laws that govern gambling crimes were designed to aid individual states in the enforcement of state gambling laws. Each of the Federal gambling laws—the Travel Act, the Illegal Gambling Business Act, and the Unlawful Internet Gambling Enforcement Act—require *violating a state law* as a predicate to violating Federal law.

## **REGULATORY OVERVIEW**

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### *The Wire Act*

The Wire Act prohibits the knowing use of a wire communication facility to transmit in interstate or foreign commerce bets or wagers, information assisting in placing bets or wagers or any information that entitles the recipient to money or credit resulting from such a wager, on any sporting event or contest. A recent opinion from the Department of Justice’s Office of Legal Counsel analyzed the scope of the Wire Act and concluded it is limited only to sports betting and does not apply to any interstate wagering not involving sports. Casinos games, including poker, are not sporting events and not subject to the Wire Act.

### *The Travel Act*

The Travel Act prohibits any person from using any facility in interstate or foreign commerce intending to promote, manage, establish, carry on or facilitate unlawful activity. Unlawful activity is defined as “any business enterprise involving gambling *in violation of state or federal laws.*” As no Federal law directly prohibits casino games, prosecution of an offender could not be based on a violation of a Federal law. A prosecution under the Travel Act therefore must be based on a predicate violation of state law.

### *The Illegal Gambling Business Act*

The Illegal Gambling Business Act prohibits any person from financing, owning or operating an illegal gambling business. An illegal gambling business is defined as an operation *that violates state law*, involves five or more persons, and either is in substantially continuous operation for over 30 days or has a gross revenue of more than \$2,000 in any single day. Therefore, like the Travel Act, violating the Illegal Gambling Business Act can only occur if the activity violates a state law. If no predicate violation of state law exists, then there is no violation of the Illegal Gambling Business Act.

### *The Unlawful Internet Gambling Enforcement Act of 2006*

The Unlawful Internet Gambling Enforcement Act of 2006 (“UIGEA”) provides that no person engaged in the business of betting or wagering may knowingly accept most payments including credit, the proceeds of credit, credit card payments, electronic fund transfers or the proceeds from EFTs, checks, drafts or similar instruments, or the proceeds from any other financial transaction from a player for unlawful Internet gambling. Unlawful Internet gambling is defined as “to place, receive, or otherwise knowingly transmit a bet or wager by any means which involves the use, at least in part, of the Internet *where such bet or wager is unlawful under any applicable Federal or State law* in the state in which the bet or wager is initiated, received, or otherwise made.” Again, as no Federal law directly prohibits casual, casino games that do not include the element of prize, there are no existing Federal statutes that prosecution of an offender could be based on. A prosecution under the UIGEA therefore must be based on violating state law.

Federal gambling law thus does not prohibit all gambling transactions. With the possible exception of the Wire Act, which has been opined to only apply to sporting events and is not applicable to casino games, including poker, Federal gambling laws merely prohibit transactions in violation of a state law in which they occur.

## **REGULATORY OVERVIEW**

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States have commonality in the general approach to gambling. Prohibited gambling offenses generally involve activities in which each of the following elements are present: (1) the award of a prize, (2) determined on the basis of chance, (3) where consideration was paid. If any of the three elements of gambling—consideration, prize or chance—is removed, the activity is generally lawful. Accordingly, if the elements of consideration and chance are present in an activity but the award of a prize is legitimately eliminated, the activity is ordinarily permitted under U.S. gambling law. We have therefore structured and operated our online casino games, such as Texas HoldEm Poker Deluxe and Slot Machines by IGG, in such a way that players winning virtual currency cannot redeem it or other virtual items for either cash, prizes or other thing of value.

A prize is universally considered to constitute something of value. Something of value is often defined as “any money or property, any token, object or article exchangeable for money or property or any form of credit or promise directly or indirectly contemplating transfer of money or property or of any interest therein.” When considering whether something has value two issues arise. The first is whether the item awarded has a market value. While a prize does not have to consist of money, courts have required it have a reasonably determined value. The second is whether the item, despite having no defined market value, can be exchanged for cash or an item of value.

## **HISTORY AND CORPORATE STRUCTURE**

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### **INTRODUCTION**

We trace our origins to 2006 when Fuzhou Tianmeng was established in Fujian Province, PRC and IGG HK was incorporated in Hong Kong by Mr. Zongjian Cai and Mr. Yuan Chi with their personal fund. At that time, Fuzhou Tianmeng focused on research and development, licensing and publishing of games in the PRC while IGG HK focused on overseas publishing. Starting from 2007, we commenced the Corporate Reorganisation in preparation for the [●] investments. As part of the Corporate Reorganisation, our Company was incorporated in the Cayman Islands on 16 August 2007 to act as the holding company of our Group, and IGG USA was consolidated into our Group for marketing as well as servers hosting for our Group. On 30 June 2009, IGG Singapore was incorporated to take over the substantial overseas business from IGG HK in January 2010. Currently, substantially all of our business is conducted through IGG Singapore. In 2013, IGG Philippines was incorporated to provide global customer support services and other business process and information and communications technology-enabled services to support our overseas business.

### **BUSINESS MILESTONES**

The following table summarises various key milestones in the development of our business:

#### **2006**

In February 2006, IGG was founded by Mr. Zongjian Cai and Mr. Yuan Chi.

In June 2006, IGG published its first licensed MMORPG - MythWar Online.

#### **2007**

Throughout 2007, IGG published more MMO games including popular Tales of Pirates and Angels Online.

In December 2007, IGG completed Series A funding led by the IDG Group.

#### **2008**

In March 2008, IGG published Wonderland Online.

In November 2008, IGG released its first in-house developed MMORPG, Godswar.

In November 2008, IGG completed Series B funding led by the IDG Group, Vertex and Hearst despite the global recession.

## **HISTORY AND CORPORATE STRUCTURE**

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### **2009**

In March 2009, IGG launched the first in-house developed Real Time Strategy game, Galaxy Online.

In June 2009, IGG opened its headquarters in Singapore.

### **2010**

Throughout 2010, IGG made expansion into Facebook gaming with a series of social games including Fish Isle, Crazy Clinic, Miracle Garden, Crazy Pirates, Lords Online, and Texas HoldEm Poker Deluxe.

### **2011**

In January 2011, IGG released Galaxy Online II, with multiple versions worldwide, including French, German, Spanish, Turkish and several other languages.

In October 2011, Texas HoldEm Poker Deluxe, IGG’s widely popular and top rated poker app, became available on iOS.

Throughout 2011, IGG also released multiple high-end 3D browser games including 100 Years’ War and Age of Titans.

### **2012**

In January 2012, the Android version of Texas HoldEm Poker Deluxe was released in Google Play.

Throughout 2012, IGG released new browser games including Heroes’ Social, Wings of Destiny and Dawn of Darkness.

### **2013**

In February 2013, IGG released Dawn of Darkness Android version on Google Play.

In March 2013, IGG released FreeSky Online 2 on Facebook in Taiwan.

In March 2013, IGG released KaChing Slots Android version on Google Play.

In April 2013, IGG released Heroes Social on Facebooks Philippines and Heroes & Monsters Android version on Google Play.

In May 2013, IGG released Slot Machines by IGG Android version on Google Play.

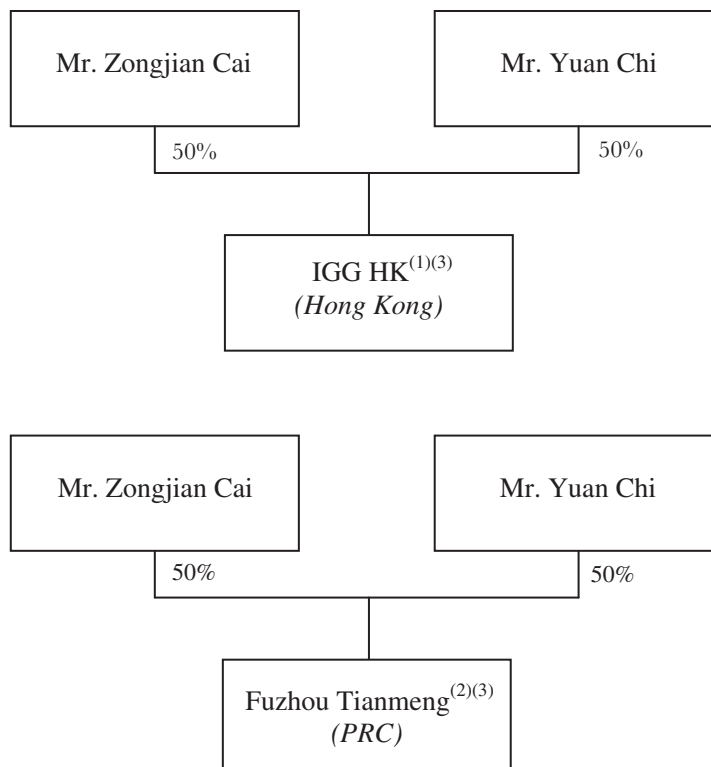
## HISTORY AND CORPORATE STRUCTURE

In July 2013, IGG released Clash of Lords Android version on Google Play.

In July 2013, IGG released Castle Clash Android version on Google Play.

### CORPORATE REORGANISATION

The corporate structure of our Group, immediately prior to the Corporate Reorganisation in 2007, is set out below:



Note:

- (1) IGG HK was incorporated under the laws of HK with limited liability on 20 February 2006. Upon its incorporation, IGG HK issued 5,000 shares in the par value of HK\$1.00 to Mr. Zongjian Cai and Mr. Yuan Chi respectively. Mr. Zongjian Cai and Mr. Yuan Chi have entered into an agreement of vote in concert in IGG HK effective since March 2006.
- (2) Fuzhou Tianmeng was established under the laws of the PRC with limited liability on 12 December 2006. Upon its establishment, the registered capital of Fuzhou Tianmeng was RMB1.01 million, which was owned as to 50% by Mr. Zongjian Cai and 50% by Ms. Xiaoyu Lin, the spouse of Mr. Yuan Chi. On 28 August 2007, Ms. Xiaoyu Lin transferred such 50% equity interest in Fuzhou Tianmeng to Mr. Yuan Chi for a consideration of RMB505,000, with reference to the then registered capital. According to our PRC legal advisers, Jingtian & Gongcheng, such equity transfer has been duly registered with the local registration authority in PRC. On 18 March 2008, the registered capital of Fuzhou Tianmeng was increased to RMB10 million. Mr. Zongjian Cai and Mr. Yuan Chi have entered into an agreement of vote in concert in Fuzhou Tianmeng effective since January 2007.
- (3) Mr. Zongjian Cai and Mr. Yuan Chi entered into act in concert agreements, pursuant to which Mr. Zongjian Cai and Mr. Yuan Chi agreed that they would act in concert with each other with respect to matters relating to the management and operation of Fuzhou Tianmeng and IGG HK, starting from their incorporations.

## **HISTORY AND CORPORATE STRUCTURE**

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At that time, some friends of Mr. Cai and Mr. Chi, including Mr. Feng Chen , Mr. Pintong Lin, Mr. Deqing Ruan, Mr. Chak Man Wu and Mr. Anyan Chen, who are businessmen and [●] (collectively “Individual Investors”), together with the Management Team would like to invest in our Company given they valued the prospects of our Group. Our Group was then planning reorganisation for the purpose of the Series A Investment, which included incorporation of our Company, acquisition of IGG HK and signing of the Structured Contracts to consolidate the financial results of Fuzhou Tianmeng into those of our Group. The above mentioned Individual Investors and Management Team reached verbal consensus with Mr. Cai and Mr. Chi that they would pay the considerations for the relevant interest in our Group to be acquired by each of them to Mr. Cai and Mr. Chi in advance prior to the incorporation of our Company and our Company would issue shares to them accordingly after its incorporation. The investment contributed by each of the Management Team amounted to RMB600,000, RMB275,000, RMB275,000 and RMB250,000 and RMB600,000 while the Individual Investors invested RMB1,025,000 in our Group in aggregate.

### **Establishment of our offshore shareholding structure**

#### **Incorporation of the offshore investment holding companies and our Company**

On 10 September 2007, Duke Online was incorporated under the laws of the BVI as an exempted company. Upon its incorporation, one issued share in the par value of US\$1.00 was issued to CIA Nominees LTD. On 31 October 2007, such one issued share was transferred from CIA Nominees LTD. to Mr. Zongjian Cai.

On 10 September 2007, Edmond Online was incorporated under the laws of the BVI as an exempted company. Upon its incorporation, one issued share in the par value of US\$1.00 was issued to CIA Nominees LTD. On 31 October 2007, such one issued share was transferred from CIA Nominees LTD. to Mr. Yuan Chi.

On 16 August 2007, our Company was incorporated under the laws of the Cayman Islands as an exempted company. Upon its incorporation, the authorised share capital of our Company was US\$50,000 with 500,000,000 ordinary shares, each with a par value of US\$0.0001, and one ordinary Share was issued to N.D. Nominees LTD.

On 31 October 2007, the above mentioned one ordinary Share of our Company was transferred from N.D. Nominees LTD. to CIA Nominees LTD. and then to Duke Online. On the same date, our Company issued 4,499,999 ordinary Shares to Duke Online, and 4,500,000 ordinary Shares to Edmond Online.

#### **Issue of Shares in our Company to the Management Team and Individual Investors**

On 31 October 2007, our Company issued 1,200,000 ordinary Shares to Mr. Guo Wu, 550,000 Shares to Ms. Kai Chen, 550,000 ordinary Shares Mr. Zhixiang Chen, 1,200,000 ordinary Shares to Mr. Yuan Xu, and 500,000 ordinary Shares to Mr. Hong Zhang respectively, each with then par value of US\$0.0001, all of whom were key management team of our Group at that time.

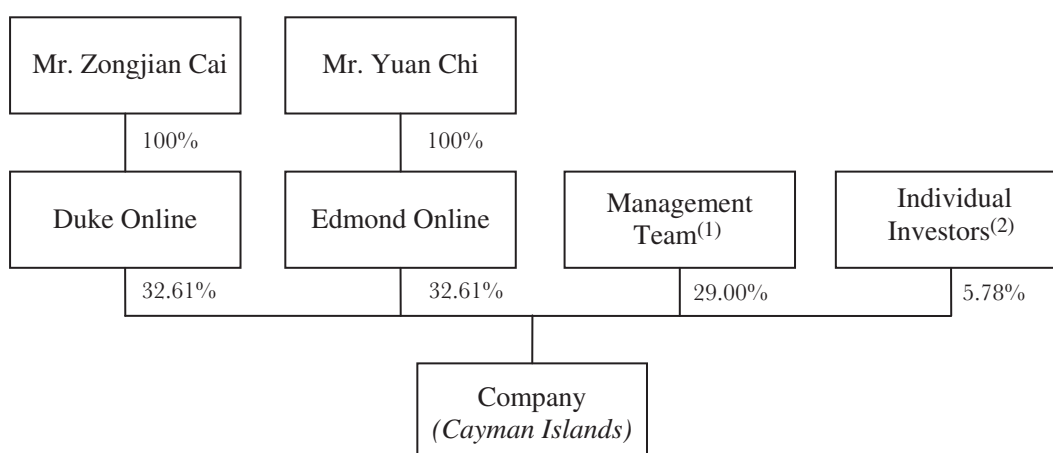


## HISTORY AND CORPORATE STRUCTURE

On the same date, our Company issued a total of 800,000 ordinary Shares to the Individual Investors, each with then par value of US\$0.0001.

The above issues of shares were conducted at par value in order to reflect their actual investments in our Group prior to the incorporation of our Company.

The following diagram sets out our shareholding structure immediately before the following restructuring of our Group:



*Note:*

(1) Management Team comprises the following persons:

Name of Shareholders	Approximate Shareholding in our Company
Mr. Guo Wu	8.70% of issued share capital of our Company in the form of ordinary shares
Ms. Kai Chen	3.99% of issued share capital of our Company in the form of ordinary shares
Mr. Zhixiang Chen	3.99% of issued share capital of our Company in the form of ordinary shares
Mr. Yuan Xu	8.70% of issued share capital of our Company in the form of ordinary shares
Mr. Hong Zhang	3.62% of issued share capital of our Company in the form of ordinary shares

(2) Individual Investors comprise the following persons:

Name of Shareholders	Approximate Shareholding in our Company
Mr. Feng Chen	2.72% of issued share capital of our Company in the form of ordinary shares
Mr. Pintong Lin	0.72% of issued share capital of our Company in the form of ordinary shares
Mr. Deqing Ruan	0.72% of issued share capital of our Company in the form of ordinary shares
Mr. Chak Man Wu	0.72% of issued share capital of our Company in the form of ordinary shares
Mr. Anyan Chen	0.90% of issued share capital of our Company in the form of ordinary shares

## HISTORY AND CORPORATE STRUCTURE

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### Acquisition of IGG HK by our Company

On 9 November 2007, in preparation of for the investment by the [●] investors, our Company acquired all the issued 100,000 shares of IGG HK from Mr. Zongjian Cai and Mr. Yuan Chi at par value. Accordingly, IGG HK’s register of members was updated on 30 October 2007 and the relevant filing was made with the Companies Registry on 9 November 2007.

On the same date, IGG HK issued 14,900,000 shares to our Company at par value.

### Establishment of Fuzhou Tianji by our Company

On 15 November 2007, Fuzhou Tianji was established in the PRC as a wholly foreign owned enterprise by our Company with a registered capital of US\$2 million to engage in research and development. On 15 April 2009, the registered capital of Fuzhou Tianji was increased to US\$5 million.

### Signing of Structured Contracts between Fuzhou Tianji and Fuzhou Tianmeng

Fuzhou Tianmeng became controlled by Fuzhou Tianji through certain Structured Contracts entered into among Fuzhou Tianmeng, Fuzhou Tianji, Mr. Zongjian Cai and Mr. Yuan Chi in November 2007.

For further details, please refer to the paragraph headed “Structured Contracts” in this section of the [●].

### Issue of Series A Preferred Shares

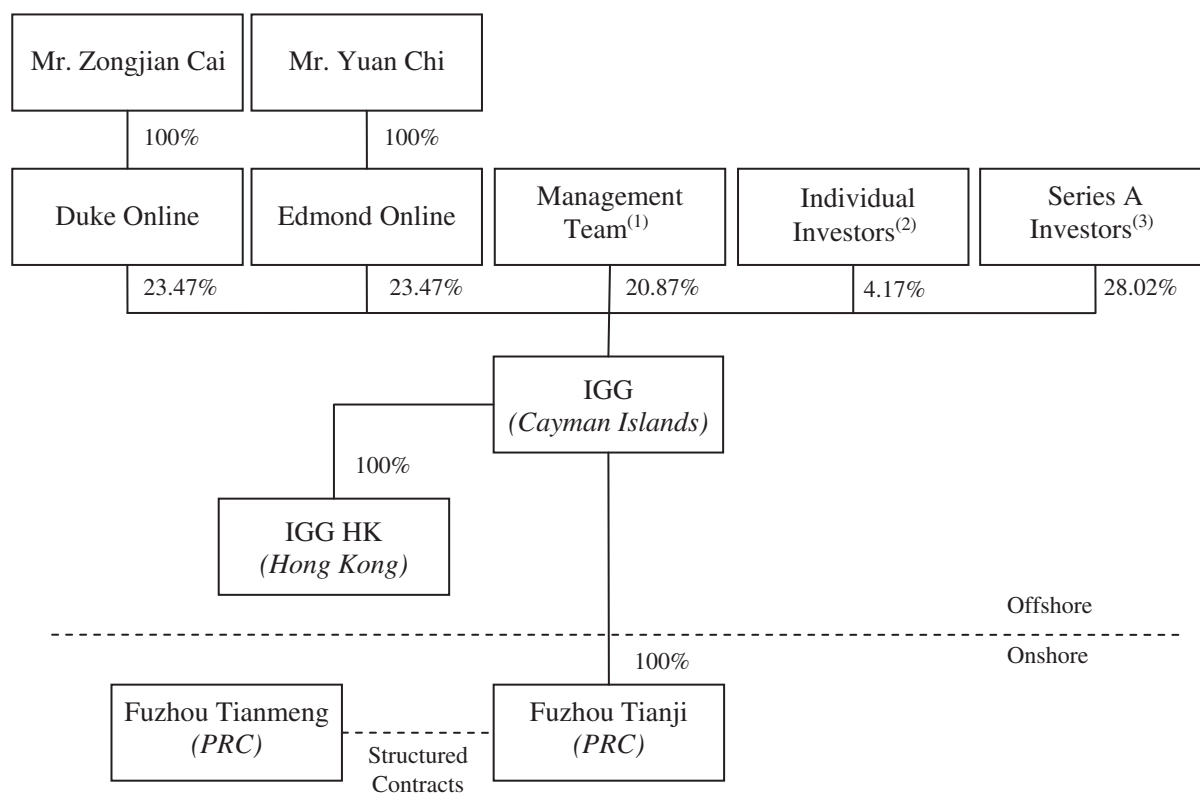
On 30 November 2007, a resolution was passed that the authorised share capital of our Company shall be US\$50,000 divided into: (i) 493,281,250 ordinary shares of then nominal or par value of US\$0.0001 each, and (ii) 6,718,750 preferred shares of then nominal or par value of US\$0.0001 each, of which 5,375,000 Preferred Shares are designated as Series A preferred shares, and 1,343,750 Preferred Shares are designated as Series A-1 Preferred Shares.

Pursuant to a Series A Preferred Share Purchase Agreement dated 30 November 2007 entered into by and among our Company, Duke Online, Edmond Online, IGG HK, Fuzhou Tianji, and Fuzhou Tianmeng, (i) our Company issued 5,375,000 Series A Preferred Shares to Series A Shareholders, (ii) our Company issued warrants to Series A-1 Shareholders, exercisable at an aggregate price of US\$1,500,000 for 1,343,750 Series A-1 Shares. For details of the investment made by the Series A investors, please refer to the paragraph headed “[●]” of this section in the [●].

On the same date, our Company entered into the restricted shares agreements (“RSAs”) with the Founders, Mr. Guo Wu, Ms. Kai Chen, Mr. Zhixiang Chen and Mr. Yuan Xu, pursuant to which certain amount of the issued shares to them were designated as restricted shares and our Company shall be entitled to repurchase certain amount upon termination of their employment of our Company or its subsidiaries.

## HISTORY AND CORPORATE STRUCTURE

The following diagram sets out our shareholding structure immediately before the following restructuring of our Group:



Note:

(1) Management Team comprises the following persons:

Name of Shareholders	Approximate Shareholding in our Company
Mr. Guo Wu	6.26% of issued share capital of our Company in the form of ordinary shares
Ms. Kai Chen	2.87% of issued share capital of our Company in the form of ordinary shares
Mr. Zhixiang Chen	2.87% of issued share capital of our Company in the form of ordinary shares
Mr. Yuan Xu	6.26% of issued share capital of our Company in the form of ordinary shares
Mr. Hong Zhang	2.61% of issued share capital of our Company in the form of ordinary shares

(2) Individual Investors comprise the following persons:

Name of Shareholders	Approximate Shareholding in our Company
Mr. Feng Chen	1.96% of issued share capital of our Company in the form of ordinary shares
Mr. Pintong Lin	0.52% of issued share capital of our Company in the form of ordinary shares
Mr. Deqing Ruan	0.52% of issued share capital of our Company in the form of ordinary shares
Mr. Chak Man Wu	0.52% of issued share capital of our Company in the form of ordinary shares
Mr. Anyan Chen	0.65% of issued share capital of our Company in the form of ordinary shares

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## HISTORY AND CORPORATE STRUCTURE

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(3) Series A Investors comprise the following investment entities:

Name of Shareholders	Approximate Shareholding in our Company
IDG-Accel China Growth Fund II L.P.	23.31% of issued share capital of our Company in the form of Preferred A Shares
IDG-Accel China Investors II L.P.	1.91% of issued share capital of our Company in the form of Preferred A Shares
Winston	2.80% of issued share capital of our Company in the form of Preferred A Shares

### Establishment of Fuzhou Tianjie

On 3 June 2008, in order to strengthen our research and development, Fuzhou Tianjie was established in the PRC to engage in research and development. Upon the establishment, Fuzhou Tianjie was owned as to 75% by Fuzhou Tianji, 13% by Mr. Dehui Lin, 12% by Mr. Yi Ding, both of whom are currently [●]. Mr. Dehui Lin and Mr. Yi Ding were originally mainly responsible for research and development in our Group.

### Issue of Series B Preferred Shares and share exchange in IGG USA

On 12 November 2008, a resolution was passed that the authorised share capital of our Company shall be reduced and redesignated by cancelling 459,415,000 Shares of then nominal or par value of US\$0.0001 each which have neither been taken nor agreed to be taken by any person and the authorised share capital of our Company be diminished, from US\$50,000 divided into (i) 493,281,250 ordinary Shares of then nominal or par value of US\$0.0001 each, and (ii) 6,718,750 Preferred Shares of then nominal or par value of US\$0.0001 each, of which 5,375,000 Preferred Shares are designated as Series A Preferred Shares and 1,343,750 Preferred Shares are designated as Series A-1 Preferred Shares to US\$4,058.50 divided into: (i) 28,600,450 ordinary Shares of then nominal or par value of US\$0.0001 each, and (ii) 11,984,550 Preferred Shares of then nominal or par value of US\$0.0001 each, of which 5,375,000 Preferred Shares are designated as Series A Preferred Shares, 1,343,750 Preferred Shares are designated as Series A-1 Preferred Shares, and 5,265,800 Preferred Shares are designated as Series B Preferred Shares.

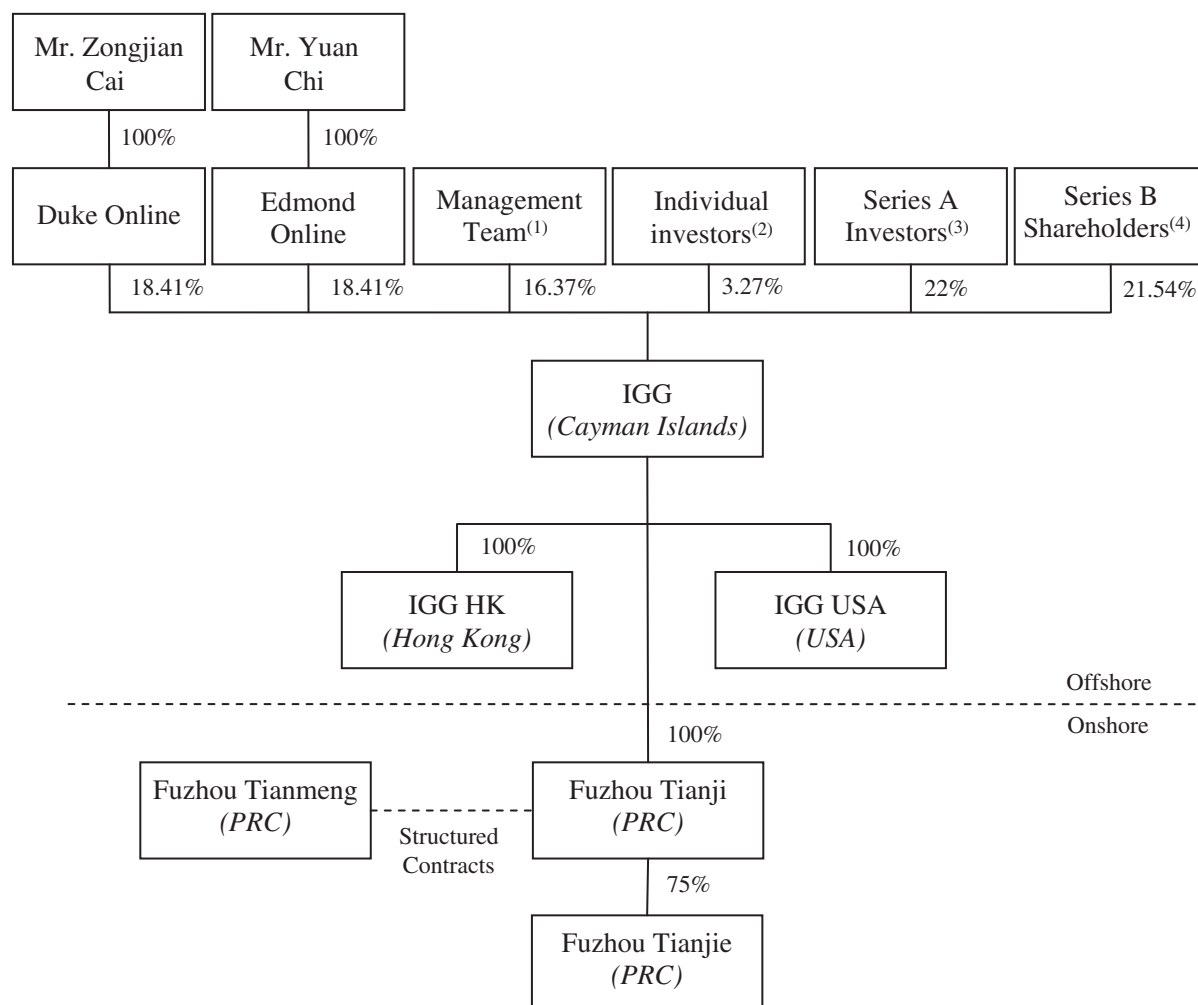
Pursuant to a Series B Preferred Share Purchase Agreement dated 12 November 2008 entered into by and among our Company, Duke Online, Edmond Online, IGG HK, IGG USA, Fuzhou Tianji, Fuzhou Tianmeng, Fuzhou Tianjie, and Series B Shareholders, our Company issued 5,216,091 Series B Preferred Shares to the Series B Investors. For details of the investments made by the Series B Investors, please refer to the paragraph headed “[●] Investments” of this section of the [●].

IGG USA was originally formed in Nevada, United States on 21 October 2005 as a limited liability company for the purpose of online game hosting and marketing support and all units in IGG USA were owned by the Original LLC Members. Under the Series B Preferred Share Purchase Agreement, IGG USA, which was originally owned by the Original LLC Members, shall convert into an entity to be treated as a corporation for US income tax purposes, and the Original LLC Members of IGG USA shall then transfer their units in IGG USA to our Company in exchange for 49,675 Series B Shares in our Company such that the IGG USA shall become a wholly owned subsidiary of our Company. IGG USA is mainly responsible for servers hosting and marketing support and collecting fees from the players globally.

## HISTORY AND CORPORATE STRUCTURE

On the same date, the clauses regarding the repurchase rights and the assignment under RSAs were amended in order to (i) add the Series B Investors as parties to the prior agreement and (ii) clarify that the restricted shares of each restricted party be subject to the repurchase right upon termination for any reason, whether voluntarily or involuntarily.

The following diagram sets out our shareholding structure immediately before the following restructuring of the share capital of our Company:



*Note:*

(1) Management Team comprises the following persons:

Name of Shareholders	Approximate Shareholding in our Company
Mr. Guo Wu	4.91% of issued share capital of our Company in the form of ordinary shares
Ms. Kai Chen	2.25% of issued share capital of our Company in the form of ordinary shares
Mr. Zhixiang Chen	2.25% of issued share capital of our Company in the form of ordinary shares
Mr. Yuan Xu	4.91% of issued share capital of our Company in the form of ordinary shares
Mr. Hong Zhang	2.05% of issued share capital of our Company in the form of ordinary shares

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## HISTORY AND CORPORATE STRUCTURE

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- (2) Individual Investors comprise the following persons:

<b>Name of Shareholders</b>	<b>Approximate Shareholding in our Company</b>
Mr. Feng Chen	1.53% of issued share capital of our Company in the form of ordinary shares
Mr. Pintong Lin	0.41% of issued share capital of our Company in the form of ordinary shares
Mr. Deqing Ruan	0.41% of issued share capital of our Company in the form of ordinary shares
Mr. Chak Man Wu	0.41% of issued share capital of our Company in the form of ordinary shares
Mr. Anyan Chen	0.51% of issued share capital of our Company in the form of ordinary shares

- (3) Series A Investors comprise the following investment entities:

<b>Name of Shareholders</b>	<b>Approximate Shareholding in our Company</b>
IDG-Accel China Growth Fund II L.P.	18.30% of issued share capital of our Company in the form of Preferred A Shares
IDG-Accel China Investors II L.P.	1.50% of issued share capital of our Company in the form of Preferred A Shares
Winston	2.20% of issued share capital of our Company in the form of Preferred A Shares

- (4) Series B Shareholders comprise the following investment entities:

<b>Name of Shareholders</b>	<b>Approximate Shareholding in our Company</b>
<i>Series B Investors</i>	
Vertex	12.20% of issued share capital of our Company in the form of Preferred B Shares
Hearst	3.05% of issued share capital of our Company in the form of Preferred B Shares
IDG-Accel China Growth Fund II L.P.	4.32% of issued share capital of our Company in the form of Preferred B Shares
IDG-Accel China Investors II L.P.	0.35% of issued share capital of our Company in the form of Preferred B Shares
Tian Xiang	0.51% of issued share capital of our Company in the form of Preferred B Shares
Mr. Yi Zhang	0.20% of issued share capital of our Company in the form of Preferred B Shares
Mr. Yuan Xu	0.41% of issued share capital of our Company in the form of Preferred B Shares
Martin Living Trust	0.30% of issued share capital of our Company in the form of Preferred B Shares
<b>Subtotal</b>	21.34% of issued share capital of our Company in the form of Preferred B Shares
<i>Original LLC Members</i>	
Mr. Zongjian Cai	0.05% of issued share capital of our Company in the form of Preferred B Shares
Mr. Yuan Chi	0.05% of issued share capital of our Company in the form of Preferred B Shares
Ms. Xiuping Wang	0.07% of issued share capital of our Company in the form of Preferred B Shares
Mr. Hong Zhang	0.03% of issued share capital of our Company in the form of Preferred B Shares
<b>Subtotal</b>	0.2% of issued share capital of our Company in the form of Preferred B Shares

## **HISTORY AND CORPORATE STRUCTURE**

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### **Incorporation of IGG Singapore**

On 30 June 2009, in order to expand our global business, especially our business in Southeast Asia, IGG Singapore was incorporated in Singapore as a private company. Upon its incorporation, one ordinary share in the par value of one Singapore dollar was issued to our Company. On 1 October 2009, the capital of IGG Singapore was increased to Singapore dollar 1.5 million. In January 2010, our Group transferred our substantial overseas business together with intellectual properties and domain names to IGG Singapore. Currently, IGG Singapore is the business headquarter of our Group and is mainly engaged in the business of game development and operation. IGG Singapore’s former name is “Skyunion Pte. Ltd.”, which was changed to “IGG Singapore Pte. Ltd.” on 14 July 2011.

### **Conversion of the warrants under the Series A Preferred Shares Agreement into Series A-1 Preferred Shares**

On 21 August 2009, the Series A-1 Investors exercised the conversion rights of warrants granted to them under the Series A Preferred Shares Agreement at the conversion price of US\$1.1163 per Share and our Company issued 1,209,375 Series A-1 Preferred Shares to the Series A-1 Investors accordingly.

### **Repurchase of 600,000 Shares from Mr. Wu Guo under the RSAs**

Since Mr. Guo Wu left our Group in March 2008 due to personal reasons, therefore, on 21 August 2009, our Company exercised its rights under the RSAs to repurchase 600,000 ordinary Shares from Mr. Wu Guo for a consideration of RMB336,960, calculated by RMB0.5 per share plus 8% annual interest according to the RSAs.

### **Share transfer of Fuzhou Tianji**

On 23 November 2009, IGG Singapore entered into a share transfer agreement with our Company to acquire all equity interest in Fuzhou Tianji from our Company at a consideration of US\$5 million with reference to the then registered capital of Fuzhou Tianji for the the purpose of global tax planning. As advised by our PRC advisers, Jingtian & Gongcheng, such equity transfer has been duly registered with the local registration authority in PRC.

### **Acquisition of the entire equity interest in Fuzhou Tianjie by Fuzhou Tianji**

On 7 April 2011, Mr. Dehui Lin and Mr. Yi Ding left our Group, therefore, on 23 September 2011, Fuzhou Tianji entered into share transfer agreements with Mr. Dehui Lin and Mr. Yi Ding, respectively, to acquire 25% equity interest in Fuzhou Tianjie, for a consideration of RMB1.00. The Company confirms that the equity transfer was conducted at a nominal consideration because Fuzhou Tianjie was at accumulated loss position immediately prior to such equity transfer. As advised by our PRC advisers, Jingtian & Gongcheng, such equity transfer has been duly registered with the local registration authority in PRC.

## HISTORY AND CORPORATE STRUCTURE

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### Disposal of entities

We invested in the below-mentioned entities and disposed them from our Group in the Track Record Period:

#### *Xi’An Xiaoyao*

On 15 February 2011, Fuzhou Tianmeng established Xi’An Xiaoyao with [●] engage in research and development. Upon its establishment, the registered capital of Xi’An Xiaoyao was RMB100,000 which was owned as to 51% by Fuzhou Tianmeng.

Pursuant to a share transfer agreement dated 16 September 2011, Fuzhou Tianmeng transferred the above mentioned 51% equity interest in Xi’An Xiaoyao to Mr. Shumian Wang, [●] for a consideration of RMB1.0.

#### *Fuzhou Chuangyou*

Pursuant to a share transfer agreement dated 29 December 2009, Fuzhou Tianmeng acquired 51% equity interest in Fuzhou Chuangyou for a consideration of RMB35,700 in order to expand our research and development team.

Pursuant to a share transfer agreement dated 12 September 2011, Fuzhou Tianmeng transferred the above mentioned 51% equity interest in Fuzhou Chuangyou to Mr. Hai Huang, [●] for a consideration of RMB1.0.

#### *Fuzhou Tianhe*

On 21 January 2010, Fuzhou Tianmeng established Fuzhou Tianhe with some [●] to engage in research and development. Upon its establishment, the registered capital of Fuzhou Tianhe was RMB30,000 which was owned as to 35% by Fuzhou Tianmeng.

Pursuant to share transfer agreements dated 26 August 2011, Fuzhou Tianmeng transferred the above mentioned 35% equity interest in Fuzhou Tianhe to Mr. Wenmiao Li and Mr. Bin Lin, [●], for a consideration of RMB1.0 each.

#### *Shanghai Generic*

Pursuant to a share transfer agreement dated 10 December 2009, Fuzhou Tianmeng acquired 19.5% equity interest in Shanghai Generic for a consideration of RMB1.0 in order to expand our research and development team.

Pursuant to an equity transfer agreement dated 9 April 2012 entered into by Fuzhou Tianmeng and the existing shareholders of Shanghai Generic, Fuzhou Tianmeng agreed to transfer 19.5% equity interest in Shanghai Generic to the existing shareholders of Shanghai Generic for a consideration of RMB1.0.



## HISTORY AND CORPORATE STRUCTURE

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### *Fuzhou Bookman*

Pursuant to a share transfer agreement dated 1 February 2009, Fuzhou Tianji acquired 40% equity interest in Fuzhou Bookman for a consideration of RMB2.0 in order to expand our research and development team.

Pursuant to an equity transfer agreement dated 10 July 2011 entered into by Fuzhou Tianji and Mr. Yongwu Zheng, [●] Fuzhou Tianji agreed to transfer 40% equity interest in Fuzhou Bookman to Mr. Yongwu Zheng for a consideration of RMB2.0.

### *Shaanxi Taihe*

Pursuant to a share transfer agreement dated 15 December 2009, Fuzhou Tianmeng acquired 19.5% equity interest in Shaanxi Taihe for a consideration of RMB2.0 in order to expand our research and development team.

Pursuant to an equity transfer agreement dated 12 April 2011 entered into by Fuzhou Tianmeng and two other existing shareholders of Shaanxi Taihe, namely, Mr. Changheng Bi and Mr. Wei Wang and [●] namely, Ms. Yihong Gu, pursuant to which Fuzhou Tianmeng and Mr. Changheng Bi agreed to transfer 19.5% and 36.225% equity interest in Shaanxi Taihe to Mr. Wei Wang and Ms. Yihong Gu, respectively, for a consideration of RMB1.0 each.

### *Fuzhou Online Game*

On 5 August 2009, Fuzhou Online Game, mainly engaged in online game advertising, became wholly controlled by Fuzhou Tianji through a series of structured contracts. Thereafter, Mr. Zongjian Cai and Mr. Yuan Chi transferred their equity interest in Fuzhou Online Game to Fuzhou Tianmeng on 24 April 2012 for a consideration of RMB1,500,000 to replace the structured contracts. Fuzhou Online Game recorded losses during the Track Record Period because its operation results did not match its expansion costs.

Pursuant to a share transfer agreement dated 8 October 2012 entered into by Fuzhou Tianmeng, Mr. Xianghua Zheng and Ms. Xianglan Chen, [●] pursuant to which Fuzhou Tianmeng agreed to transfer all equity interest in Fuzhou Online Game to Mr. Xianghua Zheng and Ms. Xianglan Chen for a fixed consideration of RMB100,000 plus future earnings based contingent considerations. We acquired Fuzhou Online Game, which was mainly engaged in online game advertising in 2009 as we originally were planning to expand our game publishing business in the PRC. However, based on our further exploration of the PRC market at the time, our Group subsequently decided to change the publishing business model in the PRC into joint operations with other major [●] online game operators to make use of their existing market resources for the benefit of our Group. Therefore, we disposed Fuzhou Online Game in 2012. As at the Latest Practicable Date, Fuzhou Online Game has not recognised any contingent consideration given Fuzhou Online Game has not generated profits yet.

## **HISTORY AND CORPORATE STRUCTURE**

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All the above disposals were conducted at a nominal consideration, respectively, because (1) we originally did not invest much resource to the relevant entities; and (2) the entities did not contribute materially to the financial statements of our Group when they were subsidiaries of our Group or even recorded a loss immediately prior to the relevant disposal. According to our PRC legal advisers, Jingtian & Gongcheng, the above-mentioned disposals of entities have been conducted in line with the procedures under the applicable laws and regulations of PRC and all the equity transfers have been duly registered with the local registration authority of PRC.

In order to strengthen our research and development and expand our portfolio of online games softwares, we actively explored cooperation with companies specialized in research and development of online game softwares. We established or invested in the above-mentioned entities in order to obtain certain online game softwares developed by those third parties which are all specialized in development of online games softwares. Starting from 2011, since our Group decided to enhance our own research and development team, our Group commenced to change the cooperation mode by disposing of the equity interest in the above-mentioned entities to [●] and continuing to engage these entities to provide maintenance services to those online games softwares developed by them for our Group. We can still get economic benefits from the operation of these online game softwares but we are able to more concentrate our financial and human resources.

### **Increase of share capital of our Company**

On 27 November 2012, a resolution was passed that the authorised share capital of our Company as increased from US\$4,058.50 divided into (i) 28,600,450 ordinary Shares of then nominal value of US\$0.0001 each, and (ii) 11,984,550 Preferred Shares of then nominal value of US\$0.0001 each, of which 5,375,000 Preferred Shares are designated as Series A Preferred Shares, 1,343,750 Preferred Shares are designated as Series A-1 Preferred Shares, and 5,265,800 Preferred Shares are designated as Series B Preferred Shares to US\$4,128.50 divided into: (i) 29,300,450 ordinary Shares of then nominal value of US\$0.0001 each, and (ii) 11,984,550 Preferred Shares of then nominal value of US\$0.0001 each, of which 5,375,000 Preferred Shares are designated as Series A Preferred Shares, 1,343,750 Preferred Shares are designated as Series A-1 Preferred Shares, and 5,265,800 Preferred Shares are designated as Series B Preferred Shares.

### **Incorporation of IGG Philippines**

On 11 January 2013, IGG Philippines was incorporated under the laws of the Philippines as a subsidiary of IGG Singapore in order to provide customer support services, other business process, information and communications technology-enabled services. Upon incorporation, the authorised capital stock of IGG Philippines was Php4,000,000.00, divided into 40,000 shares with par value of Php100.00 per share, however, only 20,000 shares amounting to Php2,000,000.00 were subscribed and fully-paid. 19,995 shares were issued to IGG Singapore, while Mr. Hanling Fang, Mr. Zhixiang Chen, Mr. Marvin M. Celedio, Ms. Michelle O. Morano and Mr. Francis Allan S. Dela Cruz hold one share each as nominees of IGG Singapore. Mr. Marvin M. Celedio, Ms. Michello O. Morano and Mr. Francis Allan So. Dela Cruz are all residents of the Philippines and [●]. We arranged such shareholding

## **HISTORY AND CORPORATE STRUCTURE**

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structure of IGG Philippines because, according to the Corporation Code of the Philippines, a private corporation may be incorporated by at least five natural persons of legal age and majority of whom are residents of the Philippines and that its Board of Directors must be composed of at least five natural persons, holding 1 share each, and majority of whom are residents of the Philippines.

### **Conversion of Preferred Shares**

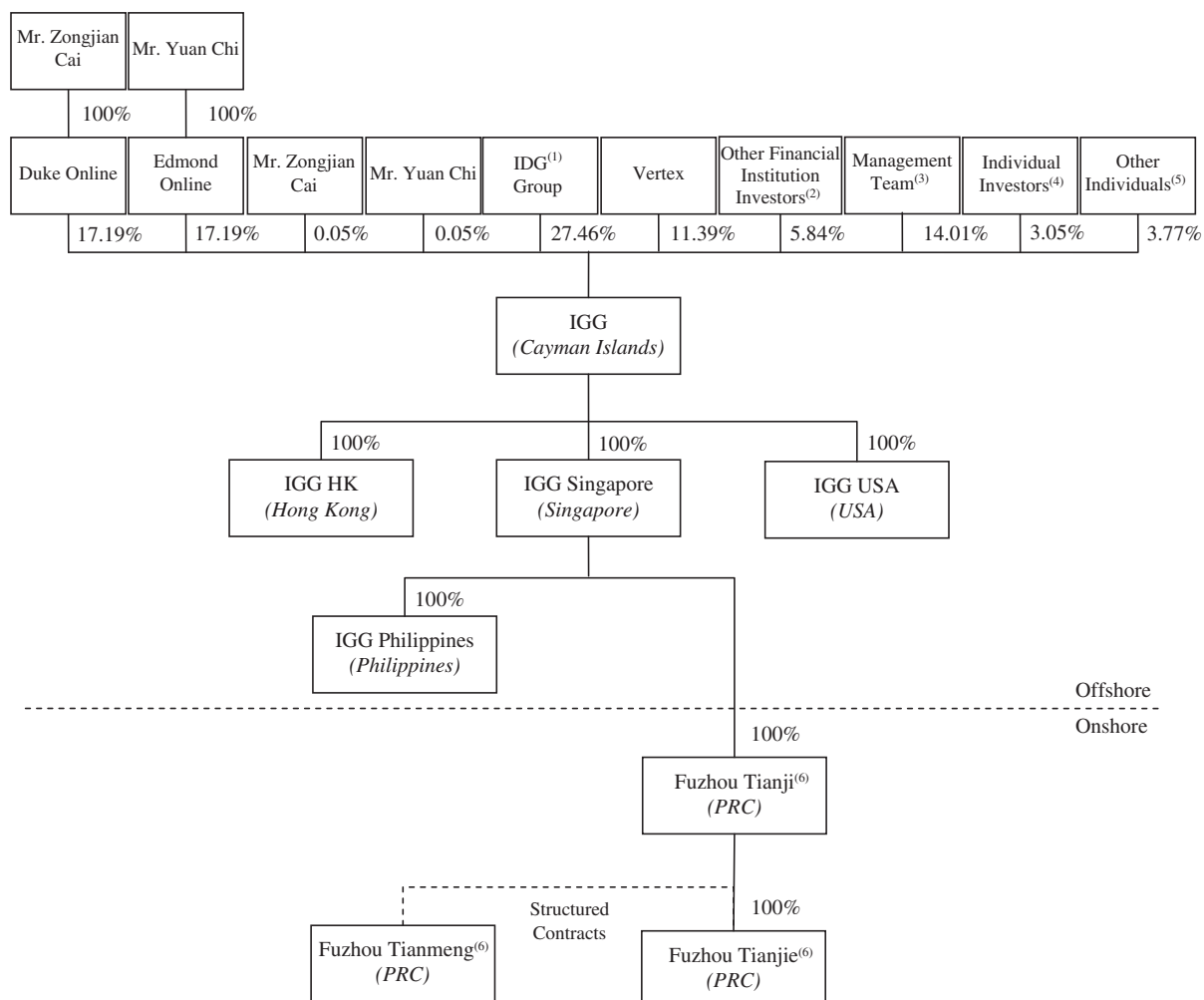
On 31 May 2013, all of the Preferred Shares were converted into ordinary Shares according to the conversion clause under the then applicable Articles. There was only one single class of Shares in the share capital of our Company immediately after the conversion so that all the ordinary Shares shall rank pari passu in all respects. For further details of such conversion clause, please see the paragraph headed “[●] Investments” under the section headed “History and Corporate Structure” of this document.

### **Restructuring of our Company**

On 16 September 2013, our Shareholders resolved to approve, among other things, a redesignation and re-classification of the then existing authorised share capital of US\$4,128.50 into 41,285,000 ordinary Shares of a nominal or par value of US\$0.0001 each, (ii) a subdivision of each of the issued and unissued ordinary Share with a par value of US\$0.0001 each in the share capital of our Company into 40 ordinary Shares with a par value of US\$0.0000025 each and (iii) an increase in the authorised share capital of our Company to US\$5,000 divided into 2,000,000,000 ordinary Shares of US\$0.0000025 each.

## HISTORY AND CORPORATE STRUCTURE

The corporate structure of our Group after the Corporate Reorganisation, the conversion of the Series A Preferred Shares, Series B Shares, Series A-1 Preferred Shares into ordinary Shares, and the Subdivision as described above.



*Note:*

- (1) IDG comprises the following investment entities:

Name of Shareholders	Approximate Shareholding in the Company
IDG-Accel China Growth Fund II L.P.	25.39% of issued share capital of the Company in the form of ordinary shares
IDG-Accel China Investors II L.P.	2.07% of issued share capital of the Company in the form of ordinary shares

- (2) Other financial institution investors comprises the following investment entities (collectively, “Other Financial Institution Investors”):

Name of Shareholders	Approximate Shareholding in the Company
Winston	2.05% of issued share capital of the Company in the form of ordinary shares

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## HISTORY AND CORPORATE STRUCTURE

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Name of Shareholders	Approximate Shareholding in the Company
Hearst	2.85% of issued share capital of the Company in the form of ordinary shares
Tian Xiang	0.47% of issued share capital of the Company in the form of ordinary shares
Martin Living Trust	0.28% of issued share capital of the Company in the form of ordinary shares
Mr. Yi Zhang	0.19% of issued share capital of the Company in the form of ordinary shares

- (3) Management Team comprises the following persons:

Name of Shareholders	Approximate Shareholding in our Company
Ms. Kai Chen	3.25% of issued share capital of our Company in the form of ordinary shares
Mr. Zhixiang Chen	3.25% of issued share capital of our Company in the form of ordinary shares
Mr. Yuan Xu	5.57% of issued share capital of our Company in the form of ordinary shares
Mr. Hong Zhang	1.94% of issued share capital of our Company in the form of ordinary shares

- (4) Individual Investors comprise the following persons:

Name of Shareholders	Approximate Shareholding in our Company
Mr. Feng Chen	1.43% of issued share capital of our Company in the form of ordinary shares
Mr. Pintong Lin	0.38% of issued share capital of our Company in the form of ordinary shares
Mr. Deqing Ruan	0.38% of issued share capital of our Company in the form of ordinary shares
Mr. Chak Man Wu	0.38% of issued share capital of our Company in the form of ordinary shares
Mr. Anyan Chen	0.48% of issued share capital of our Company in the form of ordinary shares

- (5) Other individuals include Ms. Xiuping Wang and the grantees under the [●] Share Option Scheme who exercised the options in 2012 and 2013 (including Mr. Jonas Paul Norman, Mr. Tsen Hu Chiu, Mr. Shiping Zheng, Mr. Dajian Yu, Ms. Yan Zhang, Mr. Yunfei Chen, Mr. Xiaolu Lu, Mr. Chengfeng Luo, Mr. Xingyong Lin, Mr. Dongli Li, Mr. Shuo Wang, Mr. Meilan Liang, Ms. Shenjing Lin, Mr. Guanghui Lan and Ms. Fei Chen), together with Mr. Guo Wu who cease to be a member of our Management Team (collectively, “Other Individuals”).

- (6) The detailed roles and functions of our PRC subsidiaries are listed as below:

### *Fuzhou Tianji*

Fuzhou Tianji was mainly engaged in research and development of online games. Fuzhou Tianji had 290, 278 and 296 employees as at 31 December 2011, 31 December 2012 and 31 May 2013, respectively. Fuzhou Tianji has no external customers and all its revenue comes from intra-group transactions.

### *Fuzhou Tianmeng*

Fuzhou Tianmeng was mainly engaged in research and development and operation of online games in the mainland of the PRC. Fuzhou Tianmeng had 190, 253 and 208 employees as at 31 December 2011, 31 December 2012 and 31 May 2013, respectively. In addition to joint operation with [●] online game operator in the mainland of PRC, Fuzhou Tianmeng’s external customers mainly include individual on-line game players in the mainland of PRC.

## HISTORY AND CORPORATE STRUCTURE

### *Fuzhou Tianjie*

Fuzhou Tianjie was originally mainly engaged in research and development. Since our Group decided to consolidate our resources and transferred Fuzhou Tianjie’s employees to Fuzhou Tianmeng and Fuzhou Tianji starting from April 2011, Fuzhou Tianjie had no employees as at 31 December 2011, 31 December 2012 and 31 May 2013. Currently, Fuzhou Tianjie is a dormant company. Fuzhou Tianjie had no external customers.

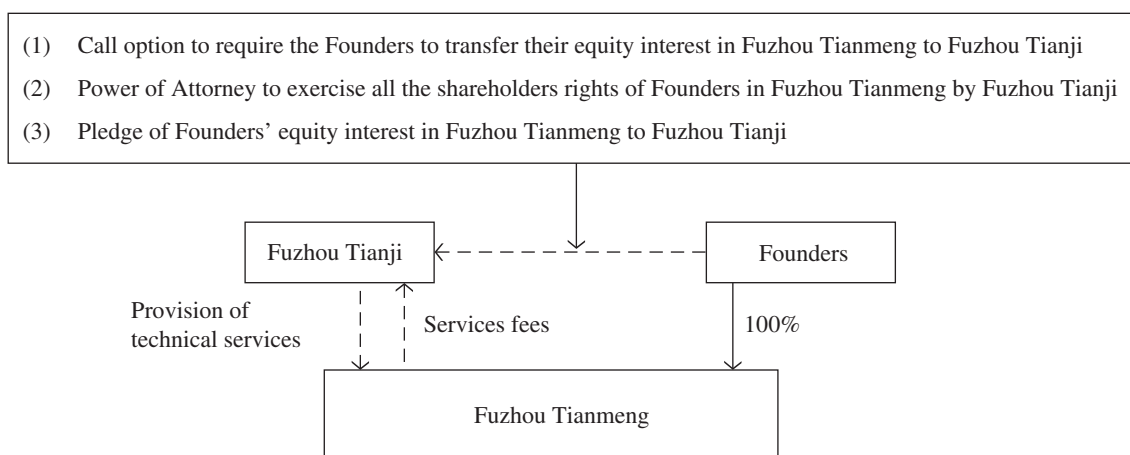
## STRUCTURED CONTRACTS

### (A) Introduction

The existing PRC laws and regulations restrict foreign investment in value-added telecommunication, Internet content and information services, and online games in the PRC. Our wholly-owned subsidiary, Fuzhou Tianji, being a foreign owned enterprise, does not have the requisite licenses to provide services regarding value-added telecommunication, Internet content and information services, and online games in the PRC.

In order to comply with PRC laws restricting foreign ownership in the value-added telecommunication, in China, or foreign ownership prohibitions on Internet content and information services, we historically operated our licensing and publishing of self-developed browser games and client-based games in China through Fuzhou Tianmeng, whose equity interests are owned as to 50% by Mr. Zongjian Cai and 50% by Mr. Yuan Chi.

The following chart illustrates the arrangement stipulated under the Structured Contracts:



The principal business operation of Fuzhou Tianmeng includes (i) designing and developing browser games, client-based games and mobile games; (ii) providing online customer support services to end users in the PRC; (iii) operating and ongoing maintenance of Chinese versions of developed games in the PRC, which includes (a) uploading and maintaining the self-developed games for download and play by players in the PRC; (b) licensing games to third party licensees in the PRC; and (c) co-operating games our Group developed in-house with third party game operators in the PRC; and (iv) Fuzhou Tianmeng holds certain number of intellectual property rights in relation to the operation of our Chinese version of the online games. Fuzhou Tianmeng, as a domestic company, holds an ICP

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license, Internet Culture Operating License and Internet Publishing License, which are required to carry out the above-described operation and ongoing maintenance of developed games in the PRC, which licenses, PRC laws currently restrict or prohibit foreign-invested companies from obtaining. Therefore, despite the fact that the revenue contribution by Fuzhou Tianmeng was only 4.8%, 3.2% and 3.7% of our Group’s total revenue during the Track Record Period, by maintaining Fuzhou Tianmeng and the Structured Contracts arrangement, our Group retains the flexibility to expand our online games business in the PRC if and when an opportunity emerges in the future. For the two years ended 31 December 2012, Fuzhou Tianmeng did not transfer any operating profits to Fuzhou Tianji. In 2011, no operating profits were transferred since Fuzhou Tianmeng recorded a net loss of US\$0.8 million. In 2012, Fuzhou Tianmeng recorded a net profit of US\$4.5 million, as it had been operating at loss in the past and working capital was needed for its future day-to-day operation, such as research and development, and for future growth. Therefore, Fuzhou Tianmeng requested not to transfer its operating profit to Fuzhou Tianji for the three years ended 31 December 2010, 2011 and 2012, respectively. Fuzhou Tianji agreed to such arrangement and formally approved to waive such fees according to the confirmation letters issued by Fuzhou Tianji dated 10 April 2011, 10 April 2012 and 10 April 2013 respectively. The main function of Fuzhou Tianmeng is research and development, and the fluctuations in Fuzhou Tianmeng’s revenue and profits were mainly attributable to development cycle of online games and the uncertainty of the market feedback on online game research and development results and the costs to be involved in research and development. Set out below is the key financial figures of Fuzhou Tianmeng during the Track Record Period, extracted from the unaudited management accounts:

	<b>Year ended</b>		<b>Five months ended</b>	
	<b>31 December</b>		<b>31 May</b>	
	<b>2011</b>	<b>2012</b>	<b>2012</b>	<b>2013</b>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Revenue: . . . . .	<u>3,678</u>	<u>11,744</u>	<u>2,752</u>	<u>3,882</u>
- Transfer of intellectual property rights to IGG Singapore . . . . .	2,224	10,386	2,345	3,074
- Revenue from online game operation in the PRC . . . . .	1,454	1,358	407	808
Total Expenses <sup>(1)</sup> : . . . . .	<u>5,046</u>	<u>7,519</u>	<u>2,223</u>	<u>3,516</u>
Net profit/ (loss): . . . . .	<u>(757)</u>	<u>4,501</u>	<u>535</u>	<u>316</u>

*Note:*

- (1) Total expenses include cost of sales, selling and distribution expenses, administrative expenses, research and development costs and other expenses.

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As illustrated above, the revenue of Fuzhou Tianmeng increased from US\$3.7 million in 2011 to US\$11.7 million in 2012. During the five months ended 31 May 2013, the revenue of Fuzhou Tianmeng amounted to US\$3.9 million, up from US\$2.8 million during the same period in 2012. The fluctuation in revenue was mostly caused by the changes in export income of intellectual property rights and was in line with the product launching schedule of our Group and the development cycle of games of one or two years.

The total expenses of Fuzhou Tianmeng increased from US\$5.0 million in 2011 to US\$7.5 million in 2012. During the five months ended 31 May 2013, the total expenses of Fuzhou Tianmeng amounted to US\$3.5 million, up from US\$2.2 million during the same period in 2012. The growth in total expenses of Fuzhou Tianmeng during the Track Record Period was mainly attributable to (i) the overall rise in payroll and related costs of Fuzhou Tianmeng; and (ii) the payment of US\$0.8 million to Fuzhou Tianji in return for the provision of technical services provided by Fuzhou Tianji in the five months ended 31 May 2013 under the terms of the Structure Contract.

Benefited from the growth of its revenue, in particular from the revenue arising from the transfer of intellectual property rights to IGG Singapore, Fuzhou Tianmeng recorded net profit of US\$4.5 million and US\$316,000 in 2012 and the five months ended 31 May 2013, respectively. Going forward, Fuzhou Tianji will require Fuzhou Tianmeng to transfer 100% Fuzhou Tianmeng’s total revenue deducting all related expenses, costs and taxes in accordance with the Structured Contracts through technical service fees on a quarterly basis.

As Fuzhou Tianji has the technical capability to develop game software and Fuzhou Tianmeng, which holds the ICP license, may operate the relevant games according to the Telecommunications Regulations (電信條例), the Administrative Measures for Telecommunications Business Operating Licenses (電信業務經營許可證管理辦法) and other applicable laws and regulations, details of which are set out in “Regulatory Overview — PRC Regulations — Regulation on Telecommunications Industry” of this document. Fuzhou Tianji, Fuzhou Tianmeng, the shareholders of Fuzhou Tianmeng entered into the Structured Contracts in 2007, supplemental agreements of which were entered into in 2009 and 2013, respectively, and provided Fuzhou Tianji with effective control over and (to the extent permitted by the PRC laws) the right to acquire the equity interests in and/or assets of Fuzhou Tianmeng. Pursuant to the Structured Contracts, our Group was also able to recognise and receive the economic benefits of the business and operation of Fuzhou Tianmeng. We intend to exercise such right and unwind the Structured Contracts as soon as possible, if and when the relevant PRC laws permit majority foreign ownership in the value-added telecommunication or foreign ownership in Internet content and information services which we operate.

Pursuant to the FITE Regulations, a foreign investor wishing to acquire any equity interest in a value-added telecommunications business in the PRC must, among other requirements, demonstrate a good track record and experience in providing value-added telecommunications services. However, as advised by our PRC legal advisers, there are no administrative or implementing rules in the PRC defining the term “a good track record and experience in providing value-added telecommunication services overseas”. The relevant governmental authority has great discretion in determining whether a foreign investor has satisfied such “good record and experience”. Our Directors believe that, with our record and experience in providing value-added telecommunications services in Singapore, the United States and other overseas countries, we may be able to demonstrate to the relevant



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governmental authority that we have well satisfied the good record and experience requirement. Our Directors undertake to provide periodic updates in our annual/interim reports regarding the qualification requirements as stipulated under the FITE Regulations, including the latest relevant regulatory development as well as our plan and progress in acquiring the relevant experience to meet these qualification requirements under the FITE Regulations.

Mr. Zongjian Cai and Mr. Yuan Chi undertake to our Company that in the event that the Company acquires Fuzhou Tianmeng’s shares when unwinding the Structured Contracts, they shall return to our Company any consideration they receive beyond the nominal consideration of RMB1.

### **(B) Summary of Structured Contracts**

The following Structured Contracts were entered into in 2007 and their supplemental agreements were entered into in 2009 and 2013, respectively:

- (i) Call Option Agreement: on 30 November 2007, Fuzhou Tianji, Fuzhou Tianmeng and the Founders entered into an exclusive acquisition rights agreement (as supplemented by a supplemental agreement dated 16 September 2013 entered into by the same parties, collectively the “Call Option Agreement”), pursuant to which the Founders irrevocably granted the exclusive right to Fuzhou Tianji to require the Founders to transfer their equity interest in Fuzhou Tianmeng to Fuzhou Tianji.
- (ii) Equity Pledge Agreement: on 30 November 2007, Fuzhou Tianji and the Founders entered into an equity interest pledge agreement (as supplemented by supplemental agreements dated 5 January 2009 and 16 September 2013, respectively, entered into by the same parties, collectively the “Equity Pledge Agreement”), pursuant to which Fuzhou Tianji was entitled to exercise its rights to sell the Founders’ pledged interests in the registered capital of Fuzhou Tianmeng on occurrence of certain specified events.
- (iii) Power of Attorney of Mr. Zongjian Cai: on 30 November 2007, Mr. Zongjian Cai issued a power of attorney (as supplemented by a supplemental letter of power of attorney dated 16 September 2013 issued by Mr. Zongjian Cai, collectively the “Power of Attorney of Mr. Zongjian Cai”), pursuant to which Mr. Zongjian Cai authorised Fuzhou Tianji to exercise all the shareholders’ rights of Mr. Zongjian Cai in Fuzhou Tianmeng.
- (iv) Power of Attorney of Mr. Yuan Chi: on 30 November 2007, Mr. Yuan Chi issued a power of attorney (as supplemented by a supplemental letter of power of attorney dated 16 September 2013 issued by Mr. Yuan Chi, collectively the “Power of Attorney of Mr. Yuan Chi”), pursuant to which Mr. Yuan Chi authorised Fuzhou Tianji to exercise all the shareholders’ rights of Mr. Yuan Chi in Fuzhou Tianmeng.
- (v) Exclusive Service Agreement: on 30 November 2007, Fuzhou Tianji and Fuzhou Tianmeng entered into an exclusive technical consultation and service agreement (as supplemented by supplemental agreements dated 5 January 2009 and 16 September 2013, respectively, entered into by the same parties, collectively the “Exclusive Technical Consulting Service

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Agreement”), pursuant to which Fuzhou Tianji would provide technical support and consultation services to Fuzhou Tianmeng in consideration of services fees equivalent to the total revenue less all the related costs, expenses and taxes payable by Fuzhou Tianmeng, to be paid on a quarterly basis.

- (vi) Online Game Licensing Agreement: on 16 September 2013, Fuzhou Tianji and Fuzhou Tianmeng entered in an agreement for online game licensing (the “**Online Game Licensing Agreement**”), pursuant to which Fuzhou Tianji will license various online game softwares to Fuzhou Tianmeng for operation in the PRC market for a consideration of an initial licensing fee and commissions payable on a quarterly basis according to a percentage generally accepted in the market and such commission shall be a fair value.

Fuzhou Tianmeng and Fuzhou Tianji originally entered into a domain name transfer agreement, a domain name license agreement, a software and copyright transfer agreement and a software and copyright license agreement, all dated 30 November 2007. Given substantial domain names and software copyrights originally held by Fuzhou Tianmeng were transferred to IGG Singapore in January 2010, these agreements have never been actually implemented. The Company issued a confirmation on 16 September 2013 to confirm that these agreements were terminated.

The key terms of the Structured Contracts are set out below:

### *Call Option Agreement*

The Call Option Agreement provided that Mr. Zongjian Cai and Mr. Yuan Chi irrevocably granted the exclusive right to Fuzhou Tianji or its designee(s) to acquire equity interest in or assets of Fuzhou Tianmeng as and when permitted by the PRC laws. The amount of consideration payable by Fuzhou Tianji to the equity holders of Fuzhou Tianmeng shall be RMB1 or the lowest possible amount permissible under the applicable PRC law.

In accordance with the terms under the Call Option Agreement, without the prior written consent of Fuzhou Tianji or its parent company, Mr. Zongjian Cai and Mr. Yuan Chi are not allowed to sell, transfer, pledge and/or dispose of their equity interests; further, Fuzhou Tianmeng is not allowed to sell, transfer, pledge and/or dispose of its assets or incomes or other interests.

Fuzhou Tianmeng undertakes that it will, among other matters:

- (i) without the written approval of Fuzhou Tianji or IGG Inc, not amend its article of association nor increase or decrease its registered capital;
- (ii) without the written approval of Fuzhou Tianji or IGG Inc, not sell, transfer, disposal, or deal with its assets in any way;
- (iii) without the written approval Fuzhou Tianji or IGG Inc, not enter into loan transaction (except as required in the ordinary course of business);

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- (iv) without the written approval of Fuzhou Tianji or IGG Inc, not enter into material contracts (except as required in the ordinary course of business);
- (v) without the written approval of Fuzhou Tianji or IGG Inc, not merge with other enterprises or invest in other enterprises;
- (vi) operate the business of Fuzhou Tianmeng on a normal basis to maintain the assets value of Fuzhou Tianmeng, and not do anything to materially affect Fuzhou Tianmeng’s operation or assets value;
- (vii) without the written approval of Fuzhou Tianji or IGG Inc, not declare or pay the dividends to its shareholders;
- (viii) take all necessary actions or sign all necessary documents to protect the ownership rights of Fuzhou Tianji in all assets of Fuzhou Tianmeng; and
- (ix) appoint directors of Fuzhou Tianmeng according to the instruction of Fuzhou Tianji.

Prior to exercising the call option to acquire all equity interest in or assets of Fuzhou Tianmeng by Fuzhou Tianji or its designee(s) and in the event of death, bankruptcy or divorce of the shareholders of Fuzhou Tianmeng resulting in a change in ownership of its shares, all registered shareholders of Fuzhou Tianmeng agreed that (i) the rights and obligations under the Call Option Agreement shall continue to bind on their successors; and (ii) the Call Option Agreement shall prevail over their wills, divorce agreements, debts arraignment and other legal instruments in any forms entered into by them after the signing of the Call Option Agreement, unless prior written approval of Fuzhou Tianji has been obtained.

In addition, Mr. Zongjian Cai and Mr. Yuan Chi, as equity interest holders of Fuzhou Tianmeng, undertake that they will, among other matters:

- (i) without the written approval of Fuzhou Tianji or IGG Inc, not sell, transfer or deal with their equity interests in Fuzhou Tianmeng in any way;
- (ii) without the written approval of Fuzhou Tianji or IGG Inc, not cause or agree Fuzhou Tianmeng to merge with other enterprises or invest in other enterprises;
- (iii) take all necessary actions or sign all necessary documents to protect the rights of Fuzhou Tianji in Fuzhou Tianmeng;
- (iv) upon request by Fuzhou Tianji, unconditionally transfer their equity interest in Fuzhou Tianmeng to Fuzhou Tianji or the entities or persons designated by Fuzhou Tianji, and give up the pre-emptive rights they have over Fuzhou Tianmeng in accordance with the PRC laws and regulations, and the articles of association of Fuzhou Tianmeng;

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- (v) in the event of liquidation of Fuzhou Tianmeng, any assets of Fuzhou Tianmeng (excluding the tax, social insurance, and other statutory compensations) shall be transferred to Fuzhou Tianji or another entity of our Group at the lower of (i) RMB1.0; and (ii) the lowest consideration permitted under the relevant laws and regulations with any amount and any amount in excess of RMB1.0 will be reimbursed by the shareholders of Fuzhou Tianmeng;
- (vi) they will not exercise any right of initiating litigation or applying of arbitration under any of the Structured Contracts; and
- (vii) they will not seek any legal release relating to any of the Structured Contracts.

In addition, an undated equity interest transfer agreement (“**Transfer Agreement**”) for the transfer of all the registered capital of Fuzhou Tianmeng including all rights and obligations attached to the registered capital, unilaterally executed by Mr. Zongjian Cai and Mr. Yuan Chi was appended to the Call Option Agreement. Pursuant to the supplemental Call Option Agreement, it is agreed that if Mr. Zongjian Cai or Mr. Yuan Chi breaches any of the terms and conditions under any of the Structured Contracts, Fuzhou Tianji or its nominee will be entitled to execute the Transfer Agreement and date the same.

The formation of the Call Option Agreement, its validity, execution, revision, interpretation and termination shall be governed by the laws of the PRC. All disputes arising from the execution of, or in connection with the Call Option Agreement shall be settled through good faith negotiations between both parties hereto. In case no settlement to disputes can be reached within 30 days upon receipt of negotiation notice, the disputes shall then be submitted to CIETAC in Beijing for arbitration in accordance with the applicable arbitration rules and the procedures for the said Commission. The arbitration decision shall be final and binding upon both parties. Provided that applicable PRC laws and regulations and arbitration rules are being complied with, the CIETAC may grant relief over the shares or assets of Fuzhou Tianmeng, injunctive relief (e.g. for the conduct of business or to compel the transfer of assets), and order the winding up of Fuzhou Tianmeng. In addition, the courts of Hong Kong, Cayman Islands, the PRC or the places where IGG Inc’s or Fuzhou Tianmeng’s principal assets are located will have the power to grant interim remedies in support of the arbitration pending formation of the arbitral tribunal or in appropriate cases.

The term for the Call Option Agreement shall continue indefinitely until all assets or equity interests of Fuzhou Tianmeng are transferred to Fuzhou Tianji or its designee and registration process required thereafter has been completed with the relevant local authorities.

### *Exclusive Service Agreement*

For the two years ended 31 December 2012, Fuzhou Tianmeng did not pay any technical service fees to Fuzhou Tianji. In 2011, no technical service fees were paid since Fuzhou Tianmeng recorded a net loss of US\$0.8 million. In 2012, while Fuzhou Tianmeng recorded a net profit of US\$4.5 million, as it had been operating at loss in the past and working capital was needed for its future day-to-day operations, mainly including research and development, and

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further development, therefore, Fuzhou Tianmeng requested not to pay technical service fees to Fuzhou Tianji for the years ended 31 December 2010, 2011 and 2012 respectively. Fuzhou Tianji agreed to such arrangement and formally approved to waive such fees according to the confirmation letters issued by Fuzhou Tianji dated 10 April 2011, 10 April 2012 and 10 April 2013 respectively. Since Fuzhou Tianji has its own operation and its sustainable operation does not fully rely on the technical services fees to be paid by Fuzhou Tianmeng, therefore, the technical services fees does not equal Fuzhou Tianji’s revenue. Apart from the technical services fees, Fuzhou Tianji’s revenue is also generated from its customer services to IGG Singapore. Going forward, Fuzhou Tianji will require Fuzhou Tianmeng to transfer its revenues according to the Exclusive Service Agreement, details of which are set forth as followings.

Pursuant to the Exclusive Service Agreement, Fuzhou Tianmeng agreed to pay a fee to Fuzhou Tianji in return for Fuzhou Tianji providing exclusive technical services as required by Fuzhou Tianmeng to support its operations. According to the Exclusive Service Agreement, unless otherwise agreed by both parties, Fuzhou Tianji would provide technical support and consultation services to Fuzhou Tianmeng, as the consideration, and the technical services fees will be paid on a quarterly basis and equal to Fuzhou Tianmeng’s total revenue deducting all related expenses, costs and taxes payable by Fuzhou Tianmeng.

Our Company is of the view that that it is fair and reasonable for Fuzhou Tianji to be entitled to all the economic benefits generated by the business operated by Fuzhou Tianmeng through the Structured Contracts for the following reasons: (i) Pursuant to the Exclusive Service Agreement, Fuzhou Tianji agreed to provide technical support and consultation services to Fuzhou Tianmeng including, but not limited to, (a) developing database software and licensing them to Fuzhou Tianmeng, (b) providing technical solutions to the operations of Fuzhou Tianmeng, (c) providing service support to Fuzhou Tianmeng’s Internet systems, including maintenance, security, testing and repairs, (d) provide consulting services with respect to Fuzhou Tianmeng’s hardware and software procurement, and (e) provide technical training and support to the staff and management of Fuzhou Tianmeng. To receive the above-mentioned services, Fuzhou Tianmeng shall pay a service fee on a quarterly basis equal to all its revenue deducting all related expenses, costs and taxes payable by Fuzhou Tianmeng; and (ii) as a support to Fuzhou Tianmeng’s operation, Fuzhou Tianji entered into with Fuzhou Tianmeng the Online Game Licensing Agreement, pursuant to which Fuzhou Tianji agreed to license certain self-developed game softwares to Fuzhou Tianmeng and as a consideration, Fuzhou Tianji agreed to charge license fee on Fuzhou Tianmeng pursuant to the customarily accepted practice in the gaming industry and on a fair and reasonable basis. Such arrangement enables Fuzhou Tianmeng to transfer the substantial portion of Fuzhou Tianmeng’s revenue to Fuzhou Tianji.

In the event that Fuzhou Tianmeng incurred any loss or encountered any operational crisis, Fuzhou Tianji may, but is not obliged to, provide financial support to Fuzhou Tianmeng, and Fuzhou Tianmeng shall unconditionally accept the decision of Fuzhou Tianji as to whether Fuzhou Tianmeng should continue its business.

In accordance with the terms under the Exclusive Service Agreement, without the prior written consent of Fuzhou Tianji, Fuzhou Tianmeng may not engage with any other third party to provide the similar technical services.

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In the event of death, bankruptcy or divorce of the shareholders of Fuzhou Tianmeng resulting in a change in ownership of its shares, all shareholders of Fuzhou Tianmeng agreed that (i) the rights and obligations under the Exclusive Service Agreement shall continue to bind on their successors; and (ii) the Exclusive Service Agreement shall prevail over their wills, divorce agreements, debts arrangements and other legal instruments in any forms entered into by them after the signing of the Exclusive Service Agreement, unless prior written approval of Fuzhou Tianji has been obtained.

The Exclusive Service Agreement shall be governed by the laws of the PRC. All disputes arising from the execution of, or in connection with the Exclusive Service Agreement shall be settled through good faith negotiations between both parties hereto. In case no settlement to disputes can be reached within 30 days upon receipt of negotiation notice, the disputes shall then be submitted to CIETAC (China International Economic and Trade Arbitration Commission) in Beijing for arbitration in accordance with the applicable arbitration rules and the procedures for the said Commission. The arbitration decision shall be final and binding upon both parties. Provided that applicable PRC laws and regulations and arbitration rules are being complied with, CIETAC may grant reliefs over the shares or assets of Fuzhou Tianmeng, injunctive relief (e.g. to conduct the business or to compel the transfer of assets), and order the winding up of Fuzhou Tianmeng. In addition, the courts of Hong Kong, Cayman Islands, the PRC or the places where IGG Inc’s or Fuzhou Tianmeng’s principal assets are located will have the power to grant interim remedies in support of the arbitration pending formation of the arbitral tribunal or in appropriate cases.

The term for the Exclusive Service Agreement shall continue indefinitely until all assets or equity interests of Fuzhou Tianmeng are transferred to Fuzhou Tianji or its designee and registration process required thereafter has been completed with the relevant local authorities.

### *Equity Pledge Agreement*

Pursuant to the Equity Pledge Agreement, Mr. Zongjian Cai and Mr. Yuan Chi granted Fuzhou Tianji a continuing first priority security interests over their respective equity interests in Fuzhou Tianmeng (the “**Pledged Securities**”), representing all of the equity interest in Fuzhou Tianmeng’s registered capital, for the purpose of securing the performance of the contractual obligations by Fujian Tianmeng or under the Structured Contracts.

The Equity Pledge Agreement shall be governed by the laws of the PRC. All disputes arising from the execution of, or in connection with the Equity Pledge Agreement shall be settled through good faith negotiations between both parties hereto. In case no settlement to disputes can be reached within 30 days upon receipt of negotiation notice, the disputes shall then be submitted to CIETAC in Beijing for arbitration in accordance with the applicable arbitration rules and the procedures for the said Commission. The arbitration decision shall be final and binding upon both parties. Provided that applicable PRC laws and regulations and arbitration rules are being complied with, CIETAC may grant reliefs over the shares or assets of Fuzhou Tianmeng, injunctive relief (e.g. for the conduct of business or to compel the transfer of assets), and order

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the winding up of Fuzhou Tianmeng. In addition, the courts of Hong Kong, Cayman Islands, the PRC or the places where IGG Inc’s or Fuzhou Tianmeng’s principal assets are located will have the power to grant interim remedies in support of the arbitration pending formation of the arbitral tribunal or in appropriate cases.

In the event of death, bankruptcy or divorce of the registered shareholders of Fuzhou Tianmeng resulting in a change in ownership of its shares, all registered shareholders of Fuzhou Tianmeng agreed that (i) the rights and obligations under the Equity Pledge Agreement shall continue to bind on their successors; and (ii) the Equity Pledge Agreement shall prevail over their wills, divorce agreements, debts arraignment and other legal instruments in any forms entered into by them after the signing of the Equity Pledge Agreement, unless prior written approval of Fuzhou Tianji has been obtained.

The term for the Equity Pledge Agreement shall continue indefinitely until all assets or equity interests of Fuzhou Tianmeng are transferred to Fuzhou Tianji or its designee and registration process required thereafter has been completed with the relevant local authorities. The pledge under the Equity Pledge Agreement was duly registered on 5 January 2009.

### **Power of Attorney**

The Power of Attorney provided that Mr. Zongjian Cai and Mr. Yuan Chi irrevocably authorized the Directors of IGG Inc and their successors or IGG Inc’s liquidator to exercise all the shareholders’ rights of Mr. Zongjian Cai and Mr. Yuan Chi in Fuzhou Tianmeng, including but not limited to the following:

- (i) attending shareholders’ meetings of Fuzhou Tianmeng and signing shareholders’ meeting resolutions, minutes or other documents which shareholders of Fuzhou Tianmeng are entitled to sign;
- (ii) exercising all the rights as shareholders of Fuzhou Tianmeng under the applicable laws and articles of association of Fuzhou Tianmeng, including voting rights and right to sell, transfer, pledge shares in Fuzhou Tianmeng or any other right with respect to a portion or all of the equity interest in Fuzhou Tianmeng;
- (iii) the designation or selection of legal representative, executive director, supervisors, directors, general manager, or other management staff of Fuzhou Tianmeng; and
- (iv) According to Shareholders’ resolution, file with the relevant government authorities for registration with administrations of industry and commerce for Fuzhou Tianmeng.

The exercise of the aforesaid rights as shareholders of Fuzhou Tianmeng is in the discretion of Fuzhou Tianji, and does not require the consent or approval of the shareholders of Fuzhou Tianmeng. The term of the Power of Attorney shall continue until all assets or equity interests of Fuzhou Tianmeng are transferred to Fuzhou Tianji or its designee and registration process required thereafter has been completed with the relevant local authorities.

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In the event of death, bankruptcy or divorce of the shareholders of Fuzhou Tianmeng resulting in a change in ownership of its shares, all shareholders of Fuzhou Tianmeng agreed that (i) they shall ensure that their successors issue the same Power of Attorney designating their shareholders’ rights to Directors of IGG Inc and their successors; and (ii) the Power of Attorney shall prevail over their wills, divorce agreements, debts arrangements and other legal instruments in any forms entered into by them after the signing of the Power of Attorney, unless prior written approval of Fuzhou Tianji has been obtained.

The Power of Attorney shall be governed by the laws of the PRC. All disputes arising from the execution of, or in connection with the Power of Attorney shall be settled through good faith negotiations between both parties hereto. In case no settlement to disputes can be reached within 30 days upon receipt of negotiation notice, the disputes shall then be submitted to CIETAC in Beijing for arbitration in accordance with the applicable arbitration rules and the procedures for the said Commission. The arbitration decision shall be final and binding upon both parties. Provided that applicable PRC laws and regulations and arbitration rules are being complied with, CIETAC may grant reliefs over the shares or assets of Fuzhou Tianmeng, injunctive relief (e.g. for the conduct of business or to compel the transfer of assets), and order the winding up of Fuzhou Tianmeng. In addition, the courts of Hong Kong, Cayman Islands, the PRC or the places where IGG Inc’s or Fuzhou Tianmeng’s principal assets are located will have the power to grant interim remedies in support of the arbitration pending formation of the arbitral tribunal or in appropriate cases.

The Power of Attorney shall continue indefinitely until all assets or equity interests of Fuzhou Tianmeng are transferred to Fuzhou Tianji or its designee and registration process required thereafter has been completed with the relevant local authorities.

### ***Online Game Licensing Agreement***

Pursuant to the Online Game Licensing Agreement, Fuzhou Tianji agreed to grant to Fuzhou Tianmeng usage rights on various online game softwares for operation in the PRC. As the consideration, Fuzhou Tianmeng is required to pay to Fuzhou Tianji (i) an initial licensing fee, payable after the signing date; and (ii) commissions payable on a quarterly basis according to a percentage generally accepted in the market and such commission shall be a fair value.

In the event of death, bankruptcy or divorce of the registered shareholders of Fuzhou Tianmeng resulting in a change in ownership of its shares, all registered shareholders of Fuzhou Tianmeng agreed that (i) the rights and obligations under the Online Game Licensing Agreement shall continue to bind on their successors; and (ii) the Online Game Licensing Agreement shall prevail over their wills, divorce agreements, debts arraignment and other legal instruments in any forms entered into by them after the signing of the Online Game Licensing Agreement, unless prior written approval of Fuzhou Tianji has been obtained.

The Online Game Licensing Agreement is governed by the laws of the PRC. All disputes arising from the execution of, or in connection with the Online Game Licensing Agreements shall be settled through good faith negotiations between both parties hereto. In case no settlement to disputes can be reached within 30 days upon receipt of negotiation notice, the disputes shall then



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be submitted to CIETAC (China International Economic and Trade Arbitration Commission) in Beijing for arbitration in accordance with the applicable arbitration rules and the procedures for the said Commission. The arbitration decision shall be final and binding upon both parties. Provided that applicable PRC laws and regulations and arbitration rules are being complied with, CIETAC may grant reliefs over the shares or assets of Fuzhou Tianmeng, injunctive relief (e.g. to conduct the business or to compel the transfer of assets), and order the winding up of Fuzhou Tianmeng. In addition, the courts of Hong Kong, Cayman Islands, the PRC or the places where IGG Inc’s or Fuzhou Tianmeng’s principal assets are located will have the power to grant interim remedies in support of the arbitration pending formation of the arbitral tribunal or in appropriate cases.

The term of the Online Game Licensing Agreement shall continue indefinitely until all assets or equity interests of Fuzhou Tianmeng are transferred to Fuzhou Tianji or its designee and registration process required thereafter has been completed with the relevant local authorities.

### **(C) Settlement of Dispute**

All the agreements comprising the Structured Contracts provide for dispute resolution by way of arbitration in Beijing by the arbitral body of CIETAC in accordance with its then prevailing arbitration rules. Each of the Structured Contracts is governed by PRC law.

Under the PRC law, the non-defaulting party can request the court or the arbitral tribunal to grant remedies by requiring the defaulting parties to perform specific obligations under the contract, including non-monetary obligations, or adopt interim measures such as freezing the defaulting party’s properties temporality to avoid non-performance of arbitral award. However, an arbitral body does not have the power to grant any liquidation or winding-up order for the purpose of protecting assets of or equity interest in case of disputes. In the event of non-compliance with such award, enforcement measures may be sought from the court by the arbitral body. However, at the time of enforcement, the court has the power to review the arbitral award and may not support the award of an arbitral body when deciding whether to take enforcement measures under certain circumstances.

In addition, under the PRC laws, court or judicial authorities in the PRC generally do not award remedies over the shares and/or assets of Fuzhou Tianmeng, injunctive relives or winding-up of Fuzhou Tianmeng as interim remedies before there is any final outcome of arbitration.

Furthermore, in respect of the breaches of Fuzhou Tianmeng and its shareholders, to the extent permitted by the relevant laws, Fuzhou Tianji is entitled to apply to the court or arbitrary tribunal with competent jurisdiction for statutory or other remedies over the shares, land or other assets held by the defaulting parties (including but not limited to remedies over the business operations of Fuzhou Tianmeng, the mandatory transfer of assets of Fuzhou Tianmeng or its shareholders, or the liquidation of Fuzhou Tianmeng). Each of the shareholders of Fuzhou Tianmeng, namely Mr. Zongjian Cai and Mr. Yuan Chi, has also irrevocably undertaken that, in the event of liquidation of Fuzhou Tianmeng, any assets of Fuzhou Tianmeng (excluding winding-up expenses, tax, social insurance, and other

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statutory compensations) shall be transferred to Fuzhou Tianji or another entity of our Group at the lower of (i) RMB1.0; and (ii) the lowest consideration permitted under the relevant laws and regulations and any amount in excess of RMB1.0 will be reimbursed by the shareholders of Fuzhou Tianmeng.

### **(D) Succession**

The provisions set out in the Structured Contracts are also binding on the successors of the parties to the Structured Contracts (to the extent that such parties are individuals). Although the Structured Contracts do not specify the identify of successors to the parties, under the succession law of the PRC, the statutory successors include the spouse, children, parents, brothers, sisters, paternal grandparents and the maternal grandparents and any breach by the successors would be deemed to be a breach of the Structured Contracts. In case of a breach, Fuzhou Tianji can enforce its rights against the successors. Therefore, the Directors believe that (i) the Structured Contracts are sufficient for the protection of our Group even in the event of death of one or more of the parties to the Structured Contracts, and (ii) Fuzhou Tianji can enforce its right under the Structured Contracts against the successors of the parties to the Structured Contracts.

### **(E) PRC legal opinions on the Structured Contracts**

In the opinion of Jingtian & Gongcheng, our PRC legal advisers, (i) Fuzhou Tianmeng has been duly incorporated and is validly existing, and its establishment is valid, effective and complies with the relevant PRC laws, and Fuzhou Tianmeng has also obtained all necessary approvals and finished all registration as required by PRC laws and regulations and has the capacity to carry out business operations in accordance with its licence; (ii) each of the Structured Contracts among Fuzhou Tianji, Fuzhou Tianmeng, Mr. Zongjian Cai and Mr. Yuan Chi is valid and binding on the parties thereto; (iii) each of the Structured Contracts complies with provisions of the articles of association of Fuzhou Tianmeng and Fuzhou Tianji; (iv) each of the Structured Contracts does not violate any compulsory requirements of any PRC laws, administrative regulations or the articles of association of Fuzhou Tianmeng and Fuzhou Tianji; and (v) according to the Contract Law of the PRC, the signing and effectiveness of each of the Structured Contracts does not require any approvals from or filing with the PRC governmental authorities.

In accordance with Article 3 of Online Game Measures and Article 2 of Interpretation of the State Commission Office for Public Sector Reform on Several Provisions relating to Animation, Online Game and Comprehensive Law Enforcement in Culture Market in the ‘Three Provisions’ jointly promulgated by the MOC, the State Administration of Radio Film and Television (SARFT) and the General Administration of Press and Publication of the PRC (GAPP) (《中央編辦對文化部、廣電總局、新聞出版總署(“三定”)規定)中有關動漫、網絡遊戲和文化市場綜合執法的部分條文的解釋》) (the “Interpretation”) issued by the State Commission Office for Public Sector Reform (a division of the State Council) effective from 7 September 2009, MOC is the competent government authority for the administration of online games in the PRC. Articles 6 and 7 of Online Game Measures provide that a company engaged in online game business shall be equipped with certain conditions and obtain the Network Cultural Business Permit (《網絡文化經營許可證》) from the relevant provincial level branch

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of MOC. Articles 29-35 of Online Game Measures and Article 2 of the Interpretation also provide that the county-level and upper-level branches of the MOC, together with their affiliates, have the authority to enforce online game regulations and impose penalties on online game companies that violate the relevant regulations or rules.

Fuzhou Tianmeng is located in Fuzhou, Fujian Province, and engaged in the online game development and publishing business. Therefore, according to the aforementioned regulations, Fujian Department of Culture (福建省文化廳) is competent government authority to administer the online game business of Fuzhou Tianmeng in the PRC. As confirmed by our PRC legal advisers, Fujian Department of Culture (福建省文化廳) is responsible for the review, approval and issuance of the Network Culture Business Permits and general administration of online game companies in Fujian Province.

According to our PRC legal advisers’ telephone interview on 29 April 2013 with the GAPP, since the Structured Contracts were entered into before the effective date of the GAPP Notice, the GAPP had not and would not request the Structured Contracts to be declared void. Furthermore, our Company has further conducted a telephone interview on 5 September 2013 with an official at the GAPP’s Internet Publication Office under the Technology and Digital Publication Department, and such official has confirmed that GAPP will not declare void of contractual arrangement entered into prior to the effective date of the GAPP Notice just because that supplemental agreements to such arrangement were entered after the effective date of the GAPP Notice.

In addition, the GAPP confirmed that no implementation rule on or interpretation of Article 4 of the GAPP Notice has been issued by the GAPP or any other PRC regulatory authority. GAPP has also confirmed that it has not imposed any penalties on contractual arrangements entered into prior to the effective date of the GAPP Notice. Furthermore, pursuant to the confirmation letter issued by the Fujian Press and Publication Bureau, Fuzhou Tianmeng is in compliance with PRC laws and regulations concerning Internet publication and has not received any penalties due to violations of any relevant laws or regulations. Moreover, Fujian Department of Culture confirmed that they have the regulatory authority to regulate the online gaming industry in Fujian Province, as to whether our Structured Contracts violate the relevant PRC laws and regulations on foreign investment in online gaming industry.

In addition, our PRC legal advisers conducted an interview with Fujian Department of Culture (福建省文化廳) on 18 September 2013, who provided oral confirmation that

- (i) Fujian Department of Culture has the sole regulatory authority over the online game industry in Fujian Province, and they are competent in regulating online game business in Fujian Province;
- (ii) No implementation rules on or interpretation of Article 4 of the GAPP Notice have been issued by any PRC regulatory authority;
- (iii) They have no objection to the Structured Contracts;

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- (iv) The Structured Contracts do not violate any PRC laws, regulations, rules or notice concerning online game operations; and
- (v) The Structured Contracts will not result in any administrative proceedings or penalties on Fuzhou Tianmeng.

Our PRC legal advisers are of the view that GAPP is a competent government authority in regulating and administering Internet publication and Fujian Culture Department is the competent local government authority in regulating and administering culture activities in Fujian Province. Their respective personnel consulted in the interviews are competent to interpret the relevant laws, regulations and rules of the PRC in respect to online game industry.

Since the Structured Contracts were entered into prior to the effective date of the GAPP Notice and based on the abovementioned interviews, our PRC legal advisers are of the view that the adoption of Structured Contracts does not constitute a breach or violation of the GAPP Notice in the view of the governmental authorities competent to regulate the online gaming industry in the PRC and will not result in any administrative proceedings or penalties on the Company.

### **(F) Compliance with the Structured Contracts**

Our Group has adopted the following measures to ensure the effective operation of our Group with the implementation of the Structured Contracts and our compliance with the Structured Contracts:

- major issues arising from the implementation and compliance with the Structured Contracts or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion on a occurrence basis;
- our Board will review the overall performance of and compliance with the Structured Contracts at least once a year;
- our Company will engage external legal advisers or other professional advisers, if necessary, to assist the Board to review the implementation of the Structured Contracts, review the law-compliance of Fuzhou Tianji and Fuzhou Tianmeng deal with specific issues or matters arising from the Structured Contracts.

In addition, we believe that our Directors are able to perform their roles in our Group independently and our Group is capable of managing its business independently under the following measures:

- (a) the decision-making mechanism of the Board set out in the Articles includes provisions to avoid conflict of interest by providing, amongst other things, that in the event of conflict of interest in such contract or arrangement which is material, a Director shall declare the nature of his or her interest at the earliest meeting of the Board at which it is practicable for him or her to do so, and if he or she is to be regarded as having material interest in any contracts or arrangements, such Director shall abstain from voting and not be counted in the quorum;

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- (b) each of our Directors is aware of his or her fiduciary duties as a Director which requires, amongst other things, that he or she acts for the benefit and in the best interests of our Group;
- (c) we have appointed two non-executive Directors and three independent non-executive Directors, comprising the majority of our Board, to provide a balance of the number of interested and independent Directors with a view to promoting the interests of our Company and our Shareholders as a whole; and

In addition to the Equity Pledge Agreement, the following measures are also in place to ensure that the shareholders of Fuzhou Tianmeng will discharge their obligations under the Structured Contracts:

- (1) The Equity Pledge Agreement has been registered with the Administration for Industry and Commerce of Fuzhou. In accordance with the Property Rights Law of the PRC (中華人民共和國物權法), the pledge interest shall be created at the time of registration of the pledge interest by the administration of industry and commerce. After registration, the share pledge shall be enforceable against a third party.
- (2) An undated equity interest transfer agreement (the “Transfer Agreement”) for the transfer of all the registered capital and assets of Fuzhou Tianmeng unilaterally executed by Mr. Zongjian Cai and Mr. Yuan Chi was appended with the Call Option Agreement. Pursuant to the Call Option Agreement, it is agreed between parties that if Mr. Zongjian Cai or Mr. Yuan Chi breaches any of the terms and conditions under any of the Structured Contracts, Fuzhou Tianji or its nominee will be entitled to execute the Transfer Agreement and date it the same as the breaching date and the transfer will take effect immediately upon the signing of the Transfer Agreement.
- (3) Fuzhou Tianmeng’s shareholders have confirmed that they will surrender their rights to any legal actions arising from the Structured Contracts, including, without limitation, the rights of bringing legal actions or applying for arbitration, and will not seek any form of legal relief relating to the Structured Contracts.

Our Company has adopted a number of measures to ensure that Fuzhou Tianji does not engage in any restricted business under the PRC laws, regulations and rules. First, the business scope of Fuzhou Tianji does not include the operation of the restricted business, and therefore it is not legally permitted to conduct such business. Second, the relevant operating licensing (including ICP license, Internet Culture Business License, and Internet Publishing License) are owned by Fuzhou Tianmeng instead of Fuzhou Tianji. Third, Fuzhou Tianmeng, not Fuzhou Tianji, owns the relevant assets and resources and employs the relevant personnel relating to the restricted business. In addition, our Group from time to time retains external legal advisers by way of general retainer and according to its needs and has set up an internal legal department in August 2013 to monitor its compliance with relevant laws, regulations and rules. Accordingly, our Group will be able to obtain timely legal advice in this aspect. During the Track Record Period and up to the Latest Practicable Date, Fuzhou Tianji was not engaged in any restricted business under the rules, regulations and laws of the PRC.

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Fuzhou Tianji has the necessary resources to discharge its various responsibilities under the Structured Contracts on an ongoing basis. In particular, as at the 31 May 2013, Fuzhou Tianji had an aggregate of 296 employees providing various services including (a) research and development of online games, (b) providing technical consultation and management services to Fuzhou Tianmeng in the ordinary course of business, (c) providing customer supporting services to IGG Singapore, and (d) managing the licensing activities of self-developed games to intra-group entities. In addition, our key management team in the PRC is retained by Fuzhou Tianji. Accordingly, Fuzhou Tianji has and will continue to have the resources and expertise in providing technical support and consultation services to Fuzhou Tianmeng.

Furthermore, the Company’s PRC legal advisers, Jingtian & Gongcheng are of the view that based on the tax certificates issued by the relevant tax authorities issued by relevant independent tax auditors, the types of taxes applicable to Fuzhou Tianji and Fuzhou Tianmeng are the same, and Fuzhou Tianmeng does not have a higher corporate income tax rate than Fuzhou Tianji based on the current status of applicable tax rate in these two companies. As such, the Structured Contracts and the transactions do not create any favourable impact on the tax liabilities of the Group. Thus, the Structured Contracts are not likely to be challenged by the PRC tax authorities.

Concur with Jingtian & Gongcheng’s legal opinions on the Structured Contracts, our Directors are of the view that each of the Structured Contracts conferring significant control and economic benefits from Fuzhou Tianmeng to our Company is enforceable under the PRC and local law. In addition, considering that, among others, (i) each of the Structured Contracts is legal and in compliance with the relevant laws and regulations and is binding on each of the parties to the Structured Contracts; (ii) each of the relevant parties to the Structured Contracts has the legal capacity to execute the Structured Contracts with appropriate legal rights and authorities; (iii) as advised by the PRC advisers, Jingtian & Gongcheng, Fuzhou Tianmeng complies with the provisions in the MIIT Notice, including but not limited to the requirements on Fuzhou Tianmeng relating to its ownership of domain names, trademarks and operating facilities; (iv) the Structured Contracts had not been challenged by the relevant authorities in the PRC as at the Latest Practicable Date; (v) the equity interests of Fuzhou Tianmeng shall not be transferred or otherwise disposed of by any of its equity holders without the written consent of Fuzhou Tianji to ensure that Fuzhou Tianji retains control over Fuzhou Tianmeng; (vi) the obligations of the equity holders of Fuzhou Tianmeng under the Structured Contracts are binding on all of their respective successors; (vii) all the directors in Fuzhou Tianmeng shall be nominated by Fuzhou Tianji and they are responsible for overseeing its business and operations. Other than by reason of retirement, resignation, incapacity or death, a director of Fuzhou Tianmeng may only be removed with the consent of Fuzhou Tianji; and (viii) all equity holders of Fuzhou Tianmeng have irrevocably authorised IGG Inc’s Directors or a nominee designated by IGG Inc’s Directors to exercise all their voting rights at general meetings, our Directors confirm that our Company is able to maintain due implementation of the provisions set forth in the Structured Contracts and the sound and proper operation of the Structured Contracts. To date, the Company has not encountered any interference or encumbrance from any PRC authorities in operating its business through Fuzhou Tianmeng under the Structured Contracts.

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Our PRC legal adviser has taken all possible actions and steps to enable it to reach the said conclusion. To reach its legal conclusions, our PRC legal adviser has conducted due diligence works on our interests in the PRC, studied relevant PRC legal issues, and on 29 April 2013 through anonymous telephone interviews, consulted the market management department under the information bureau of MIIT which is responsible for supervising and administrating the value-added telecommunications business in the PRC, as well as GAPP. Our PRC legal advisers are of the view that MIIT is the competent government authority in regulating and administering telecommunication services in the PRC and its personnel consulted in the interview is competent to interpret the relevant laws, regulations and rules of the PRC in respect to value-added communication services. In the verbal consultations, the MIIT have confirmed that they have not rendered or claimed void, or requested for confirmation on the validity and legality of any Structured Contracts. As (i) each of the Structured Contracts has been duly authorized, executed and delivered by the parties to the Structured Contracts and does not contravenes any compulsory provision of applicable PRC laws as promulgated by the National People’s Congress and administrative regulations; (ii) Fuzhou Tianmeng complies with the provisions in the MIIT Notice, including but not limited to the requirements on Fuzhou Tianmeng relating to its ownership of domain names, trademarks and operating facilities; (iii) according to our PRC legal adviser’s consultation, the relevant and competent authorities have not requested for confirmation on the validity and legality of the Structured Contracts since the issuance of the MIIT Notice or the “Three Determinations”, our PRC legal adviser has advised that no confirmation on the validity and legality of the Structured Contracts was required to be obtained from any authorities in the PRC under the PRC Contract Law; (iv) as confirmed by relevant competent governmental authorities, the adoption of Structured Contracts does not constitute a breach or violation of any PRC laws or regulations and will not result in any administrative proceedings or penalties on us in the view of the governmental authorities competent to regulate the online gaming industry in the PRC; (v) our Directors confirmed that the Structured Contracts had not been challenged by the relevant authorities in the PRC as at the Latest Practicable Date; and (vi) the Directors confirmed that as at the Latest Practicable Date, our Group had not encountered any interference or encumbrance from any PRC governing bodies in operating their business through Fuzhou Tianmeng under the Structured Contracts, our PRC legal adviser is of the view that each of the Structured Contracts is enforceable under the PRC Contract Law.

### **(G) Reported court decision relevant to Structured Contracts and the PRC Contract Laws**

Pursuant to Article 52 of the Contract Law of the PRC, under the following circumstances, a contract shall be void:

- (1) a contract is concluded through the use of fraud or coercion by one party to damage the interests of the State;
- (2) malicious collusion is conducted to damage the interests of the State, a collective or a third party;
- (3) an illegitimate purpose is concealed under the guise of legitimate acts;

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- (4) damaging to public interests; and
- (5) violating the compulsory provisions of laws and administrative regulations.

The Company’s PRC legal adviser, Jingtian & Gongcheng, is of the view that each of the Structured Contracts is legal, valid and binding on the parties thereto and each of the Structured Contracts does not violate any compulsory requirements of any PRC laws as promulgated by the National People’s Congress and administrative regulations. Meanwhile, according to prevailing academic views on Article 52 of the Contract Law of the PRC, the sub-clause 3 “an illegitimate purpose under the guise of legitimate acts” is a supplemental provision to sub-clause 5 and it stipulates a particular situation where a contract shall be deemed to be “violating the compulsory provisions of laws and administrative regulations”; hence if a contract does not violate any compulsory provisions of laws and administrative regulations, it shall not be considered void under sub-clause 3.

Notwithstanding the above, “an illegitimate purpose under the guise of legitimate acts” that is stipulated in Article 52 of the Contract Law of the PRC is only general legal provisions relevant to the legality and validity of the Structured Contracts and when disputes arise, the court or arbitration institution will decide on a case-by-case basis.

Reference is also made to the section headed “Risk Factors” in this document, pursuant to which it is disclosed that there is one reported court decision involving dispute on the contracts under the Structured Contracts. Except for these one court decision and two arbitration decisions reported in the New York Times Article, the Directors are not aware of any other court or arbitration decision which invalidated Structured Contracts.



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Based on the following, the Company’s PRC legal adviser, Jingtian & Gongcheng, is of the view that the reported court decision does not have a material impact on the legality and enforceability of the Structured Contracts:

- (1) According to the Company’s PRC legal adviser, Jingtian & Gongcheng, the contractual arrangement in above-mentioned reported court case, which involved a trust and lending agreement, is fundamentally different from the Structured Contracts, as followings;

### **Fundamental Differences Trust and Lending Agreement    Structured Contracts**

<b>Legal relationship</b>	An arrangement of shareholding entrustment, which is a unilateral entrusting legal relationship	An arrangement consisting of a series of agreements, including Call Option Agreement, Equity Pledge Agreement, Power of Attorney, Exclusive Service Agreement, which are bilateral legal relationship. Structured Contracts stipulate reciprocal rights and obligations for each party involved. Under the Structured Contracts, our Group is able to receive technical service fees from a domestic entity and has an option to purchase all of the equity rights of such domestic entity
<b>Purpose</b>	The relevant party is able to become an anonymous shareholder through such entrusting arrangement and the anonymous shareholder is able to enjoy legal status of a registered shareholder; the anonymous shareholder holds the relevant shares under the name of a registered shareholder	The purpose is to receive technical service fees from the domestic entity which is the holder of operating licences in the PRC and the Structured Contracts will be unwind as soon as the relevant PRC laws permit majority foreign ownership in the value-added telecommunication or foreign ownership in Internet content and information services
<b>Interest alignment</b>	Vulnerable to conflicts of interest because the trustee and the beneficiary are not the same person or entity	The major individual shareholders of domestic and overseas entities to the agreements are the same; thus, the likelihood of potential conflicts of interests is low

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<b>Fundamental Differences</b>	<b>Trust and Lending Agreement</b>	<b>Structured Contracts</b>
<b>Applicable regulations and regulatory environment</b>	<p>The subject company entrusted is a commercial bank. Pursuant to <i>Measures of China Banking Regulatory Commission for the Implementation of Administrative Licensing Matters Concerning Chinese-funded Commercial Banks</i> and other relevant PRC laws and regulations, the qualification of a shareholder of a commercial bank is subject to strict scrutiny by the competent banking regulatory commission</p>	<p>The domestic entity holds an ICP License, which in turn is controlled indirectly by the listed issuer. Similar arrangements contemplated under the Structured Contracts are adopted by other companies in the PRC engaging in the value-added telecommunications business and in the Internet industry for the purpose of [●]. Some renowned PRC Internet companies had received no-action letters from the CSRC before their [●]. Ministry of Industry and Information Technology of the PRC has not raised any objections to or imposed any regulatory measures on such arrangement.</p>
<b>Nature of interests</b>	<p>allowing the trustor to achieve shareholder status under <i>The Company Law of the People’s Republic of China</i> via trust arrangement</p>	<p>our Group will be able to enjoy the property rights of and obtain the profits and economic benefits from a domestic operating entity, namely Fuzhou Tianmeng; the principal purpose is to enjoy the property rights due to the party’s contractual rights in accordance to the PRC Contract Law</p>

- (2) the PRC adopts a civil law system and, unlike the common law system, does not require *stare decisis* doctrine, namely, prior court decisions do not have precedential authority in the PRC. Pursuant to the PRC laws, neither the judgments of the people’s courts nor the arbitral decisions of the arbitral tribunals may be taken as authority in deciding other cases, except for the cases specifically published by the Supreme People’s Court of the PRC as “guiding cases” (指導性案例) pursuant to the Regulation of Issues on Guiding Cases (《關於案例指導工作的規定》) issued by the same in 2010, which will be used as guidance by all levels of courts of law when judging similar cases. In addition, the Company’s PRC legal adviser confirmed that up to the Latest Practicable Date, the Supreme People’s Court has not published any Guiding Cases which ruled on the validity of VIE structure. Upon

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inquiry through the available public channels, the above-mentioned reported PRC court case is not a guiding case. On the above basis, our Directors and the Company’s PRC legal adviser, Jingtian & Gongcheng is of the view that the decision of the above-mentioned reported court case does not have any direct relevance to our Structured Contracts; and

- (3) as at the Latest Practicable Date, since the publication of the reported court decision, there were no implementing rules prohibiting the existence of Structured Contracts in the value-added communication service industry having been promulgated or implemented.

## **INVESTMENTS**

### **Series A Investment**

Pursuant to a Series A Preferred Share Purchase Agreement dated 30 November 2007 entered into by and among our Company, Duke Online, Edmond Online, IGG HK, Fuzhou Tianji, and Fuzhou Tianmeng, (i) our Company issued 5,375,000 Series A Preferred Shares to Series A Shareholders, and (ii) our Company issued warrants to Series A-1 Shareholders, exercisable at an aggregate price of US\$1,500,000 for 1,343,750 Series A-1 Shares. On the same date, the same parties entered into a shareholders’ agreement to confirm their respective rights and obligations.

Principle terms of the Series A Preferred Share Purchase Agreement and the shareholders agreement:

#### **Background of Series A Investors**

#### **IDG Group and Winston**

The IDG Group is comprised of two limited partnerships. Each member of the IDG Group is managed by its general partner, who has the full and exclusive power and authority to manage and control the fund and its business. Each member of the IDG Group also consists of limited partner or limited partners who merely play the passive function of injecting capital into the fund and have no voting or management rights. The members of the IDG Group are equity investment in portfolios with China-related business and operations. Prior to the investment into our Group, the IDG Group was [●]. Upon the [●], the IDG Group will hold approximately 21.96% Shares of our Company and will be treated as one of the substantial shareholders of our Company.

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Winston is a limited liability company incorporated in the BVI, wholly owned by Mr. Jingbo Wang, [●], prior to holding Shares through Winston. Winston was introduced to invest in us by the IDG Group. Apart from holding Shares in our Company, Winston is [●].

<b>Date of the agreement</b>	30 November 2007
<b>Number of subscribed Shares</b>	Our Company issued 4,471,785 Preferred A Shares to IDG-Accel China Growth Fund II L.P., 365,715 Preferred A Shares to IDG-Accel China Investors II L.P. and 537,500 Preferred A Shares to Winston; and our Company issued each of the Series A Investors warrants which shall be exercisable at an aggregate price of US\$1,500,000 for 1,343,750 Series A-1 Shares or approximately US\$1.1163 per Share and shall have an exercise period of 18 months from the closing of the Series A investment.
<b>Total consideration</b>	US\$3,000,000
<b>Basis of determination</b>	Arm’s length negotiation
<b>Rights</b>	All rights under the shareholders’ agreement have been amended and restated in its entirety in the shareholders’ agreement during the Series B investment. Please see the paragraph headed “Series B Investment” for details.
<b>Payment date</b>	Series A Shares: IDG Group: 5 December 2007 Winston: 6 December 2007  Series A-1 Shares: IDG Group: 2 June 2009
<b>Use of proceeds</b>	The proceeds have been used for research and development and obtaining licencing rights of some online games.

### Series B Investment

Pursuant to a Series B Preferred Share Purchase Agreement dated 12 November 2008 entered into by and among our Company, Duke Online, Edmond Online, IGG HK, IGG USA, Fuzhou Tianji, Fuzhou Tianmeng, and Fuzhou Tianjie, and Series B Shareholders, our Company issued 5,216,091 Series B Preferred Shares to the Series B Investors. On the same date, the same parties entered into the Shareholders’ Agreement to confirm their respective rights and obligations. Except for the Shareholders’ Agreement, there are no other separate shareholders’ agreements entered into by any of the Series A Investors, Series A-1 Investors, Series B Investors and our Company.

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### **Background of Series B Investors**

Vertex, Hearst, IDG Group, Tian Xiang, Mr. Yi Zhang, Mr. Yuan Xu, The Martin Living Trust.

Vertex is wholly owned by Vertex Venture Holdings Limited, which is ultimately owned by Temasek Holdings (Private) Limited. Vertex was introduced to invest in us by Mr. Yuan Xu.

The IDG Group is comprised of two limited partnerships. Each member of the IDG Group is managed by its general partner, who has the full and exclusive power and authority to manage and control the fund and its business. Each member of the IDG Group also consists of limited partner or limited partners who merely play the passive function of injecting capital into the fund and have no voting or management rights. The members of the IDG Group are equity investment in portfolios with China-related business and operations.

Tian Xiang is a limited liability company incorporated in the BVI, currently wholly owned by Mr. Yinqu Ke, a friend of Mr. Yuan Chi and [●], prior to holding Shares through Tian Xiang. When Tian Xiang invested in us, its wholly-owned shareholder was Mr. Zhixiang Chen, a Controlling Shareholder of our Company. On 4 May 2009, since Mr. Zhixiang Chen needs fund for personal reasons, Mr. Zhixiang Chen transferred all his interest in Tian Xiang to Mr. Yinqu Ke for a consideration of US\$251,200, with reference to his original investment plus some administrative expenses incurred.

Hearst is a limited liability company incorporated in the State of Delaware, beneficially owned by The Hearst Family Trust. All beneficiaries under The Hearst Family Trust are [●] prior to holding Shares through Hearst. Hearst was introduced by Mr. Yuan Xu to invest in our Group.

Mr. Yi Zhang is a friend of Mr. Yuan Xu.

Mr. Yuan Xu is a senior management of our Group.

The Martin Living Trust is owned as to 50% by Raymond S Martin III and 50% by Lingli Martin, friends of Mr. Yuan Xu.

### **Date of the agreement**

12 November 2008

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<b>Number of subscribed Shares</b>	<p>Our Company issued 2,980,625 Series B Preferred Shares to Vertex, 745,156 Series B Preferred Shares to Hearst, 1,056,194 Series B Preferred Shares to IDG-Accel China Growth Fund II L.P., 86,378 Series B Preferred Shares to IDG-Accel China Investors II L.P., 124,192 Series B Preferred Shares to Tian Xiang, 49,677 Series B Preferred Shares to Mr. Yi Zhang, 99,354 Series B Preferred Shares to Mr. Yuan Xu, 74,515 Series B Preferred Shares to The Martin Living Trust.</p> <p>In addition, our Company issued 49,675 Series B Preferred Shares to Mr. Zongjian Cai, Mr. Yuan Chi, Ms. Xiuping Wang (Mr. Hong Zhang’s mother, a connected person of the Company upon the [●]) and Mr. Hong Zhang in return for them to transfer all units in IGG USA to our Company.</p>
<b>Price per Share</b>	<p>Approximately US\$2.01 (prior to subdivision effect), representing a discount of 98.24% to the maximum offer price and a discount of 97.77% to the minimum offer price.</p>
<b>Total consideration</b>	<p>US\$10,499,991.23</p>
<b>Basis of determination</b>	<p>Arm’s length negotiation</p>
<b>Special Rights</b>	<p><b><i>Conversion rights</i></b></p> <p><i>Conversion Rights.</i> Unless converted earlier pursuant to the conversion below, each holder of Preferred Shares shall have the right, at such holder’s sole discretion, to convert all or any portion of the Preferred Shares into ordinary Shares at any time.</p> <p>The conversion rate for each series of Preferred Shares shall be determined by dividing the Preferred Share Issue Price of such series by the conversion price of such series then in effect at the date of the conversion. The initial conversion price for each series of Preferred Shares will be the Preferred Share Issue Price of such series (i.e., a 1-to-1 initial conversion ratio), which will be subject to adjustments to reflect stock dividends, stock splits and other events, as provided in the Articles (the “Preferred Share Conversion Price”).</p>

## HISTORY AND CORPORATE STRUCTURE

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*Conversion.* Each Preferred Share shall automatically be converted into Ordinary Shares, at the then applicable Preferred Share Conversion Price for such share (A) upon consummation of a firm commitment underwritten public offering of the Ordinary Shares (or American Depository Receipts representing such Ordinary Shares) in the United States, that has been registered under the United States Securities Act of 1933, as amended, including any successor statutes, the public offering price of which values the Company for not less than two hundred and fifty million U.S. dollars (US\$250,000,000) and which results in the aggregate net proceeds of the Company for not less than fifty million U.S. 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 (i) the public offering price of which values the Company for not less than one hundred million U.S. dollars (US\$100,000,000) and which results in the aggregate net proceeds of the Company for not less than twenty million U.S. dollars (US\$20,000,000), and (ii) the Board of the Company has decided to have the Company listed on Hong Kong securities exchange or other recognised international securities exchange (a “Qualified Public Offering”) or (B) on the date specified by written consent or agreement of the holders of more than fifty percent (50%) of the then outstanding Series A Preferred Shares and the holders of more than fifty percent (50%) of the then outstanding Series B Shares (such holders shall include Vertex). In the event of the automatic conversion of the Preferred Shares upon a Qualified Public Offering as aforesaid, the person(s) entitled to receive the Ordinary Shares issuable upon such conversion of Preferred Shares shall not be deemed to have converted such Preferred Shares until immediately prior to the closing of such Qualified Public Offering.

Conversion pursuant to method B above occurred on 31 May 2013 and all Preferred Shares were converted into ordinary Shares, representing approximately 49.06% of total issued Shares as at that date.

## HISTORY AND CORPORATE STRUCTURE

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### *Appointment of Directors*

Subject to the Articles, the size of the Board shall be five (5) members, and at each annual meeting of the Members of the Company, at any meeting of the Members of the Company or any written consent in which members of the Board of Directors of the Company are to be elected, (A) the holders of a majority of the outstanding Series A Shares and Series A-1 Shares, voting together as a single class and on an as-converted basis, shall be entitled to appoint and remove one (1) Director (the “Series A Director”), (B) the holders of a majority of the outstanding Series B Shares, voting together as a single class and on an as-converted basis, shall be entitled to appoint and remove one (1) Director (the “Series B Director”), (C) the holders of a majority of the outstanding Ordinary Shares shall be entitled to appoint and remove two (2) Directors (the “Ordinary Directors”), and (D) the holders of a majority of the outstanding Series A Shares and Series A-1 Shares, the holders of a majority of the outstanding Series B Shares, and the holders of a majority of the outstanding Ordinary Shares, each voting together as a single class and on an as-converted basis, shall be entitled to jointly appoint one (1) independent Director (the “Independent Director”). Any class of holder or holders having the right to elect a member of the Board of Directors pursuant to the foregoing may remove its designated Director at any time and from time to time, with or without cause (subject to any requirements of law), in their sole discretion, and any vacancy thereby created may be filled by such holder or holders at the meeting or pursuant to written consent, subject to compliance with the Articles.

### *Dividends*

No dividend, whether in cash, in property or in shares of the capital of the Company, shall be paid on any other class or series of shares of the Company unless and until a dividend in like amount is first paid in full on the Series B Shares pro rata based on the number of Series B Shares then held by each holder (on an as-converted basis). After payment of such dividends, any additional dividends may be distributed among the holders of Series A Shares and Series A-1 Shares pro rata based on the number of Series A Shares and Series A-1 Shares then held by each holder (on an as-converted basis). After payment of the dividends described above to the holders of Preferred Shares, any additional dividends may be distributed among the holders of Ordinary Shares pro rata based on the number of Ordinary Shares then held by each holder.



## HISTORY AND CORPORATE STRUCTURE

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Holders of the Preferred Shares shall also be entitled to receive any non-cash dividends declared by the Board on an as-converted basis.

Subject to receipt of all approvals required under the Memorandum or elsewhere in these Articles, the Company may by a resolution of directors declare and pay dividends in money, shares, or other property. In the event that dividends are paid in specie the directors shall have responsibility for establishing and recording in the resolution of directors authorizing the dividends, a fair and proper value for the assets to be so distributed.

***Redemption rights:***

At any time commencing on December 1, 2011 (inclusive), and subject to the applicable laws of the Cayman Islands and, if so requested by the holders of at least seventy-five percent (75%) of the Preferred Shares voting together as a single class on an as-converted basis, which holders in each case shall include Vertex, the Company shall redeem all of the outstanding Preferred Shares out of funds legally available therefor (the “Redemption”). The price at which each Preferred Share shall be redeemed shall be equal to

$IP \times (108 \%) N$ , where

IP = applicable Preferred Share Issue Price (as defined below) for the Preferred Share; and

N = a fraction the numerator of which is the number of calendar days between the date the holder of the applicable Preferred Shares acquired their Preferred Shares and the relevant Redemption Date on which such Preferred Share is redeemed and the denominator of which is 365,

plus all declared but unpaid dividends thereon up to the date of redemption, proportionally adjusted for share subdivisions, share dividends, reorganizations, reclassifications, consolidations or mergers (the “Redemption Price”). “Preferred Share Issue Price” means US\$0.5581 per Series A Share, US\$1.1163 per Series A-1 Share, and US\$2.013 per Series B Share, as applicable.

If the Company does not have sufficient cash or funds legally available to redeem all of the Preferred Shares required to be redeemed, then the number of Preferred Shares then redeemed shall be allocated to the holders of Preferred Shares on a pro rata basis based ratably on the number of Preferred Shares

## HISTORY AND CORPORATE STRUCTURE

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held by each holder to be redeemed, and the remainder shall be carried forward and will be redeemed in the form of a one-year promissory note issued by the Company to such holders of Preferred Shares, which shall bear an interest at the rate of 8% per annum.

### *Other preferential rights:*

The Preferred Shareholders are also entitled to other customary preferential rights, as long as the Preferred Shares are outstanding, including information rights, right of participation, right of first refusal, protective provisions, liquidation preference, drag-along rights, and registration rights.

### **Conversion**

On 31 May 2013, all the Preferred Shares were converted into ordinary Shares by conversion according to the conversion clause under the then applicable Articles of the Company. There was only one single class of Shares in the share capital of our Company immediately after the conversion so that all the ordinary Shares shall rank *pari passu* in all respects.

### **Payment date**

Vertex: 14 November 2008  
IDG Group: 14 November 2008  
Hearst: 17 November 2008  
Mr. Yi Zhang: 13 November 2008  
The Martin Living Trust: 13 November 2008  
Tian Xiang: 13 November 2008  
Mr. Yuan Xu: 13 November 2008

### **Use of proceeds**

The proceeds from the Series B investment have been used for research and development and obtaining licensing rights of certain online games.

Save as disclosed in this document, each of the Series A Investors, Series B Investors and Series A-1 Investors are independent from each other.

### **Strategic Benefits**

We consider that the introduction of the various investors into our Group is favourable to the long-term development of our Group. The enlargement of our Shareholder base by the introduction of these investors who have different backgrounds and experience can ensure important business decisions are only made after thorough discussions from different perspectives. In addition, and in particular, we consider (i) IDG Group and Vertex are professional investors which can provide us with professional advice on our Group’s development; (ii) Vertex, a well-known fund based in Singapore, can strengthen our fame and position in Singapore.

## **HISTORY AND CORPORATE STRUCTURE**

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### **SAFE REGISTRATION**

The SAFE issued a public notice in October 2005, or the SAFE Circular No. 75, requiring PRC residents to register with the local SAFE branch before establishing or controlling any company outside of China for the purpose of capital financing with assets or equities of PRC companies, referred to in the SAFE Circular No. 75 as SPVs. PRC residents who are shareholders of SPVs established before 1 November 2005 were required to register with the local SAFE branch before 31 March 2006. Further, PRC residents are required to file amendments to their registrations with the local SAFE branch if their SPVs undergo a material event involving changes in capital, such as changes in share capital, mergers and acquisitions, share transfers or exchanges, spin-off transactions or long-term equity or debt investments. The SAFE subsequently issued relevant guidance to its local branches for the implementation of the SAFE Circular No. 75. This guidance standardizes more specific and stringent supervision on the registration requirement relating to the SAFE Circular No. 75 and further requests PRC residents holding any equity interests or options in SPVs, directly or indirectly, controlling or nominal, to make an overseas investment foreign exchange registration with the SAFE.

Our PRC legal advisers, Jingtian & Gongcheng, have advised that, given the above, a PRC resident (whether a natural or legal person) is required to complete the initial registration with the local SAFE counterpart, and further amend the registration or filing pursuant to the the SAFE Circular No. 75 and it implementing rules and guidelines. Currently, our indirect PRC resident Shareholders, Xiuping Wang, Deqing Ruan, Hong Zhang, Yuan Xu, Anyan Chen, Yi Zhang, Pintong Lin, Zhixiang Chen, Kai Chen, Yuan Chi, Zongjian Cai and Yinqu Ke who are PRC residents, have made relevant registration or filing under SAFE registration requirements.

### **OUR CORPORATE REORGANISATION AND THE RULES ON THE MERGER AND ACQUISITION OF DOMESTIC ENTERPRISES BY FOREIGN INVESTORS**

Under the Rules on the Acquisition of Domestic Enterprises by Foreign Investors in the PRC (關於外國投資者併購境內企業的規定) (the “M&A Rules”) promulgated by PRC governmental and regulatory agencies on 8 August 2006, a foreign investor is required to obtain necessary approvals when (i) a foreign investor acquires equity in a domestic company thereby converting it into an foreign-invested enterprise, or subscribes for new equity via an increase of registered capital thereby converting it into a foreign-invested enterprise; (ii) a foreign investor establishes a foreign-invested enterprise which purchases and operates the assets of a domestic enterprise, or which purchases the assets of a domestic enterprise and injects those assets to establish a foreign-invested enterprise. The acquisition shall be based on the appraisal result on the equity or assets to be acquired. According to Article 15 of the M&A Rules, where parties to an acquisition are related including where the control is only de facto, the parties must “provide an explanation on the purpose of the acquisition and whether the appraisal result is consistent with fair market value”. Avoiding this requirement by using trusts, nominees, or other means is prohibited.

## **HISTORY AND CORPORATE STRUCTURE**

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As advised by our PRC legal advisers, Jingtian & Gongcheng, given the Company incorporates Fuzhou Tianji by means of new establishment instead of acquisition, the M&A Rules shall not apply to the incorporation of Fuzhou Tianji. Our PRC legal advisers further understand that the arrangement of the Structured Contracts between Fuzhou Tianji and Fuzhou Tianmeng does not fall into the definition of shares acquisition under the M&A Rules. Therefore, as advised by our PRC legal advisers, unless new laws and regulations are enacted, or MOFCOM, CSRC or other competent authorities has new provisions or interpretations on the M&A Rules to the effect that the Structured Contracts fall into the definition of foreign investors’ acquiring domestic enterprises under the M&A Rules, the application by our Company for the issuance and [●] of its shares on the [●] does not require approval from the MOFCOM or the CSRC under the M&A Rules.

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### **OVERVIEW**

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

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

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

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

The following table sets for the ARPDAU, MAU and DAU of our browser games, client-based games and mobile games as at 31 December 2011 and 2012 and 31 May 2013. Unless otherwise indicated, these metrics are based on internally-derived measurements across all platforms on which

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our games are played. In addition, the metrics we have developed or those available from third parties regarding our industry and the performance of our games, including ARPDau, MAU and DAU, may not be indicative of our financial performance.

Game	As at 31 December 2011			As at 31 December 2012			As at 31 May 2013		
	ARPDau	MAU	Average DAU	ARPDau	MAU	Average DAU	ARPDau	MAU	Average DAU
	(US\$)			(US\$)			(US\$)		
Browser games . . . . .	0.18	1,859,665	341,493	0.26	2,747,064	338,636	0.31	2,450,243	360,553
Client-based games . . .	0.21	442,182	109,405	0.24	361,026	80,330	0.27	269,310	69,364
Mobile games . . . . .	0.55	4,399	468	0.07	1,459,093	84,656	0.08	3,379,331	317,497

We currently have six online games in our development pipeline. These new games, all of which will be run on a mobile platform, offer different themes and gaming experience to attract various types of players. We expect most of these new online games will be launched in the fourth quarter of 2013. For the details of our online games in pipeline, please refer to “— Our Pipeline” of this document.

Our marketing strategy focuses on cooperation with leading Internet platforms, such as Facebook, Apple App Store and Google Play. In addition, we have established business relationships with more than 40 other game promotional platforms. As at 31 May 2013, we provided 36 payment channels for players to purchase virtual currency to be used in our games.

**COMPETITIVE STRENGTHS**

We believe that the following competitive strengths enable us to compete effectively and to take advantage of the rapid growth in the online game market:

**Our large and multifarious player base affords us access to clients worldwide and decreases the risks associated with operating in a single market**

We offer our online games to players in a large number of countries and regions across the world. Our player community consisted of over 70 million player accounts from over 180 different countries and regions, including a total MAU of 6.1 million as at 31 May 2013. Our revenue, therefore, also comes from diverse geographic areas.

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The following table sets forth a breakdown of our revenue by major regions based on players’ IP locations for the periods indicated:

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

To increase the marketability of our games in different countries and regions, and to enhance the gaming experience for our players while alleviating communication problems among players from the same communities, we provide multiple versions of our games in different languages. For example, one of our leading games in 2011 and 2012, Galaxy Online II, has been released in 15 different language versions, including Chinese, English, French, German, Spanish, Russian, Italian, Japanese, Korean, Arabic, Turkish, Portuguese, Bahasa Indonesian, Thai and Vietnamese in 2012 compared to ten language versions in 2011. These multi-language versions helped us to attract a significant number of new players between 2011 and 2012, particularly in Asia, where annual revenue grew 54.2%, and in Europe, where annual revenue grew 45.7%.

We believe our existing diversified player base located around the world and our extensive experience in developing and operating games in a variety of different markets and languages allow us to capture players and growth opportunities when they arise and to reduce our reliance on any single market. Accordingly, we believe we have extensive overseas operating experience in meeting the Qualification Requirement, which requires a foreign investor, who intends to invest in a value-added telecommunications business in the PRC to possess prior experience in operating the relevant business and a proven track record of operation overseas.

**We have a strong development team with diverse backgrounds, most of whom are located in China, which enables us to design games in a cost effective manner, broaden our market appeal and keep us aligned with trends in the online game industry**

We designate Fuzhou, Fujian Province, China, as the primary location of our development team, which provides us access to highly trained, experienced and skilled personnel at cost-effective rates, and enables us to maintain strong development capabilities at costs we believe are comparatively lower than those of our overseas competitors. More importantly, this allows us to devote more capital and resources into our marketing efforts. We also have development personnel based in Singapore. As at 31 May 2013, our product development team in Fuzhou and Singapore consisted of 291 game development personnel. These skilled personnel use an integrated game development process, which

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emphasizes game design, programming, graphics and testing, to effectively control the quality, cost and pace of product development. For further details of our game development process and our development team, please see “— Our Operations — Game development and operation” and “Directors, Senior Management and Employees” in this document.

In addition to maintaining our cost advantage, we also boast an international development team with diverse backgrounds. The different backgrounds of our skilled development employees offer us diversity of experiences and ideas, which we believe are essential for us to develop games that cater to a wider array of customers and thereby, broaden our market appeal. As at 31 May 2013, we had established a team of 567 employees, 63 of whom were located in offices outside of the PRC, including the United States and Singapore. Those employees include our international development personnel, support staff and customer service representatives. We also opened an office in the Philippines in January 2013. In particular, the diverse cultural backgrounds and experiences of our development team enable us to not only develop and operate games in different themes, including, among others, ancient warfare, science fiction, pirates and classic heroism, but also to integrate different cultural features into our games, such as the merging of Eastern and Western cultures. We believe that our internationally diverse development team is particularly capable of developing an innovative and diversified game portfolio complete with distinct visual aesthetics, thereby allowing us to appeal to and capture a broad player base and keep us aligned with trends in the online game industry.

### **Our effective marketing strategy and our broad relationships with leading Internet platforms worldwide help us to target and attract more potential clients and to build brand recognition**

We have developed a multi-channel marketing strategy to target potential players, and we cooperate with other leading Internet platforms to expand our brand influence. Apple App Store and Google Play are our primary platforms for providing players with easy access to our mobile games. We have received positive customer feedback and high rankings for some of our games via Apple App Store and Google Play, which have helped us attract new players. Facebook is another powerful platform we use to advertise our browser games. We believe leveraging the large user base of Facebook has allowed us to achieve significant growth for our browser games and created additional distribution opportunities. We also cooperate with more than 40 other online promotional game platforms, including informational and operational game websites, to expand our marketing platforms to promote our games. Further details of our marketing strategy are set out in the “— Our Operations — Marketing” section of this document. We believe that our marketing strategy allows us to identify potential players and build brand recognition among mobile device and social network users in a targeted and cost-effective manner.

### **We develop most of our games in-house, which allows us to create our games with multi-language versions in an efficient manner to keep up with global player preferences**

We hold the software copyrights of all of the games we have developed in-house. As at the Latest Practicable Date, we had 30 games in our game portfolio, of which, 25 games were developed by us in-house, including each of our most popular games in terms of revenue and revenue growth during the Track Record Period: Godswar, Galaxy Online II, Wings of Destiny and Texas HoldEm Poker Deluxe. Because we hold the IP rights of in-house developed games, in the event of changing customer



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preferences or advancement of online game technologies, we believe we are well-positioned to adapt and design games quickly in order to satisfy the player demand and capture market share. Unlike some of our competitors who publish online games through licenses obtained from third party game developers, if we detect a need to develop one of our existing games for a new platform, we would be able to quickly dispatch development resources and do not need to negotiate with third party license holders. This allows us to design different versions of our existing games for different platforms on a timely fashion.

### **Our global service platform and various regional offices allow us to conduct our international operations more efficiently**

We have built extensive service-providing platform to support our global operations. As at 31 May 2013, we had 1,474 production servers either self-owned or leased in the United States, Singapore, Amsterdam, China, Hong Kong and Taiwan. Further details of our facilities are set out in the “— Our Operations — Facilities” of this document. To further facilitate our operations worldwide, we have established headquarters in Singapore and regional offices in each of the United States, China and the Philippines. Our regional office in Fuzhou, Fujian Province, China serves as our development center. As at 31 May 2013, 88.9% of our personnel are located in Fuzhou, approximately 57.5% of whom are members of our development team. Our regional office in the United States employs an international operation team consisting of 16 employees who provide services to our players in seven different languages. The diverse geographic backgrounds and language skills of our employees engaged in game development enable us to localize our online games more accurately and efficiently. Our team in Singapore is responsible for managing our operations in Southeast Asia and coordinating localization of our products to cater to the preferences and needs of our customers in that region. Additionally, our Singapore office also has a team focusing on advanced game operations and connecting players in global markets to our development center in China. With a service team of 22 members as at 31 May 2013, our regional office in the Philippines serves as our customer support center for overseas players, providing assistance 24 hours a day. To further improve customer service for our players worldwide, we plan to expand our Philippines office into a larger and multi-lingual customer service center in the near future.

### **Our skilled management team possesses the extensive overseas operational experience and industry knowledge necessary to continue leading us to success**

We have an experienced management team with extensive overseas operational experience in the Internet industry. Mr. Zongjian Cai, our chief executive officer and executive Director, has over 13 years of experience working in various areas of the computer game industry, including game development, marketing, business development and management. Mr. Yuan Chi, our senior vice President and executive Director who is in charge of our game development in China, has over 14 years of experience working in the Internet industry. Mr. Yuan Xu, our chief operation officer, has over 13 years of experience working in the online game industry and related technical fields, and manages our business and operations overseas. Mr. Hong Zhang, our chief technology officer, has over 15 years of experience working in the IT industry. This core team has been working together since the launch of our first MMORPG online game, Myth War Online, in North America in 2006. After six years of

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operation, our management team has accumulated extensive global operational experience and we believe we are adept at predicting, identifying and capitalizing on changes in the trends of the global online game market. We believe that the development and operational experience and skills of these core management team members will be critical to our continued success.

### **OUR STRATEGIES**

Our objective is to create popular online games for players around the world and promote them globally to enhance our profitability and expand into new game markets. We intend to achieve these objectives by pursuing the following strategies:

#### **Expand and diversify our game portfolio**

We generate our annual game development plan at the beginning of each year. As at the Latest Practicable Date, we offered 13 browser games, eight client-based games and nine mobile games. We have an additional six mobile games in development which we expect to launch by the end of 2013. We will continue to operate and provide content updates for our major current titles, such as Godswar, Galaxy Online II, Wings of Destiny and Texas HoldEm Poker Deluxe, which remain profitable. However, we expect to decrease our overall reliance on browser games and client-based games by offering more mobile games catering to mid-core players, primarily for the following reasons:

- *Development time and expenses* — According to our experience, developing a browser or client-based game normally takes a development team of about 100 personnel between one to three years due to the complex nature of its story line, whereas developing a mobile game typically requires fewer personnel and less development time, and costs only 30% to 50% and 15% to 30% of the cost typically required to develop a browser game and a client-based game, respectively;
- *Operating efficiency* — operating browser or client-based games is more complicated than operating mobile games. First, we need to provide CDN service globally to our players in order to enable them to download browser or client-based games. Second, due to their complex nature, operating browser or client-based games typically requires more customer service personnel to handle large volumes of customer inquiries. On the other hand, mobile games can be downloaded anywhere in the world directly from Apple App Store and/or Google Play, as the case may be, and because mobile games are generally more simple and straight-forward, fewer customer support employees are needed;
- *Cost structure* - user acquisition cost is a major component of our game operating expense. User acquisition cost for mobile games is significantly lower than that of browser games and client-based games as it is approximately 20% to 30% and 10% to 20% of the user acquisition cost of browser games and client-based games, respectively; and
- *Player behavior and life cycle of games*— mobile devices give players access to games anytime, and virtually anywhere in the world, making them a fast-growing platform for entertainment on demand.

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We have been developing and operating F2P games for over seven years and have accumulated substantial knowledge and experience in game design and user experience, back-end system design and monetisation strategy for our browser and client-based games, on which we believe we can leverage in our focus to develop more mobile games. For example, certain of our mobile games, such as Texas HoldEm Poker Deluxe, our first mobile game, and Galaxy Online II, were developed and refined based on the browser game versions that were launched on Facebook in December 2010 and February 2011, respectively. In addition, our mobile game development personnel has been and will continue to utilise the knowledge and skills of our browser and client-base game development teams when developing our mobile games.

By the end of 2013, we expect to provide a more diversified game portfolio consisting of eight client-based games, 13 browser games and 15 mobile games. As smart phones and tablet PCs have emerged as major online game operating platforms, we intend to invest more capital, human resources and development focus in mobile games in the immediate future, including casino games, cards games, tower defense games and strategy games. While revenue from mobile games accounted for 0.04%, 5.08% and 14.8% of our total revenue in each of the years ended 31 December 2011 and 2012 and the five months ended 31 May 2013, respectively, our goal is to increase revenue from mobile games such that they will account for over 70% of our total revenue in the near future. We believe our strong game development resources based in China combined with our existing player customer base and our international presence and experience will allow us to identify and exploit market trends and to make the transition to a more mobile-focused game portfolio relatively quickly and inexpensively compared to our competitors.

### **Enhance and diversify our game development and localization capabilities**

As at 31 May 2013, we had 291 employees focused on game development. We plan to further invest in, and significantly expand, our game development capabilities by continuing to recruit and train new members for our development team, while retaining current employees. We plan to expand our development team members to 317 by the end of 2013 primarily by recruiting seasoned senior-level talent from the industry. We plan to retain and motivate our key employees through a combination of competitive salaries, performance-based bonuses and equity-based compensation plans. In addition, in order to further enhance our development capabilities, we also intend to gradually decentralize our development resources. Currently, our development strength is primarily located in China. We believe a largely China-based development capability supports global sales and provides us an advantageous cost structure. However, in order to better understand and cater to the different gaming preferences of our players worldwide, we intend to engage an additional development team in Canada to outsource some of our development capabilities overseas in 2013. In Singapore, we have expanded our team consisting of operation and graphic design personnel from 23 to 32 employees by 31 August 2013 and we plan to set up a development team by the end of 2014. We currently plan that once established, our Canada and Singapore development teams will primarily focus on the development of mobile games. They will also cooperate with the development team in China and participate in the development of most of the new games currently in our pipeline.

In addition, we believe our ability to successfully implement an effective global operational strategy depends, in large part, on how quickly we can localize our popular games to sustain their popularity in the global marketplace and increase our market share. For example, the mobile game

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versions of Texas HoldEm Poker Deluxe and the browser version of Galaxy Online II have been localized into ten and 15 different language versions, respectively. Localizing games for different markets and operating them over multiple platforms generally require significant technical infrastructure, human resources and marketing expenditure. By leveraging our cost-efficient development center in Fuzhou, China, we are capable of supporting a multi-language and multi-platform strategy for our popular games, which distinguish us from our international and PRC competitors, some of whom do not have the capability to operate their games in multiple platforms or in various regions. Once we identify that a product has the potential to become a popular game based on initial customer feedback we receive from the game’s open beta testing as described below in “—Our Operations”, we quickly devote resources to localize the game into multiple languages and platforms. We intend to capitalize on our ability to localize popular games to enhance our game development capabilities.

### **Enhance our corporate image and effectively promote our games on a variety of platforms**

We target potential players by utilizing a multi-channel marketing strategy and we cooperate with leading Internet platforms to expand our brand reach. Currently, Apple App Store and Google Play are our primary platforms for providing players with easy access to our mobile games. We also advertise our browser games on Facebook, which we believe would allow us to achieve significant growth and create additional distribution opportunities. In addition, in order to expand the reach of our games to a wider group of players and to create additional channels to disseminate information about our products, we cooperate with more than 40 other online promotional game platforms, including informational and operational game websites. We intend to increase our advertising and promotional spending on these online platforms to enhance our corporate image and promote our games.

### **Pursue potential outsourcing or acquisition opportunities**

In addition to organic growth, we intend to pursue potential outsourcing or strategic acquisition opportunities (including teams of developing personnel) that will (i) complement our existing business and growth; (ii) improve our development capabilities and product portfolio; and (iii) expand our customer base. We believe that pursuing such opportunities will help us sustain our competitive edge and enhance our reputation in the global online game industry. In 2013, we intend to outsource some of our development capabilities to a team of developers in Canada, which will be engaged to develop mobile games. As of the Latest Practical Date, we have not identified specific acquisition plans or targets, and have not entered into any definitive agreements with any potential targets.

## BUSINESS

### OUR GAMES

We offer browser games, client-based games and mobile games to our customers. To play client-based games, players must first download the client base from our servers to their own computers. Players then log-on to their game accounts through the game client base and begin playing. For browser games, players can connect to our server through Internet browsers. Mobile games are games that players can play on mobile devices. Further details regarding to different types of games are set out in “Industry Overview” of this document.

As at the Latest Practicable Date, we offered a total of 30 games, among which, 13 were browser games, eight were client-based games and nine were mobile games. Of these 30 games, 25 were developed in-house and five were licensed from third parties. In addition, 17 of these games were MMORPGs, one was a card game, two were tower defense games, four were casino games and six were strategy games.

### Our significant current games

Our most popular games during the Track Record Period, in terms of revenue and revenue growth, include Godswar, Galaxy Online II, Wings of Destiny and Texas HoldEm Poker Deluxe. The following table sets forth the detailed information of these games:

	<b>Godswar</b>		<b>Texas HoldEm Poker Deluxe</b>			<b>Galaxy Online II</b>			<b>Wing of Destiny</b>			
<b>Game type . . . . .</b>	MMORPG		Casino			Strategy			MMORPG			
<b>Platform . . . . .</b>	Browser and client-based		Browser and mobile			Browser and mobile			Browser			
	As at 31 December		As at 31 May		As at 31 December		As at 31 May		As at 31 December		As at 31 May	
	2011	2012	2013	2011	2012	2013	2011	2012	2013	2011	2012	2013
<b>Total revenue</b>												
<b>(US\$'000) . . . . .</b>	6,358	6,728	2,424	1,432	4,727	4,387	14,108	21,319	8,180	—	1,487	4,199
<b>MAU<sup>(1)</sup> . . . . .</b>	434,321	146,858	127,550	520,600	1,904,071	2,280,313	675,363	494,225	359,677	—	1,258,394	803,460
<b>Total number of language versions . . . . .</b>	4	7	6	4	10	10	10	15	15	—	4	8

Note:

(1) MAU is the number of individuals who login to a particular game during a 30-day period ending at the measured date.

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### Godswar



We launched Godswar, our first in-house developed client-based MMORPG, in November 2008 in the United States. We subsequently launched this game in eight other countries and regions. As at 31 May 2013, the game was available in six different languages, including Chinese, English, Spanish, Portuguese, Japanese and Bahasa Indonesian. Godswar is a 3D MMORPG set in ancient Greece. It contains quests that take players on adventures across the land, provides a massive 3D environment to explore, and integrates individual gamers into a larger gaming community in which they can communicate and interact with each other. In the game, players can visit majestic temples, meet mythological and historical figures, and challenge fierce and powerful monsters and beasts. Players can choose from different character roles, each of which has different skill sets that can be honed and improved upon by completing the different tasks of the game. While Godswar was initially designed as a client-based game, we successfully converted it into a browser game, which was launched on Facebook in December 2010, and became a widely-accepted MMORPG browser game with 3D effect on Facebook as that time.

As at 31 May 2013, we offered 231 virtual items to our players with prices ranging from US\$0.02 to US\$138.89. The virtual items include forgeable materials, pets, skill books, clothing and equipment.

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### *Texas HoldEm Poker Deluxe*



We have both browser and mobile versions of Texas HoldEm Poker Deluxe. The browser version was launched on Facebook in December 2010, and the mobile version, our first in-house developed mobile game, was launched on Apple App Store in October 2011 and on Google Play in January 2012. The game is currently offered in English, German, French, Spanish, Thai, Portuguese, Japanese, Turkish, Russian, and Chinese. Players have the option to play at any table, either electing to meet and play with new people from around the world or join friends in a personalized setting. Players interact with each other by chatting and sending and receiving virtual gifts, including poker chips. Texas HoldEm Poker Deluxe offers players a virtual casino, where players worldwide can join their friends to play with. Texas HoldEm Poker Deluxe received a high player rating of 4.7 out of 5 on Google Play, among the highest scores awarded to any Texas hold'em poker mobile games in the United States. According to Appannie.com, a third party independent provider of mobile application analytics, which tracks the popularity of mobile games, Texas HoldEm Poker Deluxe was the four most popular Texas hold'em poker game on Google Play platform. We did not commission Appannie.com for any of its mobile application analytics. We offer chips and gold as virtual items to our players, within a predetermined price range.

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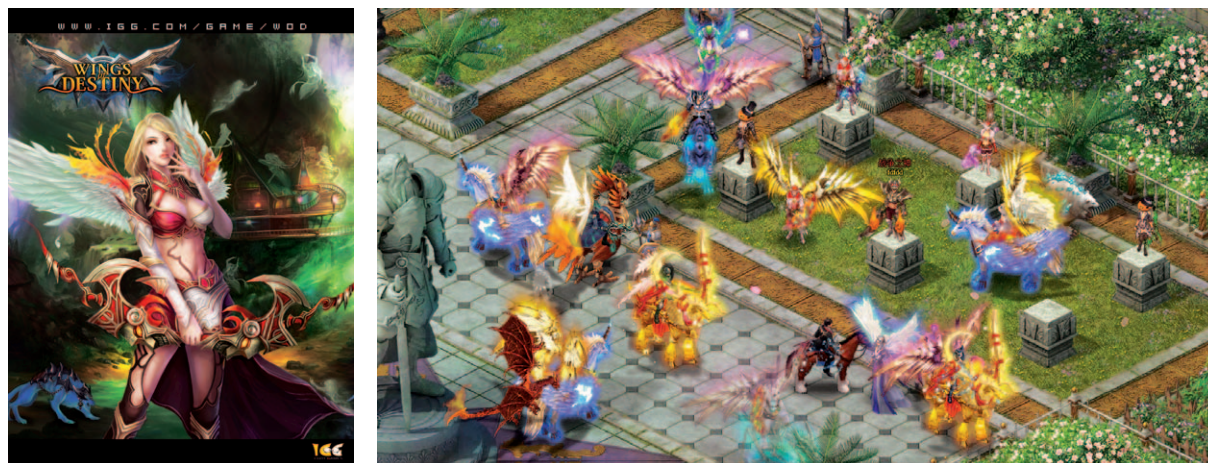
### *Galaxy Online II*



Galaxy Online II, a sequel to our first in-house developed strategy game, Galaxy, was first launched in February 2011 on Facebook. As at 31 May 2013, we offer this game in 15 different languages versions, including Chinese, English, French, Italian, German, Spanish, Turkish, Portuguese, Thai, Russian, Indonesian, Arabic, Korean, Japanese and Vietnamese. Galaxy Online II is a strategy game available in both mobile and browser versions, in which galaxies have become battlegrounds for interstellar warlords. Each player assumes the role of a warlord and is initially assigned to a home galaxy in which they establish a ground base, explore resources, build galactic fleets, recruit commanders and engage in battles in space. From there, they can attempt to expand out into space and conquer other galaxies.

As at 31 May 2013, we offered 1,524 virtual items to our players with prices ranging from US\$0.03 to US\$13.79. The virtual items include commander cards, gems, chips and blueprints.

### *Wings of Destiny*





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Wings of Destiny was first launched in May 2012 in Taiwan and in September 2012 in the United States. Wings of Destiny is a browser game which merges Western magic elements with Eastern fantasy elements. The game is set in a world ravaged by various catastrophic natural disasters and the players have the opportunity to build a new world by fighting with and triumphing over various monsters. As at 31 May 2013, we offered this game in eight languages, including Chinese, English, Spanish, Thai, Vietnamese, German, French and Portuguese.

As at 31 May 2013, we offered 149 virtual items to our players with prices ranging from US\$0.06 to US\$24.24. The virtual items include gems, pets and mounts, potion and equipment.

**Our pipeline**

We prepare our annual game development plan at the beginning of each year and as at the Latest Practicable Date, we offered 13 browser games, eight client-based games and nine mobile games. We have an additional six mobile games in development which we expect to launch by the end of 2013.

The following table sets out a list of our games launched, or to be launched, in 2013 as at the Latest Practicable Date:

<u>Games</u>	<u>Game Type by Different Platform</u>	<u>Game Type by Playing Rules</u>	<u>Actual or Estimated Date</u>
<i>Launched</i>			
Dawn of Darkness . . . . .	Mobile	MMORPG	February 2013
KaChing Slot . . . . .	Mobile	Casino	March 2013
Freesky Online 2 . . . . .	Browser	Strategy	April 2013
Heroes Social . . . . .	Browser	MMORPG	April 2013
Heroes & Monsters . . . . .	Mobile	Card	April 2013
Slot Machines by IGG . . . . .	Mobile	Casino	May 2013
Clash of Lords . . . . .	Mobile	Tower Defense	July 2013
Galaxy Online II (Mobile version) . . . . .	Mobile	Strategy	July 2013
Castle Clash . . . . .	Mobile	Tower Defense	July 2013
<i>To be launched</i>			
ZERG . . . . .	Mobile	Card	Fourth quarter, 2013
Magic Card Deluxe . . . . .	Mobile	Card	Fourth quarter, 2013
DV OL . . . . .	Mobile	MMORPG	Fourth quarter, 2013
Freesky Online 2 . . . . .	Mobile	Strategy	Fourth quarter, 2013
BINGO . . . . .	Mobile	Casino	Fourth quarter, 2013
RTD . . . . .	Mobile	Card	Fourth quarter, 2013

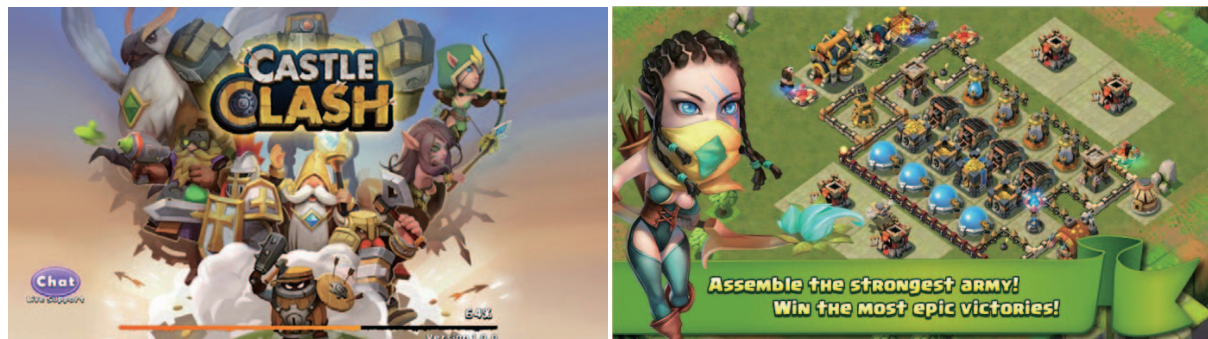
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Our major games in 2013 are as follows:

### Castle Clash



Castle Clash is a mobile tower defense game that was launched in July 2013, featuring a lively game layout with a mix of fast-paced strategy and combat features. Players can hire legions of powerful heroes in their quest to become the world’s greatest warlords and arm their towns and cities and summon heroes, such as elves, dwarves, beasts and robots to form a formidable mercenary armies. The mercenary armies must be mobilized and utilise resources to fight against evil forces. Players can also select certain heroes to help them guard their towns and territories. As at 31 August 2013, this game was available in five different languages, including Chinese, English, German, French and Japanese. According to Appannie.com, as at 31 August 2013, Castle Clash ranked in the top ten most popular games in nine countries, including Singapore, the United Kingdom, Canada and the Netherlands, and in the top five games in seven countries and regions, including Singapore, Hong Kong, the Philippines, Canada and the Netherlands in terms of revenue generated. As at the Latest Practicable Date, we offered a virtual item, gems, to our players with a base price of US\$0.0087.

### Heroes & Monsters



In April 2013, we launched Heroes & Monsters, a mobile card game that offers attractive graphics and a user-friendly interface. The game is set against a fictional background, where historical figures and mythical spirits, demons and monsters can be summoned, controlled and cultivated by the players. Heroes & Monsters also allows players to collect and cultivate pets. Players must capture and

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## BUSINESS

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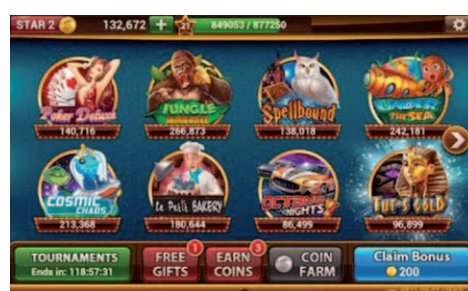
cultivate pets, gain friends in the game to help each other and form teams for adventures according to the nature and skills of players’ pets. As at the Latest Practicable Date, Heroes & Monsters achieved a rating of 4.8 out of 5 on Google Play. As at the Latest Practicable Date, we offered a virtual item, jewels, to our players with a base price of US\$0.167.

### Clash of Lords



Clash of Lords is a fantasy mobile tower defense game that was launched in July 2013. It is set against a medieval background in which ancestors of various tribes and clans around the world defend against the attacks carried out by the certain evil forces in order to protect their own ancient magic crystal stones. Each player can learn to collect, distribute and use the magic crystal stones, and lead his own tribe to defeat the evil forces. As at the Latest Practicable Date, Clash of Lords achieved a rating of 4.8 out of 5 on Google Play. As at the Latest Practicable Date, we offered a virtual item, jewels, to our players with a base price of US\$0.0087.

### Slot Machines by IGG

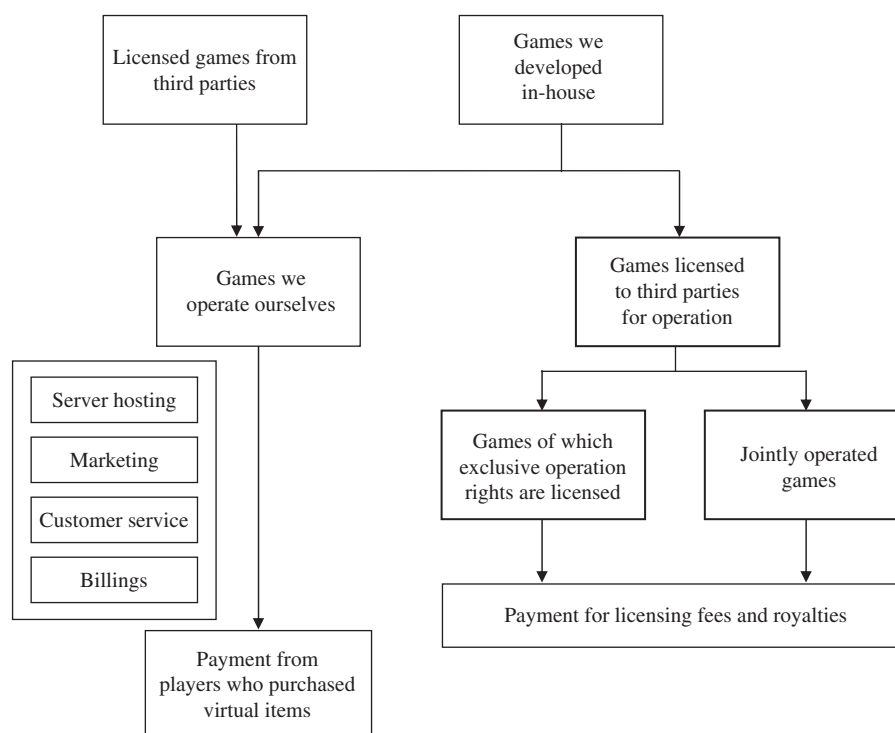


Slot Machines by IGG is a mobile game that was launched on Google Play and Apple App Store in May and July 2013, respectively. The players can select from various types of slot machines to play individually or against other players around the world. As at the Latest Practicable Date, this game received a high rating of 4.9 out of 5 on Google Play. As at the Latest Practicable Date, we offered a virtual item, coins, to our players with a base price of US\$0.0013.

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### OUR OPERATIONS

We develop games in-house and operate the games we develop and games we license from third party licensors. For the five months ended 31 May 2013, 95.1% of our total revenue was generated from games operated by us. In addition, we license some of our games to third party licensees to operate in certain designated countries and regions, and we jointly operate several of the games we developed in-house with third party game operators. As at 31 May 2013, three of the games we developed were licensed to certain third party licensees located in the PRC and overseas, who paid us upfront licensing fees and royalties. Another six of the games we developed were jointly operated by us and other third party game operators. We generally obtained royalties in the amount between 50% to 70% of the revenue generated through this arrangements. The payment we received from players who purchased virtual items accounted for 95.1% of our total revenue for the five months ended 31 May 2013 and the license fees and royalties accounted for 4.9% of our total revenue for the same year. The following chart illustrates our business operations:



For the years ended 31 December 2011 and 2012 and the five months ended 31 May 2013, most of the revenue we earned from various games was collected and held by a number of payment channels. At the end of each month, we settle with these payment channels after deducting applicable services fees and directly record revenue generated from our operation of these games in the account of the relevant subsidiary that owns the IP right of that game. Payment is generally made upfront by our players directly to the payment channels when purchasing virtual currency and we do not provide users with any right of refund once payment is made. Our user agreements also stipulate that we have no obligation to continue hosting games although we agree to provide one-month concessionary service period after payment is made by the players. Because IGG Singapore owns most of the intellectual property rights for the games we operate, 91.0%, 94.5% and 94.2% of our revenue was

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recorded by IGG Singapore in the years ended 31 December 2011 and 2012 and the five months ended 31 May 2013, respectively. If we decide to invest directly in value-added telecommunications services in the PRC or forced to hold equity interests in Fuzhou Tianmeng in the PRC, we would be subject to the Qualification Requirement. We believe we have extensive overseas operating experience in satisfying the Qualification Requirement. Please see “Business — Our Competitive Strengths” in this document. However, as confirmed by the Company’s PRC legal advisers, as of the Latest Practicable Date, there is no applicable PRC laws, regulations or rules providing clear guidance or interpretation of the qualification Requirement. As such, no assurance can be given that the relevant PRC authorities would agree with us. Please see “Risk Factors — Risks Relating to Our Contractual Agreements — There is no assurance that the Contractual arrangements between Fuzhou Tianji and Fuzhou Tianmeng are in compliance with existing or future PRC laws and regulations, and if the relevant regulations or their interpretations change in the future, we could be forced to relinquish our interests in our PRC operation company” in this document.

### **Business model**

We operate our online games under the F2P model, also known as the Game as a Service (or GAAS) model. We either offer players free downloads of our games or the ability to otherwise play such games for free on PC, web and mobile devices. Our revenue is generated by selling virtual items that enhance players’ game experience. Players can register a game account through one of our game servers and play it completely free of charge, without the need to ever buy any virtual items. However, if they do wish to further enhance their playing experience, players are able to purchase the virtual items we offer. Such purchases are typically made using virtual currency, which players can credit to their accounts using one of the several payment channels that we offer. Further information of our payment channels is set out in “— Payment” in this document. The F2P model has proven to be very successful in attracting new players quickly. Moreover, the model allows us to continue to add more features and content to our games in a controlled manner, allowing our players to purchase new virtual items to enhance their in-game experience over time and thereafter, to extend the life cycles of our games. Popular virtual items include hero and commander cards for our strategy games, gems for our tower defense games, equipment, pets and mounts for our MMORPG games and chips and coins for our casino games.

### **Game development and operation**

Our primary game development center is located in Fuzhou, Fujian Province, China. We have core product developers located there who are responsible for developing new games. As at 31 May 2013, we had 291 product development personnel, among whom, 243 are focusing on the development of mobile games and 38 on browser games, and ten on client-based games. These teams also develop game enhancement and expansion packs for our existing games following their launch, which reflect the feedback collected from our players. In the case of games that we license from third parties, the licensors will normally be responsible for creating expansion material and providing technical support. We believe that such enhancements improve our games’ appeal and extend their life cycle. We will continue to expand our product offerings by developing additional online games in-house.

We enter into agreements to outsource certain aspects of game development to third party development companies, including, among others, art/graphic design, audio production and

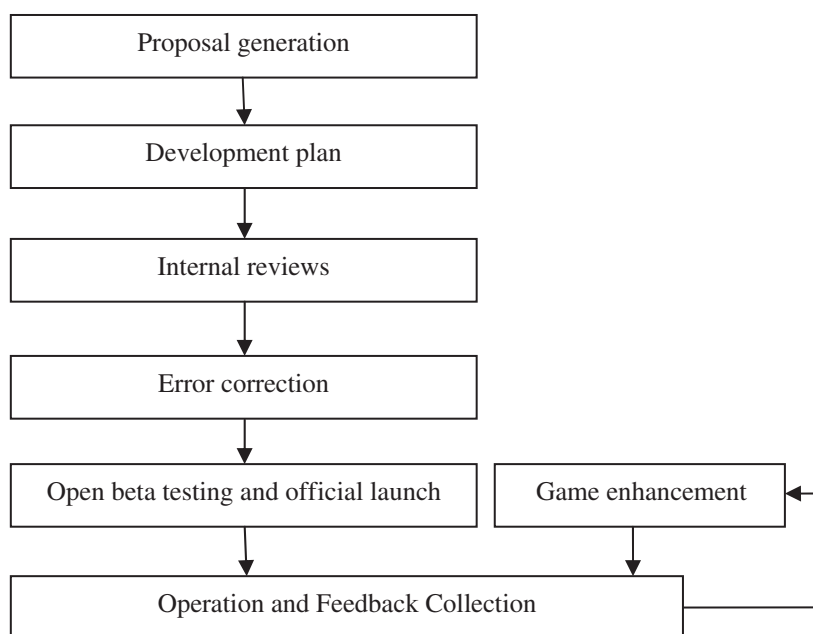
## **BUSINESS**

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translation. We outsource game development projects on a case-by-case basis based solely on our needs, third party developers’ qualification, past collaborative experience, competitive pricing and timeliness of delivery. Once the products and/or services are delivered, we inspect their quality in accordance with the applicable quality assurance criteria as set forth in the relevant agreements we enter into with them. We only make payments to these third party developers when we are satisfied with the quality of the products and/or services they provided.

As at 31 May 2013, we also had 198 personnel who were responsible for our daily operation. Our operation team includes game managers, game localization personnel and customer service staff. While most of our operation team personnel are based in Fuzhou, Fujian Province, China, we also established an operation team in Singapore and the United States and a dedicated customer service team in the Phillipines.

Our game development and operation process generally includes the following key steps:



### ***Game development and enhancement***

We have in-house capabilities that allow us to develop games and respond to changes in market demands and trends. Our game development cycle from initial proposal generation to open beta testing typically takes six to 18 months depending on the type of game.

*Proposal generation.* Mr. Zongjian Cai, our chief executive officer and executive Director, and Mr. Yuan Chi, our senior vice president and executive Director, lead our design team in formulating initial proposals that set out preliminary storylines and game structures based on their understanding of current trends in game player preferences and market opportunities. The process of formulating a general proposal is a collaborative one. Our development and management teams design the content of such proposals as well as to set milestones for the number of products to be launched each year.

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*Development plan.* After a proposal is accepted, a team of our developers will prepare a detailed development plan, including the story background, graphic style, specific game functions, virtual items for which we will be able to charge, allocation of personnel and estimated development costs. They will then commence the developing and programming work. One of their most important tasks is to develop the server source code for our games. A game’s sever source code is our Group’s core technology because (i) the game’s design, eco-system, architecture, algorithms, implementation and all other related technical know-how are reflected in the source code; (ii) server side source code, which is known as game server engine, usually takes our development team substantial amount of time to design, debug and enhance; and (iii) a successful game engine plays a critical role in the eventual success and popularity of a game we develop.

*Internal reviews.* Periodic management reviews take place every month to troubleshoot and adjust game design according to the preliminary feedback received from employees with regard to their gaming experience and performance.

*Error correction.* For the games they developed, our developers are responsible for fixing game errors detected during internal reviews. Normally it will take seven to 30 days to correct such errors. A new version of the game will again be internal reviewed.

*Open beta testing and official launch.* Before the official launch, as a means to conducting open beta testing, we will invite external players to play the game. By doing this, we have opportunities to test the operations of new games under open market conditions as well as introduce new games to players. We typically begin selling virtual items to players during open beta testing, thereby generating revenue. If we experience no significant technical issues, the game will be considered officially launched.

Normally the same team of developers that developed a particular game is responsible for on-going enhancements of that game. For our major games, we typically provide regular game updates once a week. We usually provide more significant enhancements once a month through expansion packs. We believe that these updates and enhancements, which reflect the feedback we collected from our daily operation, help us to maintain game players’ interest in our games and extend their customer lifespans.

### ***Game operation***

After the official launch, our operation team is responsible for the daily operation of our games. Our localization team will be responsible for our game localization, including creation of different language versions, which are normally outsourced to [●], and organizing various in-game activities to cater to our players from different countries and regions. Our localized game versions are designed to satisfy the different preferences and requirements related to different ethnic groups, religions, cultures and purchasing patterns of our game players.

We also designate game managers to manage specific games. They monitor the game operations and communicate with our players in game forums and collect feedback directly from them. In addition, we have also developed an automatic data-collection system in-house to collect relevant game operational data. Our development team enhances games based on the feedback collected from direct communication with game players and through our data-collection system.

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**Licensed games**

During the Track Record Period, we have also operated certain games we licenced from [●]. Of the 23, 24 and 29 games we operated in the years ended 31 December 2011 and 2012 and the five months ended 31 May 2013, and we licensed seven, six and five games, respectively, from [●] developers. Such games accounted for 20.6%, 13.2% and 9.5% of total revenue for the years ended 31 December 2011 and 2012 and the five months ended 31 May 2013, respectively.

The following table sets out the games we currently licensed from third parties as at 31 May 2013:

<b>Current Games</b>	<b>The Date of contract</b>	<b>Expiry Date</b>	<b>Subject to conditionally automatic renew or not</b>	<b>Launch Date</b>
Voyage Century	September 2006	30 January 2014	Yes	January 2007
Tales of Pirates	February 2007	28 February 2014	Yes	March 2007
Angels Online .	October 2007	31 December 2013	Yes	December 2007
WonderLand Online . . . . .	September 2007	31 December 2013	Yes	March 2008
Myth War2 . . .	June 2006	31 May 2014	Yes	June 2010

All of the games we licensed from [●] were client-based games. We sourced most of these licensed games from third party game developers in the PRC and Taiwan. We consider two major factors when selecting games to be licensed from them: (i) whether the games contained any western elements in their graphic styles, music and storylines primarily because North America and Europe are two key regions where our players are based and (ii) whether the games had good performance track record. Considering client-based games usually have longer life cycles than browser and mobile games, the initial terms of the relevant license agreements were generally two to five years, subject to conditional automatic renewals.

Under our existing licensing arrangements, we have the exclusive right to operate the underlying licensed games in specific regions. We pay an upfront flat licensing fee and additional royalties based on the revenue we received from the games. The royalty fee we paid to our licensors were US\$1.3 million, US\$1.4 million and US\$0.5 million for the years ended 31 December 2011 and 2012 and the five months ended 31 May 2013, respectively.



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### **Pricing**

We use the F2P model for our existing games and currently plan to use the same model for our games in development and games we develop in the future. Under the F2P model, game players can play the basic functions of the game free of charge for as long as they want. We generate revenue through the sale of virtual items for use in our games. Our popular virtual items include hero and commander cards, gems, equipment, pets, mounts, chips and coins.

Our pricing strategy focuses on maintaining the attractiveness of each game product, stimulating player’s spending on our virtual items and maximizing our revenue. Our pricing team maintains a database that tracks the sales and the price of each virtual item. The database also tracks user behavior after each of our virtual items issued. We use this data-tracking to help us determine the appropriate price for each item. As at 31 May 2013, we had thousands of virtual items available for sale across our game portfolio with base prices, ranging from US\$0.0013 to hundreds of dollars, to suit the varying tastes and preferences of our diverse player base. We may change the pricing of certain virtual items based on our players’ consumption patterns.

### **Marketing**

Our marketing and promotional strategy focuses primarily on the use of third party platforms to both promote and deliver our games. These platforms include mobile application platforms, social network platforms and other online game promotional platforms. In addition to helping us deliver content to players, these platforms provide us extensive market visibility for our games and numerous opportunities to attract new game players.

We use mobile application platforms, such as the Apple App Store and Google Play, to dispense and showcase our mobile games to a wide audience as well as to advertise the positive customer feedback which our products have received. Players can download most of our games from one or both of these platforms for free. Players are also able to review and rate our games through these platforms. Based on player ratings and/or rankings, the Apple App Store and Google Play use proprietary algorithms to select and publicly display certain games as “Top Games” to further increase the market visibility of these games. Our Texas Holdem Poker Deluxe has been ranked as a “Top Game” in several countries on both Apple App Store and Google Play, according to Appannie.com. We believe significant numbers of new players were attracted to our games as a result of the high rankings and positive reviews we received on the Apple App Store and Google Play.

We have also leveraged the influence of leading social network platforms, such as Facebook, to target potential players. We supply Facebook with details of demographic groups we are trying to target. Facebook will then post our game advertisements, which we have supplied on the Facebook homepages of potential players meeting the demographic criteria. When using Facebook pages, interested players can click on our advertisements and connect directly to our games. This marketing strategy allows us to expand our customer base by locating and targeting potential clients, and increases the exposure of our game.

In addition to Internet application platforms and social network platforms, we also cooperate with more than 40 other online game promotional platforms, including online game informational

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websites and online game operational websites, to disseminate information about our games. We also embed advertisements for our products into applications and games published by other companies, so that players will be exposed to our games while they are using these applications and playing games on their devices.

We promote our games through performance-based advertisement on third-party platforms. Advertising fees are charged with reference to the number of actions, such as download and registration, (known as cost per action, or CPA), or number of times a user clicks on our advertisement, (known as cost per click, or CPC). We typically place our advertisements on third-party platforms in the form of CPA, except for certain platforms that do not accept CPA. Normally, the settlement period with the advertising and promotional platforms is 30 days and we can choose to terminate the advertisement, either in real time through self-service portals or with 24 to 72 hours notice. In the advertising contract, advertising platforms normally will stipulate that they will not be responsible for any content in the advertisements provided by us and we are solely responsible for determining whether or not the content of the advertisement is appropriate or acceptable. The advertiser will also reserve the right to access, read, preserve and disclose any information in the advertisement it reasonably believes is necessary to (i) satisfy any applicable law, regulation, legal process or governmental request; (ii) enforce the advertisement contract; (iii) detect, prevent or otherwise address fraud, security or technical issues; (iv) respond to user support requests; or (v) protect the rights, property or safety of the advertiser, its users and the public.

Since advertising fees are charged based on a CPA or CPC basis, unusual click/conversion behavior from advertising platforms may cause us to incur unnecessary financial loss. To monitor such unusual behavior, we have developed an in-house analytical system that records and tracks players' clicking or downloading behavior made through advertising and promotion platforms. We also use third-party independent tracking systems to track and compare the performance of our campaigns on various advertising platforms. With the help of these tools, we can analyse various aspects of users behavior, such as which advertisement they respond to, whether they return to the games and which countries they come from. This allows us to determine user acquisition cost and adjust our marketing strategy to be more cost-efficient.

Advertising and promotion fees for the years ended 31 December 2011, 2012 and the five months ended 31 May 2013 were US\$9.7 million, US\$12.1 million and US\$5.6 million, respectively, representing 31.2%, 28.0% and 23.0%, respectively, of our total revenue for the respective periods.

### **Payment**

For most of our games, game players are able to purchase the virtual items we sell in our games by using virtual currency. Once they have purchased such virtual currency, they are able to charge items directly to their accounts. For one of our games, Texas HoldEm Poker Deluxe, players can buy our chips directly without purchasing virtual currency first. As at 31 December 2011 and 2012 and 31 May 2013, our channel cost were US\$2.9 million, US\$5.6 million and US\$3.4 million, respectively, accounting for 9.3%, 13.0% and 14.0% of our revenue for the same periods, respectively.

Generally, our game players can purchase virtual currency for our browser games, client-based games and mobile games, electronic pre-paid cards for certain of our client-based games and virtual

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items, such as chips and coins, for Texas HoldEm Poker Deluxe and Slot Machines by IGG, through various payment platforms. Once purchased, players cannot return such virtual currency or virtual items in exchange for cash and we do not provide players with the right of refund of any kind. As at 31 May 2013, we had entered into payment channel contracts with 36 online payment platforms, including certain leading global payment platforms, such as PayPal, Facebook Payments, Skrill, MOL, Amazon Payments and Google Checkout, among others.

These payment channels act as a gateway between our players and us in that our players would first make payments to them for the purchase of virtual currency. According to the agreements with our payment channel partners, we pay them service fees at agreed rates based on the proceeds we received from game players who purchase virtual currency through these payment platforms, ranging from 1.9% to 30.0% plus a fixed charge per transaction. After deducting services fees, charge-backs or refunds, as applicable, these payment service providers remit to us payouts within a predetermined settlement period as stipulated in the relevant agreements. The settlement period with payment platform partners is usually within 30 days after month-end. Settlement periods of certain platforms can be up to 90 days because for certain mobile payment channel providers, to settle payment with us they must first receive payment from the players’ mobile carriers, which are usually large telecommunication operators who generally settle payment with our payment channel providers within 30 to 60 days after the transaction. Some payment channel partners also provide platforms for us to operate our game, such as Facebook and Google. These contracts do not contain preset termination dates and are subject to automatic renewals unless terminated by both parties. For a discussion about the risks related to our direct sales, please see “Risk Factors — Risks Related to Our Business — Any material change of policies from our payment channel partners may adversely affect our business” of this document.

### **Licensing**

As at 31 May 2013, we licensed three of the games we developed in-house to [●] in China and overseas, including Taiwan, Thailand, Indonesia, South Korea and Japan, among others. During the Track Record Period, we entered into license agreements with [●] when we found them to be conducive and beneficial to our business. When we select certain games to be licensed to third party licensees, we consider the following factors:

- *marketing capability* — we generally license a game to a third party licensee in a particular region if we do not have or have limited marketing capability in such region; and
- *localization and operation capability* — we would license a game to a licensee in a particular market if we do not have or have limited capability to localize or operate the game in that particular market.

For certain markets where we have limited marketing, operation or localization capabilities, we rely on local third party operators who have unique access to certain marketing segments that can help us expand the reach of our games. In these scenarios, we generally adopt the “co-operating” model where we and the third party operator jointly operate our games. As at 31 May 2013, we co-operated six games with third parties.

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The license agreements we use typically have terms of three to five years. For the license agreements which grant exclusive operation rights in specific jurisdictions to third party licensees, we are typically required to provide technological support to fix any game-related bugs as well as updates or expansion packs for the licensed games. Licensees pay us upfront licensing fees and royalties based on the revenue generated from their operation of the licensed games. We typically receive royalties at certain percentage of the total revenue generated on a monthly basis, less financial charges, taxes, charge-backs, if any. For jointly-operated games, our co-operators are usually responsible for user acquisition, while we are usually responsible for technical support, game updates, game operation, customer support and server hosting. For a particular jointly-operated game, either we or our co-operator would be responsible for payment collection. Depending on the responsibilities of the parties, we usually obtain royalties in the amount between 50% to 70% of the revenue generated through this arrangement. These license fees and royalties and shared revenue accounted for 1.5%, 3.1% and 4.9% of our total revenue for the years ended 31 December 2011 and 2012 and the five months ended 31 May 2013, respectively. Going forward, as we continue to focus on operating our in-house developed mobile games, we do not expect to devote substantial resources to expand our licensed game segment. However, we may continue to license games to [●] on a case-by-case basis.

### **Technology Infrastructure**

We have built an extensive service-providing platform to support our global operations. As at 31 May 2013, we had 1,474 production servers, of which, 1,061 were owned by our Company and 413 were leased from third parties. In order to enhance our game players’ experience and minimize any technical difficulties arising due to our cross-country connections, our servers are located in various countries and regions globally.

The table below sets out the numbers and locations of our production servers as at 31 May 2013:

Location of servers:	China	Hong Kong	United States	Singapore	Netherlands	Taiwan
Number of servers owned:	176	—	794	—	—	91
Number of servers leased:	204	1	5	156	47	—

We have exclusive access to the data and software on the servers. We monitor the operation of our server network 24 hours a day, seven days a week. We can access our server network in real time to track our online players, and to discover and fix problems in the operation of hardware and software on a timely basis. We lease datacenter space in the PRC, the United States and Taiwan to connect our self-owned servers to the Internet (“co-location service”), and we also lease servers in the PRC, the United States, Singapore, the Netherlands and Hong Kong from Internet hosting service providers on a server-by-server basis (“managed hosting service”). All of our data centers have security control protocols, including government ID-based security check, key or biometrics access and 24x7 on-site surveillance monitoring, among others, to ensure only authorized personnel can gain physical access to the servers. Additionally, we have automatic server monitoring system that detects and sends alerts regarding the health of our servers, including power, system status and resource utilization. We also have manual inventory check procedures that routinely inspect the servers in our co-location data

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centers for any possible abnormality. We routinely (i) audit all login attempts, (ii) scan our servers for security breaches and (iii) evaluate and apply security patches. For remote access to the servers by our systems administrators for maintenance purposes, we enforce security by applying multiple level access control to limit access to the servers. The servers will only listen to a limited number of ports from a restricted list of IP addresses. Our administrators can only obtain the access to the servers they manage using a private token, via a central control system. All maintenance activities on the servers are logged automatically, and subject to routine audit. Changes to databases can only be performed on our central control system and such changes are also subject to routine audit.

Our server network is linked to our centralised billing system which acts as a meter to deduct virtual currency from plays’ accounts as they purchase virtual items. Our server network is also linked to our data backup system, which backs up data from all login system servers and game servers on a real-time basis.

Our existing security control protocols, access control policies and monitoring instrumentation, together with our routine security check, play a critical role in mitigating risks posed to our technology infrastructure. As a result, we have not encountered any security breach caused by hacking, virus or cyber attack during the Track Record Period. However, as an online game company, we are constantly exposed to such risks, please see “Risk Factors — Our technology infrastructure may experience unexpected network interruption or inadequacy or security breaches” in this document. As at 31 May 2013, we also had an IT support team of 45 employees to maintain our current technology infrastructure, to ensure the stability of our operations and to monitor our servers fixing any technical problems as they arise while avoiding interruption of servers.

The co-location service providers supply us with rack space, power/electricity and cooling and inter-connection services for our servers. We pay a monthly co-location service fee, which is negotiated and determined based on, among others, the area of leased space and the number of racks and power usage for our servers. The lease agreements for co-location services usually have multi-year terms with an automatic renewal option, whereas the managed hosting service contracts are generally month-to-month. Our main co-location service provider hosted approximately 53.9% of our worldwide owned and leased servers as at 31 May 2013. The lease expires on 31 March 2015, and is subject to automatic one-year renewal. We also have a major managed hosting service provider, from which we leased approximately 14.1% of our worldwide servers as at 31 May 2013. The month-to-month hosting leases provide us flexibility to increase or reduce the number of servers we need due to fluctuations in our business operations. In addition, as at 31 May 2013, we had (i) a co-location service provider located in Taiwan that hosted 6.2% of our servers, whose term expires on 4 June 2014 with a one-year automatic renewal option; (ii) a telecomm operator in the PRC that hosted 11.9% of our servers, whose term expires on 30 April 2014 with a one-year automatic renewal option; (iii) a PRC co-operator of our games that hosted 13.8% of our servers, whose term remains in effect until we terminate the services; and (iv) a Hong Kong managed hosting service provider that hosted 0.1% of our servers, whose terms expires on 28 June 2014 with one-year renewal option. Upon the expiry of the co-location and managed hosting lease terms, we expect to renew those terms in accordance with the relevant lease agreements except with respect to the secondary US co-location service provider as described above. In case we have to relocate our servers to different providers, we expect to incur a relocation cost up to approximately US\$300 per server. We do not expect such cost to have a material impact on our business operations and financial condition.

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We rely on Internet bandwidth suppliers to provide us with inter-connectivity from our servers to the Internet. We usually commit to a monthly minimum usage and pay additional fees when our usage exceeds the prescribed monthly limit. Our agreements with Internet bandwidth providers usually have multi-year terms with an automatic renewal option.

### **Customer Service**

We provide customer service for each of our games to cater to the needs of our players. Players can access our customer service via live chat, online service or email 24 hours a day, seven days a week. As at 31 May 2013, we had 67 dedicated customer service representatives located in Fuzhou, China. On 11 January 2013, we established our regional office in the Philippines, which had 33 dedicated customer service personnel as at the Latest Practicable Date. These customer service representatives can provide assistance to our customers in 15 different languages. We intend to expand our customer service team overseas and build up the team in the Philippines in the near future.

During our operation, we receive customer inquiries and the vast majority of them were common inquiries or game-related questions. Our standard operating procedures for common game-related inquiries are as follows:

- our customer service representative records on our internal IT platform the details of the inquiry that came from the player via email, live-chat or online ticket;
- our IT platform automatically circulates the record to the relevant operation department or team to investigate;
- our customer service representative then liaises with the relevant operation department or team, if necessary, to provide an appropriate solution to player; and
- if the player is satisfied with the solution, the common inquiry or game-related question is then deemed resolved and closed, typically within two working days.

For those players who are dissatisfied with the solutions we offered, we will escalate the issue and apply complaint handling procedures to ensure players receive special attention, which involve:

- our customer service team holding a special meeting with the relevant operation department or team to devise an appropriate solution and agreeing to possible compensation for the player;
- submitting the proposed solution to a vice president level officer for approval; and
- our customer service team subsequently notifying the player of the solution and compensation, if applicable.

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Our customer service team holds meetings with our operation department on a monthly basis to discuss the complaints and inquiries submitted by our players in the previous month. In cases where player complaints and inquiries occur frequently, an action plan would be devised to prevent any future recurrence.

During the Track Record Period, we received 33 complaints from our customers, which were complaints that were not resolved within three working days after submission and that needed to be escalated and resolved by our vice operation director. Among these complaints, one was related to hacking, where a player shared his/her account details with another player and subsequently found that his/her virtual items were lost without his/her knowledge; 11 were related to events and rewards, which are complaints about our promotions and the rewards the players thought they should be entitled to receive; eight were related to lost virtual item; five were related to disputes among game players as a result of their in-game interactions; five were related to in-game bugs; one was related to payment issues; and two were related to the merger of game servers. After due inquiry, we generally provide compensation in the form of virtual items with an aggregate marketing value of approximately US\$350 per complaint on average and we do not provide any actual monetary compensation to our customers who lodged complaints with us.

With respect to eight complaints relating to the loss of virtual items, (i) six were caused by voluntary sharing of account by a game player with another or transferring of virtual items by a game player to another account; (ii) one related to a loss of chips caused by the player’s unstable Internet connection during the game playing; and (iii) one related to a loss of virtual items due to Internet connection lag, which were subsequently found in the game player’s account after he restarted the game. These complaints were not serious in nature and were customary in our industry and we do not believe they indicated any internal control deficiency.

## **SUPPLIERS**

Our primary suppliers include advertising service providers, payment service providers, licensors of games, and server, data center and bandwidth providers.

Our largest supplier for each of the two years ended 31 December 2011 and 2012 and the five months ended 31 May 2013 was Facebook, which provided us both advertisement services and payment channel services. Further details of our marketing and payment are set out in “— Our Operations — Marketing” and “— Our Operations — Payment” of this document.

For each of the two years ended 31 December 2011 and 2012 and the five months ended 31 May 2013, our largest supplier, Facebook, accounted for 47.7%, 44.0% and 20.0%, respectively, of our total purchases during those periods. Purchases from our five largest suppliers for each of the two years ended 31 December 2011 and 2012 and the five months ended 31 May 2013 accounted for 56.2%, 52.6% and 41.5%, respectively, of our total purchases during those periods. For the years ended 31 December 2011 and 2012, revenue generated from users on Facebook, our largest advertising and promotion platform for browser games, accounted for 34.4%, 35.6% and 23.7% of our total revenue, respectively. Revenue generated by users we paid to acquire from our five largest advertising and promotion platforms for browser games for the years ended 31 December 2011 and 2012 and the five months ended 31 May 2013 accounted for 36.4%, 37.8% and 30.6% of our total revenue, respectively.

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As at the Latest Practicable Date, none of the Directors, their associates or any shareholders of our Company (which to the knowledge of our Directors owned more than 5% of the Company’s issued share capital) had any interest in any of our five largest suppliers.

### **CUSTOMERS**

Our customers consist of individual players and licensees of our games. Our largest customer for each of the two years ended 31 December 2011 and 2012 and the five months ended 31 May 2013 accounted for 0.3%, 1.5% and 2.5% of our revenue during those periods, respectively. Our five largest customers for each of the two years ended 31 December 2011 and 2012 and the five months ended 31 May 2013 accounted for 1.1%, 2.8% and 4.7% of our revenue during those periods.

As at the Latest Practicable Date, none of the Directors, their associates or any shareholders of our Company (which to the knowledge of our Directors owned more than 5% of the Company’s issued share capital) had any interest in any of our five largest customers.

### **COMPETITION**

The global online game industry is extremely competitive. Currently, we compete with companies both in China and overseas.

We consider overseas competitors to be our fiercest competition. Online game companies whose products rank among the top 30 on Google Play comprise our major competitors in the global market. We compete with them in terms of quality of games, efficiency of development periods and marketing capabilities.

Competitors in China include Boyaa Limited, Kunlun Online and Perfect World. We compete to promote our products and gain players, to attract and hire management personnel with overseas operational experience, and to secure diversified marketing channels.

Some of our existing or potential competitors have significantly greater financial and marketing resources than we do. For a discussion of risks related to competition, please see the “Risk Factors — Risks Related to the Industry in Which We Operate — Our business may not succeed in a highly competitive market” in this document.

### **INSURANCE**

As at the Latest Practicable Date, we were in compliance with the applicable laws and regulations with respect to required insurances for our employees in the PRC and Singapore. During the Track Record Period, we did not make any claims under our insurance policies that had a material adverse effect on our business, financial condition or results of operations.

We maintain property insurance, workers’ compensation insurance and liability insurance in the United States, and public liability insurance and workers’ injury compensation insurance in Singapore.



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Consistent with what we believe to be customary practice for online game industry in China, we do not maintain any fire, earthquake, liability or other property insurance with respect to our properties and equipment in China.

During the Track Record Period, we did not experience any business interruptions or losses or damages to our facilities that had a material adverse effect on our business, financial condition, or results of operations. Our Directors and senior management will closely review the risks relating to our operations and adjust our insurance coverage as we continue our business expansion. For a discussion of risks related to insurance, please see the “Risk Factors — Risks Related to Our Business and Our Industry — We do not have business interruption insurance coverage” of this document.

### **INTELLECTUAL PROPERTY AND PROPRIETARY RIGHTS**

We regard our proprietary software, domain names, copyrights, trademarks and other intellectual property as critical to our success. We rely on trademark and copyright law, trade secret protection, non-competition and confidentiality and/or license agreements with our employees, customers, partners and others to protect our intellectual property rights. Our employees are generally required to enter into agreements under which they undertake to keep confidential all information related to our methods, business and trade secrets during and for a reasonable time after their employment with us. However, we cannot guarantee that our measures to protect our intellectual property will be sufficient. For a discussion of risks related to the protection of our intellectual property, please see “Risk Factors — Risks Related to Our Business — Unauthorised use of our intellectual property may adversely affect our business and reputation” of this document.

As of 31 May 2013, we were the registered owner of 29 software copyrights in China, each of which was registered with the State Copyright Bureau of China. As at 31 May 2013, we also owned 29 software copyrights in Singapore, where software copyright does not need to be registered pursuant to the law and regulation thereof. We have registered the software copyrights for our major games Godswar, Galaxy Online II, Wings of Destiny and Texas HoldEm Poker Deluxe in the PRC. We also owned the software copyrights for these games in Singapore.

As at 31 May 2013, we owned the rights to 29 domain names that we use in connection with the operation of our business, including our official website, <http://www.igg.com>.

As at 31 May 2013, we also owned 156 trademarks in the China and other countries and regions, including the United States, Canada, Australia, European Union, Singapore, India and Taiwan. As at the Latest Practicable Date, we also had an additional 25 trademark applications pending in China, the United States, Taiwan, Macao and Hong Kong. However, we cannot assure you that we will be able to obtain the trademarks we have applied for. We have registered “IGG” as our trademark in the PRC, Canada, European Union, Singapore, Australia and the United States.

Details of our intellectual property rights are set out in the section headed “Further information about the business — Intellectual property” in Appendix IV of this document.

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### **PROPERTIES**

As at 31 May 2013, we leased eight properties in the PRC, Singapore, the United States and the Philippines, with an aggregate gross floor area of 4,481.2 sq.m. Our leased properties are primarily used for business and office purposes.

Our regional office in Fuzhou, Fujian Province, China, is leased by Fuzhou Tianmeng, and has a gross floor area of approximately 3,756.7 sq.m. The lease will expire on 18 July 2015 (the “Tianmeng Lease”). The landlord of the Tianmeng Lease has not obtained proper building ownership certificate. Fuzhou Tianmeng also entered into a lease for another office in Fuzhou with a gross floor area of approximately 23 sq.m., which will expire on 16 May 2014. In addition, Fuzhou Tianji leases an office in Fuzhou with a gross floor area of approximately 27 sq.m. This lease will expire on 13 December 2013. Fuzhou Tianjie leases an office in Fuzhou with a gross floor area of approximately 27 sq.m. This lease will expire on 16 May 2014.

We have been advised by our PRC legal advisers that, after the landlord obtain the relevant building ownership certificate, we will be entitled to legally lease such premises. If the landlord fails to obtain the proper building ownership certificate, the lease agreement may be deemed void, and Fuzhou Tianmeng, as applicable, will not be able to continue to lease the relevant property, and may claim for breach of contract against the relevant landlord. In addition, the landlord of the Tianmeng Lease had not agreed to indemnify us for any potential liabilities we may incur as a result of the title defects. Please see “Risk Factors — Risks Related to Our Business — Our landlord does not possess or has not provided us with the relevant building ownership certificate for a property we lease” of this document.

Our Directors are of the view that the property we lease where landlord has not obtained proper ownership certificate is not material to our business operations and that the property we occupy can, if necessary, be replaced by comparable alternative premises. We believe that if we are compelled to relocate our operations due to these title defects, such relocation is expected to take approximately 90 days to make plan and prepare, and cost approximately US\$650,000, which is not expected to have any material adverse effect on our business or financial condition.

As at 31 May 2013, our headquarters in Singapore was located in District D03 Queenstown, and had a gross floor area of approximately 235 sq.m. We currently lease the fifth and seventh floors of the building located at 16 Jalan Kilang Timor, Redhill Forum. These leases have expired on 30 September 2013 and 31 July 2013, respectively. On 1 August 2013, our headquarters in Singapore was moved to SIME Darby Enterprise Centre located at 10 Jalan Kilang Singapore, and had a gross floor area of approximately 307.2 sq.m. The lease will expire on 31 July 2015.

As at 31 May 2013, our regional office in the United States was located in Fremont, California, and had a gross floor area of approximately 269.7 sq.m.. This lease will expire at 30 June 2016.

As at 31 May 2013, our regional office in the Philippines was located in Pasig City, and was approximately 142.8 sq.m. Our current lease will expire on 30 November 2013. However, the signing person on the premise lease contract is not consistent with the name of the lessor. As advised by our

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Philippines advisors, that the premise lease contract is valid under the Philippines law because the signatory, being the true owner of said premise and by means of his signature on the premise lease contract, has ratified the act of lessor in acting as lessor of the premise without proper representative or attorney-in-fact issued by the owner of the premise.

We believe that our existing facilities are adequate for our current requirements and alternative facilities can be obtained on commercially reasonable terms in case of non-renewal of the existing leases or if our work force expands.

According to section 6(1) of the Companies Ordinance (Exemption of Companies and [●] from Compliance with Provisions) Notice, this [●] is exempted from compliance with the requirements of section 38(1) of the Companies Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies Ordinance, which require a valuation report with respect to all our Company’s interests in land or buildings, since no single property interest that forms part of our property activities has a carrying amount of 1% or more of our total assets, and no single property interest that forms part of our non-property activities has a carrying amount of 15% or more of our total assets.

## **EMPLOYEES**

As at 31 May 2013, we had 567 employees. The majority of our employees were based in Fuzhou, Fujian Province, China. The table below sets forth the number of our employees in each functional area as at 31 May 2013.

<b>Function</b>	<b>Number of Employees</b>	<b>% of total</b>
Management . . . . .	12	2.1%
Development team . . . . .	291	51.3%
IT Support team . . . . .	45	7.9%
Game Operation and Customer service . . . . .	78	13.8%
Finance and accounting . . . . .	18	3.2%
Administration . . . . .	15	2.6%
Global Support . . . . .	<u>108</u>	<u>19.1%</u>
Total . . . . .	<u>567</u>	<u>100.0%</u>

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The table below sets forth the number of our employees located by geographic location as at 31 May 2013.

Location	Employees	% of total
China.....	504	88.9%
US.....	16	2.8%
Singapore.....	25	4.4%
Philippines.....	22	3.9%
Total .....	567	100%

We have entered into standard employment agreements with these employees, other than executive officers. Under these agreements, we may terminate employment without prior notice or remuneration for cause, such as a material breach of our rules and regulations, failure to perform agreed duties, embezzlement that causes material damage to us, or a conviction of a crime. An employee may terminate his or her employment with us at any time by giving a 30-day prior written notice. An employee is entitled to certain benefits upon termination, including a severance payment based on the number of years served at the rate of one month’s salary for each full year of service, if such employee resigns for certain good reasons specified in the agreement or in the Employment Contract Law of the PRC or if we terminate such employee’s employment without any of the above causes.

In addition, we have entered into standard employment agreements with our employees other than executive officers, in each of the United States, Singapore and the Philippines. Our employees other than executive officers have also entered into standard confidentiality agreements and standard non-competition agreements with us. Under the confidentiality agreements, employees agree not to disclose or otherwise use our confidential information while employed by us and thereafter. Under the non-competition agreements, an employee typically agrees not to compete with us during and up to 12 months after the termination of his or her employment with us. The non-competition agreements also state that the employee’s work product will be assigned to us.

We believe that the dedication and talent of our employees is critical for our business, and retention of employees and recruitment of new employees are among our top priorities. As part of our retention strategy, we are committed to offering employees salaries and performance-based bonus. In addition, we have established [●] Share Option Scheme to allow key staff to share in the profits from our operation.

We plan to expand our workforce by the end of 2013 to approximately 680 and to continue to devote significant resources to our recruitment efforts. We focus on recruiting and training new college graduates and on attracting and recruiting experienced game development personnel from the industry. We have established a training program specifically to train entry-level hires.

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### LEGAL PROCEEDINGS AND NON-COMPLIANCE

We set out below the non-compliances and irregularities relating to our Group during the Track Record Period:

#### Non-compliance regarding PRC employee social insurance payment

Legal consequences and potential maximum penalties and other financial losses	Cause of the non-compliance	Latest status	Measures taken/to be taken to prevent any future breaches and ensure on-going compliance
<p><b>Non-compliance incidents</b></p> <p>We did not fully comply with the relevant requirements for making contributions to the social insurance scheme for all relevant employees of Fuzhou Tianmeng, Fuzhou Tianji and Fuzhou Tianjie during the Track Record Period. As at 31 May 2013, we made provision in the amount of US\$0.7 million of the social insurance underpayment for the past two years for all of our current employees as at 31 May 2013.</p>	<p><b>Legal consequences and potential maximum penalties and other financial losses</b></p> <p>As advised by Jingtian &amp; Gongcheng, our PRC legal adviser, if we fail to pay the full amount of social insurance as scheduled, the relevant authorities may order us to make the social insurance payment or make up the difference within a stipulated period and (i) in respect of any overdue social insurance incurred before 1 July 2011, if payment is not made within the stipulated period, levy a surcharge equal to 0.2% of the overdue social insurance for each day from the date on which the social insurance became overdue; and (ii) in respect of any overdue social insurance incurred on or after 1 July 2011, levy a surcharge equal to 0.05% of the overdue social insurance for each day from the date on which the social insurance became overdue, and if payment is not made within the stipulated period, the relevant administration department may impose a fine of one to three times the amount of overdue social insurance on us. According to the Company's legal adviser's consultation with Fuzhou Social and Labor Insurance Management Center (福州市社會勞動保險管理中心) (the "Fuzhou Social Security Center"), the Fuzhou Social Security Center confirmed that pursuant to the Regulation on Labor Security Supervision (勞動保障監察條例), social security unpaid two years ago is outside the statute of limitation and will not be penalized by the Fuzhou Social Security Center. In addition, with respect to ex-employees, Fuzhou Social Security Center confirmed that companies are not permitted to pay the outstanding social insurance contributions of their ex-employees and would not be penalized for any outstanding social insurance contributions. The official interviewed was the deputy director of Fuzhou Social Security Center. The Fuzhou Social Security Center is a government authority under the Fuzhou Human Resource and Social Security Bureau (福州市人力資源和社會保障局); it is the administrative authority at the Fuzhou city level with respect to social security issues. Fuzhou city is the appropriated level. Although government authority at the provincial level, i.e. Fujian Province Human Resources and Social Security Bureau has the right to supervise its city counterparts, including Fuzhou Human Resources and Social Security Bureau; in practice, rules and policies with respect to social security are implemented and social security contributions, payment, surcharges and penalties are collected through authorities at the city level.</p>	<p><b>Latest status</b></p> <p>On 30 September 2013, we have fully settled the outstanding social insurance contributions with Fuzhou Human Resource and Social Security Bureau for our current employees in the amount of RMB 4,023,339.02 (approximately US\$ 0.66 million) for the period from September 2011 to May 2013. Such payment includes outstanding social insurance contributions for the period from September 2011 to May 2013 and their respective surcharges. No penalties were imposed for any overdue social insurance contributions. As such, we have fully settled the payment of outstanding social insurance contributions with the relevant competent government authority for our current employees as of the date of this document. For the social insurance contributions for the period of June to August 2013, we will be paying the required amount once we completed the quarterly review for the period ended 30 September 2013. We have communicated with and obtained confirmation from the relevant government authority regarding this arrangement.</p>	<p><b>Measures taken/to be taken to prevent any future breaches and ensure on-going compliance</b></p> <p>Going forward, we have established procedures for calculation the social insurance contribution for our employees according to the PRC laws and regulation. In addition, we will have a finance manager to review the calculation of monthly social security insurance contributions made by our HR manager to ensure that the contributions are correctly calculated. To the extent there are any discrepancies discovered by our financial manager, he will communicate to and coordinate with the HR manager with regard to the discrepancies to make sure the calculation is correct. The financial manager will also keep a proper record of the contributions we have paid. Furthermore, we have established an internal legal department in August 2013 to supervise our operations and to bolster our internal control system to reduce the occurrence of non-compliance incidents.</p>

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### Non-compliance with Section 122 of the Companies Ordinance

Pursuant to Section 122 of the Companies Ordinance, the directors of a company incorporated in Hong Kong are required to cause the profit and loss account to be made up and laid before our Company at its annual general meeting and such account shall be made up to a date falling not more than six months, or in the case of a private company not more than nine months, before the date of the meeting.

It was discovered that our Hong Kong incorporated subsidiary, IGG HK, was not fully in compliance with the requirements under section 122 of the Companies Ordinance to lay the annual audited accounts before its shareholders in its annual general meeting. We set out below a summary of the non-compliance incidents:

Details of non-compliance	Reasons of non-compliance	Legal consequence and financial impact including potential maximum penalty and other financial loss or saving	Whether provision has been made in financial statements for the non-compliance	Identity and position of the Directors/senior management involved in the non-compliance	Rectification action taken and latest status	Measures to prevent future breach and ensure on-going compliance
IGG HK fails to lay the annual audited accounts before its shareholders at its annual general meetings in 2007, 2008 and 2009.	Due to the facts that (i) the then directors of IGG HK were not aware of the legal requirements under the Companies Ordinance that annual audited accounts must be laid before the annual general meeting of IGG HK; (ii) no auditor was engaged from the incorporation of IGG HK until July 2010 and the annual audited accounts for the year ended 31 December 2006, 2007, 2008 were not available for presentation at the time of each relevant annual general meeting of IGG HK, (iii) IGG HK has retained secretarial companies to assist with on-going compliance obligations and the directors of IGG HK at the material times have trusted the services of these secretarial companies, and (iv) the then directors had not been properly advised of the requirements under sections 122 of the Companies Ordinance and believed that they were in compliance with such rules and regulations, by means of subsequent adoption and presentation of the audited accounts of IGG HK for the four years ended 31 December 2009 at its 2010 annual general meeting.	Pursuant to section 122 of the Companies Ordinance, if a director of a company fails to take all reasonable steps to comply with the requirements under the section, such person is liable to a maximum fine of HK\$300,000.  Further, if it is proven that the breach was willfully committed, such director could be sentenced to imprisonment for up to 12 months.	No provision has been made in the consolidated financial statements of our Group as the non-compliance with the Companies Ordinance will be rectified prior to the LPD date.	IGG HK's Directors:  • 20 February 2006 (date of incorporation) - 9 November 2007: Zongjian Cai and Yuan Chi  • 9 November 2007 - 28 December 2007: IGG Inc  • 28 December 2007 - 13 February 2009: Zongjian Cai, Yuan Chi and Xiaojun Li  • 13 February 2009 - present: Zongjian Cai, Yuan Chi, Xiaojun Li and Kee Lock Chua	We have engaged Messrs. Fairbairn Catley Low & Kong to apply to High Court of Hong Kong for an order to rectify such non-compliance.  On 29 July 2013, High Court of Hong Kong granted court orders that (i) the requirement to lay the annual audited accounts of IGG HK for the periods ended 31 December 2006, 2007 and 2008 before the respective annual general meetings of IGG HK for the years 2007, 2008 and 2009 be substituted with a requirement to lay such audited accounts before IGG HK at its 2010 annual general meeting which was convened on 20 August 2010; and (ii) such audited accounts which were made up to a date falling not more than 9 months before the date of the respective annual general meeting of IGG HK be extended to and including 20 August 2010.	• We have established an internal legal department of our Group in August 2013 led by Ms. Qin Yin and assisted by Ms. Xiujuan Zhou. Ms. Qin Yin graduated from North China University of Technology* (北方工业大学) with a bachelor degree in law. She has passed the PRC bar examination and has 5.5 years of experience as an in-house legal counsel before joining us. Mrs. Xiujuan Zhou joined our Group in December 2006 and has been responsible for coordinating legal related matters of our Group. Mrs. Yin and Xiujuan Zhou are primarily responsible for, among others, monitoring and assessing general corporate matters and projects, to ensure due compliance of laws, rule and regulations applicable to our Group.

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Legal consequence and financial impact including potential maximum penalty and other financial loss or saving	Whether provision has been made in financial statements for the non-compliance	Identity and position of the Directors/senior management involved in the non-compliance	Rectification action taken and latest status	Measures to prevent future breach and ensure on-going compliance
Reasons of non-compliance	Details of non-compliance	<ul style="list-style-type: none"> <li>We have also established an internal audit department, of which the functions include, among other things, reviewing the implementation and effectiveness of our Group's internal control. The internal audit department is led by Mr. Deyang Zheng, our internal auditing manager who received a master degree in applied economics in international economics and business from Xiamen University* (廈門大學) and passed the exam of a certified public accountant in the PRC, the examination of which covers economic laws and tax laws. Mr. Deyang Zheng has five years of experience in corporate internal auditing and internal control, to among other responsibilities, assess and manage the risks associated with our operation from time to time. In addition, Mr. Deyang Zheng will work closely with our internal legal department to endeavor to work on the due compliance with applicable laws, rules and regulations.</li> </ul>		

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### **Views of our Directors**

With regard to the above-mentioned non-compliance incidents, our internal control consultant has made recommendations to prevent any further breaches and ensure on-going compliance. The follow-up review was conducted by the internal control consultant in May 2013, including, among other things, reviewing the newly issued policies, randomly selecting transaction samples and performing testing to verify the effectiveness of the internal control. Two issues are in the process of remediation, which pertain to (i) the establishment of a nomination committee and the reformation of audit committee and remuneration committee within the existing board to comply with the requirements of the [●]; and (ii) being in compliance with the relevant requirements for making contributions to the social insurance scheme for all relevant employees of Fuzhou Tianmeng, Fuzhou Tianji and Fuzhou Tianjie. We intend to complete the remediation of these issues upon the [●]. Except for aforesaid issues, all recommendations made by the internal control consultant have been strictly implemented by us as at May 2013.

### **Lawsuits and the administrative penalty against Fuzhou Online Game**

During the Track Record Period, Fuzhou Online Game, our former subsidiaries we disposed of in April 2012, was subject to 16 lawsuits and an administrative penalty from Fuzhou Culture, Press and Publication Bureau (福州市文化新聞出版局).



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The details of these lawsuits and the administrative penalty during the Track Record Period are set forth below:

Administration authority/ plaintiff	Penalized party/defendant	Cause of action and claims	Administrative decision/judgment	Latest status/preventive measure
Fuzhou Culture, Press and Publication Bureau (福州市文化新聞出版局)	Fuzhou Online Game	Due to our unfamiliarity with the PRC laws in the area of Internet cultural activities and their application in practice, we did not obtain prior approval/authorization from the relevant government authorities with respect to the operation of Internet games by Fuzhou Online Game on 766.com.	On 11 May 2012, Fuzhou Culture, Press and Publication Bureau issued Administrative Penalty Decision ((Rong) Wen Zhi Fa (2012) No. 20) (《行政處罰決定書》(榕)文執罰(2012)第20號) to Fuzhou Online Game, and decided to impose a fine of RMB 100,000, and requested Fuzhou Online Game to close the website www.766.com.	The fine has been fully paid. We have disposed Fuzhou Online Game in 2012. In addition, we have established an internal legal department in August 2013 to supervise our operations and further enhance our internal control system. The internal legal department will take the following measures to reduce the occurrence of non-compliance incidents in the future: (i) working closely with our development teams and business operation teams, to better understand the timing and nature of products being launched and potential business expansion plans, and thus better monitor and ensure licenses and/or authorizations are obtained in a timely manner; (ii) monitoring legal development in our Company’s key markets by conducting preliminary in-house legal research of local laws and regulations, and coordinating with local counsel if necessary to help our Company follow relevant laws and regulations; and (iii) checking documentation for applications, renewing and maintaining of licenses and permissions needed for our daily business in current and future jurisdictions.

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Administration authority/ plaintiff	Penalized party/defendant	Cause of action and claims	Administrative decision/judgment	Latest status/preventive measure
Guangdong Creative Power Entertaining Co., Ltd (廣東原創動力文化傳播有限公司)	Fuzhou Online Game	Plaintiff, who owns the copyrights of the images in animation “Pleasant Goat and Big Wolf”, claimed that defendant operated unauthorized Flash game “Pleasant Goat and Big Wolf” on defendant’s website www.766.com.	On 19 December 2011, Fuzhou Intermediate People’s Court issued the Civil Mediation Letter ((2011) Rong Min Chu Zi No.383) (民事調解書 (2011) 榕民初字第383號), requested defendant to indemnify RMB 38,050 to plaintiff before 10 January 2012.	The settlement has been fully paid.
Bei Jing You Peng Pu Le Technology Co., Ltd (北京優朋普樂科技有限公司)	Fuzhou Online Game	Plaintiff, who have exclusive dissemination right of the movies “My Wife is a Gambling Maestro”, “Infernal Affairs” and “Future Cops”, claimed that defendant disseminated these movies on defendant’s website www.766.com without authorization. <sup>(1)</sup>	On 30 November 2011, plaintiff and defendant entered into a settlement agreement, pursuant to which defendant agreed to stop disseminating the relevant movies and indemnify plaintiff RMB 24,000.	The settlement has been fully paid.
Softstar Technology (Beijing) Co., Ltd (軟星科技(北京)有限公司)	Fuzhou Online Game	Plaintiff, who owns the copyrights of the games “Richman 6”, “Richman 8” and “XuanYuan Sword: Faraway of Clouds”, claimed that defendant disseminated these games on defendant’s website www.766.com without authorization. <sup>(2)</sup>	On 30 November 2011, plaintiff and defendant entered into a settlement agreement pursuant to which defendant agreed to stop disseminating the relevant games and indemnify plaintiff RMB 25,000.	The settlement has been fully paid.
		Plaintiff asked defendant to stop the infringing activities and indemnify plaintiff for relevant financial loss of RMB 120,000.		

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Administration authority/ plaintiff	Penalized party/defendant	Cause of action and claims	Administrative decision/judgment	Latest status/preventive measure
Games Paradise Electronic Technology (Beijing) Co., Ltd (游戏天堂电子科技(北京)有限公司)	Fuzhou Online Game	Plaintiff, who have exclusive dissemination right on Internet of the games “Sango”, “Sango 2”, “Sango 3”, “Sango 4”, “Sango 5”, “Sango 6”, “Sango 7”, “Adventure Generation Online 4” and “Adventure Generation Online XX”, claimed that defendant disseminated these movies on defendant’s website www.766.com without authorization. <sup>(3)</sup>	On 30 November 2011, plaintiff and defendant entered into a settlement agreement pursuant to which defendant agreed to stop disseminating the relevant games and indemnify plaintiff RMB75,000.	The settlement has been fully paid.
<p><i>Note:</i></p> <p>(1) These were three separate lawsuits involving the alleged infringement of “My Wife is a Gambling Maestro”, “Infernal Affairs” and “Future Cops”, respectively. We consolidate the descriptions of these three lawsuits together for the purpose of disclosure because both plaintiff and defendant involved in, and the cause of action for these three lawsuits, were the same.</p> <p>(2) These were three separate lawsuits involving the alleged infringement of “Richman 6”, “Richman 8” and “XuanYuan Sword: Faraway of Clouds”, respectively. We consolidate the descriptions of these three lawsuits together for the purpose of disclosure because both plaintiff and defendant involved in, and the cause of action for, these three lawsuits were the same.</p> <p>(3) These were nine separate lawsuits involving the alleged infringement of “Sango”, “Sango 2”, “Sango 3”, “Sango 4”, “Sango 5”, “Sango 6”, “Sango 7”, “Adventure Generation Online 4” and “Adventure Generation Online XX”, respectively. We consolidate the descriptions of these nine lawsuits together for the purpose of disclosure because both plaintiff and defendant involved in, and the cause of action for, these nine lawsuits were the same.</p>				

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Other than the lawsuits disclosed above, to the best knowledge of our Directors, they are not aware of any other material incident of infringement of third party intellectual property rights by us during the Track Record Period.

As a strategic investment decision, on 5 August 2009, Fuzhou Online Game became controlled by Fuzhou Tianji through a series of structured contracts. Subsequently, on 24 April 2012, Fuzhou Online Game became directly owned by Fuzhou Tianmeng and the structured contract arrangement with Fuzhou Tianji was terminated. During the period when Fuzhou Online Game was controlled by our Company, either through structured contract arrangement or through direct ownership, for the purposes of protecting our Company’s stake as an investor and enhancing Fuzhou Online Game’s corporate governance, Mr. Yuan Chi was appointed as an executive director, and Mr. Zongjian Cai as a supervisor, of Fuzhou Online Game. However, there was an understanding between our Company and Mr. Yuqing Wu (吳宇清), the key founder and the actual operator of Fuzhou Online Game, that the day-to-day management of Fuzhou Online Game would remain unchanged notwithstanding the respective appointments of Mr. Chi and Mr. Cai, and that Mr. Wu would continue to serve as the legal representative and general manager of Fuzhou Online Game and be responsible for its day-to-day operations. The website, *www.766.com*, was operated by Fuzhou Online Game and was a free communication platform for game players where they can upload certain information, including information that may infringe third party intellectual property rights.

In light of the fact that (i) Fuzhou Online Game had established and implemented internal control procedures to prevent potential infringement of third parties’ intellectual property rights, and Mr. Yuan Chi and Mr. Zongjian Cai had assessed the implementation and effectiveness of such internal control procedures on a regular basis based on reports from management of Fuzhou Online Game during the period they served as an executive director and a supervisor of Fuzhou Online Game, respectively; (ii) after becoming aware of the infringements and ensuing legal proceedings in April 2011, Mr. Yuan Chi and Mr. Zongjian Cai instructed the then management of Fuzhou Online Game to take rectifying measures promptly, including filtering and removing the contents involving or suspected of infringement in the above-mentioned website; and (iii) the related business department and webpages were closed in November 2011 considering the potential lawsuits which might result from such webpages, our Directors are of the view that Mr. Zongjian Cai and Mr. Yuan Chi fulfilled their fiduciary duties and discharged their respective responsibilities as an executive director and a supervisor, respectively, by overseeing and monitoring the operations and legal compliance of Fuzhou Online Game.

Based on the foregoing and the independent due diligence conducted by the [●], and in view of the fact that (i) save as the proceedings against Fuzhou Online Game, which has been disposed of and ceased to be a subsidiary of our Group, there was no legal proceeding in respect of claims against our Group relating to infringement of third party intellectual property rights, which demonstrates our proven track record in preventing above-mentioned infringements or other non-compliance incidents; and (ii) under the management of Mr. Zongjian Cai and Mr. Yuan Chi, written policies were adopted to provide further guidance on the internal control of our Group with respect to laws and regulations governing infringement of intellectual property rights, and quarterly internal reviews of our Group’s internal control measures have been arranged to ensure its effectiveness.

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Furthermore, our Company has engaged in legal advisers to facilitate our compliance with relevant laws and regulations, in particular those relating to intellectual property.

For online games we license from [●], we require licensors to guarantee in the relevant license agreements that the online games they licensed to us do not infringe the intellectual property rights of any other person and that they will indemnify us for all damages, if any, incurred by us in relation to any such infringement as a result of our operation of the licensed games. Our operation team also monitors the infringement of intellectual property rights of our games and inform our licensors of any infringement detected.

For online games we license to [●], licensees agree that in no event, whether as a result of a breach of contract, warranty, tort (including, without limitation, negligence) or any other claim or cause of action, will our liabilities exceed, in the aggregate, the total amount of license fees actually received by us from the licensee under the relevant license agreement in the three (3) calendar months prior to the occurrence of such claim or cause of action.

We have established a risk management committee (our “Risk Management Committee”) in May 2013. Our Risk Management Committee is responsible for, among other things, the implementation of our internal control policies and procedures, including the internal control procedures that were updated in accordance with the recommendations suggested by our internal control consultant, and the assessment and management of the risks associated with our operations from time to time to ensure due compliance of laws, rules and regulations that are applicable to our Group.

Our Risk Management Committee comprises Mr. Zongjian Cai and Mr. Yuan Chi, our executive Directors, Mr. Yuan Xu, our chief operating officer, Mr. Hong Zhang, our chief technology officer and senior vice president of global operations, Mr. Zhixiang Chen, our senior vice president, Ms. Jessie Shen, our joint company secretary and senior vice president of finance, Mrs. Qin Yin, our [●] and Mr. Deyang Zheng. Ms. Qin Yin graduated from North China University of Technology with bachelor degree in law and also passed the PRC bar examination. Ms. Qin Yin had five and a half years of experience as an in-house legal counsel before she joined us. Mr. Deyang Zheng joined us in May 2013 as the head of our internal audit department responsible for conducting regular internal control reviews of our Group’s operations and overseeing the overall functions of our Risk Management Committee. Mr. Deyang Zheng received a Masters Degree in Applied Economics in International Economics and Business from Xiamen University and passed the exam of certified public accountant in the PRC. He has previously worked for an international audit firm and a company that provides telecommunications equipment and network solutions, and possesses five years of experience in audit and internal control. Please also refer to the section headed “Directors, Senior Management and Employees” of this document for detailed biographies of Mr. Zongjian Cai, Mr. Yuan Chi, Mr. Yuan Xu, Mr. Hong Zhang, Mr. Zhixiang Chen and Ms. Jessie Shen.

Within our Risk Management Committee, each member leads a different departments and is responsible for their respective compliance with applicable laws, rules and regulations. Specifically,

- Mr. Zongjian Cai, our executive Director, is responsible for our CEO’s office, our senior management team and our HR and corporate administration department;

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- Mr. Yuan Xu, our chief operating officer, with the assistance of Mr. Hong Zhang and Mr. Zhixiang Chen, heads our operating department;
- Mr. Yuan Chi, our executive Director, is in charge of our R&D departments; and
- Ms. Jessie Shen, our joint company secretary and senior vice president of finance, supervises our internal legal department.

To prevent potential infringement of intellectual property rights of third parties, and based on the recommendations made by our internal control consultant, we have also implemented the following internal control policies:

- our HR and corporate administration department licenses or purchases intellectual property rights from the owners of the game engines we need;
- our CEO’s office and legal department perform copyright and/or trademark research to ensure our game titles do not infringe any existing copyright or trademark, and our legal department promptly applies for trademark protection with the relevant authorities once a game is developed;
- our R&D departments and operating department implement quality control throughout the development life cycle of our games to monitor game content, including graphics and audio assets. It pays special attention to game content outsourced to third parties. If any infringement of intellectual property is detected by any member of our development teams, who have five years of experience in the online game industry on average, project managers or our management team, game development will be halted until such infringement is eradicated;
- our operating department conducts thorough, pre-launch check of game content to limit the potential risk of infringing any third party intellectual property right;
- (A) for self-promoting games, all of our marketing materials are created by in-house graphic design team, kept in designated folders and submitted to the head of marketing, Mr. Hong Zhang, for approval before dissemination; (B) for games we license to, or co-operate with, [●], we provide marketing materials to licensees or our co-operators, as applicable, who are required to submit a marketing plan and samples of advertising materials for our approval before the launch of the marketing activities; and (C) with respect to the games we license from third parties, marketing materials are generally provided to us by our licensors, and we are required to submit our marketing proposal to them for approval prior to initiating any marketing activities;

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- our HR and corporate administration department requires all of our employees to report any infringement issue to our senior vice president of global operations, Mr. Hong Zhang, within 24 hours of detecting or receiving reports of such infringement. Upon receiving any such report regarding potential infringement, Mr. Hong Zhang will commence an investigation which will include reviewing the report, identifying the relevant issues, collecting all relevant facts in relation to these issues, discussing the matter with our operation department and other related teams, obtaining advice from our internal legal department, seeking legal assistance from our outside legal counsel if necessary, and communicating and negotiating with the third parties as needed until the issue is resolved; and
- our HR and corporate administration department offers semi-annual training sessions to our employees that are conducted by our external legal advisers, which generally focus on avoiding infringement of third party intellectual property rights and protecting our own intellectual property rights.

To comply with the applicable laws and regulations in major jurisdictions where we operate our games, we have implemented the following internal control measures:

- our operating department carries out market surveys during project research and conceptualization phases to ensure game types, themes and game play are widely accepted in our target countries or regions;
- our senior management team holds routine management meetings to discuss and review potential risks, disputes and non-compliance incidents involving game content in our target countries or regions;
- our operating department conducts pre-launch checks to ensure our game content and marketing materials comply with the rules and regulations in target countries and regions, including, but not limit to, ensuring that no pornographic, hate or racist content exists in our games or marketing materials;
- our operating department makes available to all of our players the terms and conditions to play our games, containing, among other things, governing law and choice of law and venue clauses in the event any dispute arises;
- our operating department assists our game distribution platforms, such as Facebook, Google Play, Apple App Store, and marketing platforms, such as Google and Facebook, in their evaluation, advertisement approval and monitoring of our games in terms of legal and regulatory compliance;
- our senior management team designates a senior vice president-level executive to handle all intellectual property complaints we receive from our distribution and marketing platforms, partners or any other third parties; and
- our Risk Management Committee proactively seeks advice from outside legal advisers with respect to the intellectual property-related issues we face in our operations.

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In addition, our Singapore legal advisers, TSMP Law Corporation, advised us that because (i) most of the IGG Singapore’s assets are located in Singapore (i.e., most of the material intellectual property rights are held by IGG Singapore), (ii) the Company recorded over 90% of its revenue on the account of IGG Singapore in each year/period during the Track Record Period and (iii) the user agreement is governed by Singapore law and is enforceable therein, the risk of a reasonable customer suing IGG Singapore in a reputable foreign jurisdiction would be mitigated because of the potential difficulty in enforcing such a judgment in Singapore. Accordingly, our Directors believe that, after taking into account of the foregoing, our internal control measures with regard to infringement of third party intellectual property rights and our compliance with the applicable laws and regulations in major jurisdictions where we operate our games are adequate and effective. However, we have established an internal legal department in August 2013 to further enhance our internal control mechanism to reduce any risk of infringement. Currently, our internal legal department is made up of Ms. Qin Yin, as [●], and Ms. Xiujian Zhou, as an assistant. For the qualifications of Qin Yin, please see relevant disclosure on page [●]. Mrs. Xiujian Zhou has been responsible for coordinating legal issues for the Company and liaising with and providing necessary support to our outside legal counsel for the past seven years. The major functions of our internal legal department is to supervise the implementation of our internal control measures include, among others: (i) drafting, reviewing and providing comments on all contracts and legal documents needed for our daily operation; (ii) filing applications for trademarks, patents and copyrights and providing proactive advises regarding protection of our intellectual property rights; (iii) providing legal advice with regard to any change of our company structure in line with our business expansion plan; (iv) handling any notices from regulators and disputes and litigation, if any, emerging from our daily operation; (v) conducting preliminary research and analysis of relevant laws and regulations, assessing legal risk and providing internal legal advice to our management when significant business decision needs to be made, such as expanding our operations into new jurisdictions, or developing new types of online games; (vi) monitoring legal development in our Company’s key markets through conducting preliminary in-house legal research of local laws and regulations, and coordinating with local counsel when needed; and (vii) checking documentation for applications, renewing and maintaining of licenses and permissions needed for our daily business in current and future jurisdictions. We intend to expand our internal legal department by recruiting another legal counsel by early next year. We may recruit more legal staff if it is necessary for our business expansion and operations. Notwithstanding these efforts, we will continue to be exposed to certain risks relating to intellectual property rights.

In view of the fact that, save as the proceedings against Fuzhou Online Game, there is no legal proceedings in respect of claims against our Group relating to infringement of third party intellectual property rights or for non-compliance with applicable laws and regulations in all major jurisdictions where our Group operates and/or disseminates both in-house developed games and games licensed from third party developers, which can demonstrate our proven track record in preventing above-mentioned infringements or other non-compliances and based on (i) the above-mentioned measures and the due diligence works of the [●]; (ii) the legal opinions sought from our legal advisers; (iii) the confirmation from our Directors that (a) our Group has established and implemented a internal control system which is effective and fit for our current operation environment; (b) we have and will further enhance our internal control measures based on the recommendation made by our internal control consultant; and (c) we intend to recruit more qualified staff responsible for the implementation of the recommendations, including an internal legal department which has been established in August 2013, to, among other things, review the content of the games it operates in the relevant jurisdictions



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before launching such games therein to assess the relevant legal risks and consider appropriate advice to mitigate these risks, the legal advisers concurs our Directors’ view that we have adequate and effective internal control measures with regard to infringement of third parties’ intellectual property rights and compliance with applicable laws and regulations in major jurisdictions where we operates our games.

We may be subject to legal proceedings, investigations, administrative penalties and claims incidental to the conduct of our business from time to time in the future. As at the Latest Practicable Date, we were not engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on our results of operations or financial condition.

Save as disclosed above, as advised by our PRC legal advisers, according to confirmation from the relevant authorities, to the best of their knowledge, our subsidiaries in the PRC have obtained all requisite certificates, permits and licences which are necessary for their operation from the relevant regulatory authorities in the PRC in relation to their establishment and business operations, and complied with the relevant laws and regulations in all material respects in relation to their operations during the Track Record Period.

In addition, our Singapore legal advisers, TSMP Law Corporation, is of the opinion that up to the Latest Practicable Date, we have complied with all relevant laws and regulations in all material aspects and obtained all relevant approvals and certificates which are necessary for its operations in Singapore.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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### DIRECTORS

Upon the [●], our Board comprise of two executive Directors, two non-executive Directors and three independent non-executive Directors. A breakdown of the composition of our Board is set out below:

Name	Age	Date of Appointment	Position
Mr. Zongjian Cai . . . . .	[35]	31 October 2007	executive Directors
Mr. Yuan Chi . . . . .	[56]	16 August 2007	executive Directors
Mr. Xiaojun Li . . . . .	[39]	30 November 2007	non-executive Directors
Mr. Kee Lock Chua . . . .	[52]	12 November 2008	non-executive Directors
Dr. Horn Kee Leong . . . .	[60]	16 September 2013	independent non-executive Directors
Mr. Dajian Yu . . . . .	[64]	16 September 2013	independent non-executive Directors
Ms. Zhao Lu . . . . .	[45]	16 September 2013	independent non-executive Directors

#### Executive Directors

**Mr. Zongjian Cai (蔡宗建)**, aged [35], was appointed as our executive Director on 31 October 2007 and is our chief executive officer. Mr. Cai is one of the Founders and is primarily responsible for the corporate strategic planning and overall business development of our Group. Mr. Cai has approximately 13 years of experience in online game industry. He worked at Fujian NetDragon Computer Information Network Technology Co., Ltd.\* (福建網龍計算機信息網絡技術有限公司) as a vice president from May 2000 to November 2003 by whom 17173.com was developed. Mr. Cai also worked as the chief executive officer of 17173.com, which is acquired by Sohu.com Inc., a company listed on NASDAQ (Stock Code: SOHU), from November 2003 to January 2005 and a consultant for both Beijing Sohu New Era Information Technology Co., Ltd.\* (北京搜狐新時代信息技術有限公司) and 17173.com from January 2005 to June 2005.

Mr. Cai graduated from Fuzhou University (福州大學) with a college diploma in computer and accounting in June 1998.

**Mr. Yuan Chi (池元)**, aged [56], was appointed as our executive Director on 16 August 2007 and is our senior vice president. Mr. Chi is one of the Founders and he is primarily responsible for the game development of our Group. Mr. Chi has approximately 15 years of experience in information technology industry. Prior to joining our Group, Mr. Chi worked as the general manager of Fujian Window Network Information Co., Ltd.\* (福建之窗網絡信息有限公司) (www.66163.com) from April 1998 to June 2007. He was the vice president of Fujian Rongji Software Co., Ltd.\* (福建榕基軟件股份有限公司), a company listed on Shenzhen Stock Exchange (Stock Code: 002474), from November 2000 to September 2003. Mr. Chi also worked at Fujian NetDragon Computer Information Network Technology Co., Ltd.\* (福建網龍計算機信息網絡技術有限公司) from October 2003 to November 2007.

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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Mr. Chi graduated from Fuzhou University with a bachelor’s degree in water resources and hydropower engineering in July 1982 and a master degree in hydraulic structure in March 1990.

### Non-executive Directors

**Mr. Xiaojun Li (李驍軍)**, aged [39], was appointed as a non-executive Director on 30 November 2007. Mr. Li has approximately 8 years of experience in corporate management and venture capital. He has been the partner of IDG Capital Partners since August 2006 and acted as the vice president of IDG Technology Venture Investment Fund from September 2004 to August 2006.

Mr. Li graduated from University of California Los Angeles with a master degree in electronic engineering in September 1996. He obtained a master of business administration from Wharton Business School at the University of Pennsylvania in May 2004.

**Mr. Kee Lock Chua (蔡其樂)**, aged [52], was appointed as a non-executive Director on 12 November 2008. Mr. Chua serves as the independent director on the board of directors of Logitech International S.A., which is listed in the U.S. and Switzerland. He also serves as independent director of Yongmao Holdings Ltd. and SHC Capital Asia Limited, both of which are listed on the Singapore Stock Exchange. In addition, he is a board member of Beyond Social Services and a member of Mainly I Love Kids (MILK) Charity. Mr. Chua is currently the group president and chief executive officer of Vertex Venture Holdings Ltd and he is also a director of Vertex. He was also the president and executive director of Biosensors International Group, Ltd, a deputy president of NatSteel Group (now known as NSL Ltd) and a president of MediaRing.com Ltd (now known as S i2i Limited) all of which are listed on the Singapore Stock Exchange.

Mr. Chua graduated from University of Wisconsin-Madison with a bachelor’s degree in mechanical engineering in 1984. He also graduated from Stanford University with a master degree in science in 1987.

### Independent Non-executive Directors

**Dr. Horn Kee Leong (梁漢基)**, aged [60], was appointed as an independent non-executive Director on 16 September 2013. Dr. Leong is currently the chairman of CapitalCorp Partners Private Limited and a member of the Securities Industry Council of Singapore. He has been the non-resident High Commissioner (designate) to Cyprus since March 2013 and non-executive independent director of SAC Capital Private Limited since 20 September 2013. Since 1983, until prior to joining CapitalCorp Partners Private Limited, Dr. Leong held various management positions including as an executive director and consultant of Far East Organization Centre Pte. Ltd., the chief executive officer of Yeo Hiap Seng Ltd, the managing director of Orchard Parade Holdings Limited, a corporate finance director of Rothschild (Singapore) Limited. From 1977 to 1983, Dr. Leong held various positions at the Ministry of Finance and at the Ministry of Trade & Industry of Singapore. He was a member of

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**DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

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Parliament of Singapore from 1984 to 2006. He was Singapore’s non-resident ambassador to Mexico from September 2006 to February 2013. In addition to the above, Dr. Leong held directorships in the following [●] companies in the past three years:

<b>Period</b>	<b>Name of company</b>	<b>Position</b>
15 December 2000-present	ECS Holdings Limited, listed on Singapore Stock Exchange	Independent non-executive director (Lead independent director since 1 January 2013)
30 June 2000-present	Wilmar International Limited, listed on Singapore Stock Exchange	Independent non-executive director
19 January 2001-present	Tat Hong Holdings Ltd, listed on Singapore Stock Exchange	Independent non-executive director
9 September 2008-present	China Energy Limited, listed on Singapore Stock Exchange	Independent non-executive director
4 November 2010-present	Amtek Engineering Ltd, listed on Singapore Stock Exchange	Independent non-executive director
10 June 2013-present	SPH Reit Management Pte. Ltd. listed on Singapore Stock Exchange	Chairman and director
17 August 2009-30 September 2013	Linair Technologies Limited, listed on Singapore Stock Exchange	Independent non-executive director
18 July 2007-20 April 2012	Kian Ho Bearings Ltd, listed on Singapore Stock Exchange	Non-independent non-executive director

Dr. Leong graduated from Loughborough University with a bachelor degree of technology in production engineering and management in July 1975. He completed distance learning and obtained a bachelor degree of science in economics from University of London in August 1979 and he also finished part time study and obtained a bachelor degree of arts in Chinese Language and Literature from Beijing Normal University\* (北京師範大學) in March 2009. Dr. Leong graduated from the European Institute of Business Administration (INSEAD) with a master degree of business administration in 1980 and he also finished part time study and obtained a master degree of business research from the University of Western Australia in September 2009. He also graduated from the University of Western Australia with the degree of doctor of business administration in September 2013.

**Mr. Dajian Yu (余大堅)**, aged [64], was appointed as an independent non-executive Director on 16 September 2013. Mr. Yu has approximately 12 years of experience in venture capital investment and in senior management in semiconductor, electronic, IT and pharmaceutical industries. Since 2010, he has been the vice preside of Silicon Valley China Venture Management LLC and the director of

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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three portfolio companies, Cadeka Technology Holding Ltd., Effecient Drivetrains, Inc and Consensic International Inc. He has also been the partner of BayHill Partners since 1999. Mr. Yu held senior management positions at several companies, including director of operations at General Parametrics Corporation from 1985 to 1996, vice president at Topology Corporation from 1996 to 1999, and vice president of Fuzhou Tianmeng from 2009 to 2010.

Mr. Yu graduated from South China University of Technology (華南理工大學) (formerly known as South China Technology College\* (華南工學院)) with a bachelor’s degree in electrical engineering in July 1982.

**Ms. Zhao Lu (陸釗)**, aged [45], was appointed as an independent non-executive Director on 16 September 2013. Ms. Lu is currently the president of Fujian New Media Animation Game Associate\* (福建省動漫遊戲協會新媒體產業聯盟). She was the general manager of Fuzhou Lingdong Network Science and Technology Co., Ltd.\* (福州靈動網絡科技有限公司) from February 2009 to December 2012 and the general manager of Tian Liang Customer Service\* (天亮客服) of Fujian NetDragon Computer Information Network Technology Co., Ltd.\* (福建網龍計算機網絡信息技術有限公司) from December 2003 to February 2009.

Ms. Lu graduated from Beijing University of Posts and Telecommunications\* (北京郵電大學) (formerly known as Beijing Institute of Posts and Telecommunications\* (北京郵電學院)) with a bachelor degree in communication in July 1989.

### SENIOR MANAGEMENT

**Mr. Yuan Xu (許元)**, aged [37], is our chief operating officer. Mr. Xu has approximately 13 years of experience in project and corporate management. He joined our Group in September 2007 and is primarily responsible for business operation and development of our Group outside the PRC. Prior to joining our Group, Mr. Xu worked as a graduate researcher at University of California, Santa Cruz, from September 1999 to July 2004. He also worked at Nanoconduction Inc as a project leader from September 2004 to June 2007.

Mr. Xu graduated from Beijing University of Technology\* (北京工業大學) with a bachelor’s degree in applied physics in July 1998. He also graduated from University of California, Santa Cruz, with a degree of doctor of philosophy in electrical engineering in June 2004.

**Mr. Hong Zhang (張竑)**, aged [41], is our chief technology officer and senior vice president of global operations. Mr. Zhang has approximately 16 years of experience in information technology industry. He joined our Group in December 2008 and is primarily responsible for the overall technology operation of our Group. Prior to joining our Group, Mr. Zhang worked at Charles Schwab as a senior staff technology from August 2000 to November 2005. He was also employed by Corporate Computer Services Inc. from November 2005 to November 2008 as a software engineer, assigned to Barclays Global Investors as an information technology consultant.

Mr. Zhang graduated from Zhejiang University\* (浙江大學) with a bachelor’s degree in engineering in June 1994, a master degree in engineering in June 1997. He also graduated from University of California, San Francisco, with a master degree in science in September 2000.

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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**Mr. Zhixiang Chen** (陳智祥), aged [36], is our senior vice president and a director of IGG Singapore. Mr. Chen has approximately 9 years of experience in online game industry. He is primarily responsible for the business operation and development of our Group in the PRC. Mr. Chen joined our Group in December 2005 and participated in founding our Group and our IGG.com platform from December 2005 to June 2006. He was our chief operation officer from December 2007 to June 2009. He was the president of IGG Singapore from August 2009 to August 2012, responsible for expanding our overseas (South East Asia) business. Prior to joining our Group, Mr. Chen worked at Beijing Sohu New Era Information Technology Co., Ltd. Fuzhou branch from June 2004 to September 2004 and from January 2005 to November 2005.

Mr. Chen graduated from Fujian Normal University\* (福建師範大學) with a bachelor’s degree in mathematics education in July 1999. He also obtained a second bachelor’s degree in software engineering from Xiamen University\* (廈門大學) in July 2004.

**Ms. Jessie Shen** (沈潔蕾), aged [42], is our senior vice president of finance. Ms. Shen has approximately 16 years of experience in accounting and corporate finance. She joined our Group in March 2009 and is primarily responsible for corporate finance, accounting and tax management of our Group. Prior to joining our Group, she worked as an auditor at Diwan, Ernst & Young from July 1992 to August 1994, and a financial associate manager of Aurora Corporation, a company listed on the Taiwan Stock Exchange (Stock Code: 2373), from March 1995 to March 1998 and from August 2001 to January 2002. Ms. Shen also held various positions at Rock Mobile Group from January 2003 to March 2007. She worked at Neo Solar Power Corp., a company listed on Taiwan Stock Exchange (Stock Code: 3576), as a finance manager from December 2007 to March 2009.

Ms. Shen graduated from Tunghai University with a bachelor’s degree in accounting in June 1992. She also graduated from Rutgers, The State University of New Jersey with a master degree in business administration in October 1999. Ms. Shen passed the exam of a certified public accountant in both Washington State and Taiwan, and was a member of the Institute of Internal Auditors and a member of Taiwan Institute of Internal Auditors\* (中華民國內部稽核協會). However, Ms. Jessie Shen does not practise as a certified public accountant in Washington and Taiwan.

## JOINT COMPANY SECRETARIES

**Ms. Jessie Shen**, was appointed as one of our joint company secretaries on 9 July 2013. Please refer to her biography under the paragraph headed “Senior Management” in this section.

**Yin Ping Yvonne Kwong** (鄺燕萍), aged 58, was appointed as one of our joint company secretaries on 9 July 2013. Ms. Kwong has extensive experience in providing company secretarial and compliance services to numerous private and listed companies. She is a vice president of a specialty corporate services provider focusing the provision of [●] company secretarial and compliance services. She is also a named company secretary of Chengdu Putian Telecommunications Cable Company Limited (Stock Code: 1202), HC International, Inc. (Stock Code: 8292) and Xinhua News Media Holdings Limited (Stock Code: 309) and joint company secretary of China Tianrui Group Cement Company Limited (Stock Code: 1252), all of which are listed companies on the Stock Exchange.

## **DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

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Ms. Kwong graduated from the Hong Kong Polytechnic University with a bachelor degree of arts in accountancy in November 1997. She is a member of The Hong Kong Institute of Chartered Secretaries and a fellow of The Institute of Chartered Secretaries and Administrators.

### **COMPENSATION OF DIRECTORS AND MANAGEMENT**

Our executive Directors, who are also our employees, receive compensation in the form of salaries, bonuses and other allowances. The aggregate amount of remuneration which were paid by our Group to our Directors for the two years ended 31 December 2012 and the five months ended 31 May 2013 were approximately US\$0.4 million, US\$0.5 million and US\$0.1 million, respectively.

The aggregate amount of remuneration which were paid by our Group to the five highest paid individuals, including our Directors, during the two years ended 31 December 2012 and five months ended 31 May 2013 were approximately US\$1.0 million, US\$1.3 million and US\$0.3 million respectively.

## **FINANCIAL INFORMATION**

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### **OVERVIEW**

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

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

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

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

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

We have experienced significant growth in the Track Record Period. Our total revenue grew 38.9% from US\$31.1 million for the year ended 31 December 2011 to US\$43.2 million for the year ended 31 December 2012 and 42.9% from US\$17.0 million for the five months ended 31 May 2012



## **FINANCIAL INFORMATION**

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to US\$24.3 million for the five months ended 31 May 2013, and our gross profit grew 40.8% from US\$23.3 million for the year ended 31 December 2011 to US\$32.8 million for the year ended 31 December 2012 and 42.0% from US\$13.1 million for the five months ended 31 May 2012 to US\$18.6 million for the five months ended 31 May 2013. Revenue from our browser games increased 47.5% from US\$22.1 million for the year ended 31 December 2011 to US\$32.6 million for the year ended 31 December 2012 and 25.6% from US\$13.3 million for the five months ended 31 May 2012 to US\$16.7 million for the five months ended 31 May 2013, and revenue from our mobile games increased significantly from US\$12,000 for the year ended 31 December 2011 to US\$2.2 million for the year ended 31 December 2012 and continue to increase to US\$3.6 million for the five months ended 31 May 2013.

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

### **BASIS OF PRESENTATION OF FINANCIAL INFORMATION**

#### **Basis of presentation**

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

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

In particular, Fuzhou Tianji has undertaken to provide the PRC Operating Entities with certain technical services as required by to support their operations. In return, our Group is entitled to substantially all of the operating profits and residual benefits generated by the PRC Operating Entities through intercompany charges levied on these services rendered. Mr. Zongjian Cai and Mr. Yuan Chi are also required to transfer their interests in the PRC Operating Entities to our Group or our Group’s designee upon a request made by our Group when permitted by the PRC laws for consideration, as permitted under the PRC laws. The ownership interests in the PRC Operating Entities have also been pledged by Mr. Zongjian Cai and Mr. Yuan Chi to our Group in respect of the continuing obligations

## **FINANCIAL INFORMATION**

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of the PRC Operating Entities; Fuzhou Tianji has not provided any financial support to any of the PRC Operating Entities that it was not previously contractually required to do during the Track Record Period. Fuzhou Tianji intends continuously to provide to or assist PRC Operating Entities in obtaining financial support when deemed necessary. Accordingly, our Group has the rights to variable returns from its involvement with the PRC Operating Entities and has the ability to affect those returns through its power over the PRC Operating Entities.

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

### **Basis of consolidation**

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

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

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

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

## **FINANCIAL INFORMATION**

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

### **FACTORS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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

#### **Emergence of new technologies**

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

#### **The popularity of our new games**

We need popular, new games to keep our existing customers satisfied and to attract new players. Successfully doing so will allow us to maintain our revenue growth. For the two years ended 31 December 2011 and 2012, our revenue was primarily generated from three games, Galaxy Online II, Godswar and Texas HoldEm Poker Deluxe. For each of the two years ended 31 December 2011 and 2012, we derived 70.5% and 75.9%, respectively, of our revenue from these three games. In 2012, one of the new games we launched, Wings of Destiny, showed particular promise as it generated US\$1.5 million revenue for the year ended 31 December 2012 following its launch in May 2012 in Taiwan. It generated revenue of US\$4.2 million for the five months ended 31 May 2013, representing 17.3% of our total revenue for the period and becoming our third most popular game in terms of revenue. For the five months ended 31 May 2013, we derived 79.1% of our revenue from these four most popular games. Our success depends, in part, on the popularity of our new games. We devote substantial resources on developing and marketing new games. We launched nine new games during the seven months ended 31 July 2013, including two browser games and seven mobile games. As at the Latest Practicable Date, we had an additional six mobile games in the development and/or testing phase, which we planned to launch by the end of 2013. It is our goal that these newly launched games will

## **FINANCIAL INFORMATION**

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attract significant number of new players. We believe we have been successful in accomplishing that over the Track Record Period. We had 425,833, 383,335 and 510,580 active paying users for the years ended 31 December 2011 and 2012 and the five months ended 31 May 2013, respectively. However, there can be no assurance that our new games will be well-received by the player community. If we are able to offer more attractive new games to our customers, we will be able to maintain or increase our profitability.

### **Advertising and promotion expenses and channel cost**

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

### **Product mix**

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

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### Preferential taxation and tax jurisdiction

#### *Main business activities of each Group company*

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

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

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

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

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

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### *Tax risks and jurisdictions*

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

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

In addition, we are exposed to the risk of paying corporate income taxes or sales taxes for the revenue generated from our players in various jurisdictions, as our online games are offered to players in various jurisdictions around the world. Please see “Risk Factors — Risks Related To Our Business — Our revenue generated from diversified player base exposes us to potential taxation risks in different jurisdictions” in this document for further details on such risk. After considering advice from our external tax consultant, we believe the likelihood of our Group being subject to paying corporate income tax or sales tax in major jurisdictions based on where our players are located is relatively low because (i) IGG Singapore entered into user agreements directly with players based outside PRC, which accordingly, would be considered the primary service provider of the online gaming services for our Group; (ii) IGG Singapore holds most of the intellectual property copy rights for the games we operate and owns our official website; (iii) 91.0%, 94.5% and 94.2% of our total revenue for the

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years ended 31 December 2011 and 2012 and for the five months ended 31 May 2013, respectively, was recorded in IGG Singapore and was already subject to Singapore corporate income tax during the Track Record Period; (iv) Singapore has tax treaties with major jurisdictions where our players are based, including Australia, Canada, Germany, the Philippines and the United Kingdom, to avoid double taxation; (v) other than those jurisdictions where we established our subsidiaries or already paid withholding taxes, we did not have any employees, establish any offices, possess any assets of significant value or engage any agents to render services in those jurisdictions, as a result of which we believe we should not be deemed to provide any services in those jurisdictions; and (vi) since our inception, we are not aware of being challenged or investigated by any relevant tax authorities in the jurisdictions in which we operate.

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

### ***Intra-group transactions***

During the Track Record Period, our Group engaged in a number of intra-group transactions, primarily involving the transactions between IGG Singapore, on the one hand, and four other subsidiaries of our Group. During the Track Record Period, IGG Singapore engaged in several intra-group transactions with Fuzhou Tianmeng, pursuant to which Fuzhou Tianmeng transferred certain of its intellectual property rights to IGG Singapore for an aggregate purchase price of US\$15.6 million, and Fuzhou Tianmeng licensed certain online games to IGG Singapore for an aggregate liscence fee of US\$35,737. IGG Singapore also entered into separate transactions with IGG USA and Fuzhou Tianji during the Track Record Period, pursuant to which IGG USA provided marketing support, cash collection and game hosting services to IGG Singapore for an aggregate purchase price of US\$7.7 million, and Fuzhou Tianji provided customer services to IGG Singapore for an aggregate purchase price of US\$1.1 million. Moreover, during the Track Record Period, IGG Singapore provided interest-free loans to Fuzhou Tianji in an aggregate principal amount of US\$3.8 million, and Fuzhou Tianji transferred certain of its intellectual property rights to IGG Singapore for an aggregate purchase price of US\$2.0 million. In addition to the above-mentioned intra-group transactions, IGG Singapore provided marketing support, cash collection and game hosting services to IGG HK during the Track Record Period in an aggregate purchase price of US\$0.2 million. Fuzhou Tianji began to provide to Fuzhou Tianmeng technical service during the five months ended 31 May 2013 for an aggregate purchase price of US\$0.8 million. These transactions were subject to the risk that the relevant tax authorities in various jurisdictions in which such transactions took place will challenge the

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appropriateness of our Group’s transfer pricing arrangement. Further details with regard to transfer pricing are set forth in “Risk Factors — Risks Relating To Our Business — Taxation authorities could challenge our allocation of taxable income which could increase our consolidated tax liability” of this document. However, we believe the likelihood that our transfer pricing arrangement will be challenged by the relevant tax authorities is relatively low primarily because (i) we have obtained either transfer pricing reports or valuation reports issued by independent professional firms for our material intra-group transactions that took place in 2011 and 2012, which concluded the transaction prices were either determined at arm’s length or at fair value; (ii) we discussed with an officer from Fuzhou Municipal office of State Administration of Taxation regarding the interpretation and implementation of the relevant EIT Law with respect to the structure of transfer pricing arrangements between our PRC subsidiaries and non-PRC subsidiaries; and (iii) since our inception, our transfer pricing arrangements have not been challenged or investigated by any relevant tax authority. Pursuant to the Administration of Tax Collection of the PRC, higher-level tax authorities shall supervise activities of lower-level tax authorities. Thus, in general, higher-level tax authorities are able to challenge decisions made by lower-level tax authorities. However, regarding confirmation or verification letter, the Administrative Approval Law of the PRC is silent on whether such confirmation or verification letter can be challenged by a higher-level administrative authority. Based on the procedures carried out and its findings, the [●] is satisfied that our Company has provided accurate, complete and consistent information to the professional advisors in seeking their views and to the relevant tax authorities in the tax filings and consultations.

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

### **SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES**

#### **Revenue recognition**

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

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

We operate our online games under the F2P model, which encourages players to experience our games and facilitate the growth of game communities of our online games. Under this model, our games are free for download and play. Our revenue is generated by selling virtual currency to players for the purchase of in-game virtual items to enhance their game-playing experience. Once the players have purchased such virtual currency through our payment channel partners, including PayPal, Facebook Payments, Skrill, MOL, Amazon Payments and Google Checkout, they are able to charge items directly to their accounts. The third-party payment platforms are entitled to relevant service fees



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which are withheld and deducted from the gross proceeds of virtual currency collected from the players, with the net amounts remitted to us. The consideration received for the purchase of the virtual currency or virtual items is non-refundable and the related contracts are non-cancellable. Such consideration received is initially included in deferred revenue on our consolidated statement of financial position. We recognise revenue on a gross basis and treat the relevant service fees as cost of sales in the consolidated income statements.

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

- Consumable virtual items, such as the “Adv Galaxy Transfer” ability in Galaxy Online 2, which enables a player to move his/her planet to a specified location quicker, represent items that can be consumed by a specific player action. Common characteristics of consumable items may include virtual items that are no longer displayed on the player’s bag after a short period of time. These consumable virtual items do not provide a player any continuing benefit following consumption or have limitations on repeated use. For the sale of consumable virtual items, we recognise revenue upon the full consumption.
- Durable virtual items, such as Gems in Galaxy Online 2, which enhances certain abilities of a player’s in-game commander permanently, represent virtual items that are accessible to a player over an extended period of time or do not have a limitation on repeated use. We recognise revenue from the sale of durable virtual items ratably over the lifespan of the specific item. The lifespan of durable virtual item is determined based on the usage period which is explicitly stated in the game for these specific items. If the usage period is not explicitly stated in the game, the lifespan is determined based on the estimated user life of paying players, which is determined based on the historical paying player’s game-playing behavior.

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

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

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

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

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

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

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

**(c) *Licensing revenue***

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

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

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

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(e) *Interest income*

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

### Financial liabilities

(a) *Initial recognition and measurement*

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

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

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

(b) *Subsequent measurement*

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

#### *Loans and borrowings*

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

#### *Financial liabilities at fair value through profit or loss*

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

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

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### *Preferred Shares*

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

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

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

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

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

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

### **Share-based payments**

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

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

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

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

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

### **Intangible assets (other than goodwill)**

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

### ***Royalty fees***

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

### ***Trademarks & Domain names, Software and Copyright***

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

### ***Research and development costs***

All research costs are charged to the income statement as incurred. Expenditure incurred on projects to develop new products is capitalised and deferred only when our Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its

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intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

### **Income tax**

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

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

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

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

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

### **Estimation uncertainty**

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

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

Our Group has granted share options to its employees. We have used the Binomial 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 Binomial Model.

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

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

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

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

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

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

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

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

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

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



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rate at which inactive players stop playing. Based on these inactivity periods we then project the expected date on which all paying players for each monthly cohort are expected to cease playing our games. Future paying player usage patterns and behavior may differ from the historical usage patterns and therefore the estimated average user life of paying players may change in the future.

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

(e) *Deferred tax assets*

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

(f) *Estimates of current and deferred tax*

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

### **SUMMARY RESULTS OF OPERATIONS**

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

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

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*Note:*

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

**PRINCIPAL INCOME STATEMENT COMPONENTS**

**Revenue**

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

***Revenue by operating segment and game type***

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

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

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

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

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

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***Revenue by geographical markets***

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

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

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

***Revenue by games***

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

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

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

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

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### Cost of sales

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

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

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

### Gross profit and gross profit margin

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

### Other income and gains

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

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### Selling and distribution expenses

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

### Administrative expenses

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

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

*Note:*

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

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



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### Research and development costs

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

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

Note:

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

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

### Fair value loss of the Preferred Shares

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

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

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

### Other expenses

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

### Income tax expense

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

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

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

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

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

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

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

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

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

### ***Cayman Island profit tax***

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

### ***US profit tax***

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

### ***Hong Kong profit tax***

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

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

### ***Singapore profit tax***

IGG Singapore is subject to the prevailing corporate tax rate of 17% in Singapore and is entitled to a preferential tax rate of 5% on qualifying income derived during the incentive period as a result of the Development and Expansion Incentive granted by the Singapore Economic Development Board for the benefit of being an intellectual property owner and international headquarter for the Group's online gaming business. The incentive period covers a time frame of seven years from 1 January 2010 to 31 December 2016, as long as IGG Singapore is able to meet certain conditions as set out in the

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letter of award issued by the Singapore Economic Development Board on 27 January 2010 and subsequently amended on 28 December 2012. Unless IGG Singapore reaches a subsequent agreement to extend the incentive period, IGG Singapore will not be entitled to the preferential tax rate of 5% from 1 January 2017 onwards. During the years ended 31 December 2011 and 2012, IGG Singapore met the conditions and thus, 5% preferential tax rate was applied. As at 31 May 2013, IGG Singapore expected to meet the conditions so as to be entitled to the preferential tax rate of 5% in 2013 and thus, a 5% preferential tax rate was applied.

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

### ***PRC income tax***

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

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

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

## **MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATION**

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

#### ***Revenue***

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

## **FINANCIAL INFORMATION**

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

### ***Cost of sales***

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

### ***Gross profit and gross profit margin***

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

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### ***Other income and gains***

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

### ***Selling and distribution expenses***

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

### ***Research and development expenses***

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

### ***Fair value loss of preferred shares***

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

### ***Income tax expenses***

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

### ***Loss for the period***

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

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

#### *Revenue*

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

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

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

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



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### ***Cost of sales***

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

### ***Gross profit and gross profit margin***

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

### ***Other income and gains***

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

### ***Selling and distribution expenses***

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

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### ***Administrative expenses***

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

### ***Research and development costs***

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

### ***Fair value loss of the Preferred Shares***

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

### ***Income tax expense***

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

### ***Loss for the year***

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

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**LIQUIDITY AND CAPITAL RESOURCES**

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

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

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

**Cash flow from operating activities**

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

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

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

### **Cash flow used in investing activities**

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

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

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

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

### **Cash flow from financing activities**

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

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

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

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

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**COMMITMENTS**

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

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

**CAPITAL EXPENDITURE**

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

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### NET CURRENT LIABILITIES/ASSETS

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

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

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

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

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

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

### Accounts receivable

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

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

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

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

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

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

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



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

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

*Note:*

- (1) Average accounts receivable turnover days for the years ended 31 December 2011 and 2012 and the five months ended 31 May 2013 are computed by the average of the opening and closing balance of account receivables for the year divided by total revenue for the year/period multiplied by the number of days for the year/period.
- (2) NA means data is not available.

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

**Accounts payable**

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

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

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

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

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

	Five months		
	Year ended 31 December 2011	Year ended 31 December 2012	Year ended 31 May 2013
Average account payables turnover days <sup>(1)</sup> . . .	18	40	50

*Note:*

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

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

### Funds receivable

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

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**FINANCIAL INFORMATION**

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**Other payables and accruals**

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

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

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

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

**Deferred revenue**

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

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## FINANCIAL INFORMATION

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### Preferred Shares

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

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

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

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

### ADDITIONAL KEY FINANCIAL RATIOS

	As at 31 December		As at 31 May
	2011	2012	2013
Current ratio <sup>(1)</sup> . . . . .	0.17	0.25	2.35

*Note:*

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

## **FINANCIAL INFORMATION**

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### **Current Ratio**

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

### **WORKING CAPITAL**

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

### **CONTINGENT LIABILITIES**

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

### **QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT MARKET RISKS**

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

#### **Foreign currency risk**

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

#### **Liquidity risk**

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

## **FINANCIAL INFORMATION**

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### **OFF-BALANCE SHEET ARRANGEMENTS**

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

### **INDEBTEDNESS**

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

### **DISCLAIMER**

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

### **DISTRIBUTABLE RESERVES**

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

### **DIVIDEND AND DIVIDEND POLICY**

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

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

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

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## **FINANCIAL INFORMATION**

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### **NO MATERIAL ADVERSE CHANGE**

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

## **STATEMENT OF BUSINESS OBJECTIVE**

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### **BUSINESS OBJECTIVES AND STRATEGIES**

See the section headed “BUSINESS — OUR STRATEGIES” for a detailed description of our business objectives and strategies.

### **IMPLEMENTATION PLAN**

Investors should note the implementation plans are drawn up based on the current economic status and the assumptions as set out in the paragraph headed “Bases and assumptions” below which are inherently subject to uncertainties and unpredictable factors, in particular the risk factors as set out in the section headed “Risk Factors” in this document. Therefore, there is no assurance that our Group’s business will materialize within the estimated timeframe and that our Group’s future plans will be accomplished at all.

### **BASES AND ASSUMPTIONS**

The business objectives set out by the Directors are based on the following bases and assumptions:

- there will be no significant economic change in respect of inflation, interest rate, tax rate and currency exchange rate in the PRC, Hong Kong, Singapore or any part of the world what will adversely affect the business of our Group;
- our Group will have sufficient financial resources to meet the planned capital expenditure and business development requirements during the period to which the business objectives relate;
- there will be no material changes in the existing laws (whether in the PRC, Hong Kong, Singapore or any part of the world), policies or industry or regulatory treatment relating to our Group, or in the political, economic or market conditions in which our Group operates;
- there will be no change in the funding requirement for each of the near term business objectives described in this document from the amount as estimated by our Directors;
- there will be no material changes in the bases or rates of taxation applicable to our Group;
- there be no disasters, natural, political or otherwise, which would materially disrupt the business or operations of our Group or cause substantial loss, damage or destruction to its property or facilities;
- there will be no change in the effectiveness of the licenses and permits obtained by our Group; and
- our Group will not be materially affected by the risk factors as set out under the section headed “Risk factors” in this document.



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**APPENDIX I**

**ACCOUNTANTS’ REPORT**

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*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.

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**APPENDIX I**

**ACCOUNTANTS’ REPORT**

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**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.

**APPENDIX I**

**ACCOUNTANTS’ REPORT**

**I. FINANCIAL INFORMATION**

**Consolidated income statements**

		<b>Year ended</b>		<b>Five months ended</b>	
		<b>31 December</b>		<b>31 May</b>	
	<i>Notes</i>	<b>2011</b>	<b>2012</b>	<b>2012</b>	<b>2013</b>
		<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
				<i>(Unaudited)</i>	
<b>CONTINUING OPERATIONS</b>					
REVENUE	7	31,080	43,154	16,989	24,258
Cost of sales		<u>(7,745)</u>	<u>(10,358)</u>	<u>(3,873)</u>	<u>(5,642)</u>
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		<u>(304)</u>	<u>(57)</u>	<u>(182)</u>	<u>(44)</u>
LOSS BEFORE TAX	8	(8,343)	(12,946)	(3,836)	(7,858)
Income tax expense	11	<u>(346)</u>	<u>(163)</u>	<u>(192)</u>	<u>(396)</u>
LOSS FOR THE YEAR/PERIOD FROM CONTINUING OPERATIONS		<u><u>(8,689)</u></u>	<u><u>(13,109)</u></u>	<u><u>(4,028)</u></u>	<u><u>(8,254)</u></u>
<b>DISCONTINUED OPERATION</b>					
Loss for the year/period from a discontinued operation	13	<u>(12)</u>	<u>(326)</u>	<u>(58)</u>	<u>—</u>
LOSS FOR THE YEAR/PERIOD		<u><u>(8,701)</u></u>	<u><u>(13,435)</u></u>	<u><u>(4,086)</u></u>	<u><u>(8,254)</u></u>

**APPENDIX I**

**ACCOUNTANTS’ REPORT**

		<b>Year ended</b>		<b>Five months ended</b>	
		<b>31 December</b>		<b>31 May</b>	
<i>Notes</i>	<b>2011</b>	<b>2012</b>	<b>2012</b>	<b>2013</b>	
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
			<i>(Unaudited)</i>		
Attributable to:					
Owners of the parent	(8,690)	(13,435)	(4,086)	(8,254)	
Non-controlling interests	<u>(11)</u>	<u>—</u>	<u>—</u>	<u>—</u>	
	<u>(8,701)</u>	<u>(13,435)</u>	<u>(4,086)</u>	<u>(8,254)</u>	
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)	

**APPENDIX I**

**ACCOUNTANTS’ REPORT**

**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
			<i>(Unaudited)</i>	
LOSS FOR THE YEAR/PERIOD	<u>(8,701)</u>	<u>(13,435)</u>	<u>(4,086)</u>	<u>(8,254)</u>
OTHER COMPREHENSIVE INCOME/(LOSS)				
Other comprehensive income to be reclassified to profit or loss in subsequent periods:				
Exchange differences on translation of foreign operations	<u>(267)</u>	<u>(55)</u>	<u>68</u>	<u>(85)</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR/PERIOD, NET OF TAX	<u>(267)</u>	<u>(55)</u>	<u>68</u>	<u>(85)</u>
TOTAL COMPREHENSIVE LOSS FOR THE YEAR/PERIOD	<u>(8,968)</u>	<u>(13,490)</u>	<u>(4,018)</u>	<u>(8,339)</u>
Attributable to:				
Owners of the parent	(8,957)	(13,490)	(4,018)	(8,339)
Non-controlling interests	<u>(11)</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>(8,968)</u>	<u>(13,490)</u>	<u>(4,018)</u>	<u>(8,339)</u>

**APPENDIX I**

**ACCOUNTANTS’ REPORT**

**Consolidated statements of financial position**

	<i>Notes</i>	<b>As at</b>		<b>As at</b>
		<b>31 December</b>		<b>31 May</b>
		<b>2011</b>	<b>2012</b>	<b>2013</b>
		<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
<b>NON-CURRENT ASSETS</b>				
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
<b>Total non-current assets</b>		<u>2,717</u>	<u>2,186</u>	<u>2,112</u>
<b>CURRENT ASSETS</b>				
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
<b>Total current assets</b>		<u>9,368</u>	<u>19,340</u>	<u>25,912</u>
<b>CURRENT LIABILITIES</b>				
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	—
<b>Total current liabilities</b>		<u>54,399</u>	<u>77,117</u>	<u>11,030</u>
<b>NET CURRENT ASSETS/(LIABILITIES)</b>		<u>(45,031)</u>	<u>(57,777)</u>	<u>14,882</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>(42,314)</u>	<u>(55,591)</u>	<u>16,994</u>
<b>NON-CURRENT LIABILITIES</b>				
Deferred tax liabilities	27	205	250	235
<b>Total non-current liabilities</b>		<u>205</u>	<u>250</u>	<u>235</u>
<b>NET ASSETS/(LIABILITIES)</b>		<u>(42,519)</u>	<u>(55,841)</u>	<u>16,759</u>

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**APPENDIX I**

**ACCOUNTANTS’ REPORT**

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



APPENDIX I

ACCOUNTANTS’ REPORT

Consolidated statements of changes in equity

	Attributable to owners of the parent									
	Issued capital US\$'000	Share premium US\$'000	Share option reserve US\$'000	Reserve funds (note 30(a)) US\$'000	Other reserve US\$'000	Exchange fluctuation reserve US\$'000	Accumulated deficits US\$'000	Total US\$'000	Non-controlling interests US\$'000	Total deficits 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)

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ACCOUNTANTS’ REPORT

		Attributable to owners of the parent								
	Issued capital US\$'000	Share premium US\$'000	Share option reserve US\$'000	Reserve funds (note 30(a)) US\$'000	Other reserve US\$'000	Exchange fluctuation reserve US\$'000	Accumulated deficits US\$'000	Total US\$'000	Non-controlling interests US\$'000	Total deficits 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)

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ACCOUNTANTS’ REPORT

		Attributable to owners of the parent								
	Issued capital US\$'000	Share premium US\$'000	Share option reserve US\$'000	Reserve funds (note 30(a)) US\$'000	Other reserve US\$'000	Exchange fluctuation reserve US\$'000	Accumulated deficits US\$'000	Total US\$'000	Non-controlling interests US\$'000	Total equity 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

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ACCOUNTANTS’ REPORT

	Attributable to owners of the parent									
	Issued capital US\$'000	Share premium US\$'000	Share option reserve US\$'000	Reserve funds (note 30(a)) US\$'000	Other reserve US\$'000	Exchange fluctuation reserve US\$'000	Accumulated deficits US\$'000	Total US\$'000	Non-controlling interests US\$'000	Total deficits US\$'000
<b>Unaudited</b>										
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.

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**ACCOUNTANTS’ REPORT**

**Consolidated statements of cash flows**

	<i>Notes</i>	<b>Year ended</b>		<b>Five months</b>	
		<b>31 December</b>		<b>ended 31 May</b>	
		<b>2011</b>	<b>2012</b>	<b>2012</b>	<b>2013</b>
		<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
		<i>(Unaudited)</i>			
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
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

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**ACCOUNTANTS’ REPORT**

	<i>Notes</i>	<b>Year ended</b>		<b>Five months</b>	
		<b>31 December</b>		<b>ended 31 May</b>	
		<b>2011</b>	<b>2012</b>	<b>2012</b>	<b>2013</b>
		<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>
		<i>(Unaudited)</i>			
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
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		<u>(1,356)</u>	<u>(863)</u>	<u>(208)</u>	<u>(346)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from exercise of share options		—	42	41	57
Net cash flows from financing activities		—	42	41	57
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>					
Cash and cash equivalents at beginning of year/period		3,362	8,927	5,292	5,977
Effect of foreign exchange rate changes, net		(283)	(40)	74	(95)
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD</b>		<u>6,248</u>	<u>15,135</u>	<u>11,614</u>	<u>21,017</u>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>					
Cash and cash equivalents as stated in the consolidated statements of financial Position	22	<u>6,248</u>	<u>15,135</u>	<u>11,614</u>	<u>21,017</u>

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**ACCOUNTANTS’ REPORT**

**Statements of financial position**

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

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**ACCOUNTANTS’ REPORT**

**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



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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

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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 attributable paid-up/ registered capital	Percentage of equity 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	<i>Financial Instruments</i> <sup>2</sup>
IFRS 10, IFRS 12 and IAS 27 (Revised) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised) <i>Investment Entities</i> <sup>1</sup>
IAS 32 Amendments	Amendments to IAS 32 <i>Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities</i> <sup>1</sup>
IAS 36 Amendments	Amendments to IAS 36 <i>Recoverable Amount Disclosures for Non-Financial Assets</i> <sup>1</sup>
IFRIC Interpretation 21	<i>Levie</i> <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2014

<sup>2</sup> 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.

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**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
	<u>31,080</u>	<u>43,154</u>	<u>16,989</u>	<u>24,258</u>

(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
	<u>2,717</u>	<u>2,186</u>	<u>2,112</u>

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

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**ACCOUNTANTS’ REPORT**

**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:

	<b>Year ended 31 December</b>		<b>Five months ended 31 May</b>	
	<b>2011</b>	<b>2012</b>	<b>2012</b>	<b>2013</b>
	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>
			<i>(Unaudited)</i>	
<b>Revenue</b>				
Online game revenue	30,626	41,810	16,686	23,062
Licensing revenue	454	548	303	131
Joint operation revenue	—	796	—	1,065
	<u>31,080</u>	<u>43,154</u>	<u>16,989</u>	<u>24,258</u>
<b>Other income and gains</b>				
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
	<u>448</u>	<u>422</u>	<u>16</u>	<u>20</u>

\* 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.



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**ACCOUNTANTS’ REPORT**

**8. LOSS BEFORE TAX**

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

	<i>Notes</i>	<b>Year ended 31 December</b>		<b>Five months ended 31 May</b>	
		<b>2011</b>	<b>2012</b>	<b>2012</b>	<b>2013</b>
		<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>
				<i>(Unaudited)</i>	
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)	—	—

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**ACCOUNTANTS’ REPORT**

**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
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	<u>6</u>	<u>6</u>	<u>2</u>	<u>2</u>
	<u>399</u>	<u>507</u>	<u>198</u>	<u>122</u>

\* 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
<b>2011</b>					
Executive directors:					
Mr. Zongjian Cai	60	57	101	3	221
Mr. Yuan Chi	<u>60</u>	<u>48</u>	<u>67</u>	<u>3</u>	<u>178</u>
	<u>120</u>	<u>105</u>	<u>168</u>	<u>6</u>	<u>399</u>

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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.

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

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.

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

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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.

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

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.

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**ACCOUNTANTS’ REPORT**

**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:

	<b>Year ended 31 December</b>		<b>Five months ended 31 May</b>	
	<b>2011</b>	<b>2012</b>	<b>2012</b>	<b>2013</b>
	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>
			<i>(Unaudited)</i>	
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
	<u>581</u>	<u>758</u>	<u>286</u>	<u>213</u>

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

	<b>Year ended 31 December</b>		<b>Five months ended 31 May</b>	
	<b>2011</b>	<b>2012</b>	<b>2012</b>	<b>2013</b>
			<i>(Unaudited)</i>	
Nil to US\$100,000	—	—	3	3
US\$100,001 to US\$150,000	2	—	—	—
US\$150,001 to US\$200,000	<u>1</u>	<u>3</u>	<u>—</u>	<u>—</u>
	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>

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.

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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%.

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

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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	%
<b>Group</b>								
Loss before tax from continuing operations	<u>(8,343)</u>		<u>(12,946)</u>		<u>(3,836)</u>		<u>(7,858)</u>	
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	<u>—</u>	<u>—</u>	<u>(181)</u>	<u>1.4</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Tax charge at the Group’s effective rate	<u>346</u>	<u>(4.1)</u>	<u>163</u>	<u>(1.3)</u>	<u>192</u>	<u>(5.0)</u>	<u>396</u>	<u>(5.0)</u>

**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		Five months ended	
	31 December		31 May	
	2011	2012	2012	2013
	US\$'000	US\$'000	US\$'000	US\$'000
			<i>(Unaudited)</i>	
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	<u>(12)</u>	<u>(326)</u>	<u>(58)</u>	<u>—</u>

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

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

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

	<b>Year ended</b>		<b>Five months ended</b>	
	<b>31 December</b>		<b>31 May</b>	
	<b>2011</b>	<b>2012</b>	<b>2012</b>	<b>2013</b>
	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>
Loss attributable to ordinary equity holders of the parent from the discontinued operation	<u>(12)</u>	<u>(326)</u>	<u>(58)</u>	<u>—</u>

	<b>Year ended</b>		<b>Five months ended</b>	
	<b>31 December</b>		<b>31 May</b>	
	<b>2011</b>	<b>2012</b>	<b>2012</b>	<b>2013</b>
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)	<u>528,000,000</u>	<u>534,807,320</u>	<u>529,612,000</u>	<u>546,520,000</u>

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

	<b>2012</b>
	<i>US\$’000</i>
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	<u>(22)</u>
	421
Loss on disposal of a discontinued operation	<u>(405)</u>
Satisfied by:	
Cash	6
Receivables*	<u>10</u>
	<u>16</u>

\* 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:

	<b>2012</b>
	<i>US\$’000</i>
Cash consideration	6
Cash and cash equivalents disposed of	<u>(124)</u>
Net outflow of cash and cash equivalents in respect of the disposal of a discontinued operation	<u><u>(118)</u></u>

**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.

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

	<b>Year ended</b>		<b>Five months ended</b>	
	<b>31 December</b>		<b>31 May</b>	
	<b>2011</b>	<b>2012</b>	<b>2012</b>	<b>2013</b>
	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>
			<i>(Unaudited)</i>	
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	<u>(12)</u>	<u>(326)</u>	<u>(58)</u>	<u>—</u>
	<u>(8,701)</u>	<u>(13,435)</u>	<u>(4,086)</u>	<u>(8,254)</u>

	<b>Year ended</b>		<b>Five months ended</b>	
	<b>31 December</b>		<b>31 May</b>	
	<b>2011</b>	<b>2012</b>	<b>2012</b>	<b>2013</b>
			<i>(Unaudited)</i>	
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	<u>528,000,000</u>	<u>534,807,320</u>	<u>529,612,000</u>	<u>546,520,000</u>

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**16. PROPERTY, PLANT AND EQUIPMENT**

<b>Group</b>	<b>Lease hold improvements <i>US\$'000</i></b>	<b>Computer equipments <i>US\$'000</i></b>	<b>Office equipment and furniture <i>US\$'000</i></b>	<b>Motor vehicles <i>US\$'000</i></b>	<b>Total <i>US\$'000</i></b>
<b>31 December 2011</b>					
At 31 December 2010 and at 1 January 2011:					
Cost	777	3,370	266	62	4,475
Accumulated depreciation	<u>(524)</u>	<u>(1,893)</u>	<u>(166)</u>	<u>(34)</u>	<u>(2,617)</u>
Net carrying amount	<u>253</u>	<u>1,477</u>	<u>100</u>	<u>28</u>	<u>1,858</u>
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	<u>8</u>	<u>31</u>	<u>5</u>	<u>1</u>	<u>45</u>
At 31 December 2011, net of accumulated depreciation	<u>84</u>	<u>1,783</u>	<u>58</u>	<u>17</u>	<u>1,942</u>
At 31 December 2011:					
Cost	830	4,568	286	65	5,749
Accumulated depreciation	<u>(746)</u>	<u>(2,785)</u>	<u>(228)</u>	<u>(48)</u>	<u>(3,807)</u>
Net carrying amount	<u>84</u>	<u>1,783</u>	<u>58</u>	<u>17</u>	<u>1,942</u>

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Group	Lease hold improvements <i>US\$'000</i>	Computer equipments <i>US\$'000</i>	Office equipment and furniture <i>US\$'000</i>	Motor vehicles <i>US\$'000</i>	Total <i>US\$'000</i>
<b>31 December 2012</b>					
At 31 December 2011 and at 1 January 2012:					
Cost	830	4,568	286	65	5,749
Accumulated depreciation	<u>(746)</u>	<u>(2,785)</u>	<u>(228)</u>	<u>(48)</u>	<u>(3,807)</u>
Net carrying amount	<u>84</u>	<u>1,783</u>	<u>58</u>	<u>17</u>	<u>1,942</u>
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	<u>—</u>	<u>6</u>	<u>(3)</u>	<u>(1)</u>	<u>2</u>
At 31 December 2012, net of accumulated depreciation	<u>—</u>	<u>1,487</u>	<u>26</u>	<u>4</u>	<u>1,517</u>
At 31 December 2012:					
Cost	—	4,865	280	65	5,210
Accumulated depreciation	<u>—</u>	<u>(3,378)</u>	<u>(254)</u>	<u>(61)</u>	<u>(3,693)</u>
Net carrying amount	<u>—</u>	<u>1,487</u>	<u>26</u>	<u>4</u>	<u>1,517</u>

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



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**17. OTHER INTANGIBLE ASSETS**

Group	Trademarks and domain names		Software Copyright	Royalty	Total
	US\$'000	US\$'000		fees US\$'000	
<b>31 December 2011</b>					
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	<u>1</u>	<u>8</u>	<u>1</u>	<u>—</u>	<u>10</u>
At 31 December 2011	<u>52</u>	<u>156</u>	<u>13</u>	<u>82</u>	<u>303</u>
At 31 December 2011:					
Cost	158	481	21	278	938
Accumulated amortisation	<u>(106)</u>	<u>(325)</u>	<u>(8)</u>	<u>(196)</u>	<u>(635)</u>
Net carrying amount	<u>52</u>	<u>156</u>	<u>13</u>	<u>82</u>	<u>303</u>
<b>31 December 2012</b>					
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	<u>—</u>	<u>1</u>	<u>—</u>	<u>—</u>	<u>1</u>
At 31 December 2012	<u>39</u>	<u>105</u>	<u>7</u>	<u>1</u>	<u>152</u>
At 31 December 2012:					
Cost	177	578	22	278	1,055
Accumulated amortisation	<u>(138)</u>	<u>(473)</u>	<u>(15)</u>	<u>(277)</u>	<u>(903)</u>
Net carrying amount	<u>39</u>	<u>105</u>	<u>7</u>	<u>1</u>	<u>152</u>

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Group	Trademarks and Domain names			Royalty fees	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>31 May 2013</b>					
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	<u>33</u>	<u>89</u>	<u>4</u>	<u>—</u>	<u>126</u>
At 31 May 2013:					
Cost	181	598	22	—	801
Accumulated amortisation	<u>(148)</u>	<u>(509)</u>	<u>(18)</u>	<u>—</u>	<u>(675)</u>
Net carrying amount	<u>33</u>	<u>89</u>	<u>4</u>	<u>—</u>	<u>126</u>

**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	<u>787</u>	<u>890</u>	<u>1,009</u>
	<u>3,004</u>	<u>3,107</u>	<u>3,226</u>

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.

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**19. ACCOUNTS RECEIVABLE**

<b>Group</b>	<b>As at 31 December</b>		<b>As at 31 May</b>
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>
Accounts receivable	513	496	349
Impairment	—	—	—
	<u>513</u>	<u>496</u>	<u>349</u>

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:

<b>Group</b>	<b>As at 31 December</b>		<b>As at 31 May</b>
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>
Within 3 month	453	450	296
3 to 6 months	42	46	53
6 months to 1 year	13	—	—
Over 1 year	5	—	—
	<u>513</u>	<u>496</u>	<u>349</u>

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

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

<b>Group</b>	<b>As at 31 December</b>		<b>As at 31 May</b>
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Neither past due nor impaired	495	496	349
Less than 6 months past due	13	—	—
Over 6 months past due	<u>5</u>	<u>—</u>	<u>—</u>
	<u>513</u>	<u>496</u>	<u>349</u>

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**

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

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.

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**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**

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

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.

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**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:

<b>Group</b>	<b>As at 31 December</b>		<b>As at</b>
	<b>2011</b>	<b>2012</b>	<b>31 May</b>
	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>
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	<u>27</u>	<u>38</u>	<u>44</u>
	<u>428</u>	<u>1,841</u>	<u>2,012</u>

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

**24. OTHER PAYABLES AND ACCRUALS**

	<b>Group</b>		<b>As at 31 May 2013 <i>US\$’000</i></b>	<b>Company</b>		<b>As at 31 May 2013 <i>US\$’000</i></b>
	<b>As at 31 December 2011 <i>US\$’000</i></b>	<b>As at 31 December 2012 <i>US\$’000</i></b>		<b>As at 31 December 2011 <i>US\$’000</i></b>	<b>As at 31 December 2012 <i>US\$’000</i></b>	
	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	<u>149</u>	<u>263</u>	<u>542</u>	<u>—</u>	<u>228</u>	<u>51</u>
	<u>2,696</u>	<u>3,124</u>	<u>3,052</u>	<u>70</u>	<u>263</u>	<u>110</u>

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 PREFERRED 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.

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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:

	<b>Year ended 31 December</b>	<b>Year ended 31 December</b>	<b>Five months ended 31 May</b>
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
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	<u>—</u>	<u>—</u>	<u>(80,763)</u>
At 31 December / 31 May	<u><u>45,984</u></u>	<u><u>66,596</u></u>	<u><u>—</u></u>



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**27. DEFERRED TAX**

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

**Deferred tax assets**

<b>Group</b>	<b>Deferred revenue</b> <i>US\$'000</i>	<b>Intangible assets</b> <i>US\$'000</i>	<b>Loss available for offsetting against future taxable profits</b> <i>US\$'000</i>	<b>Others</b> <i>US\$'000</i>	<b>Total</b> <i>US\$'000</i>
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	<u>—</u>	<u>3</u>	<u>—</u>	<u>—</u>	<u>3</u>
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	<u>29</u>	<u>9</u>	<u>(139)</u>	<u>(6)</u>	<u>(107)</u>
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	<u>14</u>	<u>(12)</u>	<u>—</u>	<u>(77)</u>	<u>(75)</u>
Deferred tax assets at 31 May 2013	<u><u>258</u></u>	<u><u>18</u></u>	<u><u>—</u></u>	<u><u>14</u></u>	<u><u>290</u></u>

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**Deferred tax liabilities**

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

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.

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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**

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

	<b>As at 31 December</b>		<b>As at</b>
	<b>2011</b>	<b>2012</b>	<b>31 May</b>
	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>
<i>Ordinary Shares</i>			
Authorised:			
Ordinary shares of US\$0.0001 each	<u>3</u>	<u>3</u>	<u>3</u>
Issued and fully paid or credited as fully paid:			
Ordinary shares of US\$0.0001 each	<u>1</u>	<u>1</u>	<u>2</u>

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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:

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

**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.

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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		2013	
	2011	2012	2012	2013	2013	2013
	Weighted average exercise price per share <i>US\$</i>	Number of Options	Weighted average exercise price per share <i>US\$</i>	Number of options	Weighted average exercise price per share <i>US\$</i>	Number of options
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	<u>1.02</u>	<u>3,026,000</u>	<u>1.38</u>	<u>2,765,600</u>	<u>1.95</u>	<u>2,437,900</u>

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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 <i>US\$</i>	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		

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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
<u>2,765,600</u>		

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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
<u>327,300</u>	3.46	since [●] to 30-03-2023
 <u><u>2,437,900</u></u>		

\* 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.



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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:

	<b>Year ended 31 December</b>		<b>Five months ended</b>
	<b>2011</b>	<b>2012</b>	<b>31 May 2013</b>
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).

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**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**

	<b>Share premium</b>	<b>Share option reserve</b>	<b>Accumulated deficits</b>	<b>Total</b>
	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>
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	<u>3,580</u>	<u>805</u>	<u>(56,520)</u>	<u>(52,135)</u>

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	<b>Share based premium</b>	<b>Share based compensation reserve</b>	<b>Accumulated deficits</b>	<b>Total</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
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
	<u>84,592</u>	<u>731</u>	<u>(71,020)</u>	<u>14,303</u>

	<b>Share based premium</b>	<b>Share based compensation reserve</b>	<b>Accumulated deficits</b>	<b>Total</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
<b>Unaudited</b>				
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	<u>3,510</u>	<u>825</u>	<u>(44,010)</u>	<u>(39,675)</u>

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	<u>1</u>
	67
Satisfied by:	
Cash	<u>—</u>
Loss on disposal of subsidiaries	(67)
Loss on the [●] of shareholder’s loan	<u>(205)</u>
Total loss on disposal of subsidiaries	<u><u>(272)</u></u>

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 Technology 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.

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

	<b>2011</b> <i>US\$’000</i>
Cash consideration	—
Cash and cash equivalents disposed of	<u>(30)</u>
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries and associates	<u><u>(30)</u></u>

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:

<b>Group</b>	<b>As at 31 December</b>		<b>As at</b>
	<i>US\$’000</i>	<i>US\$’000</i>	<b>31 May</b> <i>US\$’000</i>
Within one year	649	2,000	1,935
In the second to fifth years, inclusive	<u>—</u>	<u>1,692</u>	<u>1,873</u>
	<u><u>649</u></u>	<u><u>3,692</u></u>	<u><u>3,808</u></u>

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**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:

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

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:

<b>Group</b>	<b>Loans and receivables</b>		
	<b>As at 31 December</b>	<b>As at 31 May</b>	
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
<i>Financial assets</i>			
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)	<u>6,248</u>	<u>15,135</u>	<u>21,017</u>
	<u>9,284</u>	<u>19,364</u>	<u>25,403</u>

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Group

Financial liabilities	2011			2012			2013		
	Financial liabilities at amortised cost	Designated as financial liabilities at fair value through profit or loss	Total	Financial liabilities at amortised cost	Designated as financial liabilities at fair value through profit or loss	Total	Financial liabilities at amortised cost	Designated as financial liabilities at fair value through profit or loss	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	—	—	—
	<u>2,256</u>	<u>45,984</u>	<u>48,240</u>	<u>4,332</u>	<u>66,596</u>	<u>70,928</u>	<u>4,400</u>	<u>—</u>	<u>4,400</u>

Loans and receivables

Company	As at 31 December		As at 31 May
	2011	2012	2013
	US\$'000	US\$'000	US\$'000
Due from subsidiaries	12,076	11,732	11,028
Cash and cash equivalents (note 22)	<u>165</u>	<u>121</u>	<u>397</u>
	<u>12,241</u>	<u>11,853</u>	<u>11,425</u>

Company

Financial liabilities	2011			2012			2013		
	Financial liabilities at amortised cost	Designated as financial liabilities at fair value through profit or loss	Total	Financial liabilities at amortised cost	Designated as financial liabilities at fair value through profit or loss	Total	Financial liabilities at amortised cost	Designated as financial liabilities at fair value through profit or loss	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	—	—	—
	<u>304</u>	<u>45,984</u>	<u>46,288</u>	<u>498</u>	<u>66,596</u>	<u>67,094</u>	<u>346</u>	<u>—</u>	<u>346</u>

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**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		As at	As at		As at
	31 December 2011	2012	31 May 2013	31 December 2011	2012	31 May 2013
	US\$’000	US\$’000	US\$’000	US\$’000	US\$’000	US\$’000
<i>Financial assets</i>						
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
	<u>9,284</u>	<u>19,364</u>	<u>25,403</u>	<u>9,284</u>	<u>19,364</u>	<u>25,403</u>
<i>Financial liabilities</i>						
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	—
	<u>48,240</u>	<u>70,928</u>	<u>4,400</u>	<u>48,240</u>	<u>70,928</u>	<u>4,400</u>



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Company	Carrying amounts			Fair values		
	As at		As at	As at		As at
	31 December 2011	2012	31 May 2013	31 December 2011	2012	31 May 2013
	US\$’000	US\$’000	US\$’000	US\$’000	US\$’000	US\$’000
<i>Financial assets</i>						
Due from subsidiaries	12,076	11,732	11,028	12,076	11,732	11,028
Cash and cash equivalents (note 22)	<u>165</u>	<u>121</u>	<u>397</u>	<u>165</u>	<u>121</u>	<u>397</u>
	<u>12,241</u>	<u>11,853</u>	<u>11,425</u>	<u>12,241</u>	<u>11,853</u>	<u>11,425</u>
<i>Financial liabilities</i>						
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)	<u>45,984</u>	<u>66,596</u>	<u>—</u>	<u>45,984</u>	<u>66,596</u>	<u>—</u>
	<u>46,288</u>	<u>67,094</u>	<u>346</u>	<u>46,288</u>	<u>67,094</u>	<u>346</u>

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.

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**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**

<b>As at 31 December 2011</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Redeemable convertible preferred shares (note 26)	<u>—</u>	<u>—</u>	<u>45,984</u>	<u>45,984</u>
<b>As at 31 December 2012</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Redeemable convertible preferred shares (note 26)	<u>—</u>	<u>—</u>	<u>66,596</u>	<u>66,596</u>

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.

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**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.

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

	<b>31/12/2011</b>	<b>31/12/2012</b>
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.

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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):

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

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

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	<b>31 December 2012</b>	
	<b>Within 1 year</b>	<b>Total</b>
	<i>US\$’000</i>	<i>US\$’000</i>
Accounts payable (note 23)	1,841	1,841
Financial liabilities included in other payables and accruals	2,491	2,491
Redeemable convertible preferred shares*	<u>20,563</u>	<u>20,563</u>
	<u>24,895</u>	<u>24,895</u>
	<b>31 May 2013</b>	
	<b>Within 1 year</b>	<b>Total</b>
	<i>US\$’000</i>	<i>US\$’000</i>
Accounts payable (note 23)	2,012	2,012
Financial liabilities included in other payables and accruals	<u>2,388</u>	<u>2,388</u>
	<u>4,400</u>	<u>4,400</u>

\* 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.

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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:

<b>Group</b>	<b>As at 31 December</b>		<b>As at</b>
	<b>2011</b>	<b>2012</b>	<b>31 May</b>
	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>
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,  
[●]

## **APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND THE CAYMAN ISLANDS COMPANIES LAW**

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Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 16 August 2007 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “Companies Law”). The Memorandum of Association (the “Memorandum”) and the Articles of Association (the “Articles”) comprise its constitution.

### **1. MEMORANDUM OF ASSOCIATION**

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

### **2. ARTICLES OF ASSOCIATION**

The Articles were conditionally adopted on 16 September 2013 which will become effective upon [●] of the Shares on the [●]. The following is a summary of certain provisions of the Articles:

#### **(a) Directors**

- (i) *Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated [●] (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.



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Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated [●] (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

*(ii) Power to dispose of the assets of the Company or any subsidiary*

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

*(iii) Compensation or payments for loss of office*

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

*(iv) Loans and provision of security for loans to Directors*

There are provisions in the Articles prohibiting the making of loans to Directors.

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*(v) Disclosure of interests in contracts with the Company or any of its subsidiaries.*

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

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- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or
- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s) as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) *Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

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The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company’s monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

*(vii) Retirement, appointment and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

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The office of director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;
- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) *Borrowing powers*

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

*Note:* These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

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(ix) *Proceedings of the Board*

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) *Register of Directors and Officers*

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

**(b) Alterations to constitutional documents**

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

**(c) Alteration of capital**

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or

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- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

**(d) Variation of rights of existing shares or classes of shares**

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

**(e) Special resolution-majority required**

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated [●] (as defined in the Articles), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and less than ten (10) clear business days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

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An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

#### **(f) Voting rights**

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Designated [●] (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

#### **(g) Requirements for annual general meetings**

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated [●] (as defined in the Articles)) at such time and place as may be determined by the board.



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**(h) Accounts and audit**

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company’s affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors’ report and a copy of the auditors’ report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated [●] (as defined in the Articles), the Company may send to such persons summarised financial statements derived from the Company’s annual accounts and the directors’ report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company’s annual financial statement and the directors’ report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

**(i) Notices of meetings and business to be conducted thereat**

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other

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extraordinary general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated [●], it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent (95%) in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
- (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

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**(j) Transfer of shares**

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated [●] (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated [●] (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

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The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated [●] (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

**(k) Power for the Company to purchase its own shares**

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated [●] (as defined in the Articles).

**(l) Power for any subsidiary of the Company to own shares in the Company and financial assistance to purchase shares of the Company**

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated [●] (as defined in the Articles) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

**(m) Dividends and other methods of distribution**

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

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Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

**(n) Proxies**

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled

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to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

**(o) Call on shares and forfeiture of shares**

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

**(p) Inspection of register of members**

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

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**(q) Quorum for meetings and separate class meetings**

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

**(r) Rights of the minorities in relation to fraud or oppression**

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

**(s) Procedures on liquidation**

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

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If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

**(t) Untraceable members**

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated [●] (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated [●] (as defined in the Articles), has elapsed since the date of such advertisement and the Designated [●] (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

**(u) Subscription rights reserve**

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

**3. CAYMAN ISLANDS COMPANY LAW**

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:



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**(a) Operations**

As an exempted company, the Company’s operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

**(b) Share capital**

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “Court”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

**(c) Financial assistance to purchase shares of a company or its holding company**

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

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There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

**(d) Purchase of shares and warrants by a company and its subsidiaries**

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company’s articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company shall be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company shall not be treated as a member for any purpose and shall not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share shall not be voted, directly or indirectly, at any meeting of the company and shall not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company’s articles of association or the Companies Law. Further, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company’s assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company’s memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

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Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

**(e) Dividends and distributions**

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company’s memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

**(f) Protection of minorities**

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company’s affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company’s capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company’s memorandum and articles of association.

**APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND THE CAYMAN ISLANDS COMPANIES LAW**

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**(g) Management**

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

**(h) Accounting and auditing requirements**

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company’s affairs and to explain its transactions.

**(i) Exchange control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

**(j) Taxation**

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from [●].

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

**APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY  
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**(k) Stamp duty on transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

**(l) Loans to directors**

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

**(m) Inspection of corporate records**

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company’s Articles.

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register shall be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company’s principal register is kept a duplicate of any branch register duly entered up from time to time. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

**(n) Winding up**

A company may be wound up compulsorily by order of the Court; voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

**APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY  
AND THE CAYMAN ISLANDS COMPANIES LAW**

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For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by the company's articles of association and published in the Gazette in the Cayman Islands.

**APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY  
AND THE CAYMAN ISLANDS COMPANIES LAW**

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**(o) Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

**(p) Compulsory acquisition**

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

**(q) Indemnification**

Cayman Islands law does not limit the extent to which a company’s articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

[●]

**FURTHER INFORMATION ABOUT OUR COMPANY**

**1. Incorporation**

Our Company was incorporated in Cayman Islands under the Companies Law as an exempted company with company registration number of CF-193568 on 16 August 2007 with limited liability. We have established a place of business at Room 3907-08, 39/F, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong and was registered in Hong Kong as an overseas company under Part XI of the Hong Kong Companies Ordinance on 12 August 2013. Ms. Yin Ping Yvonne Kwong of Room 3907-08, 39/F, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong has been appointed as the authorised representative of our Company for the acceptance of service of process and notices on behalf of our Company at the above address.

As our Company was incorporated in the Cayman Islands, we operate subject to the relevant law of the Cayman Islands and its constitution which comprises a memorandum and articles of association. A summary of certain relevant provisions of its constitution and certain relevant aspects of the Companies Law is set out in Appendix III to this document.

**2. Changes in share capital of our Company**

As at the date of incorporation, the authorised share capital of our Company was US\$50,000 divided into 500,000,000 Shares of then par value of US\$0.0001 each. The following sets out the changes in the share capital of our Company since the date of its incorporate:

- (1) On 16 August 2007, 1 ordinary Share was allotted and issued credited as fully paid to N.D. Nominees LTD., as the initial subscriber, which was subsequently transferred to CIA Nominees LTD. on the same date.
- (2) On 31 October 2007, 1 ordinary Share held by CIA Nominees LTD. was transferred to Duke Online credited as fully paid. On the same date, 4,499,999 additional ordinary Shares was allotted and issued credited as fully paid to Duke Online, after which Duke Online held an aggregate of 4,500,000 ordinary Shares of our Company.
- (3) On 31 October 2007, 4,500,000 ordinary Shares were allotted and issued credited as fully paid to Edmond Online.



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- (4) On 31 October 2007, 4,800,000 ordinary Shares were allotted and issued credited as fully paid to the following individuals:

<b>Names</b>	<b>Number of Shares</b>
Mr. Guo Wu	1,200,000
Ms. Kai Chen	550,000
Mr. Zhixiang Chen	550,000
Mr. Yuan Xu	1,200,000
Mr. Hong Zhang	500,000
Mr. Feng Chen	375,000
Mr. Pintong Lin	100,000
Mr. Deqing Ruan	100,000
Mr. Chak Man Wu	100,000
Mr. Anyan Chen	125,000

- (5) On 30 November 2007, a resolution was passed that the authorised share capital of our Company shall be US\$50,000 divided into: (i) 493,281,250 ordinary Shares of then par value of US\$0.0001 each, and (ii) 6,718,750 Preferred Shares of then par value of US\$0.0001 each, of which 5,375,000 Preferred Shares are designated as Series A Preferred Shares, and 1,343,750 Preferred Shares are designated as Series A-1 Preferred Shares.

- (6) Pursuant to the Series A Preferred Shares Purchase Agreement dated 30 November 2007, an aggregate of 5,375,000 Series A Preferred Shares were allotted and issued to the following:

<b>Names</b>	<b>Number of Shares</b>	<b>Consideration</b>
IDG-Accel China Growth Fund II L.P.	4,471,785	US\$2,495,880
IDG-Accel China Investors II L.P.	365,715	US\$204,120
Winston	537,500	US\$300,000

- (7) Under the Series A Preferred Shares Purchase Agreement, our Company issued warrants to IDG-Accel China Growth Fund II L.P. and IDG-Accel China Investors II L.P., exercisable at an aggregate price of US\$1,500,000 for 1,343,750 Series A-1 Shares.

- (8) On 12 November 2008, a resolution was passed that the authorised share capital of our Company shall be reduced and redesignated by cancelling 459,415,000 Shares of then par value of US\$0.0001 each which have neither been taken nor agreed to be taken by any person and the authorised share capital of our Company be diminished, from US\$50,000 divided into (i) 493,281,250 ordinary Shares of then nominal or par value of US\$0.0001 each, and (ii) 6,718,750 Preferred Shares of then nominal or par value of US\$0.0001 each, of which 5,375,000 Preferred Shares are designated as Series A Preferred Shares and 1,343,750 Preferred Shares are designated as Series A-1 Preferred Shares to US\$4,058.50 divided into: (i) 28,600,450 ordinary Shares of then par value of US\$0.0001 each, and (ii)

**APPENDIX IV**

**STATUTORY AND GENERAL INFORMATION**

11,984,550 Preferred Shares of then par value of US\$ 0.0001 each, of which 5,375,000 Preferred Shares are designated as Series A Preferred Shares, 1,343,750 Preferred Shares are designated as Series A-1 Preferred Shares, and 5,265,800 Preferred Shares are designated as Series B Preferred Shares.

- (9) Pursuant to the Series B Preferred Shares Purchase Agreement dated 12 November 2008, an aggregate of 5,216,091 Series B Preferred Shares were allotted and issued to the following:

<b>Names</b>	<b>Number of Shares</b>	<b>Consideration</b>
Vertex Asia Growth Ltd	2,980,625	US\$5,999,998.13
Hearst	745,156	US\$1,499,999.03
IDG-Accel China Growth Fund II L.P.	1,056,194	US\$2,126,118.53
IDG-Accel China Investors II L.P.	86,378	US\$173,878.92
Tian Xiang	124,192	US\$249,998.50
Yi Zhang	49,677	US\$99,999.81
Yuan Xu	99,354	US\$199,999.61
The Martin Living Trust	74,515	US\$149,998.70

- (10) Under the Series B Preferred Shares Purchase Agreement dated 12 November 2008, an aggregate of 49,675 Series B Preferred Shares were allotted and issued to the following individuals in exchange for the following individuals, who were the original members of IGG USA, transferred their units in IGG USA to our Company:

<b>Names</b>	<b>Number of Shares</b>	<b>Consideration</b>
Mr. Zongjian Cai	12,419	US\$25,000
Mr. Yuan Chi	12,419	US\$25,000
Ms. Xiuping Wang	17,386	US\$35,000
Mr. Hong Zhang	7,451	US\$15,000

- (11) On 21 August 2009, our Company repurchased 600,000 ordinary Shares from Mr. Guo Wu.
- (12) On 21 August 2009, IDG-Accel China Growth Fund II L.P. and IDG-Accel China Investors II L.P. exercised the conversion rights of warrants granted to them and our Company issued 1,117,946 and 91,429 Series A-1 Preferred Shares to IDG-Accel China Growth Fund II L.P. and IDG-Accel China Investors II L.P., respectively.
- (13) On 30 October 2012, Vertex Asia Growth Ltd transferred its 2,980,625 Series B Preferred Shares in our Company to its affiliate fund entity Vertex Asia Investments Pte. Ltd.

**APPENDIX IV**

**STATUTORY AND GENERAL INFORMATION**

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- (14) Under the [●], 263,000 share options were exercised. As a result of the exercise, 3,000 ordinary Shares were issued to Mr. Jonas Paul Norman on 17 January 2012, 20,000 ordinary Shares were issued to Mr. Tsen Hu Chiu on 1 February 2012, 20,000 ordinary Shares were issued to Mr. Shiping Zheng on 7 February 2012, 10,000 ordinary Shares were issued to Mr. Dajian Yu on 9 February 2012, 50,000 ordinary Shares were issued Ms. Yan Zhang 8 April 2012 and 160,000 ordinary Shares were issued to Mr. Yuan Xu on 14 May 2012.
- (15) On 27 November 2012, to increase 700,000 Shares to our [●], a resolution was passed that the authorised share capital of our Company was increased from US\$4,058.50 divided into (i) 28,600,450 ordinary Shares of then par value of US\$0.0001 each, and (ii) 11,984,550 Preferred Shares of then par value of US\$0.0001 each, of which 5,375,000 Preferred Shares are designated as Series A Preferred Shares, 1,343,750 Preferred Shares are designated as Series A-1 Preferred Shares, and 5,265,800 Preferred Shares are designated as Series B Preferred Shares to US\$4,128.50 divided into: (i) 29,300,450 ordinary Shares of then par value of US\$ 0.0001 each, and (ii) 11,984,550 Preferred Shares of then par value of US\$ 0.0001 each, of which 5,375,000 Preferred Shares are designated as Series A Preferred Shares, 1,343,750 Preferred Shares are designated as Series A-1 Preferred Shares, and 5,265,800 Preferred Shares are designated as Series B Preferred Shares.
- (16) Under the [●], 600,000 share options were exercised. As a result of the exercise, 300,000 ordinary Shares were issued to Ms. Kai Chen on 11 April 2013 and 300,000 Shares were issued to Mr. Zhixiang Chen on 16 April 2013, respectively.
- (17) On 31 May 2013, all of the Preferred Shares were converted into ordinary Shares according to the conversion clause under the then applicable Articles. As a result of the conversion, there was only one single class of Shares in the share capital of our Company so that all the ordinary Shares shall rank pari passu in all respects.
- (18) Under the [●], 264,000 share options were exercised. As a result of the exercise, 20,000 ordinary Shares were issued to Mr. Yunfei Chen on 19 August 2013, 14,500 ordinary Shares were issued to Mr. Xiaolu Lu on 19 August 2013, 15,000 ordinary Shares were issued to Mr. Chengfeng Luo, 27,000 ordinary Shares were issued to Mr. Xingyong Lin on 19 August 2013, 22,500 ordinary Shares were issued to Mr. Dongli Li on 19 August 2013, 45,000 ordinary Shares were issued to Mr. Shuo Wang on 21 August 2013, 50,000 ordinary Shares were issued to Mr. Meilan Liang on 21 August 2013, 35,000 ordinary Shares were issued to Ms. Shenjing Lin on 21 August 2013, 5,000 ordinary Shares were issued to Mr. Guanghui Lan on 21 August 2013 and 30,000 ordinary Shares were issued to Ms. Fei Chen, all of whom are [●], on 2 September 2013.

- (19) On 16 September 2013, our Shareholders resolved to approve, among other things, a redesignation and re-classification of the then existing authorised share capital of US\$4,128.50 into 41,285,000 ordinary Shares of a nominal or par value of US\$0.0001 each, (ii) a subdivision of each of the issued and unissued ordinary Share with a par value of US\$0.0001 each in the share capital of our Company into 40 ordinary Shares with a par value of US\$0.0000025 each and (iii) an increase in the authorised share capital of our Company to US\$5,000 divided into 2,000,000,000 ordinary Shares of US\$0.0000025 each.

Conditional on the closing of the [●], the Company will have an authorised share capital of US\$5,000 divided into 2,000,000,000 Shares, of which 1,309,737,099 Shares will be issued fully paid or credited as fully paid, and 690,262,901 Shares will remain unissued. Other than pursuant to the [●] to issue Shares referred to in the paragraph headed “[●]” in this Appendix, the Directors do not have any present intention to issue any of the authorised but unissued share capital of our Company and, without prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed in this document, there has been no alteration in the share capital of our Company since its incorporation.

#### **4. Corporate Reorganisation**

In order to rationalize our corporate structure and business, our Group underwent the Corporate Reorganisation. Please refer to the paragraph headed “Corporate Reorganisation” in the section headed “History and Corporate Structure” in this document for more details.

#### **5. Changes in share capital of the subsidiaries of our Company**

The following alterations in the registered capital of our subsidiaries took place within the two years immediately preceding the date of this document.

##### ***IGG Philippines***

On 11 January 2013, IGG Philippines was incorporated under the laws of Philippines as a subsidiary of IGG Singapore. Upon its incorporation, its authorised capital stock was Php 4,000,000.

Save as set out above, there have been no changes in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this document.

FURTHER INFORMATION ABOUT OUR COMPANY’S BUSINESS

1. [●]

2. Intellectual Property Rights of our Group

*Trademarks*

As at the Latest Practicable Date, our Group are the registered owner of the following trademarks which, in the opinion of our Directors, are material to our business:

Trademark	Registrant	Place of registration	Class	Registration number	Expiry date
	Fuzhou Tianmeng	PRC	9	6880174	27 August 2020
	Fuzhou Tianmeng	PRC	38	6880175	20 May 2020
	Fuzhou Tianmeng	PRC	41	6880176	13 September 2020
	Fuzhou Tianmeng	PRC	42	6880178	13 September 2020
	Skyunion Hong Kong	PRC	9	6250410	27 April 2020
	Skyunion Hong Kong	PRC	42	6731610	6 October 2021
	Skyunion Hong Kong	PRC	41	6250414	13 February 2021
乐乐兔	Fuzhou Tianmeng	PRC	9	7599634	27 February 2021
乐乐兔	Fuzhou Tianmeng	PRC	16	7599658	20 November 2020
乐乐兔	Fuzhou Tianmeng	PRC	28	7599671	13 May 2021
乐乐兔	Fuzhou Tianmeng	PRC	41	7599691	27 December 2020
众神	Fuzhou Tianmeng	PRC	41	6848716	27 September 2020
众神	Fuzhou Tianmeng	PRC	9	6848718	13 July 2020

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Trademark	Registrant	Place of registration	Class	Registration number	Expiry date
	Fuzhou Tianmeng	PRC	9	6250411	6 November 2022
	Fuzhou Tianmeng	PRC	41	6250413	13 June 2020
圣女贞德	Fuzhou Tianmeng	PRC	9	6818036	6 July 2020
圣女贞德	Fuzhou Tianmeng	PRC	41	6818034	13 September 2020
天盟	Skyunion Hong Kong	PRC	41	6537302	20 July 2020
星际文明	Fuzhou Tianmeng	PRC	41	6537301	20 July 2020
星际文明	Fuzhou Tianmeng	PRC	9	6537298	6 April 2020
曙光	Fuzhou Tianmeng	PRC	41	7654543	6 January 2021
曙光	Fuzhou Tianmeng	PRC	9	7654544	6 March 2021
暮色	Fuzhou Tianmeng	PRC	9	7888478	13 March 2021
暮色	Fuzhou Tianmeng	PRC	41	7888518	20 February 2021
	Fuzhou Tianmeng	PRC	41	6969968	20 May 2022
	Fuzhou Tianmeng	PRC	9	6969987	6 November 2020
百年战争	Fuzhou Tianmeng	PRC	9	6669095	27 May 2020
百年战争	Fuzhou Tianmeng	PRC	41	6669094	20 August 2020
航海传说	Fuzhou Tianmeng	PRC	9	7157341	20 October 2020
航海传说	Fuzhou Tianmeng	PRC	41	7157337	13 November 2020

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Trademark	Registrant	Place of registration	Class	Registration number	Expiry date
银龙之翼	Fuzhou Tianmeng	PRC	9	7793741	27 March 2021
银龙之翼	Fuzhou Tianmeng	PRC	41	7793792	27 January 2021
魔骑士	Fuzhou Tianmeng	PRC	9	7525635	13 February 2021
魔骑士	Fuzhou Tianmeng	PRC	41	7525696	13 December 2020
泰坦与精灵	Fuzhou Tianmeng	PRC	41	8031478	27 February 2021
泰坦与精灵	Fuzhou Tianmeng	PRC	9	8031481	20 March 2021
泰坦战争	Fuzhou Tianmeng	PRC	9	8281583	13 May 2021
泰坦之战	Fuzhou Tianmeng	PRC	9	8281649	20 August 2021
	IGG HK	Canada	9,41,42	TMA813,12730	November 2026
	IGG Singapore	Taiwan	41	01542882	15 October 2022
	IGG Singapore	Taiwan	41	01542881	15 October 2022
	IGG Singapore	Taiwan	41	01542883	15 October 2022
	IGG HK	U.S.A	9,41	3523331	27 October 2018
	IGG HK	Singapore	41	T0804895C	16 April 2018
	IGG HK	European Union	9,41,42	006767511	20 March 2018
	IGG HK	Australia	41	1233268	2 April 2018
Age of Titan	IGG Singapore	U.S.A	9	4046405	24 October 2021
Age of Titan	IGG Singapore	U.S.A	41	4046406	24 October 2021

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Trademark	Registrant	Place of registration	Class	Registration number	Expiry date
	IGG Singapore	U.S.A	9,41	3795700	31 May 2020
	The Company	U.S.A	9,41	3777056	19 April 2020
	The Company	U.S.A	9,41	3895932	27 December 2020
	The Company	U.S.A	9,41	3960343	16 May 2021
	The Company	European Union	9,41,42	008323776	27 May 2019
	IGG HK	U.S.A	9,41,42	3862671	18 October 2020
	IGG HK	U.S.A	9,41	3519319	20 October 2018
	IGG HK	U.S.A	42	3748174	15 February 2020
	The Company	U.S.A	9,41	3787101	10 May 2020
Moonlight Online	IGG Singapore	U.S.A	9	4053597	7 November 2021
Moonlight Online	IGG Singapore	U.S.A	41	4056986	14 November 2021
<b>MythCraft</b>	IGG Singapore	U.S.A	9	3901789	3 January 2021
<b>MythCraft</b>	IGG Singapore	U.S.A	41	3901790	3 January 2021
	IGG Singapore	U.S.A	41	4164942	25 June 2022
Tales of Voyage	IGG Singapore	U.S.A	9	3901787	3 January 2021
Tales of Voyage	IGG Singapore	U.S.A	41	3901788	3 January 2021



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Trademark	Registrant	Place of registration	Class	Registration number	Expiry date
	IGG Singapore	U.S.A	9	3929816	7 March 2021
	IGG Singapore	U.S.A	41	3929817	7 March 2021
	IGG Singapore	Hong Kong	41	302179477	1 March 2022
	IGG Singapore	Hong Kong	41	302179459	1 March 2022
	IGG Singapore	Hong Kong	41	302179495	1 March 2022
	IGG Singapore	Hong Kong	41	302358946	27 August 2022
	IGG Singapore	Hong Kong	41	302495953	15 January 2023
	IGG Singapore	Hong Kong	41	302269431	31 May 2022
騎士王國	IGG Singapore	Taiwan	41	01564415	31 January 2023
	IGG Singapore	Taiwan	41	01561562	15 January 2023
	IGG Singapore	U.S.A	41	4282517	28 January 2023
Wings of Destiny	IGG Singapore	U.S.A	9	4266950	31 December 2022
Wings of Destiny	IGG Singapore	U.S.A	41	4266951	31 December 2022
	IGG Singapore	Macao	41	064850	8 February 2020
	IGG Singapore	Macao	41	064851	8 February 2020
	IGG Singapore	Macao	41	064852	8 February 2020

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*Trademarks Applications*

As at the Latest Practicable Date, our Group have applied for registration of the following trademarks:

Name of trademark	Name of applicant	Place of application	Class	Application number	Application date
CASTLE CLASH	IGG Singapore	U.S.A.	9, 41	85967919	24 June 2013
	Fuzhon Tianji	PRC	9	13276190	23 September 2013
	Fuzhon Tianji	PRC	9	13275728	23 September 2013
	Fuzhon Tianji	PRC	41	13275867	23 September 2013
	Fuzhon Tianji	PRC	41	13276044	23 September 2013

*Copyrights*

As at the Latest Practicable Date, our Group are the registered owner of the following copyrights of computer software products in the PRC which, in the opinion of our Directors, are material to our business:

Name of Computer Software	Registrant	Place of Registration	Registration Number	Effective Period
Blackjack Poker - Game Software V1.0 (21點撲克遊戲軟件V1.0)	Fuzhou Tianmeng	PRC	2011SR034752	11 November 2010 — 31 December 2060
Godswar - Digital Entertainment Software V1.0 (眾神之戰數字娛樂軟件V1.0)	Fuzhou Tianmeng	PRC	2008SR09837	6 June 2007 — 31 December 2057
Galaxy Online Digital Entertainment Software V1.0 (星際文明online數字娛樂軟件V1.0)	Fuzhou Tianmeng	PRC	2008SR21350	8 August 2007 — 31 December 2057
100 Years' War Online - Digital Entertainment Software V1.0 (百年戰爭online數字娛樂軟件V1.0)	Fuzhou Tianmeng	PRC	2008SR34348	8 August 2007 — 31 December 2057

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Name of Computer Software	Registrant	Place of Registration	Registration Number	Effective Period
Joan of Arc Online - Digital Entertainment Software V1.0 (聖女貞德online數字娛樂軟件V1.0)	Fuzhou Tianmeng	PRC	2009SR06963	16 December 2007 — 31 December 2057
Dreamland Online - Digital Entertainment Software V1.0 (夢想島online數字娛樂軟件V1.0)	Fuzhou Tianmeng	PRC	2009SR017434	8 February 2009 — 31 December 2059
Myth War III Online - Digital Entertainment Software V1.0 (神界III online數字娛樂軟件V1.0)	Fuzhou Tianmeng	PRC	2009SR033581	8 June 2009 — 31 December 2059
Myth Craft Online - Digital Entertainment Software V1.0 (魔騎士online數字娛樂軟件V1.0)	Fuzhou Tianmeng	PRC	2010SR007297	6 September 2009 — 31 December 2059
Tales of Voyage Online - Digital Entertainment Software V1.0 (航海傳說online數字娛樂軟件V1.0)	Fuzhou Tianmeng	PRC	2010SR022639	8 August 2008 — 31 December 2058
Moonlight Online - Digital Entertainment Software V1.0 (暮光online 數字娛樂軟件V1.0)	Fuzhou Tianmeng	PRC	2010SR028685	8 March 2009 — 31 December 2059
Wings of Dragon - Software V1.0 (銀龍之翼軟件V1.0)	Fuzhou Tianmeng	PRC	2010SR056513	1 October 2009 — 31 December 2059
Age of Titan - Digital Entertainment Software V1.2.3 (泰坦戰爭數字娛樂軟件V1.2.3)	Fuzhou Tianmeng	PRC	2011SR013683	6 December 2010 — 31 December 2060
Galaxy Online II - Digital Entertainment Software V1.0 (星際文明II online 數字娛樂軟件V1.0)	Fuzhou Tianmeng	PRC	2011SR014851	8 August 2010 — 31 December 2060
I am Monster - Interactive Digital Entertainment Software V1.0 (我是大魔王-互動版數字娛樂軟件V1.0.0)	Fuzhou Tianmeng	PRC	2011SR024015	20 December 2010 — 31 December 2060
Doomsday Defense - Game and Entertainment Software V1.0 (末日防守遊戲娛樂軟件V1.0)	Fuzhou Tianmeng	PRC	2011SR024009	27 November 2010 — 31 December 2060

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<b>Name of Computer Software</b>	<b>Registrant</b>	<b>Place of Registration</b>	<b>Registration Number</b>	<b>Effective Period</b>
Texas HodEm Poker - Deluxe - Game Software V1.0 (德州撲克遊戲軟件V1.0)	Fuzhou Tianmeng	PRC	2011SR035816	1 April 2010 — 31 December 2060
Omaha Poker - Game Software V1.0 (奧馬哈撲克遊戲軟件V1.0)	Fuzhou Tianmeng	PRC	2011SR034750	1 August 2010 — 31 December 2060
GameGear3D - Graphics Edify Software V1.0 (GameGear3D圖形薰染軟件V1.0)	Fuzhou Tianmeng	PRC	2011SR071454	1 April 2011 — 31 December 2061
Taiwan Majiang - Game Software V1.0 (臺灣麻將遊戲軟件V1.0)	Fuzhou Tianmeng	PRC	2011SR083359	30 October 2010 — 31 December 2060
Wings of Destiny - Digital Entertainment Software V1.5 (神之翼數字娛樂遊戲軟件V1.5)	Fuzhou Tianmeng	PRC	2012SR087947	8 May 2012 — 31 December 2062
Kindoms Social - Digital Entertainment Software V1.0.1.7 (騎士王國數字娛樂軟件V1.0.1.7)	Fuzhou Tianmeng	PRC	2013SR004153	18 April 2012 — 31 December 2062
Heroes Social - Digital Entertainment Software V1.5 (英雄道數字娛樂遊戲軟件V1.6)	Fuzhou Tianmeng	PRC	2012SR137423	15 June 2012 — 31 December 2062
Dawn of Darkness - Entertainment Software V1.0.0 (暗月數字娛樂軟件V1.0.0)	Fuzhou Tianmeng	PRC	2013SR002619	1 September 2012 — 31 December 2062
Hot Blood Rome - Digital Entertainment Software V1.0 (熱血羅馬數字娛樂軟件V1.0)	Fuzhou Tianji	PRC	2010SR059405	8 Agust 2008 — 31 December 2058
Perfect Poker Live (德州撲克至尊版)	Fuzhou Tianji	PRC	2012SR018425	18 December 2011 — 31 December 2061
Dawn Of Darkness — Game Software V1.0.0 (暗月遊戲軟件V1.0.0)	Fuzhou Tianji	PRC	2013SR098921	11 September 2013 — 31 December 2063
Heroes & Monsters — Game Software V2.8.1 (英雄與怪獸遊戲軟件V2.8.1)	Fuzhou Tianji	PRC	2013SR099717	12 September 2013 — 31 December 2063

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<b>Name of Computer Software</b>	<b>Registrant</b>	<b>Place of Registration</b>	<b>Registration Number</b>	<b>Effective Period</b>
Slot Machines By IGG — Game Software V1.3.4 (老虎機遊戲軟件V1.3.4)	Fuzhou Tianji	PRC	2013SR099825	12 September 2013 — 31 December 2063
Galaxy Online 2S — Game Software V1.3.4 (星際文明 2S遊戲軟件V1.3.4)	Fuzhou Tianji	PRC	2013SR098781	11 September 2013 — 31 December 2063
Clash Of Lords — Game Software V1.0.1 (領主之戰遊戲軟件V1.0.1)	Fuzhou Tianji	PRC	2013SR098772	11 September 2013 — 31 December 2063
Castle Clash — Game Software V1.0.1 (城堡爭霸遊戲軟件V1.0.1)	Fuzhou Tianji	PRC	2013SR098720	11 September 2013 — 31 December 2063

As at Latest Practicable Date, our Group are the registered owner of the following copyrights in the Singapore which, in the opinion of our Directors, are material to our business:

<b>Description</b>	<b>Owner</b>	<b>Place of Ownership</b>	<b>Effective Period</b>
Godswar Non-Chinese Version (眾神之戰非中文版)	IGG Singapore	Singapore	1 January 2010 — 31 December 2057
Galaxy Online Non-Chinese Version (星際文明非中文版)	IGG Singapore	Singapore	1 January 2010 — 31 December 2057
100 Years’War Online Non-Chinese version (百年戰爭非中文版)	IGG Singapore	Singapore	1 January 2010 — 31 December 2057
Galaxy Online II Non-Chinese Version (星際文明II娛樂軟件V1.0非中文簡體版)	IGG Singapore	Singapore	1 January 2011 — 31 December 2060
Wings of Destiny - Digital Entertainment Software V1.5 Non-Chinese Version (神之翼數字娛樂遊戲軟件V1.5非中文簡體版)	IGG Singapore	Singapore	18 March 2013 — 31 December 2063

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<b>Description</b>	<b>Owner</b>	<b>Place of Ownership</b>	<b>Effective Period</b>
Texas HoldEM Poker - Deluxe Game Software V1.2.3 Non-Chinese Version (德州撲克至尊版數字娛樂軟件V1.2.3非中文簡體版)	IGG Singapore	Singapore	18 March 2013 — 31 December 2063
Lords Online Non-Chinese Version (Lords Online非中文簡體版)	IGG Singapore	Singapore	1 January 2010 — 31 December 2060
Age of Titan Non-Chinese Version (泰坦戰爭非中文簡體版)	IGG Singapore	Singapore	1 January 2010 — 31 December 2060
Moonlight Online Non-Chinese Version (暮光非中文簡體版)	IGG Singapore	Singapore	21 September 2009 — 31 December 2059
Dreamland Online Non-Chinese Version (夢想島非中文版)	IGG Singapore	Singapore	17 December 2010 — 31 December 2059
Fish Isle Non-Chinese Version (魚塘非中文簡體版)	IGG Singapore	Singapore	6 January 2010 — 31 December 2060
Crazy Pirate Non-Chinese Version (瘋狂海盜非中文簡體版)	IGG Singapore	Singapore	1 January 2010 — 31 December 2060
I am Monster Non-Chinese Version (我是大魔王非中文簡體版)	IGG Singapore	Singapore	1 January 2010 — 31 December 2060
Perfect Poker Live Non-Chinese Version (德州撲克非中文簡體版)	IGG Singapore	Singapore	31 October 2010 — 31 December 2061
Doomsday Defense Non-Chinese Version (末日防守非中文簡體版)	IGG Singapore	Singapore	6 January 2010 — 31 December 2060

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As at the Latest Practicable Date, our Group are the registered owner of the following certificates of copyrights in the PRC which, in the opinion of our Directors, are material to our business:

Name of Works	Registrant	Place of Registration	Registration Number	Effective Period
	IGG HK	PRC	2008-F-011282	19 June 2008 — 31 December 2058
	Fuzhou Tianmeng	PRC	13-2008-F-0283	14 April 2008 — 31 December 2058
	Fuzhou Tianmeng	PRC	13-2008-F-0284	14 April 2008 — 31 December 2058
	Fuzhou Tianmeng	PRC	13-2008-F-1218	10 October 2008 — 31 December 2058
	Fuzhou Tianmeng	PRC	13-2008-F-1217	10 October 2008 — 31 December 2058
	Fuzhou Tianmeng	PRC	13-2009-F-0203	11 March 2009 — 31 December 2059
	Fuzhou Tianmeng	PRC	13-2009-F-0571	8 May 2009 — 31 December 2059
	Fuzhou Tianmeng	PRC	13-2009-F-0572	8 May 2009 — 31 December 2059
	Fuzhou Tianmeng	PRC	13-2010-F-0190	26 January 2010 — 31 December 2060

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Name of Works	Registrant	Place of Registration	Registration Number	Effective Period
	Fuzhou Tianmeng	PRC	13-2010-F-0188	26 January 2010 — 31 December 2060
	Fuzhou Tianmeng	PRC	13-2010-F-0189	26 January 2010 — 31 December 2060
	Fuzhou Tianmeng	PRC	13-2010-F-0212	3 February 2010 — 31 December 2060
	Fuzhou Tianmeng	PRC	13-2010-F-0213	3 February 2010 — 31 December 2060
	Fuzhou Tianmeng	PRC	13-2010-F-1327	30 June 2010 — 31 December 2060
	Fuzhou Tianmeng	PRC	13-2010-F-1328	30 June 2010 — 31 December 2060
	Fuzhou Tianmeng	PRC	13-2010-F-1329	30 June 2010 — 31 December 2060
	Fuzhou Tianmeng	PRC	13-2010-F-1330	30 June 2010 — 31 December 2060



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*Domain Names*

As at the Latest Practicable Date, our Group are the registered owner of the following domain names which, in the opinion of our Directors, are material to our business:

<b>Registrant</b>	<b>Domain Name</b>	<b>Date of Registration</b>	<b>Date of Expiry</b>
IGG Singapore	igg.com (Note 1)	13 January 1996	2 February 2018
IGG Singapore	iggcn.com	29 June 2007	29 June 2015
IGG Singapore	9458.com	22 April 2003	22 April 2015
Fuzhou Tianmeng	众神之战.com	6 April 2007	6 April 2014
IGG Singapore	godswar.net	6 April 2007	6 April 2014
IGG Singapore	godswaronline.com	26 February 2007	26 February 2015
Fuzhou Tianmeng	176.com	5 May 1998	4 May 2016
IGG Singapore	skyunion.com	30 September 2005	1 October 2015
IGG Singapore	talesofpirates.com	8 February 2007	8 February 2014
Fuzhou Tianmeng	星际文明.net	25 November 2008	25 November 2013
Fuzhou Tianmeng	skyunion.com.cn	1 October 2005	1 October 2013

*Note:* This domain name was originally acquired by our Group from [●] on 21 February 2006.

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3. Further Information about our Group’s PRC Subsidiaries

(a) *Fuzhou Tianji*

Nature of the company	Wholly foreign-owned enterprise
Term of business operation	From 15 November 2007 to 14 November 2027
Registered capital	US\$5.0 million
Attributable interest of our Company	100%
Scope of business	Design and manufacture of the computer hardwares, softwares and peripheral devices, sales of self-manufactured products and provision of relevant technical services; provision of solutions and technical support to e-commerce and information services which apply cable and wireless network; provisions of system integration services and relevant maintenance, maintenance service, technology consulting, training and relevant services; provision of corporate management consulting (business operation subject to the licensed scope of business during the effective period in relation to projects that need administrative approval)
Legal representative	Mr. Zongjian Cai

(b) *Fuzhou Tianjie*

Nature of the company	Limited liability company (wholly owned by a foreign invested enterprise)
Term of business operation	From 3 June 2008 to 2 June 2018
Registered capital	RMB1.0 million
Attributable interest of our Company	100%

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Scope of business	Design of computer hardwares, softwares and system integrations relevant technical support, technical services of data base; wholesales and distributions of computer hardwares, softwares and accessory devices; manufacture of 3D films and animation; corporate management consulting; design, production and release of national ads; direct sales and distributions of export and import of certain commodities and technology, excluding commodities and technology restricted by company or forbid to export and import in the PRC (license to be obtained for business that needs administrative license)
Legal representative	Mr. Zhixiang Chen
(c) <i>Fuzhou Tianmeng</i>	
Nature of the company	Limited liability company
Term of business operation	From 12 December 2006 to 11 December 2016
Registered capital	RMB10.0 million
Attributable interest of our Company	100%
Scope of business	Design, sales and services of computer softwares; design, consulting, transfer and services of computer hardwares and peripheral devices; corporate management consulting; technical services of database; sales of electronic computer hardwares, softwares and peripheral devices; computer system integrations, application services and relevant technical services; e-commerce consulting; design of 3D animation; design, produce, distribute and release of national ads; sales of groceries, luggage, clothes, shoes and hats, stationery products and toys; direct sales and distributions of export and import of certain commodities and technology, excluding commodities and technology restricted by company or forbid to export and import in the PRC (license to be obtained for business that needs administrative license)
Legal representative	Mr. Zongjian Cai

OTHER INFORMATION

**1. The Deed of Indemnity dated 16 September 2013**

Our [●] have, under the Deed of Indemnity referred to in paragraph (dd) of the sub-section headed “[●]” in this Appendix, given joint and several indemnities to our Company for itself and as trustee for its subsidiaries in connection with, among other things, (a) any estate duty, death duty, inheritance tax, succession duty or any other similar tax or duty which is or becomes payable by any members of our Group by the operation of any estate duty, death duty, inheritance tax, succession duty or any other similar legislation in any relevant jurisdiction outside Hong Kong as a result or in consequence of any event or transaction occurring on or before the Relevant Date (as defined below); (b) any Hong Kong estate duty which is or becomes payable by any member of our Group by the operation of the provisions of sections 34 to 45 (inclusive) of the Estate Duty Ordinance as a result of the death of any individual who has before death made a relevant transfer to any member of our Group, (c) any claim in relation to any social insurance issues encountered by our Company or any of our Group members; or (d) any non-compliance with any applicable laws and regulations by our Company and any of our Group member prior to the [●] or any litigation, arbitration or claim of material importance against our Company and any of our Group member in relation to any matter, event or incident occurred prior to the [●].

Our [●] will however, not be liable under the Deed of Indemnity for taxation claim or liability to the extent that:

- (a) to the extent that provision, reserve or allowance has been made for such taxation in the audited combined accounts of our Group as set out in the accountants’ report set out in Appendix I to the [●] or in the audited accounts of the relevant members of our Group for the two financial years ended 31 December 2012 and five months ended 31 May 2013;
- (b) for which any member of our Group is liable as a result of any event occurring or income, profits or gains earned, accrued or received or alleged to have been earned, accrued or received or transactions entered into in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after the date on which the [●] becomes unconditional;
- (c) to the extent that such taxation or liability would not have arisen but for any act or omission by any member of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) voluntarily effected without the prior written consent or agreement of the indemnifiers, otherwise than in the ordinary course of business after the date on which the [●] becomes unconditional or carried out, made or entered into pursuant to a legally binding commitment created after the date on which the [●] becomes unconditional (the “Relevant Date”);

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- (d) to the extent that such taxation or liability is discharged by another person who is not our Company or a member of our Group and that our Company or such member of our Group is not required to reimburse such person in respect of the discharge of the taxation or liability; and
- (e) to the extent that such claim arises or is incurred as a consequence of any retrospective change in the law or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or the tax authorities or any other authority in any part of the world coming into force after the date on which the [●] becomes unconditional or to the extent such claim arises or is increased by an increase in the rates of taxation after the date on which the [●] becomes unconditional with retrospective effect.

**2. Litigation**

Save as disclosed in this document, as at the Latest Practicable Date, neither our Company nor any of our subsidiaries is engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened by or against our Company, that would have a material adverse effect on our results of operations or financial condition.

**3. Promoters**

The Company has no promoter.

**4. No Material Adverse Change**

The Directors confirm that there has been no material adverse change in their financial or trading position or prospects since 31 May 2013 (being the date to which our Company’s latest audited combined financial statements were made up).