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

**(Stock Code: 799)**

## **ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019**

The board of directors (the “**Board**”) of IGG Inc (the “**Company**”) hereby announces the audited results of the Company and its subsidiaries for the year ended 31 December 2019. This announcement, containing the full text of the 2019 annual report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) in relation to information to accompany preliminary announcements of annual results.

Both the English and Chinese versions of this results announcement are available on the websites of the Company ([www.igg.com](http://www.igg.com)) and the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)).

The 2019 annual report of the Company will be published on the websites of the Company ([www.igg.com](http://www.igg.com)) and the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) and will be despatched to the shareholders of the Company in due course.

By order of the Board  
**IGG INC**  
**Zongjian Cai**  
*Chairman*

Hong Kong, 4 March 2020

*As at the date of this announcement, the Board comprises five executive Directors, namely, Mr. Zongjian Cai, Mr. Yuan Xu, Mr. Hong Zhang, Ms. Jessie Shen and Mr. Feng Chen; one non-executive Director, namely, Mr. Yuan Chi; and three independent non-executive Directors, namely, Dr. Horn Kee Leong, Mr. Dajian Yu and Ms. Zhao Lu.*

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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. Zongjian Cai (*Chairman and chief executive officer*)

Mr. Yuan Xu

Mr. Hong Zhang

Ms. Jessie Shen

Mr. Feng Chen

### Non-executive Director

Mr. Yuan Chi

### Independent Non-executive Directors

Dr. Horn Kee Leong

Mr. Dajian Yu

Ms. Zhao Lu

## BOARD COMMITTEES

### *Audit Committee*

Dr. Horn Kee Leong (*Chairman*)

Mr. Dajian Yu

Ms. Zhao Lu

### *Nomination Committee*

Dr. Horn Kee Leong (*Chairman*)

Mr. Zongjian Cai

Mr. Dajian Yu

Ms. Zhao Lu

### *Remuneration Committee*

Ms. Zhao Lu (*Chairman*)

Mr. Zongjian Cai

Mr. Dajian Yu

## JOINT COMPANY SECRETARIES

Ms. Jessie Shen

Ms. Yin Ping Yvonne Kwong (*a fellow of The Hong Kong Institute of Chartered Secretaries*)

## AUTHORISED REPRESENTATIVES

Mr. Zongjian Cai

Ms. Jessie Shen

Ms. Yin Ping Yvonne Kwong

## REGISTERED OFFICE

P.O. Box 31119, Grand Pavilion, Hibiscus Way

802 West Bay Road, Grand Cayman

KY1-1205 Cayman Islands

## HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN SINGAPORE

80 Pasir Panjang Road

#18-84 Mapletree Business City

Singapore 117372

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40th Floor, Sunlight Tower

No. 248 Queen's Road East

Wanchai

Hong Kong

## AUDITOR

KPMG

(*Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance*)

## LEGAL ADVISER AS TO HONG KONG LAWS

Jingtian & Gongcheng LLP

# CORPORATE INFORMATION

## LEGAL ADVISER AS TO PRC LAWS

Jingtian & Gongcheng

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited  
Royal Bank House – 3rd Floor, 24 Shedden Road  
P.O. Box 1586, Grand Cayman, KY1-1110  
Cayman Islands

## HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited  
Shops 1712 – 1716, 17th Floor, Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong

## COMPANY WEBSITE

[www.igg.com](http://www.igg.com)

## PRINCIPAL BANKS

Citibank N.A. Singapore Branch  
Standard Chartered Bank (Singapore) Limited  
The Hongkong and Shanghai Banking Corporation Limited

## INVESTOR RELATIONS CONSULTANTS

Strategic Financial Relations Limited

## CHAIRMAN'S STATEMENT

For IGG, 2019 was both a year of challenges and breakthroughs. Although the Group did not achieve revenue and profit growth amid intensifying competition in the global mobile gaming market, the Group prioritised enhancing its development capability and product competitiveness over short-term financial metrics. During the Year, the Group continued to invest in R&D and released multiple new games in different genres to diversify its product offerings. Over the past decade, IGG has constantly been driving progress, making continuous efforts to globalise its operations while realigning its business strategy focusing on the mobile game segment. For its efforts, the Group has continuously been recognised as one of the top 50 mobile game publishers worldwide by App Annie and PocketGamer.biz.

In addition to its core game development and operations, the Group has been closely monitoring the evolving global gaming market and investing in the mobile internet and gaming related companies with growth potential over the past few years, to further diversify the Group's revenue. Over the years, these investments have achieved outstanding performance, contributing to a 33% increase in the Group's net profit in the second half of 2019 compared to the first half of 2019.

For core game business, "Lords Mobile", the Group's flagship title, had dominated the worldwide rankings as the top-grossing mobile war strategy game for two consecutive years since its launch in 2016. As at 31 December 2019, "Lords Mobile" has amassed 270 million registered users and nearly 8.2 million monthly active users, and maintained monthly gross billing of nearly US\$50 million. During the Year, the Group organised a "Lords Fest" World Tour across 15 regions which was well received by gamers. Meanwhile, the Group actively grew its global gamer community and rapidly gained over 2 million followers on the popular social media platform, Instagram, within a few months. In addition, the Group continued to update game contents, introducing creative features such as "Guild Fest-Master Gauntlet" and "Dragon Arena". Creative game contents and innovative marketing campaigns resulted in revenue breakthroughs in Brazil, Portugal, and Mexico in 2019. "Lords Mobile" has won numerous awards since its launch in 2016, including "Top 10 Most Popular Mobile Games" at the 2019 China Game Industry Annual Conference, as well as awards from Xiaomi's mobile application platform and medias such as Beluga Global. "Castle Clash", another classic game, will soon release its biggest ever update since its launch in 2013, offering existing and new gamers a refreshing new experience.

The Group consistently adheres to a "Customer First" policy and strives to deliver creative products amid intensifying challenges from competitors. IGG released more than ten new games in 2019 and boldly ventured beyond our core expertise in strategy games into different genres such as sandbox and casual games. In 2020, with a multiplayer online battle arena (MOBA), a shooting game and casual games in the pipeline, we will launch more new titles in varied genres to further enrich our product portfolio. Furthermore, we will pay closer attention to market demands and development, and strive to deliver creative products through continuous improvement and refinement.

A novel coronavirus broke out in Wuhan, China at the end of 2019. As the coronavirus rapidly spreads to more countries and becomes an international concern, it poses challenges across various industries as well as people's livelihoods. However, in the short-term, the coronavirus outbreak is not expected to impact the mobile gaming industry as significantly compared to other industries. To shoulder our social responsibilities and offer humanitarian support, we immediately launched an assistance scheme. As at February 2020, IGG mobilised its global subsidiaries to procure and donate over 1.5 million pieces of medical masks, protective gowns and other medical supplies to front-line medical professionals and institutions in different regions.

Embracing the corporate spirit of "Innovators at Work, Gamers at Heart", IGG continued to explore and increase investment into R&D and talent development in the past year. On one hand, we continued to recruit and groom talents globally. On the other hand, we actively seek out investment opportunities targeting strong R&D teams with innovative, high-quality products to drive long-term growth. At the same time, we introduced an internal competition scheme for game development to enhance our competitive edge. Moving forward, IGG will relentlessly pursue its strategy of quality, innovation and excellence to create innovative yet classic games.

*Zongjian Cai*  
**Chairman and Executive Director**

4 March 2020

# MANAGEMENT DISCUSSION AND ANALYSIS

## GLOBAL PRESENCE

Established in 2006, IGG is a renowned developer and publisher of mobile games with a strong global presence and an international customer base of approximately 740 million registered users. Leveraging its success in client-based and browser online games, the Group changed its strategy to target the mobile games market in 2013. Over the past years, the Group has developed a wide range of popular mobile games available in 24 languages which have garnered critical acclaim and won prestigious awards. Embracing our corporate spirit of “Innovators at Work, Gamers at Heart”, the Group is dedicated to creating high-quality and enjoyable games that will stand the test of time.

IGG is headquartered in Singapore with regional offices in the United States, China, Canada, Japan, South Korea, Thailand, Belarus, the Philippines, the United Arab Emirates, Indonesia, Brazil, Turkey, Italy and Spain. The Group has users from more than 200 countries and regions worldwide. Over the years, IGG has aggressively pursued a strategy of globalisation in R&D and operations, establishing long-term relationships with more than 100 business partners, including art studios, advertising channels, as well as global platforms such as Apple, Google, Amazon, and Microsoft. The Group’s international presence and partnerships have enhanced its competitive advantage in the industry.

In 2019, the Group continued to receive recognitions from both the gaming industry and the capital market. IGG has been listed by App Annie as one of the “Top 52 Publishers” for five consecutive years. The Group has also been selected as one of the “Best Under A Billion” companies by Forbes Asia for two consecutive years. Furthermore, IGG has been named by PocketGamer.biz as one of the “Top 50 Mobile Game Makers” for five consecutive years, and was ranked 30th in 2019.

## BUSINESS REVIEW

During the Year, the Group recorded total revenue of US\$667.6 million, a decline of 11% year-on-year. Although the decrease was mainly due to a natural drop in revenue from “Lords Mobile”, the long-running flagship title still delivered strong average monthly gross billing at nearly US\$50 million. As at December 2019, IGG maintained its position as one of the top 5 game developers in overseas market. Meanwhile, the Group boldly ventured into and released games in different genres to diversify its product portfolio in 2019. For profitability, IGG recorded a net profit of US\$164.8 million in 2019, a decline of 13% year-on-year. Led by remarkable performance of the Group’s investments in the mobile internet and gaming related industries, net profit for the second half of 2019 reached US\$94.1 million, representing an increase of 3% compared to the second half of 2018, and an increase of 33% compared to the first half of 2019.

For IGG, 2019 was both a year of challenges and breakthroughs. In addition to continued emphasis on maintaining its competitive edge in the global market and preserving its existing core expertise, the Group took a long-term view and strengthened its R&D capabilities, cultivating talents and venturing into new genres with creativity. To further extend its global reach and strengthen its regional foothold in South America and Western Europe, the Group set up local offices in Brazil, Turkey, Italy and Spain in 2019.

# MANAGEMENT DISCUSSION AND ANALYSIS

## ***“Lords Mobile”***

“Lords Mobile”, IGG’s blockbuster title with innovative features which was released in March 2016, is the Group’s first cross-platform, multi-language, global mega-server game, and has been well-received by players since its debut, generating stable revenue for the Group. As of the end of 2019, the game has amassed 270 million registered users and nearly 8.2 million MAU worldwide, contributing a stable average monthly gross billing of nearly US\$50 million.

In 2019, the Group executed a series of marketing initiatives, including the “Lords Fest” World Tour across 15 regions and cooperating with top-tier influencers to customise an exclusive song. In addition, the Group actively grew its global gamer community and added over 2 million followers on the popular social media platform, Instagram, within a few months. In 2019, the Group continued to update game contents, following up on “Guild Fest-Master Gauntlet” with new, unique features such as “Dragon Arena” and “Lords Tales”. Creative game contents and innovative marketing campaigns led to revenue breakthroughs in Brazil, Portugal, and Mexico in 2019. As at 31 December 2019, according to App Annie’s daily grossing ranking, “Lords Mobile” was among the top five grossing games in 23 countries and regions and the top 10 in 56 countries and regions on Google Play, and among the top five grossing games in 15 countries and regions and the top 10 in 25 countries and regions on iOS. During the Year, “Lords Mobile” was selected as one of the “Top 10 Most Popular Mobile Games” at the 2019 China Game Industry Annual Conference, and also received awards from Xiaomi’s mobile application platform and medias such as Beluga Global.

## ***“Castle Clash”***

“Castle Clash” is a fast-paced tower defence game launched in 2013. After nearly seven years of operation, the game remains popular. Frequent content updates and regular addition of new features successfully sustained the game’s appeal. In the near future, the biggest ever update since its launch will be released, aiming to give loyal gamers a refreshing gaming experience.

## ***New Titles***

Going beyond our expertise in the strategy games genre, we continued to invest in game development and boldly ventured into new genres to diversify our product portfolio. The Group released more than 10 new games in different genres in 2019. Following the sandbox and simulation games in the first half of 2019, the Group released a strategy game named “Galaxy Mobile”, and several casual games, including “Raids & Puzzles” and “Lost Stones” in the second half. On top of global mega-server and match-3 game features, the Group added role-playing and base-building features to give these casual games a new level of sophistication. In 2020, with a multiplayer online battle arena (MOBA) and a shooting game in the pipeline, the Group will launch more new titles in varied genres to further enrich its product portfolio.

# MANAGEMENT DISCUSSION AND ANALYSIS

## PROSPECTS

Moving forward, the Group will continue to invest heavily in its R&D and operation teams. In addition to launching global talent recruitment programmes, the Group is seeking out strong R&D teams with innovative, high-quality products worldwide to explore investment opportunities and further drive long-term growth. Embracing the corporate spirit of “Innovators at Work, Gamers at Heart”, IGG will relentlessly pursue its strategy of quality, innovation and excellence to create innovative yet classic games.

In addition, the Group continues to seek partnership and acquisition opportunities in the mobile internet and gaming related industries that will create synergy effects into the existing business.

## KEY FINANCIAL INFORMATION

	Year ended 31 December	
	2019	2018
	US\$' 000	US\$' 000
Revenue	<b>667,648</b>	748,785
Profit for the year	<b>164,782</b>	189,311
Profit for the year attributable to equity shareholders of the Company	<b>164,794</b>	189,177
Adjusted net income*	<b>168,704</b>	194,083

\* Adjusted net income represents profit excluding share-based compensation. It is considered a useful supplement to the consolidated statement of profit or loss indicating the Group's profitability and operational performance for the financial period presented.



# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

### Revenue

The Group's revenue for the year ended 31 December 2019 was US\$667.6 million, representing a decrease of 11% compared to US\$748.8 million for the year ended 31 December 2018. Although the decrease was mainly due to the natural drop in revenue from "Lords Mobile", the long-running flagship title still delivered strong average monthly gross billing at nearly US\$50 million.

#### *Revenue by games*

The following table sets forth a breakdown of the Group's revenue by games for the years ended 31 December 2019 and 2018, respectively:

	Year ended 31 December			
	2019		2018	
	US\$' 000	%	US\$' 000	%
"Lords Mobile"	539,011	80.7	599,910	80.1
"Castle Clash"	75,850	11.4	110,186	14.7
Others	52,787	7.9	38,689	5.2
<b>Total</b>	<b>667,648</b>	<b>100.0</b>	<b>748,785</b>	<b>100.0</b>

# MANAGEMENT DISCUSSION AND ANALYSIS

## Cost of revenue

The Group's cost of revenue for the year ended 31 December 2019 was US\$204.9 million, representing a decrease of 9% compared to US\$225.2 million for the year ended 31 December 2018, primarily due to the decrease in channel costs as a result of lower revenue.

## Gross profit and gross profit margin

The Group's gross profit for the year ended 31 December 2019 was US\$462.8 million, representing a decrease of 12% compared to US\$523.5 million for the year ended 31 December 2018, primarily due to the natural drop in revenue from "Lords Mobile".

The Group's gross profit margin for the year ended 31 December 2019 was 69%, representing a decrease of 1% compared to 70% for the year ended 31 December 2018, primarily due to the rise in labour cost and server cost in line with new business expansion.

## Other net income

The Group's other net income for the year ended 31 December 2019 was US\$32.6 million, representing an increase of 258% compared to US\$9.1 million for the year ended 31 December 2018, primarily due to fair value gain from the Group's investments in the mobile internet and gaming related companies.

## Selling and distribution expenses

The Group's selling and distribution expenses for the year ended 31 December 2019 was US\$164.9 million, representing a decrease of 12% compared to US\$186.6 million for the year ended 31 December 2018, primarily due to the continuing budget control of marketing expenses. Selling and distribution expenses-to-revenue ratio for the year ended 31 December 2019 was kept to 25%, the same as last year.

## Administrative expenses

The Group's administrative expenses for the year ended 31 December 2019 was US\$45.5 million, representing a slight increase of 2% compared to US\$44.7 million for the year ended 31 December 2018. Administrative expenses-to-revenue ratio for the year ended 31 December 2019 was 7%, representing an increase of 1% compared to 6% of last year, primarily due to the Group's global expansion.

## Research and development expenses

The Group's research and development expenses for the year ended 31 December 2019 was US\$92.5 million, representing an increase of 45% compared to US\$63.6 million for the year ended 31 December 2018. Research and development expenses-to-revenue ratio for the year ended 31 December 2019 increased to 14% from 8% for the year ended 31 December 2018, primarily due to the investments in new R&D projects.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Income tax expenses

The Group's income tax expenses for the year ended 31 December 2019 was US\$25.2 million, representing a decrease of 46% compared to US\$47.1 million for the year ended 31 December 2018, primarily due to the decrease in profit before taxation.

The Company's subsidiary, IGG Singapore has obtained an extension of the Development and Expansion Incentive ("Incentive") from the Economic Development Board of Singapore. Under the Incentive, IGG Singapore will enjoy a concessionary tax rate of 10% on qualifying income from 2017 to 2019, and 10.5% from 2020 to 2021. Non-qualifying income is subjected to standard corporate tax rate of 17%.

## Capital expenditures

During the Year, the Group's capital expenditures were mainly related to purchases of property, plant and equipment such as the acquisition of a property in Italy, servers, computer equipment and intangible assets, such as software and trademark. Capital expenditures for the years ended 31 December 2019 and 2018 are set forth as below:

	Year ended 31 December	
	2019	2018
	US\$' 000	US\$' 000
Purchase of property, plant and equipment*	26,587	4,780
Purchase of intangible assets	632	307

\* US\$22.076 million of which was related to capital expenditure for the acquisition of Palazzo Magnani Feroni, a historical complex located in Florence, Italy (the "Property") in 2019, and the amount is included in "net cash paid for a business combination".

## Capital commitment

As at 31 December 2019, the Group had a capital commitment of approximately US\$0.2 million (31 December 2018: US\$0.9 million).

## Liquidity and capital resources and gearing ratios

As at 31 December 2019, the Group had net current assets of US\$260.3 million (31 December 2018: US\$220.2 million), and the gearing ratio of the Group, calculated as total liabilities divided by total assets, was 21.4% (31 December 2018: 29.6%).

As at 31 December 2019, the Group had cash and cash equivalents of US\$307.1 million (31 December 2018: US\$287.5 million).

The Group did not have any bank borrowings or other financing facilities as at 31 December 2019 (31 December 2018: nil).

# MANAGEMENT DISCUSSION AND ANALYSIS

The table below sets forth selected cash flow data from our consolidated statement of cash flows:

	Year ended 31 December	
	2019	2018
	US\$' 000	US\$' 000
Net cash generated from operating activities	126,942	239,224
Net cash used in investing activities	(29,163)	(41,023)
Net cash used in financing activities	(78,096)	(131,567)
	<hr/>	<hr/>
<b>Net change in cash and cash equivalents</b>	<b>19,683</b>	<b>66,634</b>
Cash and cash equivalents at 1 January	287,547	221,892
Effect of foreign exchange rate changes	(144)	(979)
	<hr/>	<hr/>
<b>Cash and cash equivalents at 31 December</b>	<b>307,086</b>	<b>287,547</b>

## Operating activities

Net cash generated from operating activities was US\$126.9 million for the year ended 31 December 2019, compared to US\$239.2 million for the year ended 31 December 2018. The decrease in net cash generated from operating activities was primarily due to i) the decrease in operating profit; and ii) the timing difference for settlement of receivables and payables.

## Investing activities

Net cash used in investing activities was US\$29.2 million for the year ended 31 December 2019, primarily attributable to the acquisition of the Property in Italy as a training centre for game artists and office for European regional team. Net cash used in investing activities for the year ended 31 December 2018 was US\$41.0 million.

## Financing activities

Net cash used in financing activities was US\$78.1 million for the year ended 31 December 2019, primarily attributable to the payment of the second interim dividend for the year ended 31 December 2018 and the first interim dividend for the year ended 31 December 2019, as well as the share buy-backs made by the Company during the year ended 31 December 2019. Net cash used in financing activities for the year ended 31 December 2018 was US\$131.6 million.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Foreign currency risk

The Group's sales and purchases for the year ended 31 December 2019 were mostly denominated in USD and SGD. The management team closely monitors foreign exchange exposure to ensure that appropriate measures are implemented in a timely and effective manner. Historically, the Group has not incurred any significant foreign currency exchange loss in its operation.

## Legal compliance

As the Group is continuously expanding its businesses worldwide, it is required to comply with the new applicable laws and regulations in different jurisdictions that are specifically relevant to the Group's business, such as laws relating to data protection, internet information security, intellectual property and gaming industry.

Protecting users' personal data is the top priority of operations, and the Group is fully aware that any misuse, loss or leakage of users' data could have a negative impact on affected users and the Group's reputation, even lead to potential legal action against the Group. The Group is committed to safeguarding the security of users' personal data. In this regard, the update of privacy policy and the treatment and control measures of users' personal data form part of this commitment. When collecting and processing such data, the Group explains the purpose of the acquired data and obtains the consent of users. Users also have rights to request to modify or delete their personal data. In addition, information security is protected through effective management systems which keep the personal data anonymous to the maximum extent possible and through internal processing mechanisms of data management, separation of access and access restrictions which are implemented to ensure the highest level of protection of personal data.

For further details, please refer to the section headed "Corporate Social Responsibility Report – 3.4 Privacy Protection" in this annual report.

## Dividend

The Board resolved to declare a second interim dividend of HK17.6 cents per ordinary Share (equivalent to US2.3 cents per ordinary Share). Together with the first interim dividend of HK13.0 cents per ordinary Share (equivalent to US1.7 cents per ordinary Share) paid in September 2019, the total dividends per ordinary Share for the year ended 31 December 2019 would be HK30.6 cents per ordinary Share (equivalent to US4.0 cents per ordinary Share) (the year ended 31 December 2018: the total dividends of HK34.4 cents per ordinary Share, equivalent to US4.4 cents per ordinary Share).

# MANAGEMENT DISCUSSION AND ANALYSIS

## Share repurchase

The Group had repurchased 34,594,000 Shares during the year 2019, amounting to US\$27 million. Taken into account the declared dividends of US\$49.3 million for the Year, total payment of share repurchase and declared dividends would be approximately US\$76.3 million, which was 46% of the net profit for the Year. (For the year ended 31 December 2018, the total amount paid on share repurchase and declared dividends was US\$132.5 million, representing 70% of net profit of the year 2018.)

## Human resources

As at 31 December 2019, the Group had 1,587 employees (31 December 2018: 1,421).

The Group's total staff-related costs amounted to US\$71.4 million for the year ended 31 December 2019 (the year ended 31 December 2018: US\$65.3 million).

## Significant investment

During the year ended 31 December 2019, the Group did not hold any significant investment in equity interest in any other company (the year ended 31 December 2018: nil).

## Material acquisition and disposal of subsidiaries and associates and joint ventures

On 10 April 2019, Skyunion Hong Kong Holdings Limited, a wholly-owned subsidiary of the Company, entered into an agreement in relation to acquisition of a historical complex known as Palazzo Magnani Feroni located at Florence, Italy and the 100% issued share capital in the management company of the Property, Cedro S.r.l (the "Management Company") for a total consideration of Euro20.13 million, subject to adjustment (the "Acquisition"). The Group intends to redevelop the Property for its own uses as a training centre for art talents specialised in mobile games and its European regional office. Please refer to the announcement of the Company dated 11 April 2019 for details.

In July 2019, the Acquisition was completed. The final consideration paid by Skyunion Hong Kong Holdings Limited's designated entities in respect of the Acquisition was approximately Euro20.1 million (equivalent to approximately US\$22.6 million).

Save and except for disclosed above, the Group did not have any material acquisitions or disposals of subsidiaries, associates and joint ventures during the Year (the year ended 31 December 2018: nil).

## Charges on assets

As at 31 December 2019, no asset of the Group was pledged as a security for bank borrowing or any other financing activities (31 December 2018: nil).

## Contingent liabilities

The Group had no significant contingent liabilities as at 31 December 2019 (31 December 2018: nil).

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## DIRECTORS

### Executive Directors

**Mr. Zongjian Cai (蔡宗建)**, aged 42, was appointed as an executive Director of the Company on 31 October 2007 and is the chairman of the Board and chief executive officer of the Group. Mr. Cai is one of the founders of the Group and is primarily responsible for the corporate strategic planning and overall business development of the Group. Mr. Cai also acts as a director of the Company's subsidiary, Skyunion Hong Kong Holdings Limited. Mr. Cai has approximately 20 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 and piloted the development of 17173.com. Mr. Cai also worked as the chief executive officer of 17173.com, which was 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 Xu (許元)**, aged 45, was appointed as an executive Director of the Company on 21 August 2015 and is the Group's chief operating officer. Mr. Xu has approximately 20 years of experience in corporate management. He joined the Group in September 2007 and is primarily responsible for global operation strategies of the Group. Prior to joining the 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 48, was appointed as an executive Director on 21 August 2015 and is the Group's chief technology officer and senior vice president of global operations. Mr. Zhang has approximately 23 years of experience in information technology industry. He joined the Group in December 2008 and is primarily responsible for the overall technology operation of the Group. Prior to joining the 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's degree in engineering in June 1997. He also graduated from University of California, San Francisco, with a master's degree in science in September 2000.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

**Ms. Jessie Shen (沈潔蕾)**, aged 49, was elected as an executive Director on 3 June 2016 and is the Group's chief financial officer and one of the joint company secretaries. Ms. Shen also acts as a director of IGG Taiwan Ltd., a subsidiary of the Company. Ms. Shen has approximately 23 years of experience in accounting and corporate management. She was appointed as the chief financial officer of the Group on 10 November 2014. She joined the Group in March 2009 as the senior vice president of finance and has been primarily responsible for corporate finance, accounting, legal and listing compliance matters on the Stock Exchange. Prior to joining the Group, she worked as an auditor at Diwan, Ernst & Young from July 1992 to August 1994, and a finance 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 finance and company secretary 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's degree in business administration in October 1999. Ms. Shen passed the examination of American Institute of Certified Public Accountants (AICPA), Certified Public Accountant examination in Taiwan, Certified Internal Auditor examination by the Institute of Internal Auditors, and the certification examination by Taiwan Institute of Internal Auditors\* (中華民國內部稽核協會).

**Mr. Feng Chen (陳豐)**, aged 47, was elected as an executive Director on 3 June 2016 and was one of the individual investors investing in the Company prior to the listing of the Company on the Stock Exchange in 2013. In April 2014, Mr. Chen joined the Company as the senior vice president of corporate strategy and has been responsible for leading several strategic investments made by the Company in external startups and internal incubated projects. Mr. Chen also acts as a director of the Company's joint ventures, Tap Media Technology Inc. and Chinese ABC Ltd., as well as acts as a non-executive director of XD Inc., a company listed on the Stock Exchange (Stock Code: 2400). Prior to joining the Company, from July 1996 to August 2001, Mr. Chen served as a senior design engineer at Broadcom Corporation (currently known as Broadcom Ltd.), an American fabless semiconductor company, and was responsible for the development of one of the world's first DOCSIS standard compliant cable modem chipset. From May 2002 to June 2007, Mr. Chen served various positions at NetDragon Websoft Holdings Limited (網龍網絡控股有限公司), an online game developer and operator in the PRC listed on the Stock Exchange (Stock Code: 777), including the senior vice president of overseas business development. In August 2007, Mr. Chen founded Ingle Games Ltd., a publisher that aimed at publishing MMORPG games developed by Chinese game developers in the western market, and served as the chief executive officer of Ingle Games Ltd. from August 2007 to December 2010. From March 2011 to March 2014, Mr. Chen served as the senior vice president of overseas development at 91.com, a mobile internet distribution platform in the PRC. Mr. Chen graduated from University of California, Los Angeles with a Master of Science Degree in electrical engineering in 1995.



# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## Non-executive Director

**Mr. Yuan Chi (池元)**, aged 63, was redesignated as a non-executive Director on 21 August 2015. Mr. Chi is one of the founders of the Group and also acts as a director of the Company's subsidiary, Skyunion Hong Kong Holdings Limited. Mr. Chi has approximately 22 years of experience in the information technology industry. Prior to joining the 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. Mr. Chi graduated from Fuzhou University (福州大學) with a bachelor's degree in water resources and hydropower engineering in July 1982 and a master's degree in hydraulic structure in March 1990.

## Independent Non-executive Directors

**Dr. Horn Kee Leong (梁漢基)**, aged 68, was appointed as an independent non-executive Director on 16 September 2013. Dr. Leong is currently the chairman of CapitalCorp Partners Private Limited. He has been Singapore's Non-resident High Commissioner to Cyprus since July 2014. 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 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 currently holds or held directorships in the following listed companies in the past three years preceding the date of this annual report:

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Period	Name of company	Position
8 January 2019 - present	ESR Funds Management (S) Limited, which is the management company of ESR-REIT listed on Singapore Stock Exchange	Independent non-executive director
28 July 2018 - present	CSC Holding Limited, listed on Singapore Stock Exchange	Independent non-executive chairman
10 June 2013 - present	SPH Reit Management Pte Ltd, which is the management company of SPH Reit listed on Singapore Stock Exchange	Chairman of the board
10 October 2013 - 7 February 2019	VIVA Industrial Trust Management Pte Ltd, which is the management company of Viva Industrial Trust listed on Singapore Stock Exchange	Chairman of the board
19 January 2001 - 20 July 2018	Tat Hong Holdings Ltd, listed on Singapore Stock Exchange	Chairman of the board, Independent non-executive director

Dr. Leong graduated from Loughborough University with a bachelor's degree of technology in production engineering and management in July 1975. He completed distance learning and obtained a bachelor's degree of science in economics from University of London in August 1979 and he also finished part-time study and obtained a bachelor's 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's degree of business administration in 1980 and he also finished part time study and obtained a master's 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.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

**Mr. Dajian Yu (余大堅)**, aged 71, was appointed as an independent non-executive Director on 16 September 2013. Mr. Yu has over 19 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 president of Silicon Valley China Venture Management LLC and the director of several portfolio companies, Kinetic Technologies, Consensic International Inc., and Tricopian, LLC. 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 52, 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) and also serves as the general manager to Fuzhou Lingdong Network Science and Technology Co., Ltd.\* (福州靈動網絡科技有限公司). Ms. Lu was the vice president of Amphenol AssembleTech (Ningde) Co., Ltd.\* (安費諾(寧德)電子有限公司) from September 2016 to October 2018. She was the general manager of Fuzhou Lingdong Network Science and Technology Co., Ltd.\* (福州靈動網絡有限公司) 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's degree in communication in July 1989.

### SENIOR MANAGEMENT

Mr. Zongjian Cai, Mr. Yuan Xu, Mr. Hong Zhang, Ms. Jessie Shen and Mr. Feng Chen are also members of senior management. Please refer to their biography details in the subsection headed "Executive Directors" above.

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE CODE

The Company is committed to the establishment of good corporate governance practices and procedures with a view towards being a transparent and responsible organisation which is open and accountable to the Shareholders. The Board strives to adhere to the principles of corporate governance and has adopted sound corporate governance practices to meet the legal and commercial standards, while focusing on areas such as internal control and risk management, as well as fair disclosure and accountability to all Shareholders to ensure the transparency and accountability of all operations of the Company.

The Company believes that effective corporate governance is essential to create more value for its Shareholders. The Board will continue to review and improve the corporate governance practices of the Group from time to time to ensure that the Group is led by an effective Board in order to optimize return for Shareholders.

The Company is committed to maintaining high standards of corporate governance in the best interests of Shareholders. During the year ended 31 December 2019, except for the deviation from code provision A.2.1 of the Corporate Governance Code, the Company has complied with the code provisions of the Corporate Governance Code.

Under code provision A.2.1 of the Corporate Governance Code, the roles of the chairman and chief executive officer should be separate and should not be performed by the same individual. The Group does not at present separate the roles of the chairman and chief executive officer. Mr. Zongjian Cai is the chairman and chief executive officer of the Group. He has extensive experience in online game industry and is responsible for the overall corporate strategic planning and business development of the Group. The Board considers that vesting the roles of chairman and chief executive officer in the same individual is beneficial to the business prospects and management of the Group. In addition, the balance of power and authorities is ensured by the operation of the Board, which comprises experienced and high caliber individuals. The Board currently comprises five executive Directors, one non-executive Director and three independent non-executive Directors.

# CORPORATE GOVERNANCE REPORT

## BOARD OF DIRECTORS

The overall management of the Company's operation is vested in the Board. The Board takes overall responsibilities to oversee all major matters of the Group, including the formulation and approval of all policy matters, overall strategic development of the Group, monitoring and controlling the Group's operation and financial performance, internal control and risk management systems, and monitoring of the performance of the senior management of the Group. The Directors have to make decisions objectively in the interests of the Company.

The day-to-day management, administration and operation of the Company are delegated to the chief executive officer and the senior management of the Company. The delegated functions and work tasks are periodically reviewed.

The Board currently comprises nine Directors, consisting of five executive Directors, Mr. Zongjian Cai (the chairman of the Board), Mr. Yuan Xu, Mr. Hong Zhang, Ms. Jessie Shen and Mr. Feng Chen, one non-executive Director, Mr. Yuan Chi, and three independent non-executive Directors, Dr. Horn Kee Leong, Mr. Dajian Yu and Ms. Zhao Lu. All Directors have given sufficient time and attention to the affairs of the Group. Each executive Director is suitably qualified for his/her position, and has sufficient experience to hold the position so as to carry out his/her duties effectively and efficiently.

To the best knowledge of the Company, there is no other financial, business or family relationship among the members of the Board. The biographical details of the Directors are set out in the section headed "Biographical Details of Directors and Senior Management" of this annual report.

During the year ended 31 December 2019, the Company has complied with Rule 3.10(1) of the Listing Rules to appoint at least three independent non-executive Directors. In addition, at least one independent non-executive Director possesses appropriate professional accounting qualifications or financial management expertise in accordance with Rule 3.10(2) of the Listing Rules. The Company has appointed three independent non-executive Directors representing one-third of the Board and is in compliance with Rule 3.10A of the Listing Rules.

### **Board Diversity Policy**

Pursuant to the Corporate Governance Code, the Board adopted a board diversity policy on 19 September 2013 which was subsequently updated on 29 December 2018. The diversity policy sets out the basic principles to ensure that the Board has the requisite knowledge of the Company and experience in different business and cultural conditions of different regions and markets and a variety of perspectives necessary to maintain and enhance the overall effectiveness of the Board and taking account of succession planning. All Board appointments will continue to be made on a merit basis based on the Group's business needs from time to time while taking into account the benefit of diversity. The Company will ensure that the Board has a balance of skills, experience and

# CORPORATE GOVERNANCE REPORT

diversity of perspectives necessary to enhance the effectiveness of the Board and to maintain high standards of corporate governance. Selection of board candidates will be based on a range of factors with reference to the Company's business needs, including but not limited to age, gender, nationality, educational background, industry and professional experience. The nomination committee of the Board will select board members in accordance with the Company's nomination policy and will also give consideration to the board diversity policy. The Nomination Committee will review the board diversity policy at least annually to ensure its continued effectiveness.

Taking into account the nature and scope of the Group's business, the Nomination Committee is of the opinion that the current Board has a strong element of independence and is well-balanced in terms of gender, age, professional experience, skills and knowledge; and that the current composition and size of the Board is appropriate and adequate.

## **Model Code**

During the year ended 31 December 2019, the Company has also adopted the Model Code as its code of conduct regarding securities transactions by the Directors. Having made specific enquiry with all Directors, all Directors confirmed that they have complied with the required standards set out in the Model Code regarding directors' securities transactions during the year ended 31 December 2019.

## **Independent Non-Executive Directors**

Independent non-executive Directors have played a significant role in the Board by bringing their independent judgment at Board meetings and scrutinizing the Group's performance. Their views carry significant weight in the Board's decisions, in particular, they bring an impartial view to bear on issues of the Group's strategy, performance and control. All independent non-executive Directors possess extensive academic, professional and industry expertise and management experience and have provided their professional advices to the Board. The independent non-executive Directors provide independent advice on the Group's business strategy, results and management so that all interests of Shareholders can be taken into account, and the interests of the Company and its Shareholders can be protected.

The Board has three independent non-executive Directors with one of the independent non-executive Directors, Dr. Horn Kee Leong, possessing appropriate professional accounting qualifications and financial management expertise in compliance with the requirements set out in Rule 3.10(2) of the Listing Rules.

The Company has received annual confirmations of independence from each of the existing independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. Based on the contents of such confirmations, the Company considers that all the independent non-executive Directors are independent and that they have met the specific independence guidelines as set out in Rule 3.13 of the Listing Rules during the year ended 31 December 2019.

# CORPORATE GOVERNANCE REPORT

## Training and Support for Directors

All Directors must keep abreast of their collective responsibilities. Any newly appointed Director would receive an induction package covering the Group's operations, businesses, governance policies and the statutory regulatory obligations and responsibilities of a director of a listed company. The Directors have been informed of the requirement under code provision A.6.5 of the Corporate Governance Code regarding continuous professional development. According to the records maintained by the Company, the current Directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the requirement of the Corporate Governance Code on continuous professional development for the year ended 31 December 2019:

Name of Director	Corporate Governance/Updates on Laws, Rules and Regulations		Accounting/Financial/ Management or Other Professional Skills	
	Read Materials	Attend Seminars/ Briefings	Read Materials	Attend Seminars/ Briefings
<i>Executive Directors</i>				
Mr. Zongjian Cai	√	√	√	√
Mr. Yuan Xu	√	√	√	√
Mr. Hong Zhang	√	√	√	√
Ms. Jessie Shen	√	√	√	√
Mr. Feng Chen	√	√	√	√
<i>Non-executive Director</i>				
Mr. Yuan Chi	√	√	√	√
<i>Independent non-executive Directors</i>				
Dr. Horn Kee Leong	√	√	√	√
Mr. Dajian Yu	√	√	√	√
Ms. Zhao Lu	√	√	√	√

## Directors' and Officers' Insurance

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and officers.

# CORPORATE GOVERNANCE REPORT

## Dividend Policy

The Board adopted the dividend policy on 29 December 2018 in order to enhance transparency of the Company and facilitate shareholders and investors to make informed investment decision. The Board is committed to provide sustained dividends to the Shareholders, and the dividend policy sets the foundation to determine a prudent and disciplined dividend payment to shareholders while preserving the Company's liquidity to capture future growth opportunities. The Board will determine the level of dividends after considering the factors of the Company including (i) the results of operations, (ii) cash flows, (iii) future prospects, (iv) financial condition, (v) economic and political conditions of the business environment, (vi) share buy-back and (vii) the statutory and regulatory restrictions on the payment of dividends and other factors as may be considered relevant by the Board. The Board will from time to time review the dividend policy as appropriate to ensure its continued effectiveness. The Board will also continue to consider the return of capital to the Shareholders through share buy-back as an opportunity to enhance earnings per share.

## Meetings

The Board meets to discuss the overall strategy as well as the operation and financial performance of the Group from time to time. Directors may participate either in person or through electronic means of communications. During the year ended 31 December 2019, nine meetings of the Board and one general meeting were held.

The individual attendance record of each Director at the meetings of the Board and the general meeting of the Company during the year ended 31 December 2019 is set out below:

Name of Director	Attendance/ Number of Board Meetings eligible to attend	Attendance/ Number of General Meeting eligible to attend
<i>Executive Directors</i>		
Mr. Zongjian Cai ( <i>Chairman and chief executive officer</i> )	9/9	1/1
Mr. Yuan Xu	9/9	1/1
Mr. Hong Zhang	9/9	1/1
Ms. Jessie Shen	9/9	1/1
Mr. Feng Chen	9/9	1/1
<i>Non-executive Director</i>		
Mr. Yuan Chi	9/9	1/1
<i>Independent non-executive Directors</i>		
Dr. Horn Kee Leong	9/9	1/1
Mr. Dajian Yu	9/9	1/1
Ms. Zhao Lu	9/9	1/1



# CORPORATE GOVERNANCE REPORT

All Directors are provided with relevant materials relating to the matters brought before the meetings. They have separate and independent access to the senior management and the company secretary of the Company at all times and may seek independent professional advice at the Company's expense. Where queries are raised by Directors, steps would be taken to respond as promptly and comprehensively as possible. All Directors have the authority to include matters in the agenda for Board meetings. Notices are given to the Directors at least 14 days before Board meetings and the procedures for meetings of the Board comply with the Articles of Association, as well as relevant rules and regulations.

## **Appointments, Re-election and Removal of Directors**

Each of the executive Directors has entered into a service contract with the Company for a specific term of three years commencing from the date of the respective service contracts and will automatically continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until after the fixed term.

Each of the non-executive Director and independent non-executive Directors has entered into a service contract with the Company for a specific term of three years commencing from the date of the respective service contracts and will automatically continue for another three years thereafter until terminated by not less than two months' notice in writing served by either party on the other, which notice shall not expire until after the fixed term.

The Directors are subject to retirement by rotation and re-election at an annual general meeting of the Company at least once every three years in accordance with the Articles of Association.

The Articles of Association provide that any Director appointed by the Board to fill a casual vacancy in the Board shall hold office until the first general meeting of the Company after his/her appointment and be subject to re-election at such meeting, and any Director appointed by the Board 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. No Director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

## **Board Committees**

The Board has established (i) audit committee; (ii) remuneration committee; and (iii) nomination committee, with defined terms of reference. The terms of reference of the Board committees which explain their respective role and the authority delegated to them by the Board are available on the website of the Company at [www.igg.com](http://www.igg.com) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk). The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice and other assistance in appropriate circumstances, at the Company's expense.

# CORPORATE GOVERNANCE REPORT

## Audit Committee

The Board has established an audit committee on 5 December 2008, with written terms of reference which were amended on 29 December 2018 with reference to the changes relating to Corporate Governance Code. The primary duties of the audit committee are, among other things, to review and to supervise the financial reporting process and risk management and internal control systems of the Group. The audit committee comprises all independent non-executive Directors, namely, Dr. Horn Kee Leong (chairman of the audit committee), Mr. Dajian Yu, and Ms. Zhao Lu.

The audit committee had reviewed the Group's audited annual results for the year ended 31 December 2018 and the Group's unaudited interim results for the six months ended 30 June 2019, and was of the opinion that the preparation of the relevant financial statements complied with the applicable accounting standards and requirements and that adequate disclosure has been made. The audit committee has also reviewed the accounting principles and practices adopted by the Group, and selection and appointment of the external auditors. In addition, the audit committee reviewed the internal control systems of the Group during the year ended 31 December 2019. During the year ended 31 December 2019, the audit committee held two meetings with the external auditors without the presence of any members of management of the Company.

During the year ended 31 December 2019, three meetings were held by the audit committee. The individual attendance record of each member of the audit committee at the meetings of the audit committee is set out below:

<b>Name of Director</b>	<b>Attendance/ Number of Committee Meetings eligible to attend</b>
Dr. Horn Kee Leong	3/3
Mr. Dajian Yu	3/3
Ms. Zhao Lu	3/3

# CORPORATE GOVERNANCE REPORT

## Remuneration Committee

The Board established a remuneration committee on 5 December 2008 with written terms of reference in compliance with the Listing Rules. The primary duties of the remuneration committee are, among other things, to evaluate the performance, and to make recommendation to the Board on the remuneration package of the Directors and senior management. The remuneration committee consists of three members, namely, the independent non-executive Directors, Ms. Zhao Lu (chairman of the remuneration committee) and Mr. Dajian Yu, and the executive Director, Mr. Zongjian Cai.

For the year ended 31 December 2019, the remuneration committee surveyed peer companies' remuneration packages and reviewed the remuneration packages of the executive Directors and the senior management. The remuneration committee also reviewed granting of share options under the Share Option Scheme and granting of awarded shares under the Share Award Scheme and benefit plans to key employees.

For the year ended 31 December 2019, three meetings were held by the remuneration committee. The individual attendance record of each member of the remuneration committee at the meetings of the remuneration committee is set out below:

<b>Name of Director</b>	<b>Attendance/ Number of Committee Meetings eligible to attend</b>
Ms. Zhao Lu	3/3
Mr. Zongjian Cai	3/3
Mr. Dajian Yu	3/3

# CORPORATE GOVERNANCE REPORT

## Nomination Committee

The Board established a nomination committee on 16 September 2013 with written terms of reference in compliance with the Listing Rules. The terms of reference were amended on 29 December 2018 with reference to the changes relating to Corporate Governance Code. The primary duties of the nomination committee are, among other things, to nominate potential candidates for directorship, to review the nomination of directors, to make recommendations to the Board on terms of such appointment and review the board diversity policy. Their written terms of reference are in line with the Corporate Governance Code provisions. The nomination committee consists of four members, namely, the independent non-executive Directors, Dr. Horn Kee Leong (chairman of the nomination committee), Mr. Dajian Yu, Ms. Zhao Lu and the executive Director, Mr. Zongjian Cai.

During the year ended 31 December 2019, the nomination committee reviewed the structure, size and composition of the Board, and the nomination of candidates for directorship and made recommendations to the Board on terms of such appointment.

During the year ended 31 December 2019, one meeting was held by the nomination committee. The individual attendance record of each member of the nomination committee at the meeting of the nomination committee is set out below:

<b>Name of Director</b>	<b>Attendance/ Number of Committee Meeting eligible to attend</b>
Dr. Horn Kee Leong	1/1
Mr. Dajian Yu	1/1
Ms. Zhao Lu	1/1
Mr. Zongjian Cai	1/1

# CORPORATE GOVERNANCE REPORT

## **Nomination Policy**

Pursuant to the Corporate Governance Code, the Board adopted a nomination policy on 29 December 2018. The nomination policy provides guidelines to the nomination committee on the selection of suitable candidates for directorship. The selection criteria include but not limited to (i) reputation for integrity, (ii) commitment in respect of available time, and (iii) creativity and professional knowledge in the business operation of the Company. Board diversity will continue to be an important aspect for the nomination committee in assessing the suitability and capability of a proposed candidate to become a Board member and in making recommendations to the Board of individuals nominated for directorships. The nomination committee will also base on the aforesaid selection criteria to make recommendations to the Board on the appointment or re-appointment of Directors and when considering succession planning for the Board. The nomination committee will from time to time review the nomination policy as appropriate to ensure its continued effectiveness.

## **Corporate Governance Function**

The Company's corporate governance function is carried out by the Board pursuant to a set of written terms of reference adopted by the Board in compliance with the Listing Rules, which include (a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board; (b) to review and monitor the training and continuous professional development of the Directors and senior management of the Group; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees of the Group and the Directors; and (e) to review the Company's compliance with the Corporate Governance Code set out in Appendix 14 to the Listing Rules and disclosure in the corporate governance report. During the year ended 31 December 2019, the Board reviewed and determined the policy for the corporate governance of the Company.

## **Joint Company Secretaries**

The joint company secretaries of the Company are Ms. Jessie Shen and Ms. Yin Ping Yvonne Kwong. Ms. Yin Ping Yvonne Kwong, vice president of SWCS Corporate Services Group (Hong Kong) Limited, an external service provider, has been engaged by the Company as its company secretary to act jointly with Ms. Jessie Shen. The primary contact person at the Company is Ms. Jessie Shen. Both Ms. Jessie Shen and Ms. Yin Ping Yvonne Kwong have informed the Company that they have taken no less than 15 hours of relevant professional training during the year ended 31 December 2019. Their trainings satisfied the requirements under Rule 3.29 of the Listing Rules.

# CORPORATE GOVERNANCE REPORT

## FINANCIAL REPORTING

The Board, supported by the chief financial officer and the finance department, is responsible for the preparation of the financial statements of the Company and the Group for each financial year which shall give a true and fair view of the financial position, performance and cash flow of the Company and its subsidiaries for each financial year.

The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

The responsibilities of KPMG, the Company's external auditor, on the financial statements are set out in the section headed "Independent Auditor's Report" in this annual report.

### Auditor's Remuneration

The audit committee of the Company is responsible for making recommendation to the Board on the appointment, re-appointment and removal of the external auditors of the Company and to approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of the external auditors. The Company engages KPMG as its external auditor. Details of the fees paid/payable to KPMG during the year ended 31 December 2019 are as follows:

	USD' 000
Audit services	340
Non-audit services	30
	<hr/>
<b>Total</b>	<b>370</b>
	<hr/> <hr/>

## RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for evaluating and determining the nature and extent of the risk the Company is willing to take to achieve the Group's strategic objectives, and ensuring that the Group establishes and maintains appropriate and effective risk management and internal control systems. The Board has developed its internal management systems, which include but not limited to the following processes:

- The Board receives regular updates from the senior management and reviews the Group's business plan, financial results, investment strategies and business indicators to ensure that the business risks are identified and managed;
- The senior management supervises the Group's business performance on an on-going basis via regular meetings with respective departments and project teams, to identify potential risks and develop strategies to address the risk;

## CORPORATE GOVERNANCE REPORT

- The Group monitors a wide range of indicators, such as game statistics, player feedbacks and employee turnover rate, and responds promptly if any risk indicators arise;
- The Group works with external legal, accounting, tax, and other professional advisers at various jurisdictions to ensure that it is in compliance with relevant legislation and regulations; and
- The internal audit department performs independent review on the internal control system and operational activities, and presents its findings to the Board on a regular basis.

However, the risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board is responsible for overseeing the management in the design, implementation and monitoring of such systems, and reviewing and maintaining appropriate and effective risk management and internal control systems. During the year ended 31 December 2019, the Board has conducted quarterly reviews of the risk management and internal control systems of the Group and considered the risk management and internal control systems of the Group have been implemented effectively and are adequate. Such reviews covered financial, compliance and operational controls. The Board has also discussed the business risk, financial risk, compliance risk, operational risk and other risks.

In addition, the Board has reviewed and considered that the resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit, legal and financial reporting functions are adequate and effective and have complied with the provisions of the Corporate Governance Code during the year ended 31 December 2019.

The Group attaches utmost importance to the proper handling and dissemination of inside information. Internal policies are put in place to ensure that inside information is adequately controlled. To ensure the confidentiality and the timely disclosure of inside information, all employees are provided with learning materials and guidelines regarding the handling and dissemination of inside information on a yearly basis. IT system controls are implemented to ensure the access to sensitive data is restricted to authorised personnel only.

# CORPORATE GOVERNANCE REPORT

## SHAREHOLDERS' RIGHTS

### **Procedures for Shareholders to convene an extraordinary general meeting and put forward proposals at Shareholders' meeting**

Pursuant to the Article 58 of the Articles of Association, any one or more member(s) of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

### **Communications with Shareholders**

The Board recognises the importance of maintaining clear, timely and effective communication with Shareholders of the Company and prospective investors. Therefore, the Group is committed to maintaining a high degree of transparency to ensure that Shareholders of the Company and prospective investors receive accurate, clear, comprehensive and timely information of the Group by the publication of annual reports, announcements and circulars. The Company also publishes all corporate correspondence on the Company's website [www.igg.com](http://www.igg.com). The Board maintains regular dialogues with institutional investors and analysts from time to time to keep them informed of the Group's strategies, operations, management and plans. Members of the Board and of the various Board committees will attend the annual general meeting of the Company and answer questions raised during the meeting. Separate resolutions would be proposed at the general meeting on each substantially separate issue. The chairman of the general meetings of the Company would explain the procedures for conducting poll before putting a resolution to vote. The results of the voting by poll will be declared at the meeting and published on the websites of the Stock Exchange and the Company respectively.



# CORPORATE GOVERNANCE REPORT

## **Procedures by which enquiries may be put to the Board**

Shareholders may send their enquiries and concerns to the Board by addressing them to Ms. Jessie Shen, one of the joint company secretaries of the Company via following:

Attention: Ms. Jessie Shen

Address: 19/F, Cheung Kong Center, 2 Queen's Road Central, Hong Kong

Telephone No.: (852) 3469 5132

Fax No.: (852) 3469 5000

Email: cosec@igg.com

The company secretary of the Company is responsible for forwarding communications relating to matters within the Board's direct responsibilities to the Board and communications relating to ordinary business matters, such as suggestions and inquiries, to the chief executive officer of the Company.

## **Constitutional Documents**

There has been no change in the Company's constitutional documents for the year ended 31 December 2019.

# CORPORATE SOCIAL RESPONSIBILITY REPORT

## 1 ABOUT THIS REPORT

### Overview

This report is prepared based on the principle of materiality, quantitative, balance and consistency, and focuses on the disclosure of information on the economic, social and environmental performance of the Group for the period from 1 January 2019 to 31 December 2019.

### Basis of Preparation

This report mainly makes reference to the Environmental, Social and Governance (“ESG”) Reporting Guide issued by the Stock Exchange. The contents of this report are determined based on a set of systematic procedures, such as identifying and prioritising key stakeholders, identifying and prioritising key ESG issues, determining the scope of corporate social responsibility report, collecting relevant materials and data, compiling the report based on relevant information, and reviewing information in the report.

### Scope of the Report

Unless otherwise stated, the disclosure scope of this report is consistent with the 2019 annual report of the Company.

### Explanation for Abbreviations

In order to facilitate the presentation and reading, for the purpose of this report, each of “IGG”, “the Group” and “we” refers to IGG Inc and its subsidiaries.

### Data Source and Reliability Assurance

The data and information in this report are mainly from the relevant documents, reports and statistics of IGG. The Board undertakes that this report contains no false statements or misleading statements and is responsible for the truthfulness, accuracy and completeness of its contents.

### Confirmation and Approval

The report was approved by the Board on 4 March 2020 upon confirmation by the management.

# CORPORATE SOCIAL RESPONSIBILITY REPORT

## 2 ENVIRONMENTAL, SOCIAL AND GOVERNANCE STRUCTURE

### 2.1 Environmental, Social and Governance Mechanism

**IGG ESG Management Structure and Responsibilities**

<b>Work Level</b>	<b>Functions</b>	<b>Duties and Responsibilities</b>
Decision-making level	Board of Directors	<ol style="list-style-type: none"> <li>1. Discuss major issues and future development for ESG</li> <li>2. Review ESG objectives and strategies</li> <li>3. Review ESG work progress</li> <li>4. Assess effectiveness of overall working mechanism</li> </ol>
Communication level	ESG working group consisting of representatives from senior management, various departments and subsidiaries	<ol style="list-style-type: none"> <li>1. Identify relevant ESG risks</li> <li>2. Formulate ESG objectives and strategies</li> <li>3. Coordinate ESG information management and reporting</li> <li>4. Coordinate stakeholders communication and materiality analysis</li> <li>5. Report to the board of Directors periodically on work status</li> </ol>
Execution level	ESG representatives from various departments and subsidiaries	<ol style="list-style-type: none"> <li>1. Complete work assigned by communication level</li> <li>2. Collect, organise and report relevant information on a regular basis</li> <li>3. Provide timely feedback and suggestions</li> <li>4. Take responsibility for internal communication on ESG related matters</li> </ol>

# CORPORATE SOCIAL RESPONSIBILITY REPORT

## 2.2 Stakeholder Engagement

IGG has continuously maintained good communication with stakeholders through a variety of channels to understand and take the initiative to respond to the expectations of different stakeholders. The opinions of stakeholders are important for us to actively fulfill our social responsibilities, implement good governance, and improve on our sustainable development capability.

### Category of and Engagement with Stakeholders

Category of Stakeholders	Expectations	Main Communication Methods
Customers	<ul style="list-style-type: none"> <li>• Privacy protection</li> <li>• Games and operation quality</li> <li>• Anti-cheating and fairness in games</li> </ul>	<ul style="list-style-type: none"> <li>• Customer service channels such as live chat and e-mail</li> <li>• Interaction on social media</li> <li>• Offline player gatherings</li> <li>• Game exposition events</li> </ul>
Government and regulatory authorities	<ul style="list-style-type: none"> <li>• Operational compliance</li> <li>• Promoting regional economic development</li> <li>• Creating employment opportunities</li> </ul>	<ul style="list-style-type: none"> <li>• Participation in relevant government meetings and cooperation projects</li> <li>• Paying close attention to regulation updates</li> <li>• Cooperation with organisations such as higher education institutions and charities</li> </ul>
Shareholders	<ul style="list-style-type: none"> <li>• Investment return</li> <li>• Information transparency</li> </ul>	<ul style="list-style-type: none"> <li>• Shareholders' meetings</li> <li>• Announcements and information disclosures</li> <li>• Investor relations hotline and mailbox</li> <li>• Company's official website</li> </ul>
Employees	<ul style="list-style-type: none"> <li>• Protection of employee rights</li> <li>• Career development</li> <li>• Occupational health and safety</li> </ul>	<ul style="list-style-type: none"> <li>• Team building and training activities</li> <li>• Interview communication</li> <li>• Internal employee forums</li> <li>• Internal feedback collection mechanism</li> </ul>

# CORPORATE SOCIAL RESPONSIBILITY REPORT

Category of Stakeholders	Expectations	Main Communication Methods
Suppliers and business partners	<ul style="list-style-type: none"> <li>Long-term partnership</li> <li>Fair competition</li> </ul>	<ul style="list-style-type: none"> <li>Regular communication and negotiation</li> </ul>
Industry associations	<ul style="list-style-type: none"> <li>Fair competition</li> <li>Exchange and cooperation</li> </ul>	<ul style="list-style-type: none"> <li>Participation in industry meetings and events</li> </ul>
Non-governmental organisations and public service organisations	<ul style="list-style-type: none"> <li>Support community development</li> <li>Leverage the industry expertise to fulfill social responsibilities</li> </ul>	<ul style="list-style-type: none"> <li>Cooperation with commonweal organisations</li> </ul>

## 2.3 Identification of Material Issues

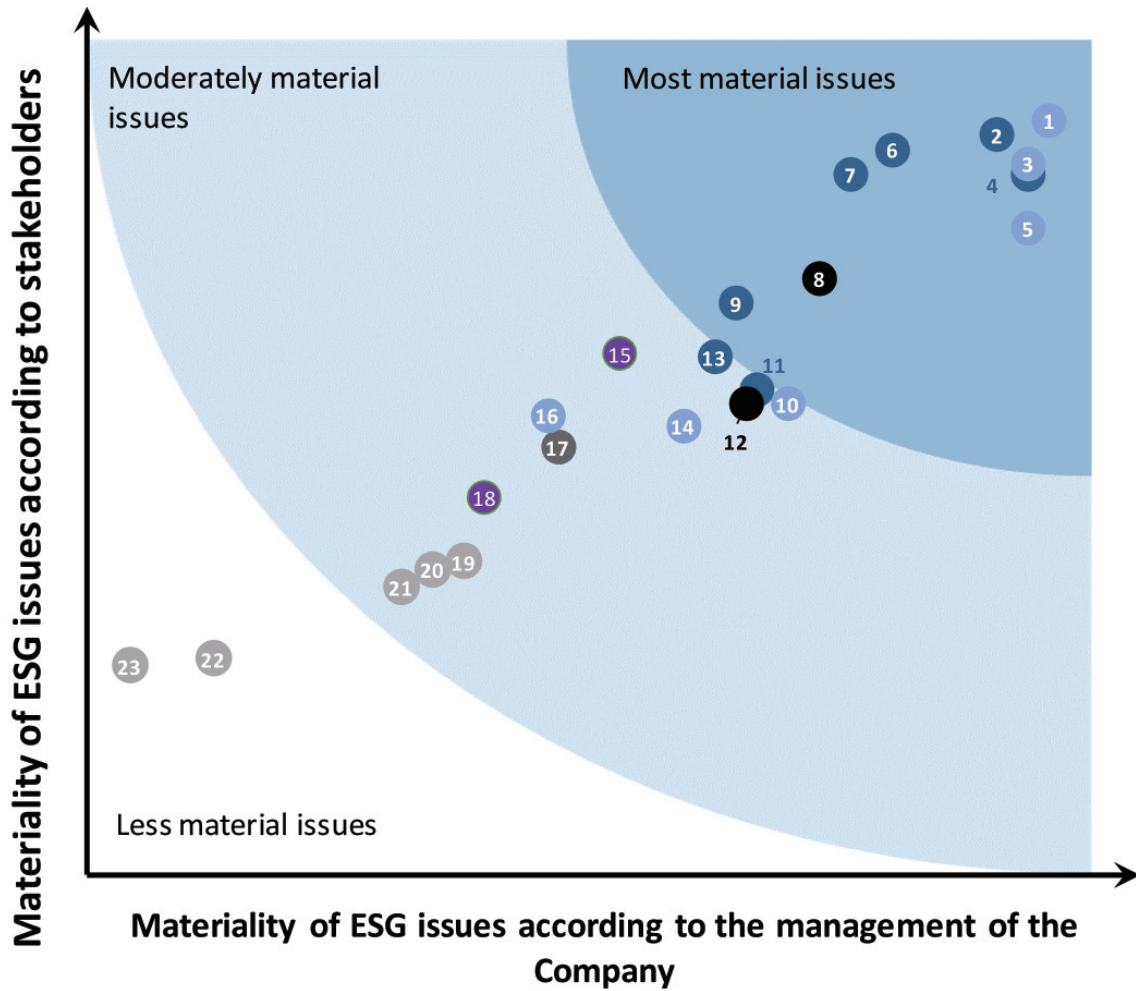
During the preparation of this report, the Group has conducted assessments on its related ESG issues to have better understanding of the expectation by stakeholders, so as to formulate the framework on disclosure and contents of disclosure in this report, in response to the requests of the stakeholders.

Our assessment on major issues comprised the following procedures:

Identification of stakeholders	Identify each of the important stakeholders and formulate specific engagement plans for them.
Engagement of stakeholders	Conduct in-depth study of stakeholders through questionnaires and interviews to understand their concerns and expectations on the Group in respect of ESG issues.
Prioritisation of material issues	Analyse and prioritise the ESG issues after quantification of the result on study of the stakeholders.
Confirmation by the management	Submit the analysis result to the management for final confirmation.

# CORPORATE SOCIAL RESPONSIBILITY REPORT

Materiality Analysis Matrix of ESG Issues



# CORPORATE SOCIAL RESPONSIBILITY REPORT

## List of ESG Issues

● Product Responsibility	● Employment Practices	● Community Investment	● Management Mechanism	● Supplier Management	● Environmental Protection
1 Occupational health and safety		9 Anti-unfair competition		17 Supplier management	
2 Games and operation quality		10 Employee cross-cultural integration		18 Community contribution	
3 Remuneration and benefits		11 Product health and safety		19 Water management	
4 Player services and communication		12 Sustainable development goals		20 Energy consumption and conservation practices	
5 Training and career development		13 Advertising and marketing		21 Waste management	
6 Information security and privacy protection	14 Equality and diversified employment			22 Emission management	
7 Intellectual property rights protection	15 Promoting industry development			23 Greenhouse gas emission management	
8 Anti-corruption compliance	16 Labour standards				

# CORPORATE SOCIAL RESPONSIBILITY REPORT

## 2.4 Sustainable Development Principles

The Group is developing its sustainable development principles and objectives by considering results of stakeholder communication, industry best practices and nature of business, striving for its long-term development in areas of corporate governance, business operation, community involvement and environmental protection.

## 2.5 Supplier Management

The Group has established long-term relationships with suppliers such as Apple, Google, Amazon, Microsoft and more than 100 platforms, advertisers and online payment service providers around the world.

IGG has stated in its internal policy on acceptance of gifts and hospitality that all personnel acting on the Group's behalf must not receive rebates, gifts or favours of any kind which could influence a business decision. Such policy has been publicised to all employees regularly, and relevant clauses are also included in the Group's contracts with all business partners. When asking for quotation from suppliers, procurement staff must send the seller or service provider a copy of Letter to Suppliers/Partners, which states the Group's anti-corruption expectations. The procurement staff is also required to obtain confirmation from the suppliers on their acknowledgement of IGG's anti-corruption policy.

## 2.6 Anti-corruption

IGG formulated the IGG Anti-Fraud Policy according to anti-corruption laws and regulations in countries and regions where it operates, with the objectives to establish effective mechanisms to deter and detect fraud, strengthen corporate governance and internal control, reduce risks, regulate business practices, safeguard the legitimate rights and interests of the Group, ensure the realisation of the Group's business objectives and sustainable development of the Group and protect the legitimate rights and interests of shareholders.

Every new employee has received training in anti-fraud knowledge as part of onboarding programmes. In the meantime, the Group also regularly publicises anti-fraud policies and requirements to all directors and employees. When approaching suppliers, IGG will provide written statements on anti-corruption, bribery and rebates. All contracts entered into between IGG and its suppliers contain "anti-commercial bribery provisions" which state that the responsible person does not receive any rebates, gifts or other benefits, and provide IGG's anti-fraud reporting mailbox and phone number.

IGG has joined the Trust and Integrity Enterprise Alliance, an anti-corruption alliance established voluntarily by leading internet enterprises, and we will continue to strengthen internal controls and anti-corruption practices.



# CORPORATE SOCIAL RESPONSIBILITY REPORT

## 3 PRODUCTS AND SERVICES

### 3.1 Enhance Player Experience

The Group understands that as a game company, creating high-quality gaming experience is the most important product responsibility, as well as the key to attracting and retaining players.

Starting from the research and development stage, IGG attracts talents from all over the world and now has a number of R&D teams worldwide. With over a decade of experience in the game industry, the team strives for continuous innovation and excellence in creating games of the highest quality. Apart from frequent content updates and regular addition of new game features, the Group also cooperates with other elites, such as engaging world-famous music artistes to produce the game soundtrack, to create state of the art gaming experience for our gamers. In order to diversify its product offerings, the Group actively ventures into different genres, and also seeks for investment and cooperation opportunities with high-quality R&D teams and products.

While internationalising its products, the Group strives for the localisation of its operations to know our customers' cultural background and gaming preferences, serve them better, and adopt more effective marketing approaches. Local operation teams around the world work closely to roll out a full range of marketing initiatives, such as developing game merchandise, producing cinematic-quality video advertisements featuring popular artists and athletes, cooperating with popular Internet influencers in live broadcasts and customised exclusive songs, launching campaigns on TV commercials, print media and outdoor advertising display. Our diverse promotional strategies also include organising international game tournaments and having co-marketing campaigns with globally renowned companies. In 2019, the PC version of "Lords Mobile" was released on Steam, a leading global game distribution platform, to enhance the overall player experience by strengthening cross-platform integration.

In addition to the pursuit of the best game quality and player experience, the operation and maintenance of games and server stability are also crucial. We engage leading service providers in the industry and take measures to ensure the operation quality of our servers, maintain stable lines and reduce network delay in order to create smooth game experience for global players.

As an online game company, IGG possesses industry-leading attack resistance ability. Striving to defend the legitimate interests of players and maintain fairness in games, the Group has established internal policies such as the IGG Information Security Safeguard Measures and has taken a number of measures to ensure network system security and stable operation at the physical, network, system and application level.

# CORPORATE SOCIAL RESPONSIBILITY REPORT

Gaming experience is affected directly by the fairness in games. Game plug-ins not only affect revenue of the Group, but also undermine the fairness of games and player experience. The operation team looks for evidence by analysing players' behaviours through backend data, identifies and rapidly cracks down on plug-ins in order to maintain a fair game environment.

In addition, we have established the Customer Center Urgent Problem Addressing Procedures and the Practice Guidelines for Server Maintenance and Management. These internal policies address urgent scenarios and potential risks during game operation, such as server failure, server delay, game platform or software abnormalities and power interruption, and lay out standard procedures on the testing, communicating, handling, and recording of issues, as well as issuing maintenance notice and player compensation, with the objective to safeguard the legitimate interests of our players.

## **3.2 Product Health and Safety**

Promoting healthy gaming is the social responsibility of a mobile game company and is also an important aspect of high-quality player experience. The Group understands that our players are from different cultural and religious backgrounds, and our games operate in countries and regions with various regulations for games. Therefore, the Group strictly complies with the legal requirements on healthy gaming of the countries where it operates. Measures such as choosing appropriate game character image designs, player real name authentication, game rating, objectionable information filtering, display of Healthy Gaming Advice during game login, children protection mechanism and player age restriction are taken in accordance with the regulations in respective countries and regions.

## **3.3 Player Services and Communication**

Players are the most important stakeholders in the games and it is therefore crucial to collect their feedbacks. The Group continuously communicates with players by collecting their suggestions via social platforms, customer service channels and questionnaires, fosters interaction, and ensures game content updates to attract and retain players.

# CORPORATE SOCIAL RESPONSIBILITY REPORT

## Customer Services

The Group is a global mobile game developer and operator with players from more than 200 countries around the world, providing mobile games in 24 languages. Our customer service center provides industry-leading support for players 24 hours a day, 365 days a year. We have formulated the Group's Customer Service Requirements to set out detailed standard practices to ensure comprehensive, accurate and timely customer services. In 2019, our customer service addressed customer inquiries via various channels, including over 970,000 questions via in-game ticket submission, over 540,000 questions raised through live chat, and more than 680,000 emails. Players' queries were related to, among other things, purchases, game features and system bugs which have been followed up and addressed according to the Group's Customer Service Requirements.

Communication with players is an integral part of game experience. Our customer service team can check the real-time service data on the operating platform and deploy manpower dynamically based on the number of visitors to the platform in order to meet the consulting needs of players in a timely manner. Our customer service center insists on four principles, namely timeliness, completeness, convenience and openness, and seeks to solve problems for customers within 12 or 24 hours depending on the nature of questions raised. For routine and prescheduled server maintenance, players will be informed by notices published on various social media 24 to 48 hours in advance, and after the relevant maintenance is completed, in-game gifts will be provided to players. To facilitate customer communication in unexpected situations, we have developed Customer Service Guidelines for Emergency Scenarios and set out protocols for incidents such as issuing urgent maintenance notice and compensation plan.

The evaluation and inspection on customer service quality has been carried out by a combination of internal spot check and external customer scoring. The internal quality inspection review conducts a comprehensive quality assessment on response speed, service attitude, wordings, and correctness of answers and solutions. In 2019, the pass rate of customer service quality inspection by internal spot check was 99%, and several major games' live chat scoring system showed that 90% of players were satisfied with the service.

## Players Activities

IGG conducted offline activities for players in a variety of ways, including international game tournaments, player gatherings and attending major game shows. In 2019, "Lords Mobile" organised offline player meetings in 15 regions across the world. While expanding the influence of games, the events promoted close connection between players and IGG games, and established exchange communities outside the cyberspace.

# CORPORATE SOCIAL RESPONSIBILITY REPORT



“Lords Mobile” Player Meetings



China Digital Entertainment Expo & Conference (ChinaJoy)

## 3.4 Privacy Protection

IGG takes data privacy and security seriously. Because of its international presence and business scope, the Group ensures compliance with privacy policies and local laws and regulations in all countries and regions in which it operates. The Group closely follows the updates of laws and regulations worldwide, such as the European Union General Data Protection Regulation (“GDPR”), California Consumer Privacy Act (“CCPA”) and Regulations on Network Protection of Children’s Personal Information issued by the Cyberspace Administration of China. In accordance with the relevant regulations, the Group has appointed a group data protection officer, a European Union representative and designated responsible personnel for data security, and is assisted by external professionals to carry out necessary internal control measures in order to ensure compliance. In addition, the Group has communicated data privacy requirements to the relevant staffs from R&D, operation, customer services, and other supporting departments via trainings and briefings.

Customers’ data is handled carefully at IGG. The Privacy Policy published on the website of the Group provides information regarding the collection, use and disclosure of user information, as well as the usage of information collected. Customer consent will be obtained before collection of information, and customers can request to amend or delete the information provided. Furthermore, to ensure optimal protection of data security, the Group’s information management and protection mechanism includes using data anonymisation techniques to de-identify certain personal data, adhering to internal data handling and storage protocols, and limiting data access only to authorised personnel. The Group also implements IGG Information Security Safeguard Measures to protect user information.

# CORPORATE SOCIAL RESPONSIBILITY REPORT

## 3.5 Operational Compliance

The Group takes active efforts to ensure its operations in various countries comply with local regulations. When it establishes a branch of any nature in any country or region across the world, the Group selects and engages local lawyer, tax adviser, secretarial company and other professional consultants in respective phases from commencement of establishment to operation to provide services including local law and tax consulting, assistance in procedures such as registration, incorporation and evaluation of business premise, as well as assistance in the operation phase such as contract review, business consulting and risk management.

Intellectual property protection has been a focus of the Group since its inception. Therefore, the Group has dedicated staff in charge of intellectual property management and engaged professional intellectual property agents and lawyers in different regions across the world to assist in intellectual property management, which has laid a solid foundation for protecting our rights. The Group registers and maintains its various intellectual property rights in a timely manner and also has a 7-day × 24-hour alert mechanism and 48-hour response procedure to take rapid response to infringement of our intellectual property rights in the market. Besides, the Group works with databases to perform periodic search on similar trademarks registered by third parties, to minimise the risk of infringing intellectual property rights.

The concept of protecting intellectual property rights has been rooted within the Group and has been shared and promoted among all employees regularly in order to enhance the awareness of intellectual property rights protection. In addition to actively protecting our own intellectual property rights, we also respect others' intellectual property rights. The Group strictly manages and controls its operations to avoid infringement. We focus on communicating with and educating R&D department and other relevant departments to ensure that game contents are originally created by our employees. At the same time, we strictly inspect the promotion materials of advertisers in order to avoid infringement disputes. In respect of game advertising and marketing activities, we have also complied with relevant laws and regulations in the places where we operate with our legal department being in charge of relevant legal affairs. Promotional materials and public announcements will be reviewed by relevant departments before publicising, to ensure the compliance and accuracy of information disclosed.

## 3.6 Recognition and Awards

IGG and its games successively won recognition from the industry and received numerous awards. IGG was listed by App Annie as one of the “Top 52 Publishers” for five consecutive years, “Top 50 Mobile Game Makers” by well-known mobile game website PocketGamer.biz for five consecutive years, “BrandZ™ Top 50 Chinese Global Brand Builders” for three consecutive years, and “Best Under A Billion” by Forbes Asia for two consecutive years, manifesting a vote of confidence in IGG from the game industry.

# CORPORATE SOCIAL RESPONSIBILITY REPORT

## Awards won by IGG in 2018 and 2019

Awards	Awarding Institutions
16th Place of BrandZ™ Top 50 Chinese Global Brand Builders 2019	Jointly released by Google Inc. and BrandZ, a brand consulting company under the world's largest advertising communication group, WPP
30th Place of Top 50 Mobile Game Makers of 2019	PocketGamer.biz, a well-known mobile game website
Best Under A Billion 2019	Forbes Asia
Outstanding Overseas Enterprise 2019	Golden Grape Award by Youxiputao.com, a well-known gaming media
22nd Place of Top 52 Publishers of 2018	App Annie, a mobile analytic platform
Best Mobile Game Company 2018	GMGC Tian Fu Award, a prestigious prize in China's mobile game sector
Best Overseas Mobile Game Publisher 2018	You Ding Award, a prestigious prize in China's mobile game sector
Company of the Year 2018	Game Appreciation Award by Gamer Daily (yxrb.net), a well-known gaming media
Best Overseas Mobile Game Publisher 2018	Golden Tea Award by Youxichaguan.com, a well-known gaming media
Best Overseas Mobile Game Publisher 2018	Golden Gyro Award by Youxituoluo.com, a well-known gaming media
Best Overseas Game Publisher 2018	Golden Wave Awards by Sina Games, a well-known gaming media
Influential Game Enterprise of 2018	China Game Ceremony by Xinhua Net, a well-known media
2018 Most Valuable Listed Company under Hong Kong Stock Connect Scheme	Golden Wing Award by China Securities Times

# CORPORATE SOCIAL RESPONSIBILITY REPORT

## Awards won by “Lords Mobile” in 2018 and 2019

Awards	Awarding Institutions
Top 10 Best Overseas Games 2019	Jing Ming Award by Beluga Global, a well-known internet media
Top 10 Best Overseas Apps 2019	Mi Developer Conference by Xiaomi Corporation
Gaming Sector Integrated Marketing Award 2019	Effect UP Marketing Competition by ByteDance Ltd
Top 10 Most Popular Mobile Games 2019, Top 10 Most Popular E-sports Games 2018, Top 10 Most Popular Games Overseas 2018	China Game Industry Annual Conference, a prestigious digital entertainment summit in China
Popular Online Game of 2018	China Game Ceremony by Xinhua Net, a well-known media
Best Mobile Game 2018	GMGC Tian Fu Award, a prestigious prize in China’s mobile game sector
Most Popular Game 2018	Toutiao, a famous news platform in China
Most Popular Game 2018	Wind Direction Award by China Mobile Game Influence Summit, a prestigious prize in China’s mobile game sector
Best Mobile Game 2018	Golden Dog Award by Gamedog.cn, a well-known gaming media
Top 10 Most Popular Game 2018	Golden Wave Awards by Sina Games, a well-known gaming media

## Award won by “Castle Clash” in 2019

Awards	Awarding Institutions
Best Game Music & Best Composer – Silver Medal	Global Music Awards 2019, a well-known international music competition



# CORPORATE SOCIAL RESPONSIBILITY REPORT

## 4 CARING FOR EMPLOYEES

### 4.1 Equal Employment

We recognise that the success of an enterprise is inseparable from its employees at all levels. We endeavour to establish a standardised, orderly, fair and effective human resource management system. Also, we strictly comply with laws, regulations and labour policies relating to human rights and labour in the places where we operate. In recruitment, evaluation, promotion, staff development, benefits and termination of labour contract, the Group prohibits discrimination by, among others, race, skin colour, nationality, language, wealth, age, gender, sexual orientation, disability, religion, political faction, member of the association and marital status. We strictly prohibit employing child labour and forced labour, and strive to maintain positive employee relations.

IGG strictly complies with relevant laws and regulations in various countries by signing labour contracts with its employees according to law, making contributions to social insurance plan in compliance with relevant requirements and protecting employees' privacy.

IGG actively encourages the employment of persons with disabilities and works closely with organisations such as the Federation of Disabled Persons to provide employment opportunities for the disabled. Subject to meeting the job requirements, IGG gives priority to hiring people with disabilities and provides financial assistance to them. There are several disabled employees with strong will who have accomplished outstanding work achievements at IGG.

IGG has taken extensive measures to assess the Group's needs for human capital and maintained a talent pipeline. The Group keeps a close watch on the latest industrial news and technological development, and plan recruitment accordingly. Besides, IGG manages its database on global talent pools, utilising various channels such as external hiring and internal referral, to ensure sufficient talent supplies that matches IGG's strategies and needs. Human resource department conducts analysis periodically, making timely adjustment and additions to the Group's talent structure.

As at 31 December 2019, IGG had 1,587 employees in total, representing an increase of 12% over the previous year. IGG's employees continue to be young in average age with employees aged below 30 accounting for 41% of the total number of employees. Female employees account for 29% of the total number of employees. Both employee age and gender distribution reflect the characteristics of the game industry.



# CORPORATE SOCIAL RESPONSIBILITY REPORT

## 4.2 Comprehensive Training and Career Development

We embrace the corporate spirit of “Innovators at Work, Gamers at Heart”. With love and passion for games, gifted game makers gather in IGG, incorporating the sense of mission and accomplishment into work and aiming to create long-lasting classics for gamers around the world. The Group attaches great importance to encouraging innovation, offers a creative and conducive work environment that promotes learning and growth, and strives to maximise employees’ potential and help them achieve their goals.

IGG has established comprehensive training systems and a Training Policy, offering full-range and diverse training courses. The Group customises training courses and provides training budgets, based on actual demand of various teams, covering technical skills, soft skills, leadership, foreign language courses, etc. In addition to classroom training, on-the-job coaching and experience sharing session, IGG has introduced an online learning system, which provides more than 400 courses and enables staff to learn during fragmented time. In order to encourage more employees to participate in continuous learning and sharing, outstanding lecturers and active learning participants are awarded with attractive prizes. In addition, game artists of IGG from all over the world will attend training programmes in countries such as Italy, to learn and share aesthetic insights and inspirations at these places with rich artistic heritage.

In 2019, IGG held more than 60 internal sharing sessions globally, covering game design, production, art, programming, successful case studies and more. Approximately 1,400 employees from all over the world attended about 100 training sessions, with a total duration of over 36,000 hours.

## 4.3 Cross-cultural Integration

Strong global presence is the core competitiveness of IGG. Creating the best games for players all over the world requires international talents with different cultural backgrounds. Teams worldwide interact and exchange ideas frequently via cross-border learning and sharing opportunities, which break cultural barriers and enable the Group to develop international game products.

IGG has offices around the world, and many employees from diverse backgrounds are working across international borders. We provide international employees with air tickets for home visits, as well as extra holidays according to their traditions and religions. Additionally, subject to individual preference and internal policies, we offer global health insurance plan and translation assistance for doctor visits to support employees who are living outside their home countries.

# CORPORATE SOCIAL RESPONSIBILITY REPORT

Coming from diversified cultural backgrounds, staff at the same office may speak different languages. To overcome communication barriers caused by language differences, IGG has implemented bilingual versions of all electronic office systems and intranet information system, with all contents released in both English and Chinese. Meanwhile, the Group has launched an instant multilingual translation function in its internal messaging tools, enabling staff who use different languages to communicate more conveniently.

The Group organises a variety of team building activities, such as annual gatherings where staff from offices worldwide come together to exchange food and gifts from their home countries and enjoy costume parties or gala dinners, for staff from different countries to interact and bond with each other and to increase team cohesion.

## 4.4 Compensation and Benefits

In order to continuously attract and retain talents, IGG has always been improving its staff remuneration management mechanism to create a unified, objective and fair incentive system for its staff around the world, including performance bonuses and equity incentive plan, etc.

Provided that basic welfare has been guaranteed, we offer more benefits to our staff. In addition to public holidays and statutory holidays, our staff are also entitled to paid leaves such as marriage leave, prenatal check and examination leave, maternity leave, care leave and annual leave. Under the circumstances permitted by local laws, we provide key employees with interest-free housing loans to support employees in buying their own flats so that employees can live and work in the best condition, and pursue long-term development with IGG.

### Social Insurance and Medical Support

We provide statutory social security benefits for our staff, such as pension insurance, medical insurance, unemployment insurance, work-related injury insurance and maternity insurance and contribution to housing provident funds. Along with the statutory basic health insurance, we also purchase commercial medical insurance and accident insurance subject to individual preferences and needs. For our staff's convenience of seeking medical help, depending on local circumstances, IGG has set up in-house clinic or cooperates with physical examination center to conduct health check-ups and provide health counselling services.

In addition, the Group has established Employee Welfare Committee and set up a trust for key management, core employees and their immediate family members, to provide them with benefits such as medical subsidies, accident death compensation, and children's scholarship.

# CORPORATE SOCIAL RESPONSIBILITY REPORT

## **Employee Communication**

The Group values opinions from employees at all levels, and collects feedbacks and suggestions via several internal communication channels including employee surveys, feedback sections of intranet discussion forums and employee welfare committees. For instance, on the online feedback system of Fuzhou Office, employees can openly or anonymously submit complaints or suggestions on areas such as office environment, canteens and meals, or other facilities. More than 500 feedbacks were received and addressed promptly by responsible departments in 2019.

The Company holds fairness and equality as core values and is committed to protect employees' rights. Employees can file a complaint with their supervisors or human resources department regarding any unfair treatment at work. Responsible persons need to investigate and get back to the employees promptly, and ensure the privacy of relevant employees are protected.

## **Care Undertakings for Children of Staff**

Many IGG employees are working parents. Activity center for children has been established at the Group's main operating site to provide a wide array of books, educational toys and other facilities. Parents can bring their children to study and play in the center during off hours and weekends. During winter and summer vacations, the center also provides children with interest classes. Depending on local circumstances, children of IGG employees will receive birthday gifts and gift allowance from the Company.

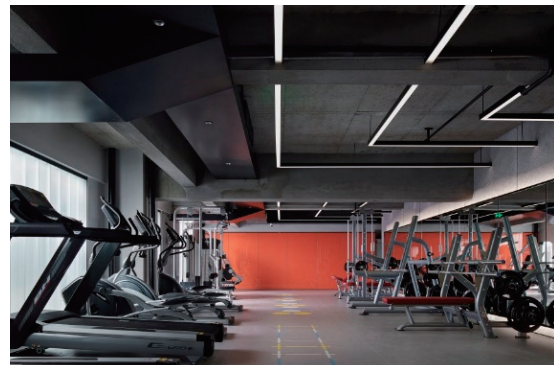
## **4.5 Occupational Health and Safety**

IGG is committed to providing its staff with a safe, healthy and comfortable working premise. Take Fuzhou Office in China as an example, staff would not only enjoy creative office spaces, but also have free access to ancillary facilities such as swimming pool, gymnasium, cinema and library. To satisfy taste preferences of colleagues from different countries, Fuzhou Office is also equipped with several staff canteens to provide food and drink with varied flavours. With the aim to eradicate all fire hazards in the workplace, Fuzhou Office organises all-staff fire drill annually and conduct examination and assessment on fire facilities monthly.

We organise staff to receive physical examination regularly and establish in-house clinic at the Group's main operating site to provide health counselling services. In addition, we invite doctors of various specialties to conduct health knowledge lectures. In order to reduce health risks caused by sedentary work, IGG has purchased ergonomic office chairs for all staff.

# CORPORATE SOCIAL RESPONSIBILITY REPORT

Since late 2019 to the beginning of 2020, an epidemic of novel coronavirus broke out and became a common concern of the international community. Several cities in China were most severely hit by the crisis. Putting employees' health and safety first, the Group monitored closely on the updates and local authorities' instructions, and rapidly formulated an emergency response plan for the epidemic. Subsidiaries in China sprang into action and made every effort to battle against the outbreak, even though it was the Chinese Lunar New Year holiday period. Subsidiaries in other affected regions also rolled out a series of urgent preventive and control measures without delay. Using its emergency notification system, the Group sent out notices and important guidelines on epidemic control via multiple channels, and followed up daily on all staff's health status, travel history and potentially infectious contacts through an online survey system in order to provide support to employees who need assistance. To avoid infections caused by interactions, employees are encouraged to make flexible work arrangement and work from home, ensuring not just uninterrupted operation of IGG's global business, but more importantly the protection of employees' health. In the meantime, the Group adopted detailed precautionary measures to safeguard our workplace from the outbreak. Work area and facilities underwent thorough sanitisation, ventilation, and sanitation inspection for multiple times a day, and all employees, service staff and security personnel were provided with personal infection protective products. Measures such as sitting separately during meals, using video conference, going paperless, reducing travelling, and tightening visitor and vehicle controls, were also part of the steps to create a safe workplace for all employees.



Comfortable Office Environment



# CORPORATE SOCIAL RESPONSIBILITY REPORT

## 4.6 Staff Activities

### Arts and Sports Activity Clubs

IGG has set up 18 staff clubs, including sports, dance, electronic sports, volunteering, art and culture clubs, and provided funding for the activities. The clubs held more than 700 activities in 2019.

### Holiday Activities and Travel

IGG always brings a pleasant surprise to its employees with creative events. On traditional festivals, holidays and staff birthdays, IGG will prepare gifts, parties, food, games and more. In addition to holiday activities, IGG also organises annual retreat for all employees to ease work stress while enhancing team cohesion.



Birthday Party



Holiday Event



Staff Retreat



Staff Retreat



Staff Retreat



Staff Retreat

# CORPORATE SOCIAL RESPONSIBILITY REPORT

## 5 COMMUNITY CONTRIBUTION

As a leading game company, IGG has been actively fulfilling its social responsibilities, participating in local community events in the places where it operates. We not only incorporate conventional ways such as charitable donations and volunteer activities in our community engagement efforts, but also leverage our industry expertise to give back to the society, integrating information and internet technology with corporate social responsibility.

In 2019, the Group made charitable donations of approximately US\$600,000.

### 5.1 Assisting in Future Development in the Gaming Industry

Cultivating talents with passion and expertise for the gaming industry and providing them with career opportunities are an investment for IGG's and the industry's future. Through a variety of projects around the world, IGG cooperates with tertiary institutions to provide young people who are interested in games with opportunities to understand and enter the game industry, broaden their career development prospects, and also grows a talent pool for the Group. In 2019, more than 200 interns have completed their training programmes with IGG.

IGG worked with universities, serving as the schools' technical training base and sharing its industry insights with college students. In China, IGG launched the "G-Star" incubation programme. Summer interns participated in trainings and competitions to obtain hands-on experience on game production, showcase their works, and exchange ideas. Furthermore, IGG Singapore offers internship programme for aspiring game designers and game artists. Students can earn professional training credits to fulfil respective course requirements at tertiary institutions in Singapore by attending the internship programmes at IGG.

IGG lent its support as a co-sponsor to International Game Concept Challenge 2019 held in Singapore. The competition was conceived in 2013 to inspire innovation through new game ideas and nurture future game developers in a multilingual and multicultural environment. More than 50 participants from various countries participated in the challenge this year.

Furthermore, IGG launched "Inter-G" talent programme, inviting game enthusiasts all over the world to attend trainings and competitions on project management, marketing, operations and human resource management, and learn from IGG's global operation expertise.

# CORPORATE SOCIAL RESPONSIBILITY REPORT

## 5.2 Charity Activities

By introducing charitable initiatives into our games, we can spread the word to advocate awareness for social causes. In March 2019, “Lords Mobile” launched “Rekindle Love and Hope” packs in certain language versions. Proceeds from these packs will be partially donated to local chapter of Make-A-Wish Foundation to grant the wishes of children with critical illnesses, and Child Welfare League Foundation in support of lifting underprivileged children out of poverty. In November 2019, IGG cooperated with War Child, a renowned charity organisation in the UK, to raise awareness of helping children caught up in armed conflicts across the globe. “Lords Mobile” sent out in-game messages and offered a special game pack in correspondence to War Child’s armistice campaign and donated part of the proceeds from the sales of this pack to War Child. In December 2019, “Lords Mobile” partnered with the Make-A-Wish Foundation once again, holding a charitable castle design contest, where players can design a castle skin based on the theme “Childhood Playground”. The winning entry will be selected through public voting, and will be used as inspiration to create an official castle skin design. The profits from this castle skin made during the first two weeks of its launch will be donated to Make-A-Wish Foundation.

IGG keeps a keen interest and participates in charitable programmes worldwide. In 2019, we made donations to a range of philanthropic organisations to help different groups. In China, IGG provided classroom equipment and living supplies to several schools, and offered financial aid to more than 50 disadvantaged students to help them receive education. We also donated funds to Weiyuan County in Gansu, China to contribute to local poverty reduction effort and rural area development programme. In Canada, IGG donated to VGH & UBC Hospital Foundation, a medical philanthropic body, to provide resources to improve hospital wards. Subsidiaries of IGG in the USA, Thailand, and the Philippines have all made donations to respective local charities to reach out and support disadvantaged groups. Besides, IGG made donations to several educational institutions and arts and culture organisations to give back to the community and play a part in cultural and educational development.

IGG’s staff initiated a volunteering club, and held regular events. For instance, volunteers from IGG China visited children with leukemia at hospitals, participated in their new year celebration and brought the children and their families with presents and living necessities. In 2019, IGG’s staff also organised a number of charity sales of second-hand items or local produces to raise funds for the less fortunate.

At the beginning of 2020, immediately after learning about the novel coronavirus epidemic, IGG established an assistance scheme to support affected regions to combat the outbreak, and mobilised its global teams to procure medical supplies in urgent demand by the epidemic-hit areas. Employees from subsidiaries worldwide raced against time to source medical supplies and arranged expedited shipping to epidemic areas without delay. As at February 2020, IGG has donated over 1.5 million pieces of medical supplies to front-line medical institutions, government bodies, and charitable organisations in regions affected by the outbreak.

# CORPORATE SOCIAL RESPONSIBILITY REPORT



Financial Aid to Disadvantaged Students



Volunteering Event



Preparing Medical Supplies for Donations



Preparing Medical Supplies for Donations

## 6 GREEN OPERATION

IGG gradually established its own environmental management and information collection procedures and disclosed to various stakeholders in this report. We took a responsible attitude towards the environmental impact of the Group and incorporated the environmental factors such as climate change into the risk management and cost control system by monitoring the environmental data. Therefore, IGG has established a unified environment management system in the locations where it operates and is committed to improving its environment management system further. IGG also introduced to employees the concept of energy saving and environmental protection, encouraging every employee to adopt a sustainable lifestyle and spread the concept of sustainability to their families and communities.



# CORPORATE SOCIAL RESPONSIBILITY REPORT

## 6.1 Energy Consumption and Greenhouse Gas Emissions

As a game company which is mainly engaged in the business of game software development and operation, the environmental impacts of IGG is mainly attributable to the energy consumption associated with maintaining its equipment's operation and the associated indirect greenhouse gas ("GHG") emissions.

### Energy Consumption

Type of Energy	Unit	2019	2018
Energy consumption	MWh	<b>2,481</b>	2,289
Energy use intensity	MWh per capita	<b>1.56</b>	1.61
Gasoline <sup>1</sup>	liter	<b>6,429</b>	5,810
Grid electricity consumed by office <sup>2</sup>	kWh	<b>2,423,938</b>	2,236,759

### GHG Emissions

Type of GHG Emissions	Unit <sup>3</sup>	2019	2018
Scope I GHG emissions <sup>4</sup>	tonne, CO <sub>2</sub> equivalent	<b>15</b>	13
Scope II GHG emissions <sup>5</sup>	tonne, CO <sub>2</sub> equivalent	<b>1,539</b>	1,411
Total GHG emissions	tonne, CO <sub>2</sub> equivalent	<b>1,554</b>	1,424
GHG emissions intensity	tonne, CO <sub>2</sub> equivalent per capita	<b>0.98</b>	1.00

<sup>1</sup> The scope of statistics for gasoline consumption covers vehicles owned by IGG and all entities controlled by it.

<sup>2</sup> The scope of statistics for grid electricity consumed by office covers IGG and entities controlled by it which have independent statistic collection mechanism for electricity consumed, including offices in Belarus, China, Japan, South Korea, the Philippines, Turkey, Spain, Singapore and the USA. The scope covers 92% of employees of the Group.

<sup>3</sup> Carbon dioxide equivalent is used as a measure of the comparison of greenhouse gas emissions. The calculations of carbon dioxide equivalent have included GHG emissions from sources, including carbon dioxide, methane and nitrous oxide etc.

<sup>4</sup> According to the ISO 14064 GHG inventory standards, Scope I GHG emissions refers to direct greenhouse gas emissions, particularly direct emission sources owned and controlled by the organisation, such as emissions from its own vehicles.

<sup>5</sup> According to the ISO 14064 GHG inventory standards, Scope II GHG emissions refers to indirect energy emission sources, such as indirect greenhouse gas emissions caused by purchased electricity.

# CORPORATE SOCIAL RESPONSIBILITY REPORT

## 6.2 Waste and Water Resource Management

As an information technology company, IGG identified the two major sources of waste: scrapped IT equipment and printing consumables. Therefore, IGG has adopted corresponding measures to reduce resource consumption, encourage recycling and reduce waste generation.

For scrapped IT equipment, including hosts, monitors and other equipment, IGG will dispose of it through three major methods based on the condition of the equipment. Firstly, computers unable to perform high-intensity computing but still meet daily usage needs are donated to local schools to support information technology education in local communities. Secondly, employees in need may apply for the equipment for family use. Lastly, for dysfunctional equipment, IGG will hire an electronic equipment recycling agency to recycle it. By making rational use of such electronic equipment recycled through these three major ways, we provide an aid to those in need and the equipment can also be reused, thereby reducing environmental pollution caused by electronic waste. For printing consumables, IGG has engaged a printer maintenance service provider to handle maintenance and repair of printers at Fuzhou Office to avoid the increased use of printing consumables due to the aging and failure of printers. Going paperless in all work processes is encouraged in IGG, with aims to reduce the use of paper and printing consumable.

### Generation of Hazardous and Non-Hazardous Waste

Type of Waste Produced	Unit	2019	2018
Discarded modulator tube	piece	390	338
Discarded toner and ink cartridge	piece	243	277
Discarded battery	piece	1,043	663
Scrapped IT equipment – host and monitor	piece	275	203
Scrapped IT equipment – others	piece	183	182

### Water Consumption

Type of Water Consumption	Unit	2019	2018
Office water consumption <sup>6</sup>	tonne	13,195	11,531

<sup>6</sup> The scope of statistics for office water consumption covers IGG and entities controlled by it which have independent statistic collection mechanism for water consumed, including offices in Belarus, China, the Philippines, Spain and the USA. The scope covers 83% of employees of the Group.

# CORPORATE SOCIAL RESPONSIBILITY REPORT

## APPENDIX I LIST OF QUANTITATIVE DISCLOSURE DATA

ESG KPIs	Unit	2019	2018	
<b>A. Environmental</b>				
<b>A1. Emissions</b>				
<b>A1.2</b>	Greenhouse gas emissions			
	Scope I GHG emissions <sup>7</sup>	CO <sub>2</sub> equivalent – tonne <sup>8</sup>	15	13
	Scope II GHG emissions <sup>9</sup>	CO <sub>2</sub> equivalent – tonne	1,539	1,411
	Total GHG emissions	CO <sub>2</sub> equivalent – tonne	1,554	1,424
	GHG emissions intensity	CO <sub>2</sub> equivalent – tonne per capita	0.98	1.00
<b>A1.3 &amp; A1.4</b>	Hazardous and non-hazardous waste produced			
	Discarded modulator tube	piece	390	338
	Discarded toner and ink cartridge	piece	243	277
	Discarded battery	piece	1,043	663
	Scrapped IT equipment – host and monitor	piece	275	203
	Scrapped IT equipment – others	piece	183	182
<b>A2. Use of Resources</b>				
<b>A2.1</b>	Energy consumption in total and intensity			
	Energy consumption	MWh	2,481	2,289
	Energy use intensity	MWh per capita	1.56	1.61
	Gasoline <sup>10</sup>	liter	6,429	5,810
	Grid electricity consumed by office <sup>11</sup>	kMh	2,423,938	2,236,759
<b>A2.2</b>	Water consumption in total			
	Office water consumption <sup>12</sup>	tonne	13,195	11,531

<sup>7</sup> According to the ISO 14064 GHG inventory standards, Scope I GHG emissions refers to direct greenhouse gas emissions, particularly direct emission sources owned and controlled by the organisation, such as emissions from its own vehicles.

<sup>8</sup> Carbon dioxide equivalent is used as a measure of the comparison of greenhouse gas emissions. The calculations of carbon dioxide equivalent have included GHG emissions from sources, including carbon dioxide, methane and nitrous oxide etc.

<sup>9</sup> According to the ISO 14064 GHG inventory standards, Scope II GHG emissions refers to indirect energy emission sources, such as indirect greenhouse gas emissions caused by purchased electricity.

<sup>10</sup> The scope of statistics for gasoline consumption covers vehicles owned by IGG and all entities controlled by it.

<sup>11</sup> The scope of statistics for grid electricity consumed by office covers IGG and entities controlled by it which have independent statistic collection mechanism for electricity consumed, including offices in Belarus, China, Japan, South Korea, the Philippines, Turkey, Spain, Singapore and the USA. The scope covers 92% of employees of the Group.

<sup>12</sup> The scope of statistics for office water consumption covers IGG and entities controlled by it which have independent statistic collection mechanism for water consumed, including offices in Belarus, China, the Philippines, Spain and the USA. The scope covers 83% of employees of the Group.

## CORPORATE SOCIAL RESPONSIBILITY REPORT

	ESG KPIs	Unit	2019	2018
<b>B. Social</b>				
<b>B1. Employment</b>				
<b>B1.1</b>	Total workforce by gender and age group			
	Total number	number of people	1,587	1,421
By gender	Male	number of people	1,120	995
	Female	number of people	467	426
By age	Below 30	number of people	644	603
	30-50	number of people	938	810
	Above 50	number of people	5	8
<b>B3. Development and Training</b>				
<b>B3.1</b>	Employee training			
	Total number of employees trained	number of people	Approximately 1,400	Approximately 1,200
<b>B3.2</b>	Training hours of employees			
	Total training hours	hour	Over 36,000	Over 27,000
<b>B6. Product Responsibility</b>				
<b>B6.2</b>	Number of products and service related complaints received			
	Address players' questions	incidence	Approximately 2,190,000	Approximately 1,950,000
<b>B7. Anti-corruption</b>				
<b>B7.1</b>	Number of legal cases regarding corrupt practices			
	Initiated or concluded legal cases regarding corrupt practices	incidence	0	0
<b>B8. Community Investment</b>				
<b>B8.2</b>	Resources contributed to the focus area			
	Monetary donation	US\$	Approximately 600,000	Approximately 21,000
	Charitable activities	incidence	23	21

# CORPORATE SOCIAL RESPONSIBILITY REPORT

## APPENDIX II KPI INDEX OF ESG GUIDE OF STOCK EXCHANGE

This KPI index provides a description of compliance with each of the “comply or explain” indicators and the disclosure of the “recommended disclosures” indicators of the ESG Reporting Guide by the Group during the reporting period.

Issue	Guide Requirements	Report Chapter	Remarks
<b>A. Environmental</b>			
<b>A1</b> Emissions	General disclosure Key performance indicators A1.2, A1.3, A1.4, A1.6	Green operation	Since the Group is principally engaged in the development and operation of games and gas emission is not a significant issue of business activities, A1.1 and A1.5 are not included.
<b>A2</b> Use of resources	General disclosure Key performance indicators A2.1, A2.2, A2.3, A2.4	Green operation	Since the products and services provided by the Group are sold online and do not involve packaging materials, A2.5 is not included.
<b>A3</b> The environment and natural resources	General disclosure Key performance indicators A3.1	N/A	The Group is principally engaged in the development and operation of games without any significant impact on the environment and natural resources.

## CORPORATE SOCIAL RESPONSIBILITY REPORT

Issue	Guide Requirements	Report Chapter	Remarks
<b>B. Social</b>			
<b>B1</b> Employment	General disclosure Key performance indicator B1.1	Caring for employees – 4.1	
<b>B2</b> Health and safety	General disclosure Key performance indicator B2.3	Caring for employees – 4.5	
<b>B3</b> Development and training	General disclosure	Caring for employees – 4.2	
<b>B4</b> Labour standards	General disclosure Key performance indicators B4.1, B4.2	Caring for employees	During the reporting period, the laws and regulations regarding the prevention of child labour and compulsory labour which had a significant impact on the Group in employment were complied with.
<b>B5</b> Supply chain management	General disclosure	Environmental, social and governance structure – 2.5	
<b>B6</b> Product responsibility	General disclosure Key performance indicators B6.2, B6.3, B6.5	Products and services – 3.3, 3.4, 3.5	
<b>B7</b> Anti-corruption	General disclosure Key performance indicators B7.1, B7.2	Environmental, social and governance structure – 2.6	
<b>B8</b> Community investment	General disclosure Key performance indicators B8.1, B8.2	Community contribution	

# DIRECTORS' REPORT

The Directors have pleasure in presenting their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2019.

## PRINCIPAL ACTIVITIES

The Group is a renowned global mobile game developer and operator with headquarters in Singapore and regional offices in the United States, China, Canada, Japan, South Korea, Thailand, Belarus, Indonesia, the Philippines, the United Arab Emirates, Brazil, Turkey, Italy and Spain. There has been no significant change in the Group's principal activities during the Year.

## SUBSIDIARIES

Details of the principal subsidiaries of the Company as at 31 December 2019 are set out in note 14 to the consolidated financial statements.

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the year ended 31 December 2019 is set out on pages 187 and 188 of the annual report.

## RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2019 are set out in the audited consolidated statement of comprehensive income in this annual report.

On 6 March 2019, the Board resolved to declare a second interim dividend of HK16.7 cents per ordinary Share (equivalent to US2.1 cents per ordinary Share), amounting to approximately US\$27.3 million. Such dividend has been paid on 23 April 2019.

On 5 August 2019, the Board resolved to declare an interim dividend of HK13.0 cents per ordinary Share (equivalent to US1.7 cents per ordinary Share), amounting to approximately US\$21.1 million. Such dividend has been paid on 4 September 2019.

On 4 March 2020, the Board resolved to declare a second interim dividend of HK17.6 cents per ordinary Share (equivalent to US2.3 cents per ordinary Share), amounting to approximately US\$28.2 million. Such dividend will be paid on or about 6 April 2020.

## CLOSURE OF REGISTER OF MEMBERS

### (a) Entitlement to the 2019 second interim dividend

The register of members of the Company will be closed from Thursday, 19 March 2020 to Monday, 23 March 2020, both days inclusive, during which period no transfer of Shares will be registered for the purpose of determining shareholders' entitlements to the second interim dividend. The record date for entitlement to the second interim dividend is on Monday, 23 March 2020. In order to qualify for the second interim dividend, all transfers of Shares, accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 18 March 2020. The payment date of the second interim dividend is expected to be on or about Monday, 6 April 2020.

### (b) Entitlement to attend and vote at the 2020 annual general meeting

The annual general meeting is scheduled on Wednesday, 6 May 2020. The register of members of the Company will be closed from Tuesday, 28 April 2020 to Wednesday, 6 May 2020, both days inclusive, during which period no transfer of Shares will be effected. In order to qualify for attending and voting at the annual general meeting, all transfers of Shares, accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 27 April 2020.

## RESERVES

Details of movements in reserves of the Group and the Company for the year ended 31 December 2019 are set out in the consolidated statement of changes in equity and note 26 to the consolidated financial statement, respectively.

## DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately US\$388.0 million. The amount of approximately US\$388.0 million represents the Company's share premium account of approximately US\$24.4 million and accumulated surplus of approximately US\$363.6 million in aggregate as at 31 December 2019, which may be distributed provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

## CHARITABLE DONATIONS

Details of the charitable donations by the Group for the Year are set out in the section headed "Corporate Social Responsibility Report – 5.2 Charity Activities".



# DIRECTORS' REPORT

## PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment of the Group for the year ended 31 December 2019 are set out in note 11 to the consolidated financial statements.

## SHARE CAPITAL

Details of the movements in share capital of the Company during the financial year are set out in note 26 to the consolidated financial statements.

## DIRECTORS

The Directors during the financial year and as of the date of this annual report were:

### Executive Directors

Mr. Zongjian Cai (*Chairman and chief executive officer*)

Mr. Yuan Xu

Mr. Hong Zhang

Ms. Jessie Shen

Mr. Feng Chen

### Non-executive Director

Mr. Yuan Chi

### Independent Non-executive Directors

Dr. Horn Kee Leong

Mr. Dajian Yu

Ms. Zhao Lu

The Company has received annual confirmations of independence from each of the existing independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. The Company considers that all the independent non-executive Directors are independent in accordance with the Listing Rules.

In accordance with article 84 of the Articles of Association, Mr. Zongjian Cai, Dr. Horn Kee Leong and Ms. Zhao Lu will retire from the Board by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. No Director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and senior management are set out on pages 14 to 18 of this annual report.

# DIRECTORS' REPORT

## DISCLOSURE OF INTEREST AS PER REGISTERS KEPT PURSUANT TO THE SFO

### (a) Directors' and chief executives' interests and short positions in shares, underlying shares and debentures

As at 31 December 2019, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein, or as otherwise notified to the Company and the Stock Exchange pursuant to the Listing Rules were as follows:

*Long positions in shares of the Company and the associated corporations*

Interests in	Name	Capacity/Nature of interest	Number of shares/ underlying shares held	Approximate percentage of shareholding
1. The Company	Mr. Zongjian Cai (Notes 1, 2)	Beneficial owner, interest in a controlled corporation, spouse interest, interests held jointly with another person	266,501,891	21.36%
	Mr. Yuan Xu (Notes 1, 2)	Beneficial owner, interest held jointly with another person	266,501,891	21.36%
	Mr. Hong Zhang (Notes 1, 2)	Beneficial owner, interest held jointly with another person	266,501,891	21.36%
	Ms. Jessie Shen (Note 3)	Beneficial owner	3,978,000	0.32%
	Mr. Feng Chen (Note 4)	Beneficial owner	13,640,000	1.09%
	Mr. Yuan Chi (Note 5)	Beneficial owner, interest in a controlled corporation	153,920,000	12.33%
	Dr. Horn Kee Leong (Note 6)	Beneficial owner	180,000	0.01%
	Ms. Zhao Lu (Note 7)	Beneficial owner	440,000	0.04%
	Mr. Dajian Yu (Note 8)	Beneficial owner	930,000	0.07%
2. Associated corporations: UGen World Inc.	Mr. Yuan Xu (Note 9)	Beneficial owner	192,489	2.34%
	Mr. Hong Zhang (Note 10)	Beneficial owner	115,493	1.40%
	Chinese ABC Limited	Mr. Feng Chen	Beneficial owner	990

# DIRECTORS' REPORT

## Notes:

- (1) Pursuant to an act in concert agreement dated 16 September 2013, as amended by an amendment dated 18 October 2016, Mr. Zongjian Cai, Duke Online, Mr. Yuan Xu, Mr. Hong Zhang, Ms. Kai Chen (spouse of Mr. Zongjian Cai) and Mr. Zhixiang Chen agreed that they would act in concert with each other with respect to material matters relating to the Company's operation. Each of Mr. Zongjian Cai, Duke Online, Mr. Yuan Xu, Mr. Hong Zhang, Ms. Kai Chen and Mr. Zhixiang Chen is therefore deemed to be interested in the Shares held by one another under the SFO.
- (2) Mr. Zongjian Cai was interested in all the issued share capital of Duke Online and he is the sole director of Duke Online. Therefore, he was deemed to be interested in 182,268,027 Shares held by Duke Online under the SFO. Mr. Zongjian Cai was deemed to be interested in all Shares held by Ms. Kai Chen under the SFO. On 23 March 2015, 332,000 share options were granted to Mr. Zongjian Cai under the Share Option Scheme. Upon the full exercise of such share options, Mr. Zongjian Cai will be beneficially interested in 332,000 Shares.

Mr. Yuan Xu was the beneficial owner of 31,269,077 Shares. On 23 March 2015, 613,000 share options were granted to Mr. Yuan Xu under the Share Option Scheme. Upon the full exercise of such share options, Mr. Yuan Xu will be beneficially interested in 613,000 Shares.

Mr. Hong Zhang was the beneficial owner of 11,166,835 Shares. Mr. Hong Zhang was also granted 6,400,000 share options under the Pre-IPO Share Option Scheme. On 23 March 2015, 605,000 share options were granted to Mr. Hong Zhang under the Share Option Scheme. Upon the full exercise of such share options, Mr. Hong Zhang will be beneficially interested in 7,005,000 Shares.

Ms. Kai Chen was the beneficial owner of 17,847,952 Shares and she was also deemed to be interested in all Shares held by Mr. Zongjian Cai under the SFO.

Mr. Zhixiang Chen was the beneficial owner of 16,000,000 Shares.

- (3) Ms. Jessie Shen was the beneficial owner of 3,470,000 Shares. On 21 November 2014 and 23 March 2015, respectively, 367,000 share options and 141,000 share options were granted to Ms. Jessie Shen under the Share Option Scheme. Upon the full exercise of such share options, Ms. Jessie Shen will be beneficially interested in 508,000 Shares.
- (4) Mr. Feng Chen was the beneficial owner of 13,340,000 Shares. On 23 March 2015, 300,000 share options were granted to Mr. Feng Chen under the Share Option Scheme. Upon the full exercise of such share options, Mr. Feng Chen will be beneficially interested in 300,000 Shares.
- (5) Mr. Yuan Chi was interested in all the issued share capital of Edmond Online and he is one of the directors of Edmond Online. Therefore, he was deemed to be interested in 153,434,000 Shares held by Edmond Online under the SFO. On 23 March 2015, 486,000 share options were granted to Mr. Yuan Chi under the Share Option Scheme. Upon the full exercise of such share options, Mr. Yuan Chi will be beneficially interested in 486,000 Shares.
- (6) On 4 May 2018, 180,000 share options were granted to Dr. Horn Kee Leong under the Share Option Scheme. Upon the full exercise of such share options, Dr. Horn Kee Leong will be beneficially interested in 180,000 Shares.
- (7) Ms. Zhao Lu was the beneficial owner of 60,000 Shares. On 23 March 2015 and 4 May 2018, 200,000 share options and 180,000 share options were granted to Ms. Zhao Lu under the Share Option Scheme, respectively. Upon the full exercise of such share options, Ms. Zhao Lu will be beneficially interested in 380,000 Shares.
- (8) Mr. Dajian Yu was the beneficial owner of 500,000 Shares. On 23 March 2015 and 4 May 2018, respectively, 250,000 share options and 180,000 share options were granted to Mr. Dajian Yu under the Share Option Scheme. Upon the full exercise of such share options, Mr. Dajian Yu will be beneficially interested in 430,000 Shares.
- (9) Mr. Yuan Xu will be the beneficial owner of 192,489 most senior class of shares of UGen World Inc. upon full conversion of the relevant share subscription warrants pursuant to the terms thereof and is the holder of US\$50,000 convertible promissory note of UGen World Inc. which can be converted into such number of the most senior class or series of equity securities of UGen World Inc. or such class or series of equity securities of UGen World Inc. existing immediately prior to such conversion as elected by him in his sole discretion pursuant to the terms of the relevant convertible promissory note.
- (10) Mr. Hong Zhang will be the beneficial owner of 115,493 most senior class of shares of UGen World Inc. upon full conversion of the relevant share subscription warrants pursuant to the terms thereof and is the holder of US\$30,000 convertible promissory note of UGen World Inc. which can be converted into such number of the most senior class or series of equity securities of UGen World Inc. or such class or series of equity securities of UGen World Inc. existing immediately prior to such conversion as elected by him in his sole discretion pursuant to the terms of the relevant convertible promissory note.

## DIRECTORS' REPORT

Save as disclosed above, as of 31 December 2019, none of the Directors and chief executive of the Company was, under Divisions 7 and 8 of Part XV of the SFO, taken to be interested or deemed to have any other interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) that were required to be entered into the register kept by the Company pursuant to Section 352 of the SFO or were required to be notified to the Company and the Stock Exchange pursuant to Listing Rules.

### (b) Substantial shareholders' and other persons' interests and short positions in Shares and underlying Shares

So far as were known to the Directors or chief executive of the Company, as at 31 December 2019, the following persons had interests and/or short positions of 5% or more of the Shares and underlying Shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name	Capacity/Nature of interest	Number of Shares/ underlying shares held	Approximate percentage of shareholding
Duke Online (Notes 1, 2)	Beneficial owner, interests held jointly with another person	266,501,891	21.36%
Mr. Zongjian Cai (Notes 1, 2)	Beneficial owner, interest in a controlled corporation, spouse interest, interests held jointly with another person	266,501,891	21.36%
Mr. Yuan Xu (Notes 1, 2)	Beneficial owner, interests held jointly with another person	266,501,891	21.36%
Mr. Hong Zhang (Notes 1, 2)	Beneficial owner, interests held jointly with another person	266,501,891	21.36%
Ms. Kai Chen (Notes 1, 2)	Beneficial owner, spouse interest, interests held jointly with another person	266,501,891	21.36%
Mr. Zhixiang Chen (Notes 1, 2)	Beneficial owner, interests held jointly with another person	266,501,891	21.36%
Edmond Online (Note 3)	Beneficial owner	153,920,000	12.33%
Mr. Yuan Chi (Note 3)	Beneficial owner, interest in a controlled corporation	153,920,000	12.33%

# DIRECTORS' REPORT

## Notes:

- (1) Pursuant to an act in concert agreement dated 16 September 2013, as amended by an amendment dated 18 October 2016, Mr. Zongjian Cai, Duke Online, Mr. Yuan Xu, Mr. Hong Zhang, Ms. Kai Chen and Mr. Zhixiang Chen agreed that they would act in concert with each other with respect to material matters relating to the Company's operation. Each of Mr. Zongjian Cai, Duke Online, Mr. Yuan Xu, Mr. Hong Zhang, Ms. Kai Chen (spouse of Mr. Zongjian Cai) and Mr. Zhixiang Chen is therefore deemed to be interested in the Shares held by one another under the SFO.
- (2) Mr. Zongjian Cai was interested in all the issued share capital of Duke Online and he is the sole director of Duke Online. Therefore, he was deemed to be interested in 182,268,027 Shares held by Duke Online under the SFO. Mr. Zongjian Cai was deemed to be interested in all Shares held by Ms. Kai Chen under the SFO. On 23 March 2015, 332,000 share options were granted to Mr. Zongjian Cai under the Share Option Scheme. Upon the full exercise of such share options, Mr. Zongjian Cai will be beneficially interested in 332,000 Shares.

Mr. Yuan Xu was the beneficial owner of 31,269,077 Shares. On 23 March 2015, 613,000 share options were granted to Mr. Yuan Xu under the Share Option Scheme. Upon the full exercise of such share options, Mr. Yuan Xu will be beneficially interested in 613,000 Shares.

Mr. Hong Zhang was the beneficial owner of 11,166,835 Shares. Mr. Hong Zhang was also granted 6,400,000 share options under the Pre-IPO Share Option Scheme. On 23 March 2015, 605,000 share options were granted to Mr. Hong Zhang under the Share Option Scheme. Upon the full exercise of such share options, Mr. Hong Zhang will be beneficially interested in 7,005,000 Shares.

Ms. Kai Chen was the beneficial owner of 17,847,952 Shares and she was also deemed to be interested in all Shares held by Mr. Zongjian Cai under the SFO.

Mr. Zhixiang Chen was the beneficial owner of 16,000,000 Shares.

- (3) Mr. Yuan Chi was the beneficial owner of all the issued share capital of Edmond Online and he is one of the directors of Edmond Online. Therefore, he was deemed to be interested in 153,434,000 Shares held by Edmond Online under the SFO. On 23 March 2015, 486,000 share options were granted to Mr. Yuan Chi under the Share Option Scheme. Upon the full exercise of such share options, Mr. Yuan Chi will be beneficially interested in 486,000 Shares.

Save as disclosed above, as at 31 December 2019, the Directors are not aware of any other persons, other than the Directors and chief executives of the Company, whose interests are set out in the section headed "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures" above, had interests or short positions in the Shares or underlying Shares of the Company that was required to be recorded pursuant to Section 336 to the SFO.

## PRE-IPO SHARE OPTION SCHEME

The Pre-IPO Share Option Scheme was adopted by the Company on 12 November 2008 and amended on 16 September 2013 by written resolutions of all the Shareholders. The terms of our Pre-IPO Share Option Scheme are not subject to the provisions of Chapter 17 of the Listing Rules as our Pre-IPO Share Option Scheme will not involve the grant of options by us to subscribe for Shares once we have become a listed issuer.

The purpose of the Pre-IPO Share Option Scheme is to offer selected persons an opportunity to acquire a proprietary interest in the success of the Company, or to increase such interest, by purchasing Shares.

## DIRECTORS' REPORT

The outstanding options under the Pre-IPO Share Option Scheme represent share options originally granted by the Company to the grantees on 20 January 2007, 1 July 2007, 1 July 2008, 5 December 2008, 19 March 2009, 1 August 2009, 1 November 2009, 18 April 2011, 21 April 2011, 25 April 2011, 3 May 2011, 16 May 2011, 13 June 2011, 2 July 2011, 14 August 2011, 15 January 2012, 21 May 2012, and 31 March 2013, respectively, in respect of the Shares in the Company. As of the Listing Date, a total of 224 participants, including three members of the senior management and seven connected persons of our Group have been conditionally granted options under the Pre-IPO Share Option Scheme. The Company should not and did not grant any share options under the Pre-IPO Share Option Scheme after the Listing.

Share options granted under the Pre-IPO Share Option Scheme shall mainly vest according to the following schedule, each with an exercise period commencing from the relevant vesting date and ending 10 years after the date of grant:

<b>Period within which option can be exercised</b>	<b>Maximum percentage of entitlement</b>
Any time after the date when the options are granted (the "First Granting Date"), subject to grantee's completion of 12 months' continuous service	25%
Any time after the first anniversary of the First Granting Date, subject to grantee's completion of 12 months' continuous service	25%
Any time after the second anniversary of the First Granting Date, subject to grantee's completion of 12 months' continuous service	25%
Any time after the third anniversary of the First Granting Date, subject to grantee's completion of 12 months' continuous service	25%

Below table set forth the exercise price of the share options granted on respective dates:

<b>Date of grant</b>	<b>Exercise price</b>
20 January 2007, 1 July 2007	US\$0.004026
1 July 2008	US\$0.008052
5 December 2008, 19 March 2009	US\$0.03775
1 August 2009, 1 November 2009	US\$0.05
18 April 2011, 21 April 2011, 25 April 2011, 3 May 2011, 16 May 2011, 13 June 2011	US\$0.0525
2 July 2011, 14 August 2011, 15 January 2012, 21 May 2012, 31 March 2013	US\$0.0865

## DIRECTORS' REPORT

Particulars and movements of share options under the Pre-IPO Share Option Scheme during the year ended 31 December 2019 by category of grantees were as follows:

Category of grantees	Number of Pre-IPO share options			Outstanding as at 31 December 2019
	Outstanding as at 31 December 2018	Exercised during the Year	Lapsed/ forfeited during the Year	
Senior management	6,400,000	–	–	6,400,000
Connected persons (other than members of the senior management)	630,000	100,000	–	530,000
Other grantees who have been granted share options under the Pre-IPO Share Option Scheme to subscribe for one million Shares or more	847,000	130,000	–	717,000
Other grantees	5,905,000	1,650,200	–	4,254,800
<b>Total</b>	<b>13,782,000</b>	<b>1,880,200</b>	<b>–</b>	<b>11,901,800</b>

Save as disclosed above, no share options under the Pre-IPO Share Option Scheme have been exercised, lapsed or cancelled during the year ended 31 December 2019.

### SHARE OPTION SCHEME

The Company has adopted the Share Option Scheme on 16 September 2013 for the purpose of giving the eligible persons an opportunity to have a personal stake in the Company and help motivate them to optimise their future performance and efficiency to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally in the case of executives, to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

Eligible persons shall be (a) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of the Group, any full-time or part-time employee, or a person for the time being seconded to work full-time or part-time for any member of the Group; (b) a director or proposed director (including a non-executive director and/or an independent non-executive director) of any member of the Group; (c) a direct or indirect shareholder of any member of the Group; (d) a supplier of goods or services to any member of the Group; (e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group; (f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of the Group; (g) an associate of any of the persons referred to in paragraphs (a) to (c) above; and (h) who, in the sole opinion of the Board, will contribute to or have contributed to the Group.

## DIRECTORS' REPORT

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the Shares in issued as at the Listing Date, that is, 130,973,709 Shares. No option may be granted to any participant of the Share Option Scheme such that the total number of Shares issued and to be issued upon exercise of the options granted and to be granted to that person in any 12-month period up to the date of the latest grant exceeds 1% of the Company's issued share capital from time to time.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as determined by the Board and not exceeding 10 years from the date of the grant. There is no minimum period for which an option must be held before it can be exercised. Participants of the Share Option Scheme are required to pay the Company HK\$1.0 upon acceptance of the grant on or before the 28 days after the offer date. The exercise price of the options is determined by the Board in its absolute discretion and shall not be less than whichever is the highest of:

- (a) the nominal value of a Share;
- (b) the closing price of a Share as stated in the Stock Exchange's daily quotations sheets on the offer date; and
- (c) the average closing price of a Share as stated in the Stock Exchange's daily quotation sheets for the five Business Days immediately preceding the offer date.



## DIRECTORS' REPORT

The Share Option Scheme shall be valid and effective for a period of 10 years from the Listing Date, after which no further options will be granted or offered.

Pursuant to Rule 17.07 of the Listing Rules, particulars and movements of share options under the Share Option Scheme during the year ended 31 December 2019 by category of grantees were as follows:

Category of grantees	Date of grant	Exercise price per Share	Outstanding as at 31 December 2018	Number of share options			Outstanding as at 31 December 2019
				Granted during the Year	Exercised during the Year	Lapsed/forfeited during the Year	
<b>Directors</b>							
Mr. Zongjian Cai	23 March 2015	HK\$3.90	332,000	—	—	—	332,000
Mr. Yuan Xu	23 March 2015	HK\$3.90	613,000	—	—	—	613,000
Mr. Hong Zhang	23 March 2015	HK\$3.90	605,000	—	—	—	605,000
Ms. Jessie Shen	21 November 2014	HK\$3.51	367,000	—	—	—	367,000
	23 March 2015	HK\$3.90	141,000	—	—	—	141,000
Mr. Feng Chen	23 March 2015	HK\$3.90	300,000	—	—	—	300,000
Mr. Yuan Chi	23 March 2015	HK\$3.90	486,000	—	—	—	486,000
Dr. Horn Kee Leong	4 May 2018	HK\$12.14	180,000	—	—	—	180,000
Ms. Zhao Lu	23 March 2015	HK\$3.90	200,000	—	—	—	200,000
	4 May 2018	HK\$12.14	180,000	—	—	—	180,000
Mr. Dajian Yu	23 March 2015	HK\$3.90	250,000	—	—	—	250,000
	4 May 2018	HK\$12.14	180,000	—	—	—	180,000
<b>Directors' respective associates</b>							
Ms. Meijia Chen (cousin of Mr. Yuan Xu)	23 March 2015	HK\$3.90	553,000	—	—	—	553,000
Mr. Neng Xu (brother of Mr. Yuan Xu)	20 April 2017	HK\$10.50	37,500	—	—	37,500	—
<b>Employees</b>							
	11 August 2014	HK\$5.47	123,750	—	23,750	—	100,000
	21 November 2014	HK\$3.51	75,000	—	—	—	75,000
	23 March 2015	HK\$3.90	1,521,500	—	175,000	25,000	1,321,500
	10 September 2015	HK\$2.94	25,000	—	25,000	—	—
	20 April 2017	HK\$10.50	630,000	—	22,500	67,500	540,000
	17 November 2017	HK\$10.08	270,000	—	—	95,000	175,000
	23 August 2018	HK\$10.24	150,000	—	—	—	150,000
	19 August 2019	HK\$5.75	—	500,000	—	61,000	439,000
<b>Consultants</b>							
	21 November 2014	HK\$3.51	75,000	—	—	—	75,000
	23 March 2015	HK\$3.90	75,000	—	—	—	75,000
<b>Total</b>			<b>7,369,750</b>	<b>500,000</b>	<b>246,250</b>	<b>286,000</b>	<b>7,337,500</b>

# DIRECTORS' REPORT

## **11 August 2014**

Share options granted on 11 August 2014 shall vest according to the following schedule, each with an exercise period commencing from the relevant vesting date and ending 10 years after the date of grant.

<b>Share options vesting date</b>	<b>Percentage of share options to vest</b>
On 11 August 2015	25% of the total number of share options granted
On 11 August 2016	25% of the total number of share options granted
On 11 August 2017	25% of the total number of share options granted
On 11 August 2018	25% of the total number of share options granted

## **21 November 2014**

Share options granted on 21 November 2014 shall vest according to the following schedule, each with an exercise period commencing from the relevant vesting date and ending 10 years after the date of grant.

<b>Share options vesting date</b>	<b>Percentage of share options to vest</b>
On 21 November 2015	25% of the total number of share options granted
On 21 November 2016	25% of the total number of share options granted
On 21 November 2017	25% of the total number of share options granted
On 21 November 2018	25% of the total number of share options granted

## **23 March 2015**

Share options granted on 23 March 2015 shall vest according to the following schedule, each with an exercise period commencing from the relevant vesting date and ending 10 years after the date of grant.

Out of the share options granted on 23 March 2015, 1,450,000 share options, which were granted to all of the non-executive Directors (excluding Mr. Yuan Chi who was subsequently re-designed as a non-executive Director on 21 August 2015) and independent non-executive Directors, shall be subject to a vesting period as follows:

<b>Share options vesting date</b>	<b>Percentage of share options to vest</b>
On the date of the annual general meeting to be convened in 2016	One-third of the total number of share options granted
On the date of the annual general meeting to be convened in 2017	One-third of the total number of share options granted
On the date of the annual general meeting to be convened in 2018	One-third of the total number of share options granted

## DIRECTORS' REPORT

The remaining 4,889,000 share options shall be subject to a vesting period as follows:

<b>Share options vesting date</b>	<b>Percentage of share options to vest</b>
On 23 March 2016	25% of the total number of share options granted
On 23 March 2017	25% of the total number of share options granted
On 23 March 2018	25% of the total number of share options granted
On 23 March 2019	25% of the total number of share options granted

### ***10 September 2015***

Share options granted on 10 September 2015 shall vest according to the following schedule, each with an exercise period commencing from the relevant vesting date and ending 10 years after the date of grant.

<b>Share options vesting date</b>	<b>Percentage of share options to vest</b>
On 10 September 2016	25% of the total number of share options granted
On 10 September 2017	25% of the total number of share options granted
On 10 September 2018	25% of the total number of share options granted
On 10 September 2019	25% of the total number of share options granted

# DIRECTORS' REPORT

## **20 April 2017**

On 20 April 2017, the Company granted a total of 780,000 share options to certain eligible persons pursuant to the Share Option Scheme. Among the total 780,000 share options, 150,000 share options were granted to Mr. Neng Xu, the brother of Mr. Yuan Xu, an executive Director of the Company.

Share options granted on 20 April 2017 shall vest according to the following time schedule, each with an exercise period commencing from the relevant vesting date and ending 10 years after the date of grant.

<b>Share options vesting date</b>	<b>Percentage of share options to vest</b>
On 20 April 2018	25% of the total number of share options granted
On 20 April 2019	25% of the total number of share options granted
On 20 April 2020	25% of the total number of share options granted
On 20 April 2021	25% of the total number of share options granted

## **17 November 2017**

Share options granted on 17 November 2017 shall vest according to the following time schedule, each with an exercise period commencing from the relevant vesting date and ending 10 years after the date of grant.

<b>Share options vesting date</b>	<b>Percentage of share options to vest</b>
On 17 November 2018	25% of the total number of share options granted
On 17 November 2019	25% of the total number of share options granted
On 17 November 2020	25% of the total number of share options granted
On 17 November 2021	25% of the total number of share options granted

## **4 May 2018**

On 4 May 2018, the Company granted a total of 540,000 share options to Dr. Horn Kee Leong, Mr. Dajian Yu and Ms. Zhao Lu, all of whom are independent non-executive Directors, with each granted 180,000 share options.

Share options granted on 4 May 2018 shall vest according to the following time schedule, each with an exercise period commencing from the relevant vesting date and ending 10 years after the date of grant.

<b>Share options vesting date</b>	<b>Percentage of share options to vest</b>
On the date of the annual general meeting to be convened in 2019	One-third of the total number of share options granted
On the date of the annual general meeting to be convened in 2020	One-third of the total number of share options granted
On the date of the annual general meeting to be convened in 2021	One-third of the total number of share options granted

# DIRECTORS' REPORT

## **23 August 2018**

Share options granted on 23 August 2018 shall vest according to the following time schedule, each with an exercise period commencing from the relevant vesting date and ending 10 years after the date of grant.

<b>Share options vesting date</b>	<b>Percentage of share options to vest</b>
On 23 August 2019	25% of the total number of share options granted
On 23 August 2020	25% of the total number of share options granted
On 23 August 2021	25% of the total number of share options granted
On 23 August 2022	25% of the total number of share options granted

## **19 August 2019**

On 19 August 2019, the Board granted 500,000 share options to employees of the Group only. None of such share options was granted to the Group's suppliers and other participants. Share options granted on 19 August 2019 shall vest according to the following time schedule, each with an exercise period commencing from the relevant vesting date and ending 10 years after the date of grant. The closing price immediately before the date on which the options were granted on 19 August 2019 was HK\$5.54.

<b>Share options vesting date</b>	<b>Percentage of share options to vest</b>
On 19 August 2020	25% of the total number of share options granted
On 19 August 2021	25% of the total number of share options granted
On 19 August 2022	25% of the total number of share options granted
On 19 August 2023	25% of the total number of share options granted

Save as disclosed above, during the year, no other share options under the Share Option Scheme have been granted, exercised, lapsed or cancelled.

## **SHARE AWARD SCHEME**

The Share Award Scheme of the Company was adopted by the Board on 24 December 2013 (the "Adoption Date"). The purpose of the Share Award Scheme is to recognise the contributions by certain selected grantees and to give incentives thereto in order to retain them for the continuing operation and development of the Group, and to attract suitable personnel for further development of the Group.

## DIRECTORS' REPORT

The Board may, from time to time, at their absolute discretion select any eligible person (excluding any excluded grantee) for participation in the Share Award Scheme as a selected grantee. However, until so selected, no eligible person shall be entitled to participate in the Share Award Scheme. The awarded shares (where the Board has determined such number pursuant to the terms of the Share Award Scheme) shall be either (i) allotted and issued by the Company, by using the general mandate granted to the Board by the shareholders of the Company in the annual general meeting of the Company from time to time, unless separate Shareholders' approval is obtained in a general meeting of the Company, or (ii) acquired by Computershare Hong Kong Trustees Limited, as the trustee ("Trustee") from the open market by utilising the Company's resources provided to the Trustee, subject to the absolute discretion of the Board. The Company will contribute or grant cash to the Trustee to enable the Scheme to operate with necessary funds to purchase and/or subscribe for Shares. The vesting period shall, in any event, be no longer than ten years.

It is intended that the awarded shares under the Share Award Scheme will be offered to the selected grantees to take up the relevant awarded shares for no consideration subject to the compliance with the relevant laws and regulations, and certain conditions to be decided by the Board at the time of grant of the awarded shares under the Share Award Scheme.

Awarded shares held by the Trustee upon the trust and which are referable to a selected grantee shall vest to that selected grantee in accordance with a vesting schedule determined at the discretion of the Board, provided that the selected grantee remains at all times after the reference date (the date of final approval by the Board of the total number of shares to be awarded to the selected grantees in a single occasion pursuant to the Share Award Scheme or the date of an award by the Trustee pursuant to the trust deed) and on each relevant vesting date(s) an eligible person. The Board may also, in its absolute discretion, determine the performance, operating and financial targets and other criteria, if any, to be satisfied by the selected grantee before the awarded shares can vest.

The Board shall not make any further award which will result in the number of shares awarded by the Board under the Share Award Scheme in excess of 10% of the issued share capital of the Company as at the Adoption Date. In any event, the unvested shares held by the Trustee at any time shall be less than 5% of the issued share capital of the Company. The maximum number of Shares to all controlling shareholders which may be subject to an award or awards in any of the 12 months shall not in aggregate exceed 2% of the issued share capital of the Company from time to time. The maximum number of shares which may be awarded to a participant under the Share Award Scheme shall not exceed 1% of the issued share capital of the Company as at the Adoption Date.

Subject to any early termination as may be determined by the Board, the Share Award Scheme shall be valid and effective for a period of ten years commencing on the Adoption Date.

# DIRECTORS' REPORT

Details of the Share Award Scheme are set out in the Company's announcements dated 24 December 2013.

During the year ended 31 December 2019, the Company granted the awarded shares as followings:

## **20 March 2019**

On 20 March 2019, the Board granted a total of 245,000 awarded shares, which have been acquired by the Trustee from the open market by utilising the Company's internal resources provided to the Trustee, to certain eligible persons pursuant to the Share Award Scheme at nil consideration. Among the total 245,000 awarded shares, (i) 205,000 awarded shares were granted to Independent Third Parties; and (ii) 40,000 awarded shares were granted to Mr. Richard Chua Choon Kiat, Mr. Shuo Wang, Mr. Xiandong Liu, Mr. Chengfeng Luo and Mr. Deyang Zheng, all of whom are directors of certain wholly-owned subsidiaries of the Company and therefore connected persons of the Company. The awarded shares granted shall vest in the share award grantees in accordance with the schedule below:

<b>Share award vesting date</b>	<b>Percentage of awarded shares to vest</b>
On 20 March 2020	25% of the total number of awarded shares granted
On 20 March 2021	25% of the total number of awarded shares granted
On 20 March 2022	25% of the total number of awarded shares granted
On 20 March 2023	25% of the total number of awarded shares granted

## **6 May 2019**

On 6 May 2019, the Board granted a total of 215,482 awarded shares, which have been acquired by the Trustee from the open market by utilising the Company's internal resources provided to the Trustee, to certain eligible persons pursuant to the Share Award Scheme at nil consideration. Each of the grantees is an Independent Third Party. The awarded shares granted shall vest in the share award grantees in accordance with the schedule below:

<b>Share award vesting date</b>	<b>Percentage of awarded shares to vest</b>
On 6 May 2020	25% of the total number of awarded shares granted
On 6 May 2021	25% of the total number of awarded shares granted
On 6 May 2022	25% of the total number of awarded shares granted
On 6 May 2023	25% of the total number of awarded shares granted

## DIRECTORS' REPORT

### 19 August 2019

On 19 August 2019, the Board granted a total of 1,000,000 awarded shares, which have been acquired by the Trustee from the open market by utilising the Company's internal resources provided to the Trustee, to certain eligible persons pursuant to the Share Award Scheme at nil consideration. Each of the grantees is an Independent Third Party. The awarded shares granted shall vest in the share award grantees in accordance with the schedule below:

Share award vesting date	Percentage of awarded shares to vest
On 19 August 2020	25% of the total number of awarded shares granted
On 19 August 2021	25% of the total number of awarded shares granted
On 19 August 2022	25% of the total number of awarded shares granted
On 19 August 2023	25% of the total number of awarded shares granted

Particulars of the movements of the awarded shares under the Share Award Scheme during the year ended 31 December 2019 are as followings:

Date of grant	Number of awarded shares				Balance as at 31 December 2019
	Outstanding as at 31 December 2018	Granted during the Year	Exercised during the Year	Lapsed during the Year	
23 March 2015	616,735	–	591,735	25,000	–
10 September 2015	181,125	–	172,375	8,750	–
8 April 2016	211,389	–	105,691	2,837	102,861
3 June 2016	355,045	–	177,518	–	177,527
30 August 2016	1,358,663	–	655,569	62,072	641,022
18 November 2016	571,751	–	285,867	–	285,884
20 April 2017	1,580,534	–	526,837	10,000	1,043,697
27 June 2017	429,789	–	138,758	13,500	277,531
8 September 2017	556,500	–	174,750	52,250	329,500
17 November 2017	721,180	–	240,381	–	480,799
23 March 2018	909,798	–	227,444	15,000	667,354
23 August 2018	1,386,618	–	341,650	136,250	908,718
9 November 2018	355,000	–	41,250	190,000	123,750
20 March 2019	–	245,000	–	30,000	215,000
6 May 2019	–	215,482	–	6,000	209,482
19 August 2019	–	1,000,000	–	260,000	740,000
<b>Total</b>	<b>9,234,127</b>	<b>1,460,482</b>	<b>3,679,825</b>	<b>811,659<sup>(Note)</sup></b>	<b>6,203,125</b>

Note: The lapse of awarded shares during the Year was due to termination of employment of certain grantees.



## DIRECTORS' REPORT

Save as disclosed above, during the year ended 31 December 2019, no awarded shares were granted, vested, or lapsed under the Share Award Scheme.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

During the year ended 31 December 2019 and up until the date of this report, except that as disclosed in the sections headed "Pre-IPO Share Option Scheme", "Share Option Scheme" and "Share Award Scheme", none of the Directors or chief executives of the Company was granted any share options under the Pre- IPO Share Option Scheme or the Share Option Scheme or any awarded shares under the Share Award Scheme.

Save as disclosed above and in the section headed "Disclosure of Interest as per registers kept pursuant to the SFO" in this report, at no time for the year ended 31 December 2019 were there rights to acquire benefits by means of the acquisition of shares in, or debentures of the Company granted to any Director of the Company or their respective spouses or minor children, or were such rights exercised by them, or was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate.

### COMPETING INTEREST

As of the date of this annual report, Mr. Chen Feng was also a non-executive director of XD Inc., a PRC game developer and operator. As a non-executive director of XD Inc., Mr. Chen Feng is primarily responsible for providing professional opinion and judgment to the board of directors of XD Inc. and is not involved in its daily management and operation. Accordingly, the Directors consider that the directorship of Mr. Chen Feng in XD Inc. doesn't give rise to any competition or conflict of interest between Mr. Chen Feng and our Company.

Except for the disclosure in this annual report, to the best knowledge of the Company, none of the Directors or the substantial shareholders of the Company or their respective associates has any interest in any business which competed or may compete with the business of the Group during the year ended 31 December 2019.

### DEED OF NON-COMPETITION

Each of the members of the New Concert Group has confirmed to the Company of his/her compliance with the non-compete undertakings provided to the Company under the deed of non-competition. The independent non-executive Directors have reviewed the status of compliance and confirmed that the New Concert Group have complied with all the undertakings under the deed of non-competition for the year ended 31 December 2019.

# DIRECTORS' REPORT

## DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transactions, arrangements or contracts to which the Company or any of its subsidiaries was a party to and in which a Director or its connected entity (within the meaning of section 486 of the Companies Ordinance) had a material interest in, whether directly or indirectly, and subsisted as of 31 December 2019 or at any time during the year ended 31 December 2019.

## CHANGES IN DIRECTORS' INFORMATION

In accordance with Rule 13.51B(1) of the Listing Rules, the changes of information of the Directors are set below:

On 3 June 2019, Mr. Feng Chen was appointed as a non-executive director of XD Inc., a company listed on the Stock Exchange on 12 December 2019 (Stock Code: 2400).

Save as disclosed above, there is no other change in the Directors' information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

# DIRECTORS' REPORT

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2019.

## EQUITY-LINKED AGREEMENTS

Save as disclosed in the sections headed "Pre-IPO Share Option Scheme", "Share Option Scheme" and "Share Award Scheme", as at the end of and during the year ended 31 December 2019, the Company did not enter into (i) any agreement that will or may result in the Company issuing Shares; or (ii) any agreement requiring the Company to enter into any agreement specified in (i).

## PERMITTED INDEMNITY PROVISION

Pursuant to Article 164 of the Articles of Association, the Directors shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which the Directors or any of the Directors shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices or trusts; and none of the Directors shall be answerable for the acts, receipts, neglects or defaults of the other or others of them or for joining in any receipts for the sake of conformity, or for any bankers or other persons with whom any moneys or effects belonging to the Company shall or may be lodged or deposited for safe custody, or for insufficiency or deficiency of any security upon which any moneys of or belonging to the Company shall be placed out on or invested, or for any other loss, misfortune or damage which may happen in the execution of their respective offices or trusts, or in relation thereto; provided that the indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of the Directors.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company had bought back the Shares on the Stock Exchange during the year ended 31 December 2019 with details as follows:

Month of Purchase	Number of Shares Purchased	Price per Share		Total Paid HK\$
		Highest Price Paid HK\$	Lowest Price Paid HK\$	
April 2019	1,090,000	9.61	9.44	10,357,720
May 2019	3,187,000	9.51	9.21	29,727,540
June 2019	1,411,000	9.08	8.46	12,219,020
August 2019	16,897,000	6.50	5.17	97,390,650
September 2019	5,051,000	5.50	4.86	26,719,130
October 2019	5,150,000	5.18	4.83	25,708,240
November 2019	1,013,000	5.38	5.03	5,238,210
December 2019	795,000	5.71	5.66	4,517,550
<b>Total</b>	<b>34,594,000</b>			<b>211,878,060</b>

## DIRECTORS' REPORT

All of the Shares bought back were cancelled. Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2019.

### AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with the Listing Rules. The primary duties of the audit committee are to review and to supervise the financial reporting process and risk management and internal control systems of the Group. The audit committee comprises all independent non-executive Directors, namely, Dr. Horn Kee Leong (chairman of the audit committee), Mr. Dajian Yu and Ms. Zhao Lu.

The audit committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2019 and was of the opinion that the preparation of such statements complied with applicable accounting standards and that adequate disclosure in accordance with the Listing Rules has been made in respect thereof.

### RELATED PARTY TRANSACTIONS

Details of the related party transactions entered into by the Group during the year ended 31 December 2019 are set out in note 29 to the consolidated financial statements.

Save as disclosed elsewhere in the annual report, the Group had not entered into any connected transaction which was required to be disclosed under the Listing Rules.

# DIRECTORS' REPORT

## NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

### Background

#### *The Structured Contracts*

The existing PRC laws and regulations restrict foreign investment in value-added telecommunication, Internet content and information services, and online games in the PRC. The wholly-owned subsidiary of the Company, 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, the Group historically operated the licensing and publishing of self-developed browser games and client-based games in China through Fuzhou Tianmeng. Fuzhou Tianmeng, as a domestic company, holds an ICP License, Internet Culture Operating License and Internet Publishing License. In addition, Fuzhou Tianmeng holds certain of the Group's intellectual properties and is also partially vested with the Group's online games development functions.

In 2007, Fuzhou Tianji, the Founders and Fuzhou Tianmeng entered into the Previous Structured Contracts, as supplemented by the agreements in 2009 and 2013, pursuant to which the financial results of Fuzhou Tianmeng would be combined with the Company as if Fuzhou Tianmeng were a subsidiary of the Group. For details of terms of the Previous Structured Contracts, please refer to page 84 to page 85 of 2018 annual report of the Company.

### Termination of the Previous Structured Contracts and the entering into of the Structured Contracts

On 28 December 2018, each of the Founders and the New Registered Holders entered into an equity transfer agreement (the "Equity Transfer Agreement"), pursuant to which each of the Founders agreed to transfer 50% and 50% of the equity interests in Fuzhou Tianmeng to Mr. Deyang Zheng and Mr. Chengfeng Luo, respectively, at a total consideration of RMB10.51 million. On the same date, the relevant parties as detailed below also entered into the following agreements as detailed below to change the registered shareholders of Fuzhou Tianmeng:

- (i) the termination agreement, pursuant to which the Founders, Fuzhou Tianmeng and Fuzhou Tianji agreed that subject to the entering into of the Structured Contracts by Fuzhou Tianmeng, Fuzhou Tianji and the New Registered Holders, the Previous Structured Contracts would be terminated;
- (ii) the loan agreement, pursuant to which, among others, Fuzhou Tianji agreed to offer each of Mr. Deyang Zheng and Mr. Chengfeng Luo a loan for the purpose of providing to the New Registered Holders the consideration under the Equity Transfer Agreement; and

## DIRECTORS' REPORT

- (iii) the tripartite agreement, pursuant to which, among others, Fuzhou Tianji, the Founders and the New Registered Holders agreed to set-off the consideration under the Equity Transfer Agreement payable by the New Registered Holders against the loans owed by the Founders to Fuzhou Tianji.

The Structured Contracts comprise eight agreements, the details of which are summarised as below:

- (i) New Call Option Agreement: on 28 December 2018, Fuzhou Tianmeng, Fuzhou Tianji and the New Registered Holders entered into the call option agreement (the “New Call Option Agreement”), pursuant to which each of the New Registered Holders 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 RMB1.0 or the lowest possible amount permissible under the applicable PRC laws. The New Registered Holders shall return any consideration they receive in the event that Fuzhou Tianji exercises the call option under the New Call Option Agreement to acquire equity interest in or assets of Fuzhou Tianji.
- (ii) New Equity Pledge Agreement: on 28 December 2018, Fuzhou Tianji and the New Registered Holders entered into the equity pledge agreement (the “New Equity Pledge Agreement”), pursuant to which the New Registered Holders granted Fuzhou Tianji a continuing first priority security interest over their respective equity interest in Fuzhou Tianmeng, representing all of the equity interest in Fuzhou Tianmeng’s registered capital, for the purpose of securing the performance of contractual obligations by Fuzhou Tianmeng under the Structured Contracts. In addition, the New Registered Holders agreed to allocate, use or deal with the dividends and other non-cash distributions paid for the equity interest in Fuzhou Tianmeng in any way according to the instruction of Fuzhou Tianji.
- (iii) Power of Attorney of Mr. Deyang Zheng: on 28 December 2018, Mr. Deyang Zheng issued a power of attorney (the “Power of Attorney of Mr. Deyang Zheng”), pursuant to which Mr. Deyang Zheng irrevocably authorised the Directors and their successors or the Company’s liquidator to exercise all the shareholders’ rights of Mr. Deyang Zheng in Fuzhou Tianmeng.
- (iv) Power of Attorney of Mr. Chengfeng Luo: on 28 December 2018, Mr. Chengfeng Luo issued a power of attorney (the “Power of Attorney of Mr. Chengfeng Luo”, together with the Power of Attorney of Mr. Deyang Zheng, the “New Power of Attorney”), pursuant to which Mr. Chengfeng Luo irrevocably authorised the Directors and their successors or the Company’s liquidator to exercise all the shareholders’ rights of Mr. Chengfeng Luo in Fuzhou Tianmeng.
- (v) New Exclusive Technical Consulting Service Agreement: on 28 December 2018, Fuzhou Tianmeng, Fuzhou Tianji and the New Registered Holders entered into the exclusive technical consulting service agreement (the “New Exclusive Technical Consulting Service Agreement”), pursuant to which Fuzhou Tianmeng agreed to pay a fee to Fuzhou Tianji in return for Fuzhou Tianji providing exclusive technical consulting services as required by Fuzhou Tianmeng to support its operations. According to the New Exclusive Technical Consulting 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.

## DIRECTORS' REPORT

- (vi) **New Online Game Licensing Agreement:** on 28 December 2018, Fuzhou Tianji and Fuzhou Tianmeng entered into the online game licensing agreement (the “New Online Game Licensing Agreement”), pursuant to which Fuzhou Tianji agreed to grant to Fuzhou Tianmeng usage rights on various online game software 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.
- (vii) **Spouse Undertaking of Mr. Deyang Zheng:** on 28 December 2018, the spouse of Mr. Deyang Zheng issued a spouse undertaking (the “Spouse Undertaking of Mr. Deyang Zheng”) to the effect that (i) Mr. Deyang Zheng’s interests in Fuzhou Tianmeng (together with any other interests therein) do not fall within the scope of communal properties; (ii) she has no right to or control over such interests of Mr. Deyang Zheng and will not have any claim on such interest. No authorisation or consent will be needed from her for the performance, amendment or termination of the Structured Contracts by Mr. Deyang Zheng; (iii) she will execute all necessary documents and take all necessary actions to ensure the performance of the Structured Contracts; and (iv) in the event that she obtains any interests in Fuzhou Tianmeng, she will be subject to and abide by the terms of the Structured Contracts, and at the request of Fuzhou Tianji, she will sign any documents in the form and substance consistent with the Structured Contracts.
- (viii) **Spouse Undertaking of Mr. Chengfeng Luo:** on 28 December 2018, the spouse of Mr. Chengfeng Luo issued a spouse undertaking (the “Spouse Undertaking of Mr. Chengfeng Luo”, together with the Spouse Undertaking of Mr. Deyang Zheng, the “Spouse Undertakings”) to the effect that (i) Mr. Chengfeng Luo’s interests in Fuzhou Tianmeng (together with any other interests therein) do not fall within the scope of communal properties; (ii) she has no right to or control over such interests of Mr. Chengfeng Luo and will not have any claim on such interest. No authorisation or consent will be needed from her for the performance, amendment or termination of the Structured Contracts by Mr. Chengfeng Luo; (iii) she will execute all necessary documents and take all necessary actions to ensure the performance of the Structured Contracts; and (iv) in the event that she obtains any interests in Fuzhou Tianmeng, she will be subject to and abide by the terms of the Structured Contracts, and at the request of Fuzhou Tianji, she will sign any documents in the form and substance consistent with the Structured Contracts.

Please refer to the announcement dated 28 December 2018 for details of the continuing connected transactions relating to the entering into of the Structured Contracts.

# DIRECTORS' REPORT

## Contribution of the Structured Contracts to the Group

The Directors are of the view that the Group kept the Structured Contracts to maintain presence in the PRC for further development but the business and operation of the Group do not rely on Fuzhou Tianmeng or the Structured Contracts.

The tables below compare the number of games operated, game revenue and assets attributable to Fuzhou Tianmeng during the year ended 31 December 2019:

### Number of games operated:

	Developed in-house As at 31 December 2019	Licensed
Fuzhou Tianmeng	0	1

### Game revenue\*:

	Revenue attributable to the relevant entity For the year ended 31 December 2019 US\$' 000	Percentage of the total revenue of the Group %
Fuzhou Tianmeng	65,112	9.75

\* Game revenue is from external customers.

### Assets:

	Assets attributable to the relevant entity As at 31 December 2019 US\$' 000	Percentage of the total assets of the Group %
Fuzhou Tianmeng	17,632	3.70



# DIRECTORS' REPORT

## On-going reporting and approvals

The Directors confirmed that, as at the date hereof, the Structured Contracts had not been challenged by the relevant authorities in the PRC and the Group had not encountered any interference or encumbrance from any PRC governing bodies in operating their business through Fuzhou Tianmeng under the Structured Contracts.

The 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:

- The Company confirms that in order to ensure the operation of the Structured Contracts, the Company has reviewed the overall performance and compliance with the Structured Contracts for the year ended 31 December 2019.
- The independent non-executive Directors will review the Structured Contracts annually and confirm in the annual reports that (i) the transactions carried out during such year have been entered into in accordance with relevant terms of the Structured Contracts such that all revenue generated by Fuzhou Tianmeng deducting all related expenses, costs and the taxes payable by it has been retained by the Group; (ii) no dividends or other distributions have been made by Fuzhou Tianmeng to its equity interest holders; and (iii) no new contracts or renewed contracts have been entered into on the same terms as the Structured Contracts.
- The Company has engaged KPMG as its auditor to perform procedures annually on the transactions contemplated under the Structured Contracts and the auditor will carry out procedures annually to ensure that no dividend has been distributed by Fuzhou Tianmeng to its equity holders which was not subsequently assigned or transferred to our Group and relevant transactions have received approval of the Board and were entered into in accordance with the terms of the Structured Contracts.
- The Group has not renewed and/or reproduced any of the framework of and terms and conditions similar to those of the Structured Contracts in relation to any existing or new wholly foreign-owned enterprise or operating company.
- Fuzhou Tianmeng has provided the Company's management and auditors with full access to relevant records for the purpose of the auditors' performance of review procedures on relevant transactions under the Structured Contracts.

## Regulatory Matters in Relation to the Structured Contracts

### *FITE Regulations*

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 and 6 February 2016. 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% except in E-commerce, domestic multi-party communication, store and forward, call center, which can be operated by a wholly foreign-owned enterprise according to the Special Administrative Measure (Negative List) for the Access of Foreign Investment (2019). 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 (the “Qualification Requirements”). However, as advised by our PRC legal advisers, Jingtian & Gongcheng, as at the date of this report, there are no administrative or implementing rules in the PRC defining the term “a good track record and prior experience”. Our PRC legal advisers, Jingtian & Gongcheng, also advised the disclosures in the Prospectus with regard to the qualification requirements on the Group’s business stipulated under the provisions on FITE Regulations remain unchanged since the Listing Date and up to the date hereof.

The Group has been relying on our extensive experience in the overseas online game business operations in an attempt to comply with the Qualification Requirement, so as to be qualified to acquire the entire equity interests in Fuzhou Tianmeng when the restrictions on the percentage of foreign ownership in value-added telecommunications services and on foreign ownership in value-added telecommunication enterprises are lifted. Our PRC legal advisers, Jingtian & Gongcheng, advised that the Company has reasonably assessed the requirements under all applicable rules and committed financial and other resources in light of the Qualification Requirements and that none of the applicable PRC laws, regulations or rules provides clear guidance or interpretation on the Qualification Requirements, the above-mentioned measures are currently sufficient to comply with the Qualification Requirements.

## DIRECTORS' REPORT

### *Foreign Investment Law*

The Foreign Investment Law (外商投資法) (the “FIL”), approved by the second session of the 13th National People’s Congress, and the Regulation on the Implementation of the Foreign Investment Law (外商投資法實施條例) (the “FIL Implementation Regulation”), promulgated by the State Council, have come into effect on 1 January 2020.

According to the FIL, the investment in China directly or indirectly by foreign natural persons, enterprises or other organisations (“Foreign Investors”) is defined as foreign investment (“Foreign Investment”), which includes the following situations: (1) Foreign Investors alone or cooperate with other investors to establish foreign-invested enterprises; (2) Foreign Investors acquire shares, equities, property shares or other similar rights of Chinese domestic enterprises; (3) Foreign Investors alone or cooperate with other investors invest projects in China; (4) other means of investment prescribed by laws, administrative regulations and rules promulgated by the State Council. According to Jingtian & Gongcheng, our PRC legal advisers, the FIL and the FIL Implementation Regulation don’t clearly stipulate whether the Structured Contracts are a form of Foreign Investment.

In accordance with the existing provisions of the FIL and the FIL Implementation Regulation and if the laws, administrative regulations and the State Council do not include the Structured Contracts as a form of Foreign Investment, the Structured Contracts will not be materially affected. However, in view of the provisions of the above-mentioned situation (4) of Foreign Investment in the FIL, it is not excluded that the Structured Contracts may be regarded as a form of Foreign Investment according to laws, administrative regulations or rules promulgated by the State Council in the future. In this regard, the Company cannot guarantee that the Structured Contracts and the operations of Fuzhou Tianmeng will not be materially and adversely affected by changes in PRC laws and regulations in the future.

Since the FIL and the FIL Implementation Regulation do not clarify whether the Structured Contracts are a form of Foreign Investment, the Company believes that it may not be appropriate at this stage to formulate specific measures to avoid the Structured Contracts being recognised as a form of Foreign Investment under the FIL. If the Structured Contracts is recognised as a form of Foreign Investment in the future, and there is no special provision for the Structured Contracts that allows Fuzhou Tianmeng, provided that certain conditions are met, to continue to carry out relevant foreign investment restricted or prohibited businesses, the Company might be requested to dispose of its interests in Fuzhou Tianmeng. The appropriate risk factors had already been disclosed in the paragraph headed “Risks And Limitations Relating To The New VIE Structure – 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” in the announcement of the Company dated 28 December 2018.

## DIRECTORS' REPORT

The Company confirms that if the Structured Contracts are required to be unwind or the Company is required to dispose the interests in Fuzhou Tianmeng in the future, it can engage other domestic publishers with the due qualifications and licenses to operate its online games in the PRC, which may adversely affect the Group's operational and financial performance because engaging other domestic publishers may impose more costs to the Group. However, the Company expects that such adverse impact on the Group's operational and financial performance will not be material considering that (1) the revenue and assets attributable to the Structured Contracts are about 9.75% and 3.70% respectively, and (2) there is no legal obstacle for Fuzhou Tianmeng to transfer its assets to Fuzhou Tianji or IGG Singapore, as the case maybe, a subsidiary of the Group.

During the year ended 31 December 2019, the Group has implemented the following measures to ensure the effective operation of the Structured Contracts and the Group's 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 the Board, if necessary, for review and discussion on an occurrence basis;
- the Board will review the overall performance of and compliance with the Structured Contracts at least once a year;
- the Company will disclose the overall performance and compliance with the Structured Contracts in its annual/interim report to update the Shareholders and potential investors;
- the Directors will provide periodic updates in the annual/interim reports regarding the qualification requirements as stipulated under the FITE Regulations and the development of laws and regulations on foreign investment, including the latest relevant regulatory development as well as the plan and progress in acquiring the relevant experience to meet these qualification requirements; and
- the 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 legal compliance of Fuzhou Tianji and Fuzhou Tianmeng to deal with specific issues or matters arising from the Structured Contracts.

# DIRECTORS' REPORT

## Confirmation of independent non-executive Directors

The independent non-executive Directors have reviewed the Structured Contracts (collectively referred to as the "Continuing Connected Transactions") and confirmed that during the year ended 31 December 2019:

- (i) the Continuing Connected Transactions have been entered into in the ordinary and usual course of business of the Company;
- (ii) as appropriate, the Continuing Connected Transactions are on normal commercial terms or, on terms no less favourable to the Company than terms available to or from Independent Third Parties; and
- (iii) the Continuing Connected Transactions have been entered into in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

## Confirmation of auditor of the Company

KPMG, the Company's auditor, were engaged to report on the Continuing Connected Transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants.

After performing the procedure related to Continuing Connected Transactions, KPMG confirmed that:

- a. nothing has come to their attention that causes them to believe that the Continuing Connected Transactions have not been approved by the Board.
- b. for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Company.
- c. nothing has come to their attention that causes them to believe that the Continuing Connected Transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.
- d. nothing has come to their attention that causes them to believe that dividend or other distribution was made by Fuzhou Tianmeng to its equity holders.

KPMG have issued their letter containing their findings and conclusions in respect of the Continuing Connected Transactions in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

# DIRECTORS' REPORT

## EMPLOYEES

### Emolument Policy

The Group's emolument policies are based on the merit, qualifications and competence of individual employees and are reviewed by the remuneration committee periodically.

The emoluments of the Directors are recommended by the remuneration committee and are decided by the Board, having regard to the Group's operating results, individual performance and comparable market statistics. Details of Directors' remuneration and five individuals with highest emoluments are set out in notes 8 and 9 to the consolidated financial statements.

The Company has adopted the Pre-IPO Share Option Scheme, the Share Option Scheme and the Share Award Scheme to motivate and reward Directors and eligible employees. Details of the schemes are set out in the paragraphs headed "Pre-IPO Share Option Scheme", "Share Option Scheme" and "Share Award Scheme" in this report and note 22 to the consolidated financial statements. None of the directors waived any emoluments during the year ended 31 December 2019.

### Pension Scheme

Particulars of the pension scheme of the Group are set out in note 2(n)(i) to the consolidated financial statements.

### Key Relationship

Employees are regarded as the most important and valuable assets of the Group. The objectives of the Group's human resource management are to: (i) reward and recognise performing staff by providing a fair, efficient and competitive remuneration package and implementing a sound performance appraisal system with appropriate incentives, (ii) build a sense of belongings among employees by offering them a better working environment, and (iii) promote career development and progression through offering on-job training to employees and providing opportunities within the Group for career advancement.

For further details, please refer to the section headed "Corporate Social Responsibility Report – 4 Caring for Employees" in this report.

# DIRECTORS' REPORT

## MAJOR CUSTOMERS AND SUPPLIERS

The customers of the Group primarily consist of hundreds of millions of individual players and licensees of our games. The Group provides customer services for each of the games offered by the Group to cater to the needs of the players. The Group has also adopted various means to strengthen the communication between the players and the Group, including customer service support via live in-game chat, online support or email all year around. The five largest customers of the Group during the year ended 31 December 2019 only accounted for 0.47% of the Group's total revenue.

The Group's suppliers primarily include advertising service providers, payment service providers, licensors of games, and server, data center and bandwidth providers. The Group maintains sound relationships with these suppliers and receives professional and value-added services from them. Most of the key service providers have ongoing business relationship with the Group for years. The largest and five largest suppliers of the Group during the year ended 31 December 2019 accounted for 23.0% and 56.6% of the Group's total purchases respectively.

So far as is known to the Directors, at no time during the year ended 31 December 2019 did a director, his/her associate(s) or a Shareholder, which to the knowledge of the Director owns more than 5% of the Company's share capital have an interest in any of the Group's five largest customers and suppliers.

## BANK LOAN AND OTHER BORROWINGS

The Group did not record any bank loans or other borrowings as at 31 December 2019.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the laws of Cayman Islands where the Company is incorporated applicable to the Company.

## BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2019 as set out in the section headed "Management Discussion and Analysis – Business Review" in this annual report is expressly included in this report and forms part of this directors' report.

# DIRECTORS' REPORT

## COMPLIANCE WITH LAWS AND REGULATIONS

The Group has engaged professional service firms for advices regarding compliance matters with various jurisdictions which the Group's subsidiaries operate, and it keeps a close watch on any new laws or regulatory changes.

During the year ended 31 December 2019 and up to the date of this report, the Group has complied with the relevant laws and regulations that have a significant impact on the Company.

## BUSINESS RISKS AND RISK MANAGEMENT

The Board acknowledges its responsibility for the effectiveness of the risk management and internal control systems of the Group, which are designed to manage the risk of failure to achieve objectives and provide reasonable assurance against material misstatement or loss. When conducting business activities globally, the Group is exposed to a variety of key risks. Management team of the Group regularly monitors and updates risk profile and exposure and report to Audit Committee regarding the effectiveness of the Group's system of internal control in mitigating risks.

### Business Risk

The Group conducts business globally and faces business risks includes reputation risks, investment and acquisition risks, taxation risks and corporate responsibility and sustainability risks. The Board meets regularly and reviews the investment and expansion strategies, business plan, financial results, and key performance indicators of the Group to ensure that the business risks are controlled and managed, and potential risks can be identified.

### Financial Risk

The Group has adopted financial risk management policies to control the Group's financial risk exposure, such as taxation risks, currency risks and financial reporting risks. Also, the Board monitors the financial results and key operating statistics with the assistance of the Group's internal financial reporting department on a monthly basis.

### Compliance Risk

The Group has adopted internal procedures to monitor the Group's compliance risk to ensure that the Group's compliance with the laws and regulations in regions which the Group conducts business. In addition, the Group from time to time engages consulting firms and professional advisers to keep the Group updated with the latest development in the regulatory environments.

### Operational Risk

The Group has adopted procedures to manage its operational risk exposures, such as human resources risks and IT governance risks. The Group monitors the overall employee turnover rate, degree of satisfaction, and IT system status on a monthly basis, and adopts countermeasures if any risk indicators arise.



# DIRECTORS' REPORT

## ENVIRONMENTAL PROTECTION

The Group is committed to acting in an environmentally responsible manner. To encourage sustainable use of resources, the Group has adopted initiatives of reducing energy consumption and recycling consumables such as computer hardware, paper and other consumables.

The Group's business activities do not involve any significant industrial and environmental pollution since the Group is not engaged in any manufacturing activities. Currently, the Group does not foresee any industrial or environmental risk nor any issues for the Group to comply with environmental law or regulations. Nevertheless, the Group will remain alert to regulatory changes in countries where it is present.

Details of the environmental protection activities of the Group for the Year are set out in the section headed "Corporate Social Responsibility Report – 6 Green Operation".

## IMPORTANT EVENTS SINCE THE YEAR END

No important events occurred for the Group since 31 December 2019.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float of not less than 25% of the Company's issued Shares as required under the Listing Rules for the year ended 31 December 2019 and up to the date hereof.

## AUDITOR

The financial statements of the Company for the year ended 31 December 2016 was audited by Ernst & Young. KPMG was first appointed as auditor of the Company to fill the vacancy following the retirement of Ernst & Young at the conclusion of the annual general meeting on 27 June 2017. The financial statements of the Company for the years ended 31 December 2017 and 2018 were audited by KPMG.

The consolidated financial statements for the financial year ended 31 December 2019 have been audited by KPMG who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting. A resolution for their re-appointment will be proposed at the forthcoming annual general meeting.

On behalf of the Board

**Zongjian Cai**

*Chairman*

Hong Kong, 4 March 2020

# INDEPENDENT AUDITOR'S REPORT



To the shareholders of IGG Inc

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

## OPINION

We have audited the consolidated financial statements of IGG Inc (“the Company”) and its subsidiaries (“the Group”) set out on pages 103 to 186, which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (“IASB”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSA”) issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor’s responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA’s *Code of Ethics for Professional Accountants* (“the Code”) together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

# INDEPENDENT AUDITOR'S REPORT

<b>Revenue recognition and computation of deferred revenue</b>	
<i>Refer to notes 3(a), 4 and 24 to the consolidated financial statements and the accounting policies in note 2(q)(i).</i>	
<b>The Key Audit Matter</b>	<b>How the matter was addressed in our audit</b>
<p>The Group generates revenue from its self-developed online games by operating the games under a free to play model while providing the players with the option to purchase Premium Gaming Resources for cash. Premium Gaming Resources are virtual items within the game that can be used to provide the players with additional abilities to enhance their game-playing experience. Players pay for Premium Gaming Resources using payment platforms such as Google Play, Apple App Store, Facebook Payments, major credit cards and PayPal. These third-party payment platforms are entitled to service fees which are withheld and deducted from the gross proceeds collected from the players, with the net amounts remitted to the Group.</p> <p>Revenues from the Premium Gaming Resource are recognised ratably over the period the paying players are expected to benefit from an enhanced in-game experience associated with each purchase. The Group estimates the length of this period on a game-by-game basis. Management has arrived at this judgement after taking into account game profile, paying player behavior patterns, and the rights of the players within the games to benefit from the Premium Gaming Resources.</p>	<p>Our audit procedures to assess the recognition of revenue and computation of deferred revenue included the following:</p> <ul style="list-style-type: none"> <li>• assessing the design, implementation and operating effectiveness of management's key internal controls over the completeness, existence, accuracy of revenue, with our internal information technology risk management specialists involved to assess the relevant general and automated information technology controls;</li> <li>• inspecting the purchase patterns of the Premium Gaming Resource of the games which individually generate material amounts of revenue to the Group, and the terms of service provided to players by the Group, to understand the terms of the sale on Premium Gaming Resources, including the obligations of the Group derived from the sales of Premium Gaming Resources, and to assess the Group's revenue recognition criteria with reference to the requirements of the prevailing accounting standards;</li> </ul>

## INDEPENDENT AUDITOR'S REPORT

<b>Revenue recognition and computation of deferred revenue</b>	
<i>Refer to notes 3(a), 4 and 24 to the consolidated financial statements and the accounting policies in note 2(q)(i).</i>	
<b>The Key Audit Matter</b>	<b>How the matter was addressed in our audit</b>
<p>At each reporting date, the unamortised portion of income received in respect of Premium Gaming Resource is recognised as deferred revenue.</p> <p>We identified revenue recognition and the computation of deferred revenue as a key audit matter because revenue is one of the key performance indicators of the Group and because there is an inherent risk of manipulation of the timing of recognition of revenue by management to meet specific targets or expectations.</p>	<ul style="list-style-type: none"> <li>• assessing the assumptions and judgements made by the management for the length of the period on selected types of games, on a sample basis, by performing a retrospective review of the historical accuracy of these estimates;</li> <li>• obtaining monthly settlement statements sent by the payment platforms to the Group and the bank-in slips on a sample basis, comparing the settlement amounts on the statements to bank-in slips and reconciling the settlement amounts in the statements to the amounts recorded in the books and records of the Group, and assessing if the reconciling items have been accounted for in accordance with the requirements of the prevailing accounting standards; and</li> <li>• recalculating the Group's revenue and deferred revenue with reference to the major estimations and assumptions and comparing the results to the revenue and deferred revenue as at the end of the financial reporting period.</li> </ul>

# INDEPENDENT AUDITOR'S REPORT

## INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

# INDEPENDENT AUDITOR'S REPORT

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

# INDEPENDENT AUDITOR'S REPORT

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Liu Hin Pan.

KPMG  
*Certified Public Accountants*  
8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong

4 March 2020

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2019

	Note	2019 US\$' 000	2018 US\$' 000
<b>Revenue</b>	4	<b>667,648</b>	748,785
Cost of revenue		<u>(204,853)</u>	<u>(225,237)</u>
<b>Gross profit</b>		<b>462,795</b>	523,548
Other net income	5	<b>32,622</b>	9,051
Selling and distribution expenses		<b>(164,883)</b>	(186,592)
Administrative expenses		<b>(45,463)</b>	(44,658)
Research and development expenses		<b>(92,504)</b>	(63,599)
Other operating expenses		<u><b>(628)</b></u>	<u>(40)</u>
<b>Profit from operations</b>		<b>191,939</b>	237,710
Finance costs	6(a)	<b>(482)</b>	–
Share of results of associates and joint ventures		<u><b>(1,506)</b></u>	<u>(1,329)</u>
<b>Profit before taxation</b>	6	<b>189,951</b>	236,381
Income tax expenses	7(a)	<u><b>(25,169)</b></u>	<u>(47,070)</u>
<b>Profit for the year</b>		<u><b>164,782</b></u>	<u>189,311</u>
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>164,794</b>	189,177
Non-controlling interests		<u><b>(12)</b></u>	<u>134</u>
<b>Profit for the year</b>		<u><b>164,782</b></u>	<u>189,311</u>
<b>Earnings per share</b> (in US\$ per share)	10		
Basic		<u><b>0.1319</b></u>	<u>0.1467</u>
Diluted		<u><b>0.1297</b></u>	<u>0.1436</u>

The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

The notes on pages 110 to 186 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 26(b).



# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2019

	2019 US\$'000	2018 US\$'000
<b>Profit for the year</b>	<u>164,782</u>	<u>189,311</u>
<b>Other comprehensive income for the year (after tax and reclassification adjustments):</b>		
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of financial statements of overseas subsidiaries	<u>(2,031)</u>	<u>(4,185)</u>
<b>Total comprehensive income for the year</b>	<u><u>162,751</u></u>	<u><u>185,126</u></u>
<b>Attributable to:</b>		
Equity shareholders of the Company	<u>162,763</u>	184,992
Non-controlling interests	<u>(12)</u>	<u>134</u>
<b>Total comprehensive income for the year</b>	<u><u>162,751</u></u>	<u><u>185,126</u></u>

The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

The notes on pages 110 to 186 form parts of these financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2019

	Note	2019 US\$' 000	2018 US\$' 000
<b>Non-current assets</b>			
Property, plant and equipment	11	43,256	8,821
Intangible assets	12	662	461
Other non-current assets	13	2,551	2,182
Interests in associates and joint ventures	15	4,415	5,949
Other financial assets	16	71,407	44,075
Deferred tax assets	23(b)	125	–
		<u>122,416</u>	<u>61,488</u>
<b>Current assets</b>			
Inventories		318	280
Trade and other receivables	17	12,444	9,397
Funds receivable	18	33,762	40,701
Restricted deposits		505	–
Cash and cash equivalents	19	307,086	287,547
		<u>354,115</u>	<u>337,925</u>
<b>Total current assets</b>			
		<u>354,115</u>	<u>337,925</u>
<b>Current liabilities</b>			
Trade and other payables	20	33,203	41,409
Lease liabilities	21	3,764	–
Tax payable	23(a)	31,615	44,705
Deferred revenue	24	25,212	31,564
		<u>93,794</u>	<u>117,678</u>
<b>Total current liabilities</b>			
		<u>93,794</u>	<u>117,678</u>
<b>Net current assets</b>			
		<u>260,321</u>	<u>220,247</u>
<b>Total assets less current liabilities</b>			
		<u>382,737</u>	<u>281,735</u>

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2019

	Note	2019 US\$'000	2018 US\$'000
<b>Non-current liabilities</b>			
Lease liabilities	21	7,620	–
Deferred tax liabilities	23(b)	512	353
<b>Total non-current liabilities</b>		<b>8,132</b>	<b>353</b>
<b>NET ASSETS</b>		<b>374,605</b>	<b>281,382</b>
<b>CAPITAL AND RESERVES</b>			
Share capital	26(c)	3	3
Reserves		374,602	282,600
<b>Total equity attributable to equity shareholders of the Company</b>		<b>374,605</b>	<b>282,603</b>
<b>Non-controlling interests</b>		<b>–</b>	<b>(1,221)</b>
<b>TOTAL EQUITY</b>		<b>374,605</b>	<b>281,382</b>

Approved and authorised for issue by the board of directors on 4 March 2020.

**Zongjian Cai**  
*Director*

**Jessie Shen**  
*Director*

The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

The notes on pages 110 to 186 form part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2019

Note	Attributable to equity shareholders of the Company											
	Share capital (note 26(c)) US\$' 000	Share premium (note 26(d)(i)) US\$' 000	Share-based payment reserve (note 26(d)(ii)) US\$' 000	Shares held for	Shares repurchased	Statutory reserve US\$' 000	Other reserve (note 26(d)(iv)) US\$' 000	Exchange reserve (note 26(d)(iii)) US\$' 000	Retained earnings US\$' 000	Total US\$' 000	Non-controlling interests US\$' 000	Total equity US\$' 000
				share award scheme	for cancellation							
				US\$' 000	US\$' 000							
Balance at 31 December 2018	3	52,985	9,348	(19,948)	(2,682)	88	2,454	(4,996)	245,351	282,603	(1,221)	281,382
<b>Changes in equity for the year ended 31 December 2019:</b>												
Profit for the year	-	-	-	-	-	-	-	-	164,794	164,794	(12)	164,782
Other comprehensive income	-	-	-	-	-	-	-	(2,031)	-	(2,031)	-	(2,031)
Total comprehensive income	-	-	-	-	-	-	-	(2,031)	164,794	162,763	(12)	162,751
Liquidation of a subsidiary	-	-	-	-	-	-	-	-	-	-	1,233	1,233
Equity-settled share-based payment	-	-	3,910	-	-	-	-	-	-	3,910	-	3,910
Shares purchased for the												
share award scheme	26(c)	-	-	(508)	-	-	-	-	-	(508)	-	(508)
Repurchase of ordinary shares	26(c)	-	-	-	(27,042)	-	-	-	-	(27,042)	-	(27,042)
Cancellation of ordinary shares	26(c)	-*	(29,147)	-	29,147	-	-	-	-	-	-	-
Exercise of share options	26(c)	-*	403	(135)	-	-	-	-	-	268	-	268
Vesting of awarded shares	26(c)	-	136	(3,401)	3,265	-	-	-	-	-	-	-
Dividends received for												
share award scheme		-	-	-	-	-	998	-	-	998	-	998
2018 second interim dividend paid	26(b)(ii)	-	-	-	-	-	-	-	(27,251)	(27,251)	-	(27,251)
2019 first interim dividend paid	26(b)(i)	-	-	-	-	-	-	-	(21,136)	(21,136)	-	(21,136)
Balance at 31 December 2019	3	24,377	9,722	(17,191)	(577)	88	3,452	(7,027)	361,758	374,605	-	374,605

\* These amounts represent amounts less than US\$1,000.

The Group has initially applied IFRS 16 at 1 January 2019 using this modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

The notes on pages 110 to 186 form part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2019

Attributable to equity shareholders of the Company												
Note	Share capital (note 26(c)) US\$' 000	Share premium (note 26(d)(i)) US\$' 000	Share-based payment reserve (note 26(d)(ii)) US\$' 000	Shares	Shares	Statutory reserve US\$' 000	Other reserve (note 26(d)(iv)) US\$' 000	Exchange reserve (note 26(d)(iii)) US\$' 000	Retained earnings US\$' 000	Total US\$' 000	Non-controlling interests US\$' 000	Total equity US\$' 000
				held for	repurchased							
<b>Balance at 31 December 2017</b>	3	125,435	7,981	(18,501)	(671)	88	1,577	(811)	114,072	229,173	(1,355)	227,818
Impact on initial application of IFRS 9	-	-	-	-	-	-	-	-	(4,901)	(4,901)	-	(4,901)
<b>Adjusted balance at 1 January 2018</b>	3	125,435	7,981	(18,501)	(671)	88	1,577	(811)	109,171	224,272	(1,355)	222,917
<b>Changes in equity for the year ended 31 December 2018:</b>												
Profit for the year	-	-	-	-	-	-	-	-	189,177	189,177	134	189,311
Other comprehensive income	-	-	-	-	-	-	-	(4,185)	-	(4,185)	-	(4,185)
<b>Total comprehensive income</b>	-	-	-	-	-	-	-	(4,185)	189,177	184,992	134	185,126
Equity-settled share-based payment	-	-	4,906	-	-	-	-	-	-	4,906	-	4,906
Shares purchased for the												
share award scheme	26(c)	-	-	(4,477)	-	-	-	-	-	(4,477)	-	(4,477)
Repurchase of ordinary shares	26(c)	-	-	-	(75,740)	-	-	-	-	(75,740)	-	(75,740)
Cancellation of ordinary shares	26(c)	-*	(73,729)	-	73,729	-	-	-	-	-	-	-
Exercise of share options	26(c)	-*	1,133	(363)	-	-	-	-	-	770	-	770
Vesting of awarded shares	26(c)	-	146	(3,176)	3,030	-	-	-	-	-	-	-
Dividends received for												
share award scheme	-	-	-	-	-	-	877	-	-	877	-	877
2017 second interim dividend paid	26(b)(ii)	-	-	-	-	-	-	-	(23,803)	(23,803)	-	(23,803)
2018 first interim dividend paid	26(b)(i)	-	-	-	-	-	-	-	(29,194)	(29,194)	-	(29,194)
<b>Balance at 31 December 2018</b>	3	52,985	9,348	(19,948)	(2,682)	88	2,454	(4,996)	245,351	282,603	(1,221)	281,382

\* These amounts represent amounts less than US\$1,000.

The notes on pages 110 to 186 form part of these financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2019

	Note	2019 US\$' 000	2018 US\$' 000
<b>Operating activities</b>			
Cash generated from operations	19(b)	157,219	258,131
Income tax paid		(30,277)	(18,907)
<b>Net cash generated from operating activities</b>		<b>126,942</b>	<b>239,224</b>
<b>Investing activities</b>			
Purchases of property, plant and equipment and intangible assets		(5,143)	(5,087)
Dividends received from unquoted equity investments		700	–
Proceeds from disposal of property, plant and equipment		23	14
Payment for acquisitions of other financial assets		(2,200)	(34,619)
Proceeds from disposal of other financial assets		–	1,451
Net cash paid for a business combination	25	(22,543)	–
Investments in an associate and joint ventures		–	(2,782)
<b>Net cash used in investing activities</b>		<b>(29,163)</b>	<b>(41,023)</b>
<b>Financial activities</b>			
Capital element of lease rentals paid	19(c)	(2,943)	–
Interest element of lease rentals paid	19(c)	(482)	–
Dividends paid		(47,389)	(52,120)
Payments for repurchase of shares		(27,042)	(75,740)
Payments for purchase of shares for share award scheme		(508)	(4,477)
Proceeds from exercise of share options	26	268	770
<b>Net cash used in financing activities</b>		<b>(78,096)</b>	<b>(131,567)</b>
<b>Net change in cash and cash equivalents</b>		<b>19,683</b>	<b>66,634</b>
<b>Cash and cash equivalents at 1 January</b>	19(a)	<b>287,547</b>	<b>221,892</b>
<b>Effect of foreign exchange rate changes</b>		<b>(144)</b>	<b>(979)</b>
<b>Cash and cash equivalents at 31 December</b>	19(a)	<b>307,086</b>	<b>287,547</b>

The Group has initially applied IFRS 16 at 1 January 2019 using this modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

The notes on pages 110 to 186 form part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 1 CORPORATE AND GROUP INFORMATION

IGG Inc (the “Company”) was incorporated in the Cayman Islands on 16 August 2007 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The registered address of the Company is P.O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205, Cayman Islands. The shares of the Company were listed on the GEM of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 18 October 2013. The shares of the Company were transferred to the Main Board of the Stock Exchange on 7 July 2015.

The principal activity of the Company is investment holding. The Group was principally engaged in the development and operation of online games in the international market. There has been no significant change in the Group’s principal activities during the year.

In the opinion of the directors of the Company, as of the date of this report, there were no controlling shareholders for the Company.

## 2 SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”), which collective term includes all applicable individual International Financial Reporting Standards and International Accounting Standards (“IASs”) issued by the International Accounting Standard Board (“IASB”). These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2019 comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interests in associates and joint ventures.

The Group currently is operating its online games business in Mainland China through Fuzhou Skyunion Digital Co., Ltd. (“Fuzhou Tianmeng”), a structured entity. In November 2007, certain structured contracts (“Previous Structured Contracts”) became effective among Fuzhou Tianmeng, Fuzhou TJ Digital Entertainment Co., Ltd. (“Fuzhou Tianji”), Mr. Zongjian Cai and Mr. Yuan Chi (the “Original Registered Shareholders”) who were the former legal shareholders of Fuzhou Tianmeng and also the core founders of the Company.

The Previous Structured Contracts provided the Group through Fuzhou Tianji with effective control over Fuzhou Tianmeng. In particular, Fuzhou Tianji undertook to provide Fuzhou Tianmeng with certain technical services as required to support their operations. In return, the Group was entitled to substantially all of the operating profits and residual benefits generated by Fuzhou Tianmeng through intercompany charges levied on these services rendered. The Original Registered Shareholders were also required to transfer their interests in Fuzhou Tianmeng 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 Fuzhou Tianmeng had also been pledged by the Original Registered Shareholders to the Group in respect of the continuing obligations of Fuzhou Tianmeng. Fuzhou Tianji intent continuously to provide to or assist Fuzhou Tianmeng in obtaining financial support when deemed necessary. Accordingly, the Group had rights to variable returns from its involvement with Fuzhou Tianmeng and had the ability to affect those returns through its power over Fuzhou Tianmeng.

On 28 December 2018, Mr. Zongjian Cai and Mr. Yuan Chi transferred their shareholdings in Fuzhou Tianmeng respectively to Mr. Deyang Zheng and Mr. Chengfeng Luo (“New Registered Shareholders”). On the same day, a series of new structured contracts (“Structured Contracts”) became effective among Fuzhou Tianmeng, Fuzhou Tianji and the New Registered Shareholders. The Structured Contracts are substantially on the same terms as the Previous Structured Contracts except for the identity of the registered shareholders. The Structured Contracts also provide the Group with the rights to variable returns from its involvement with Fuzhou Tianmeng. The change of registered shareholders does not affect the Group’s control over Fuzhou Tianmeng.



# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (b) Basis of preparation of the financial statements (Continued)

As a result, Fuzhou Tianmeng was accounted for as a subsidiary of the Company.

The measurement basis used in the preparation of the financial statements is the historical cost basis except for certain financial instruments which have been measured at fair value.

The functional currency of the Company is US Dollars (“US\$”). These financial statements are presented in United States Dollars (“US\$”) and all values are rounded to the nearest thousand except when otherwise indicated.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

### (c) Changes in accounting policies

The IASB has issued a new IFRS, IFRS 16, *Leases*, and a number of amendments to IFRSs that are first effective for the current accounting period of the Group.

Except for IFRS 16, *Leases*, none of the developments have had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (c) Changes in accounting policies (Continued)

#### *IFRS 16, Leases*

IFRS 16 replaces IAS 17, *Leases*, and the related interpretations, IFRIC 4, *Determining whether an arrangement contains a lease*, SIC 15, *Operating leases – incentives*, and SIC 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less (“short-term leases”) and leases of low-value assets. The lessor accounting requirements are brought forward from IAS 17 substantially unchanged.

IFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied IFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under IAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

#### a. New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. IFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in IFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under IAS 17 continue to be accounted for as leases under IFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (c) Changes in accounting policies (Continued)

#### *IFRS 16, Leases* (Continued)

##### b. Lessee accounting and transitional impact

IFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by IAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under IAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment as disclosed in note 11. For an explanation of how the Group applies lessee accounting, see note 2(i).

At the date of transition to IFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 4.26%.

To ease the transition to IFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of IFRS 16:

- (i) the Group elected not to apply the requirements of IFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of IFRS 16, i.e. where the lease term ends on or before 31 December 2019;
- (ii) when measuring the lease liabilities at the date of initial application of IFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and
- (iii) when measuring the right-of-use assets at the date of initial application of IFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (c) Changes in accounting policies (Continued)

*IFRS 16, Leases* (Continued)

#### b. Lessee accounting and transitional impact (Continued)

The following table reconciles the operating lease commitments as disclosed in note 28(b) as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	<b>1 January 2019</b> <b>US\$'000</b>
Operating lease commitments at 31 December 2018	<b>12,063</b>
Less: commitments relating to leases exempt from capitalisation:	
– short-term leases and other leases with remaining lease term ending on or before 31 December 2019	<b>(81)</b>
– leases of low-value assets	<b>(119)</b>
Add: lease payments for the additional periods where the Group considers it reasonably certain that it will exercise the extension options	<b>2,123</b>
	<b>13,986</b>
Less: total future interest expenses	<b>(1,202)</b>
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019	<b>12,784</b>
Total lease liabilities recognised at 1 January 2019	<b>12,784</b>

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (c) Changes in accounting policies (Continued)

*IFRS 16, Leases* (Continued)

#### b. Lessee accounting and transitional impact (Continued)

The following table summarises the impacts of the adoption of IFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 US\$'000	Capitalisation of operating lease contracts US\$'000	Carrying amount at 1 January 2019 US\$'000
<b>Line items in the consolidated statement of financial position impacted by the adoption of IFRS 16:</b>			
Property, plant and equipment	8,821	12,514	21,335
<b>Total non-current assets</b>	<b>61,488</b>	<b>12,514</b>	<b>74,002</b>
Trade and other payables	41,409	(270)	41,139
Lease liabilities (current)	–	3,167	3,167
<b>Current liabilities</b>	<b>117,678</b>	<b>2,897</b>	<b>120,575</b>
<b>Net current assets</b>	<b>220,247</b>	<b>(2,897)</b>	<b>217,350</b>
<b>Total assets less current liabilities</b>	<b>281,735</b>	<b>9,617</b>	<b>291,352</b>
Lease liabilities (non-current)	–	9,617	9,617
<b>Total non-current liabilities</b>	<b>353</b>	<b>9,617</b>	<b>9,970</b>
<b>Net assets</b>	<b>281,382</b>	<b>–</b>	<b>281,382</b>

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (c) Changes in accounting policies (Continued)

#### *IFRS 16, Leases* (Continued)

#### c. Impact on the financial result, segment results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's consolidated statement of profit or loss, as compared to the results if IAS 17 had been applied during the year.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element (see note 19(c)). These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under IAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under IAS 17. Although total cash flows are unaffected, the adoption of IFRS 16 therefore results in a change in presentation of cash flows within the cash flow statement (see note 19(d)).

The following tables give an indication of the estimated impact of the adoption of IFRS 16 on the Group's financial result, segment results and cash flows for the year ended 31 December 2019, by adjusting the amounts reported under IFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognised under IAS 17 if this superseded standard had continued to apply in 2019 instead of IFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under IAS 17.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (c) Changes in accounting policies (Continued)

*IFRS 16, Leases* (Continued)

c. Impact on the financial result, segment results and cash flows of the Group (Continued)

	2019			2018	
			Deduct: Estimated amounts related to operating leases as if under IAS 17 (note 1) (C)	Hypothetical amounts for 2019 as if under IAS 17 (D=A+B-C)	Compared to amounts reported for 2018 under IAS 17
Amounts reported under IFRS 16 (A)	Add back: IFRS 16 depreciation and interest expense (B)				
US\$' 000	US\$' 000		US\$' 000	US\$' 000	US\$' 000
<b>Financial result for year ended</b>					
<b>31 December 2019 impacted</b>					
<b>by the adoption of IFRS 16:</b>					
<b>Profit from operations</b>	191,939	3,396	3,757	191,578	237,710
Finance costs	(482)	482	–	–	–
<b>Profit before taxation</b>	<b>189,951</b>	<b>3,878</b>	<b>3,757</b>	<b>190,072</b>	<b>236,381</b>
<b>Profit for the year</b>	<b>164,782</b>	<b>3,878</b>	<b>3,757</b>	<b>164,903</b>	<b>189,311</b>

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (c) Changes in accounting policies (Continued)

*IFRS 16, Leases* (Continued)

#### c. Impact on the financial result, segment results and cash flows of the Group (Continued)

	2019			2018
	Estimated amounts related to operating leases as if under IAS 17 (A)	Hypothetical amounts for 2019 as if under IAS 17 (B)	Hypothetical amounts for 2019 as if under IAS 17 (C=A+B)	Compared to amounts reported for 2018 under IAS 17
	US\$' 000	US\$' 000	US\$' 000	US\$' 000
<b>Line items in the consolidated cash flow statement for year ended 31 December 2019 impacted by the adoption of IFRS 16:</b>				
Cash generated from operations	157,219	(3,425)	153,794	258,131
<b>Net cash generated from operating activities</b>	<b>126,942</b>	<b>(3,425)</b>	<b>123,517</b>	<b>239,224</b>
Capital element of lease rentals paid	(2,943)	2,943	-	-
Interest element of lease rentals paid	(482)	482	-	-
<b>Net cash used in financing activities</b>	<b>(78,096)</b>	<b>3,425</b>	<b>(74,671)</b>	<b>(131,567)</b>

Note 1: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if IAS 17 had still applied in 2019. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under IAS 17, if IAS 17 had still applied in 2019. Any potential net tax effect is ignored.

Note 2: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if IAS 17 still applied.



# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(f)) or, when appropriate, the cost on initial recognition of investments in associates or joint ventures (see note 2(e)).

In the Company's statement of financial position, investments in subsidiaries are accounted under the equity method.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (e) Associates and joint ventures

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate or joint venture that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see note 2(j)(ii)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with any other long-term interests that in substance form part of the Group's net investment in the associate or the joint venture (after applying the ECL model to such other long-term interests where applicable (see note 2(j)(i))).

Unrealised profits and losses resulting from transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (e) Associates and joint ventures (Continued)

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(f)).

In the Company's statement of financial position, investments in associates and joint ventures are accounted under equity method.

### (f) Other investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are set out below.

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 27(e). These investments are subsequently accounted for as follows, depending on their classification.

#### (i) Investments other than equity investments

Non-equity investments held by the Group are classified into one of the following measurement categories:

- amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see note 2(q)(iii)).

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (f) Other investments in debt and equity securities (Continued)

#### (i) *Investments other than equity investments* (Continued)

- fair value through other comprehensive income (FVOCI) – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.
- fair value at profit or loss (FVPL) if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

#### (ii) *Equity investments*

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income in accordance with the policy set out in note 2(q)(ii).

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (g) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(j)):

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Freehold land is not depreciated	
Fine arts are not depreciated	
Buildings	depreciation rate of 3%
Right-of-use assets: office premises	2 – 8 years
Leasehold improvements	The lease terms
Computer equipment	3 years
Office equipment and furniture	3 years
Motor vehicles	5 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

### (h) Intangible assets

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the Group's research and development activities, the criteria for the recognition of such costs as an asset are generally not met until late in the development stage of the project when the remaining development costs are immaterial. Hence both research costs and development costs are generally recognised as expenses in the period in which they are incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(j)).

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (h) Intangible assets (Continued)

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

Licenses	License period
Trademarks and domain names, software and copyright	3 – 5 years

Both the period and method of amortisation are reviewed annually.

### (i) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

#### *As a lessee*

##### (A) Policy applicable from 1 January 2019

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (i) Leased assets (Continued)

#### *As a lessee* (Continued)

##### (A) Policy applicable from 1 January 2019 (Continued)

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see notes 2(g) and 2(j)(ii)).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets in "property, plant and equipment" and presents lease liabilities separately in the statement of financial position.

##### (B) Policy applicable prior to 1 January 2019

In the comparative period, leases which did not transfer substantially all the risks and rewards of ownership to the Group were classified as operating leases. All the leases were operating leases.

Where the Group had the use of assets held under operating leases, payments made under the leases were charged to profit or loss in equal instalments over the accounting periods covered by the lease term.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (j) Credit losses and impairment of assets

#### (i) *Credit losses from financial instruments*

The Group recognises a loss allowance for expected credit losses (ECLs) on financial assets measured at amortised cost (including cash and cash equivalents, trade receivables and other receivables and funds receivable).

Other financial assets measured at fair value, including equity and debt securities measured at FVPL and equity securities designated at FVOCI (non-recycling), are not subject to the ECL assessment.

#### *Measurement of ECLs*

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

Loss allowances for trade receivables and funds receivable are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.



# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (j) Credit losses and impairment of assets (Continued)

#### (i) *Credit losses from financial instruments* (Continued)

##### *Significant increases in credit risk*

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or past due event;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (j) Credit losses and impairment of assets (Continued)

#### (i) Credit losses from financial instruments (Continued)

##### *Write-off policy*

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

#### (ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment, including right-of-use assets;
- intangible assets; and
- investments in subsidiaries, associates and joint ventures in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (j) Credit losses and impairment of assets (Continued)

#### (ii) *Impairment of other non-current assets* (Continued)

- Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

- Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

#### (iii) *Interim financial reporting and impairment*

Under the Rule Governing the Listing of Securities on the Stock Exchange, the Group is required to prepare an interim financial report in compliance with IAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(j)(i) and 2(j)(ii)).

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (k) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 2(j)(i)).

### (l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for expected credit losses (ECLs) in accordance with the policy set out in note 2(j)(i).

### (m) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

### (n) Employee benefits

#### (i) Pension scheme

Contributions to appropriate local defined contribution retirement schemes pursuant to the relevant labour rules and regulations in various jurisdictions where the Group's subsidiaries operate are recognised as an expense in profit or loss as incurred.

The Group's subsidiaries participate in several defined contribution retirement benefit schemes organised by local government authorities whereby the Group is required to make contributions to at applicable rates of the eligible employees' salaries. The Group's liability in respect of these plans is limited to the contributions payable at the end of each reporting period.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (n) Employee benefits (Continued)

#### (ii) *Share-based payments*

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to be vested is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share-based payment reserve until either the option is exercised (when it is included in the amount recognised in share capital for the shares issued) or the option expires (when it is released directly to retained earnings).

#### (iii) *Shares held for share award scheme*

As disclosed in note 22 to the financial statements, the Group has set up the Share Award Scheme Trust for the share award scheme, where the Share Award Scheme Trust purchases shares issued by the Group. The consideration paid by the Company, including any directly attributable incremental costs, is presented as "Shares held for share award scheme" and deducted from the Group's equity.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (o) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (o) Income tax (Continued)

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (p) Provisions and contingent liabilities

Provisions are recognised when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### (q) Revenue and other income

Revenue is recognised when control over a product or service is transferred to the customer, at the amount of promised consideration to which the Group is expected to be entitled. Revenue excludes value added tax and is after deduction of any chargebacks.

#### (i) *Online game revenue*

The Group primarily operates its online games under free to play model. Players can purchase Premium Gaming Resource (e.g. virtual items) to enhance their game-playing experience. Players can pay for Premium Gaming Resource using different payment platforms such as Google Play, Apple App Store, Facebook Payments, certain credit cards and PayPal. These third-party payment platforms are entitled to service fees which are withheld and deducted from the gross proceeds collected from the players, with the net amounts remitted to the Group. These service fees are commonly referred to as channel costs. The Group recognises revenue on a gross basis given it is the principal in these transactions, and records the channel cost under cost of revenue in the consolidated statement of profit or loss.

Revenues from the Premium Gaming Resource are recognised ratably over the period the paying players are expected to benefit from an enhanced in-game experience associated with each purchase. At each reporting date, the unamortised portion of income received in respect of Premium Gaming Resource is recognised as deferred revenue.



# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (q) Revenue and other income (Continued)

#### (ii) Dividend income

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

#### (iii) Interest income

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset.

#### (iv) 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 statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments.

### (r) Translation of foreign currencies

These financial statements are presented in United States Dollars, which is the Company's functional 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 statement of profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (r) Translation of foreign currencies (Continued)

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. The transaction date is the date on which the Company initially recognises such non-monetary assets or liabilities. 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 measured. 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 and associates are currencies other than the United States dollars. As at the end of the reporting period, the assets and liabilities of these entities are translated into United States dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss 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 statement of profit or loss.

For the purpose of the consolidated cash flow statement, 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.

### (s) Related parties

(a) A person, or a close member of that person's family, is related to the Group if 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 the Group's parent.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (s) Related parties (Continued)

#### (b) An entity is related to the Group if any of the following conditions applies:

- (i) The entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities 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).
- (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).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

### (t) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's geographical locations.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 3 ACCOUNTING JUDGEMENT AND ESTIMATES

Estimates and judgements are continually evaluated and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in condition and assumptions are factors to be considered when reviewing the financial statements. The principal accounting policies are set forth in note 2. The Group believes the following accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

### (a) Estimation of the length of period customers are expected to benefit from Premium Gaming Resource

The Group estimates the period on a game-by-game basis and reassess such periods semi-annually. Revenue from the sales of Premium Gaming Resource is recognised ratably over the period the players are expected to benefit from the enhanced in-game experience associated with each purchase. This period is currently estimated to be one month from the time that the player pays the payment platform to purchase non-refundable game credits. Management has arrived at this judgement after taking into account paying player behavior patterns, and the rights of the players within the games to benefit from the Premium Gaming Resource. Future paying player behaviour patterns may differ from the historical patterns and therefore the estimated length of the period may change in the future.

### (b) Fair value of share-based compensation expenses

As mentioned in note 22, the Group has granted share options and awarded shares to its employees. The directors 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.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 4 REVENUE AND OPERATING SEGMENT INFORMATION

The Group was principally engaged in the development and operation of online games in the international market.

For the year ended 31 December 2019, substantially all revenue is generated from online games and recognised over time. All revenue generated from the Group's business is within the scope of IFRS 15.

The Group's customer base was diversified and no customer had transactions with the Group exceeding 10% of the Group's revenue during the financial periods presented.

As at 31 December 2019, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Group's existing contracts is US\$25,212,000 (2018: US\$31,564,000), and the Group will recognise this revenue in 2020.

IFRS 8 *Operating Segments* requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision-maker in order to allocate resources to segments and to assess their performance. The information reported to the directors of the Company, who are the chief operating decision-makers, for the purpose of resource allocation and assessment of performance does not contain separate profit or loss information for the development and operation of online games and the directors reviewed the financial results of the Group as a whole reported under IFRSs. Therefore, no further information about the operating segment is presented.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 4 REVENUE AND OPERATING SEGMENT INFORMATION (Continued)

### Geographical information

The following table sets out information about the geographical locations of the Group's revenue from external customers and the Group's property, plant and equipment ("specified non-current assets"). For online game revenue, the geographical locations of customers are based on the Internet Protocol locations of the game players. The geographical locations of the specified non-current assets are based on the physical locations of the assets:

#### *Revenue by geographical regions*

	2019 US\$' 000	2018 US\$' 000
Asia	286,501	346,090
North America	175,091	198,761
Europe	167,772	170,167
Others	38,284	33,767
	<u>667,648</u>	<u>748,785</u>

#### *Specified non-current assets*

	2019 US\$' 000	2018 US\$' 000
Asia	15,773	5,773
North America	4,973	2,913
Europe	22,330	–
Others	180	135
	<u>43,256</u>	<u>8,821</u>

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 5 OTHER NET INCOME

	2019 US\$' 000	2018 US\$' 000
Gain on disposal of other financial assets	–	1,451
Government grants*	2,861	1,918
Dividend income	700	–
Bank interest income	3,287	2,649
Exchange gain/(loss)	132	(3,678)
Fair value change on investments	25,652	6,633
Others	(10)	78
	<u>32,622</u>	<u>9,051</u>

\* Government grants were received mainly for subsidising technology export businesses and rewards for enterprises in cultural industry. There are no unfulfilled conditions or contingencies relating to the grants.

## 6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2019 US\$' 000	2018 US\$' 000
<b>(a) Finance costs</b>		
Interest on lease liabilities (note 19(c))	<u>482</u>	<u>–</u>

The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

	2019 US\$' 000	2018 US\$' 000
<b>(b) Staff costs</b>		
Salaries, wages and other benefits	65,073	58,568
Equity-settled share-based payment expenses	3,910	4,906
Contributions to defined contribution retirement plan	<u>2,441</u>	<u>1,866</u>
	<u>71,424</u>	<u>65,340</u>

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 6 PROFIT BEFORE TAXATION (Continued)

	2019 US\$' 000	2018 US\$' 000
<b>(c) Other items</b>		
Channel cost	186,494	209,655
Amortisation	429	1,256
Depreciation charge (note 11)		
– owned property, plant and equipment*	3,445	2,457
– right-of-use assets*	3,396	–
Impairment losses on trade and other receivables and funds receivable	2	13
Net foreign exchange (gain)/loss	(132)	3,678
Fair value change on investments	(25,652)	(6,633)
Auditors' remuneration		
– audit services	340	320
– non-audit services	30	35
Loss on disposal of property, plant and equipment	22	106

\* The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under IAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 2(c).

## 7 INCOME TAX

### (a) Taxation in the consolidated statement of profit or loss represents:

	2019 US\$' 000	2018 US\$' 000
<b>Current tax</b>		
Provision for the year	25,281	48,064
Over-provision in respect of prior years	(146)	(946)
	<u>25,135</u>	<u>47,118</u>
<b>Deferred tax (note 23(b))</b>		
Origination and reversal of temporary differences	34	(48)
	<u>25,169</u>	<u>47,070</u>

Taxation for subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.



# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 7 INCOME TAX (Continued)

### (b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2019 US\$' 000	2018 US\$' 000
Profit before taxation	<u>189,951</u>	<u>236,381</u>
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	37,843	57,721
Tax effect of non-deductible expenses	772	9,549
Tax effect of non-taxable income	(1,874)	(2,396)
Tax effect of unused tax losses not recognised	1,096	256
Tax losses utilised	–	(11)
Statutory tax concession	(10,891)	(17,102)
Over-provision in prior years	(146)	(947)
Effect of using the deductible losses for which no deferred tax asset was recognised in previous period	<u>(1,631)</u>	<u>–</u>
Actual tax expenses	<u>25,169</u>	<u>47,070</u>

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.

IGG Singapore Pte. Ltd. is subject to the prevailing corporate tax rate of 17% in Singapore and is entitled to a preferential tax rate of 10% on qualifying income derived during the year ended 31 December 2019 (2018: 10%).

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Skyunion Hong Kong Holdings Limited (“Skyunion Hong Kong”) is eligible for 8.25% tax band for the first HK\$2 million of assessable profits under the two-tiered tax regime introduced by the Hong Kong SAR Government in 2018.

Sky Union, LLC (“IGG US”), a subsidiary in the United States, is subject to federal income tax at 21% (2018: 21%). In addition, IGG US is subject to California state income tax at a rate of 8.84%.

Under the relevant income tax law, the PRC subsidiaries are subject to income tax at a statutory rate of 25%. Fuzhou Tianji is entitled to 15% preferential tax rate as it has been recognised as an Advanced Technology Service Enterprise.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 8 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Sub-Total	Equity-settled share-based payment (note)	2019 Total
	US\$' 000	US\$' 000	US\$' 000	US\$' 000	US\$' 000	US\$' 000	US\$' 000
<b>Executive directors</b>							
Mr. Zongjian Cai*	64	509	148	2	723	1	724
Mr. Yuan Xu	64	414	392	8	878	1	879
Mr. Hong Zhang	64	351	400	8	823	1	824
Ms. Jessie Shen	64	355	337	–	756	– <sup>#</sup>	756
Mr. Feng Chen	21	41	5	2	69	– <sup>#</sup>	69
<b>Non-executive director</b>							
Mr. Yuan Chi	64	–	–	–	64	1	65
<b>Independent non-executive directors</b>							
Dr. Horn Kee Leong	55	–	–	–	55	44	99
Mr. Dajian Yu	30	–	–	–	30	44	74
Ms. Zhao Lu	30	–	–	–	30	44	74
	<u>456</u>	<u>1,670</u>	<u>1,282</u>	<u>20</u>	<u>3,428</u>	<u>136</u>	<u>3,564</u>

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 8 DIRECTORS' EMOLUMENTS (Continued)

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Sub-Total	Equity-settled share-based payment (note)	2018 Total
	US\$' 000	US\$' 000	US\$' 000	US\$' 000	US\$' 000	US\$' 000	US\$' 000
<b>Executive directors</b>							
Mr. Zongjian Cai*	64	509	1,329	2	1,904	5	1,909
Mr. Yuan Xu	64	425	934	8	1,431	9	1,440
Mr. Hong Zhang	64	330	1,221	8	1,623	9	1,632
Ms. Jessie Shen	64	355	1,044	–	1,463	5	1,468
Mr. Feng Chen	21	41	5	2	69	2	71
<b>Non-executive director</b>							
Mr. Yuan Chi	64	–	–	–	64	7	71
<b>Independent non-executive directors</b>							
Dr. Horn Kee Leong	51	–	–	–	51	47	98
Mr. Dajian Yu	27	–	–	–	27	47	74
Ms. Zhao Lu	27	–	–	–	27	47	74
	<u>446</u>	<u>1,660</u>	<u>4,533</u>	<u>20</u>	<u>6,659</u>	<u>178</u>	<u>6,837</u>

\* Mr. Zongjian Cai is the chief executive officer of the Group.

# These amounts represent amounts less than US\$1,000.

Note: These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 2(n)(ii).

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share option scheme" in the directors' report and note 22.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, 4 (2018: 4) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other 1 (2018: 1) individual are as follows:

	<b>2019</b>	2018
	<b>US\$' 000</b>	US\$' 000
Salaries and other emoluments	<b>612</b>	601
Discretionary bonuses	<b>497</b>	1,267
Share-based payments	<b>1</b>	8
Retirement scheme contributions	<b>8</b>	8
	<u><b>1,118</b></u>	<u>1,884</u>

The emoluments of the 1 (2018: 1) individual with the highest emoluments are within the following bands:

	<b>2019</b>	2018
	<b>Number of individuals</b>	Number of individuals
HK\$8,500,001 – HK\$9,000,000	<b>1</b>	–
HK\$14,500,001 – HK\$15,000,000	<b>–</b>	1
	<u><b>1</b></u>	<u>1</u>

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 10 EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of the basic earnings per share is based on the profit attributable to equity shareholders of the Company of US\$164,794,000 (2018: US\$189,177,000) and the weighted average of 1,249,353,000 ordinary shares (2018: 1,289,978,000 ordinary shares) in issue during the year calculated as follows.

Weighted average number of ordinary shares:

	2019 '000	2018 '000
Issued ordinary shares at 1 January	1,281,622	1,328,453
Effect of share award scheme	(20,860)	(21,039)
Effect of shares options exercised	1,530	7,482
Effect of repurchase of ordinary shares	(12,939)	(24,918)
	<u>1,249,353</u>	<u>1,289,978</u>
Weighted average number of ordinary shares at 31 December	<u>1,249,353</u>	<u>1,289,978</u>

### (b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of US\$164,794,000 (2018: US\$189,177,000) and the weighted average number of ordinary shares of 1,270,887,000 shares (2018: 1,317,177,000 shares), calculated as follows:

Weighted average number of ordinary shares (diluted):

	2019 '000	2018 '000
Weighted average number of ordinary shares at 31 December	1,249,353	1,289,978
Effect of deemed issue of shares under the Company's share option scheme	14,227	17,874
Effect of deemed issue of shares under the Company's share award scheme	7,307	9,325
	<u>1,270,887</u>	<u>1,317,177</u>
Weighted average number of ordinary shares (diluted) at 31 December	<u>1,270,887</u>	<u>1,317,177</u>

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 11 PROPERTY, PLANT AND EQUIPMENT

### (a) Reconciliation of carrying amount

	Freehold land	Buildings	Right-of-use assets	Leasehold improvements	Computer equipment	Office equipment and furniture	Motor vehicles	Fine arts	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>Cost:</b>									
At 1 January 2018	-	-	-	6,284	7,670	1,032	417	-	15,403
Exchange adjustments	-	-	-	(308)	(159)	(41)	(23)	-	(531)
Additions	-	-	-	2,066	2,144	287	82	-	4,579
Disposals	-	-	-	-	(1,801)	(50)	-	-	(1,851)
At 31 December 2018	-	-	-	8,042	7,854	1,228	476	-	17,600
Impact on initial application of IFRS 16	-	-	12,514	-	-	-	-	-	12,514
At 1 January 2019	-	-	12,514	8,042	7,854	1,228	476	-	30,114
Exchange adjustments	(19)	(78)	72	(85)	(27)	(10)	(6)	(9)	(162)
Business combination (Note 25)	3,940	18,136	-	-	2	191	-	462	22,731
Additions	-	-	1,543	2,523	1,787	292	36	-	6,181
Disposals	-	-	-	(9)	(406)	(63)	(79)	-	(557)
At 31 December 2019	3,921	18,058	14,129	10,471	9,210	1,638	427	453	58,307

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 11 PROPERTY, PLANT AND EQUIPMENT (Continued)

### (a) Reconciliation of carrying amount (Continued)

	Freehold land	Buildings	Right-of-use assets	Leasehold improvements	Computer equipment	Office equipment and furniture	Motor vehicles	Fine arts	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>Accumulated depreciation:</b>									
At 1 January 2018	-	-	-	1,775	5,662	653	188	-	8,278
Exchange adjustments	-	-	-	(84)	(102)	(28)	(11)	-	(225)
Charge for the year	-	-	-	1,015	1,128	241	73	-	2,457
Written back on disposals	-	-	-	-	(1,697)	(34)	-	-	(1,731)
At 31 December 2018 and 1 January 2019	-	-	-	2,706	4,991	832	250	-	8,779
Exchange adjustments	-	-	-	(34)	(25)	(9)	(2)	-	(70)
Business combination (Note 25)	-	-	-	-	-	13	-	-	13
Charge for the year	-	271	3,396	1,371	1,497	230	76	-	6,841
Written back on disposals	-	-	-	(6)	(381)	(50)	(75)	-	(512)
At 31 December 2019	-	271	3,396	4,037	6,082	1,016	249	-	15,051
<b>Net book value:</b>									
At 31 December 2019	3,921	17,787	10,733	6,434	3,128	622	178	453	43,256
At 31 December 2018	-	-	-	5,336	2,863	396	226	-	8,821

The Group has initially applied IFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under IAS 17. See note 2(c).

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 11 PROPERTY, PLANT AND EQUIPMENT (Continued)

### (b) Right-of-use assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	<b>31 December 2019 US\$' 000</b>	1 January 2019 US\$' 000
Properties leased for own use, carried at depreciated cost	<u>10,733</u>	<u>12,514</u>

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	<b>2019 US\$' 000</b>	2018 US\$' 000
Depreciation charge of right-of-use assets by class of underlying asset:		
Properties leased for own use	<u>3,396</u>	<u>–</u>
Interest on lease liabilities (note 6(a))	482	–
Expense relating to short-term leases and other leases with remaining lease term ending on or before 31 December 2019	258	–
Total minimum lease payments for leases previously classified as operating leases under IAS 17	–	6,870

The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under IAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 2(c).

During the year, additions to right-of-use assets were US\$1,543,000. This amount primarily related to the capitalised lease payments payable under new tenancy agreements.

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in notes 19(d) and 21, respectively.



# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 11 PROPERTY, PLANT AND EQUIPMENT (Continued)

### (b) Right-of-use assets (Continued)

#### Other properties leased for own use

The Group has obtained the right to use other properties as its office premises through tenancy agreements. The leases typically run for an initial period of 2 to 8 years. Except for those fixed lease payments, other lease payments are usually increased every 1 to 3 years to reflect market rentals.

Some leases include an option to renew the lease for an additional period after the end of the contract term. Where practicable, the Group seeks to include such extension options exercisable by the Group to provide operational flexibility. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. If the Group is not reasonably certain to exercise the extension options, the future lease payments during the extension periods are not included in the measurement of lease liabilities. The potential exposure to these future lease payments is summarised below:

	<b>Lease liabilities recognised (discounted) US\$'000</b>	<b>Potential future lease payments under extension options not included in lease liabilities (undiscounted) US\$'000</b>
Office premise	1,517	1,435

During the year ended 31 December 2019, none of the leases contain variable lease payment terms.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 12 INTANGIBLE ASSETS

	<b>Trademarks and domain names</b>	<b>Software</b>	<b>Copyright</b>	<b>Licenses</b>	<b>Total</b>
	US\$' 000	US\$' 000	US\$' 000	US\$' 000	US\$' 000
<b>Cost:</b>					
At 1 January 2018	1,447	1,453	1,451	928	5,279
Exchange adjustments	(4)	(36)	(10)	–	(50)
Additions	2	306	–	–	308
Disposals	–	(10)	–	–	(10)
	<u>1,445</u>	<u>1,713</u>	<u>1,441</u>	<u>928</u>	<u>5,527</u>
At 31 December 2018 and 1 January 2019	1,445	1,713	1,441	928	5,527
Exchange adjustments	(1)	(9)	(3)	–	(13)
Additions	1	631	–	–	632
	<u>1,445</u>	<u>2,335</u>	<u>1,438</u>	<u>928</u>	<u>6,146</u>
At 31 December 2019	1,445	2,335	1,438	928	6,146
<b>Accumulated amortisation:</b>					
At 1 January 2018	422	1,068	1,443	928	3,861
Exchange adjustments	(4)	(28)	(9)	–	(41)
Charge for the year	1,024	228	4	–	1,256
Written back on disposals	–	(10)	–	–	(10)
	<u>1,442</u>	<u>1,258</u>	<u>1,438</u>	<u>928</u>	<u>5,066</u>
At 31 December 2018 and 1 January 2019	1,442	1,258	1,438	928	5,066
Exchange adjustments	(1)	(7)	(3)	–	(11)
Charge for the year	3	423	3	–	429
	<u>1,444</u>	<u>1,674</u>	<u>1,438</u>	<u>928</u>	<u>5,484</u>
At 31 December 2019	1,444	1,674	1,438	928	5,484
<b>Net book value:</b>					
At 31 December 2019	<u>1</u>	<u>661</u>	<u>–</u>	<u>–</u>	<u>662</u>
At 31 December 2018	<u>3</u>	<u>455</u>	<u>3</u>	<u>–</u>	<u>461</u>

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 13 OTHER NON-CURRENT ASSETS

Other non-current assets mainly present housing loans to employees and rental deposits, where the balances were expected to be collected beyond one year.

## 14 INVESTMENTS IN SUBSIDIARIES

Particulars of the Company's principal subsidiaries are as follows:

Name of company	Place of incorporation and business	Particulars of issued and paid-up capital	Proportion of ownership interest		Principal activities
			Direct	Indirect	
IGG Singapore Pte. Ltd. ("IGG Singapore")	Singapore	1,500,000 shares	100%	–	Research and development of games, operation and licensing of online games globally
Skyunion Hong Kong	Hong Kong	15,000,000 shares	100%	–	Research and development of games, and provision of consulting service for the Group
IGG US	USA	1,000,000 shares	100%	–	Provision of marketing support and server hosting services
Fuzhou Tianji*	PRC	US\$58,800,000	–	100%	Research and development of games and provision of global customer support services
Fuzhou Tianmeng**	PRC	RMB10,000,000	–	100%#	Research and development of games, operation of licensed online game in Mainland China and provision of customer support services
IGG Philippines Corp. ("IGG Philippines")	the Philippines	100,000 shares	–	100%	Provision of global customer support services

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

\*\* Registered as a limited liability company under the law of the PRC.

# Fuzhou Tianmeng was legally owned by the New Registered Shareholders. Fuzhou Tianji entered into the Structured Contracts with Fuzhou Tianmeng and the New Registered Shareholders. As a result of the contractual arrangements, Fuzhou Tianmeng was ultimately controlled by Fuzhou Tianji, which is a wholly-owned subsidiary of the Company.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 15 INTERESTS IN ASSOCIATES AND JOINT VENTURES

Aggregate information of associates and joint ventures that are not individually material:

	2019 US\$' 000	2018 US\$' 000
Aggregate carrying amount of individually immaterial associates and joint ventures in the consolidated financial statements	4,415	5,949
Aggregate amounts of the Group's shares of these associates and joint ventures' losses	<u>(1,506)</u>	<u>(1,329)</u>

## 16 OTHER FINANCIAL ASSETS

	2019 US\$' 000	2018 US\$' 000
<b>Financial assets measured at FVPL</b>		
– Equity securities listed in Hong Kong	53,805	–
– Unquoted equity investments	16,602	44,075
– Convertible promissory notes	<u>1,000</u>	<u>–</u>
	<u>71,407</u>	<u>44,075</u>

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 17 TRADE AND OTHER RECEIVABLES

	2019 US\$' 000	2018 US\$' 000
Trade receivables, net of loss allowance	1,171	958
Prepayments	7,010	4,793
Deposits	240	914
Other receivables	4,023	2,732
	<u>12,444</u>	<u>9,397</u>

The Group's trading terms with its customers are mainly cash settlement, except for well-established corporate customers in the 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 enhancements over its trade receivable balances. Trade receivables are non-interest bearing.

As of the end of the reporting period, the ageing analysis of trade debtors and net of loss allowance, based on the invoice date, is as follows:

	2019 US\$' 000	2018 US\$' 000
Within 3 months	672	456
3 to 6 months	464	246
Over 6 months but within 9 months	35	256
	<u>1,171</u>	<u>958</u>

Generally, trade debtors are due within 6 months from the date of billing. Further details on the Group's credit policy and credit risk arising from trade debtors and bills receivable are set out in note 27(a).

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 18 FUNDS RECEIVABLE

Funds receivable represent balances due from third-party payment service providers for the cash collected from game players that purchased the Premium Gaming Resource. The Company carefully considers and monitors the creditworthiness of the third-party payment service providers.

As at 31 December 2019, all the funds receivable were aged within three months and US\$24,000 of loss allowance was provided for the funds receivable (31 December 2018: US\$29,000). Further details on the Group's credit policy and credit risk arising from funds receivable are set out in note 27(a).

## 19 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

### (a) Cash and cash equivalents comprise:

	2019 US\$' 000	2018 US\$' 000
Cash at bank and on hand	296,783	274,121
Deposits with other financial institutions	10,303	13,426
	<hr/>	<hr/>
Cash and cash equivalents in the consolidated cash flow statement	<b>307,086</b>	<b>287,547</b>

Cash at banks earns interest at floating rates based on daily bank deposit rates. 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.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 19 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (Continued)

### (b) Reconciliation of profit before taxation to cash generated from operations:

	Note	2019 US\$' 000	2018 US\$' 000
Profit before taxation		189,951	236,381
Adjustments for:			
Gain on disposal of other financial assets	5	–	(1,451)
Share of results of associates and joint ventures	15	1,506	1,329
Loss on disposal of items of property, plant and equipment	6(c)	22	106
Depreciation	6(c)	6,841	2,457
Amortisation of intangible assets	6(c)	429	1,256
Dividend income	5	(700)	–
Finance costs	6(a)	482	–
Equity-settled share-based payment expenses	6(b)	3,910	4,906
Fair value change on investments	5	(25,652)	(6,633)
Impairment losses on trade and other receivables and funds receivable	6(c)	2	13
Changes in working capital:			
Increase in inventories		(38)	(154)
(Increase)/decrease in funds receivable		(986)	10,889
Increase in restricted deposits		(505)	–
(Increase)/decrease in trade and other receivables		(2,476)	4,083
(Decrease)/increase in trade and other payables		(8,846)	5,544
Decrease in deferred revenue		(6,352)	(499)
Increase in other non-current assets		(369)	(96)
Cash generated from operations		<u>157,219</u>	<u>258,131</u>

The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets and lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Previously, cash payments under operating leases made by the Group as a lessee of US\$2,200,000 were classified as operating activities in the consolidated cash flow statement. Under IFRS 16, except for short-term lease payments, all other rentals paid on leases are now split into capital element and interest element (see note 19(c)) and classified as financing cash outflows. Under the modified retrospective approach, the comparative information is not restated. Further details on the impact of the transition to IFRS 16 are set out in note 2(c).

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 19 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (Continued)

### (c) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	<b>Lease liabilities</b>
	US\$' 000
	(Note 21)
<b>At 31 December 2018</b>	–
Impact on initial application of IFRS 16	12,784
<b>At 1 January 2019</b>	12,784
<b>Changes from financing cash flows:</b>	
Capital element of lease rentals paid	(2,943)
Interest element of lease rentals paid	(482)
Total changes from financing cash flows	(3,425)
<b>Other changes:</b>	
Increase in lease liabilities from entering into new leases during the year	1,543
Interest expenses (note 6(a))	482
Total other changes	2,025
<b>At 31 December 2019</b>	11,384

The Group has initially applied IFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. See notes 2(c) and 19(b).



# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 19 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (Continued)

### (d) Total cash outflow for leases

Amounts included in the cash flow statement for leases comprise the following:

	2019 US\$' 000	2018 US\$' 000
Within operating cash flows	253	2,200
Within financing cash flows	3,425	–
	<u>3,678</u>	<u>2,200</u>

As explained in the note to note 19(b), the adoption of IFRS 16 introduces a change in classification of cash flows of certain rentals paid on leases. The comparative amounts have not been restated.

These amounts relate to the following:

	2019 US\$' 000	2018 US\$' 000
Lease rentals paid	<u>3,678</u>	<u>2,200</u>

## 20 TRADE AND OTHER PAYABLES

As of the end of the reporting period, the ageing analysis of trade creditors (which are included in trade and other payables), based on the invoice date, is as follows:

	2019 US\$' 000	2018 US\$' 000
Within 3 months	13,460	20,529
3 to 6 months	1,748	591
6 months to 1 year	198	133
Over 1 year	488	184
Total creditors	<u>15,894</u>	21,437
Salary and welfare payables	4,929	6,437
Other tax payables	6,826	6,658
Other payables and accruals	5,554	6,877
	<u>33,203</u>	<u>41,409</u>

The trade and other payables are non-interest bearing and are expected to be settled within three months or repayable on demand.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 21 LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current and previous reporting periods and at the date of transition to IFRS 16:

	31 December 2019		1 January 2019	
	Present value of the minimum lease payments US\$' 000	Total minimum lease payments US\$' 000	Present value of the minimum lease payments US\$' 000	Total minimum lease payments US\$' 000
Within 1 year	3,764	3,834	3,167	3,232
After 1 year but within 2 years	3,433	3,645	3,301	3,506
After 2 years but within 5 years	3,811	4,284	5,755	6,530
After 5 years	376	471	561	718
	<u>7,620</u>	<u>8,400</u>	<u>9,617</u>	<u>10,754</u>
	<u>11,384</u>	<u>12,234</u>	<u>12,784</u>	13,986
Less: total future interest expenses		<u>(850)</u>		<u>(1,202)</u>
Present value of lease liabilities		<u>11,384</u>		<u>12,784</u>

The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. These liabilities have been aggregated with the brought forward balances relating to leases previously classified as finance leases. Further details on the impact of the transition to IFRS 16 are set out in note 2(c).

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 22 SHARE OPTION SCHEME AND SHARE AWARD SCHEME

The Company adopted a pre-IPO share option scheme (the “Pre-IPO Share Option Scheme”) and a share option scheme (the “Post-IPO Share Option Scheme”), approved by the written resolution of shareholders passed on 16 September 2013 (the “Resolution”).

### (a) Pre-IPO Share Option Scheme

The following share options were outstanding and exercisable under the Pre-IPO Share Option Scheme during the year:

	2019		2018	
	Weighted average exercise price US\$	Number of options	Weighted average exercise price US\$	Number of options
Outstanding at the beginning of the year	0.0722	13,782,000	0.0630	22,381,000
Exercised during the year	0.0670	<u>(1,880,200)</u>	0.0483	<u>(8,599,000)</u>
Outstanding at the end of the year	0.0730	<u>11,901,800</u>	0.0722	<u>13,782,000</u>
Exercisable at the end of the year	0.0730	<u>11,901,800</u>	0.0722	<u>13,782,000</u>

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

2019 Number of options	Exercise price per share US\$	Exercise period
4,750,500	0.0525	since IPO to 20-04-2021
20,000	0.0525	since IPO to 02-05-2021
282,500	0.0865	since IPO to 13-08-2021
693,000	0.0865	since IPO to 14-01-2022
3,585,000	0.0865	since IPO to 20-05-2022
2,570,800	0.0865	since IPO to 30-03-2023
<u>11,901,800</u>		

As at 31 December 2019, the Pre-IPO share options outstanding had a weighted average remaining contractual life of 2.10 years (31 December 2018: 3.43 years).

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 22 SHARE OPTION SCHEME AND SHARE AWARD SCHEME (Continued)

### (b) Post-IPO Share Option Scheme

The following share options were outstanding and exercisable under the Post-IPO Share Option Scheme during the year:

	2019		2018	
	Weighted average exercise price HK\$	Number of options	Weighted average exercise price HK\$	Number of options
Outstanding at the beginning of the year	5.45	7,369,750	4.79	7,569,666
Granted during the year	5.75	500,000	11.73	690,000
Exercised during the year	4.56	(246,250)	3.84	(732,416)
Forfeited/Lapsed during the year	8.77	(286,000)	8.75	(157,500)
Outstanding at the end of the year	5.37	7,337,500	5.45	7,369,750
Exercisable at the end of the year	4.59	6,106,000	4.26	4,762,500

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 22 SHARE OPTION SCHEME AND SHARE AWARD SCHEME (Continued)

### (b) Post-IPO Share Option Scheme (Continued)

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

2019 Number of options	Exercise price per share HK\$	Exercise period
100,000	5.47	11-08-2015 to 10-08-2024
517,000	3.51	21-11-2015 to 20-11-2024
3,709,834	3.90	23-03-2016 to 22-03-2025
1,166,666	3.90	03-06-2016 to 22-03-2025
540,000	10.50	20-04-2018 to 19-04-2027
175,000	10.08	17-11-2018 to 16-11-2027
540,000	12.14	04-05-2019 to 03-05-2028
150,000	10.24	23-08-2019 to 22-08-2028
439,000	5.75	19-08-2020 to 18-08-2029
<hr/>		
7,337,500		

As at 31 December 2019, the Post-IPO share options outstanding had a weighted average remaining contractual life of 5.98 years (31 December 2018: 6.72 years).

For both Pre-IPO share options and Post-IPO share options, the weighted average closing price of the Company's shares at the date share options were exercised during the year was HK\$9.79 (year ended 31 December 2018: HK\$9.60). Share options exercised under Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme during the year ended 31 December 2019 resulted in the issuance of 2,126,450 (2018: 9,331,416) ordinary shares of the Company and share premium of US\$403,000 (2018: US\$1,133,000), as further detailed in note 26(c) to the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 22 SHARE OPTION SCHEME AND SHARE AWARD SCHEME (Continued)

### (c) Share award scheme

The share award scheme of the Company was adopted by the Board on 24 December 2013. The purpose of the share award scheme is to recognise the contributions by certain selected grantees and to give incentives thereto in order to retain them for the continuing operation and development of the Group, and to attract suitable personnel for further development of the Group.

Movements in the number of shares held for the share award scheme and awarded shares for the year ended 31 December 2019 are as follows:

	Number of shares held for the share award scheme not yet granted	Number of awarded shares granted but not yet vested	Total
At 1 January 2019	13,439,428	9,234,127	22,673,555
Purchased	385,000	–	385,000
Granted	(1,460,482)	1,460,482	–
Forfeited/Lapsed	811,659	(811,659)	–
Vested	–	(3,679,825)	(3,679,825)
	<u>13,175,605</u>	<u>6,203,125</u>	<u>19,378,730</u>
At 31 December 2019			
Vested but not transferred as at 31 December 2019			<u>–</u>

The fair value of the awarded shares was calculated based on the market price of the Company's shares at the respective grant date. The expected dividends during the vesting period have been taken into account when assessing the fair value of these awarded shares.

The weighted average fair value of awarded shares granted during the year ended 31 December 2019 was HK\$7.07 per share.

The awarded shares granted during the year ended 31 December 2019 and outstanding as at the period then ended will vest in anniversary of grant date with each of 25% being vested annually. The consideration paid by the Company, including any directly attributable incremental costs, is deducted from the Group's equity.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 23 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### (a) Current taxation in the consolidated statement of financial position represents:

	2019 US\$' 000	2018 US\$' 000
Balance at the beginning of the year	44,705	22,551
Provision for Corporate income tax for the year	25,135	47,118
Withholding Tax	(7,948)	(6,057)
Income tax paid during the year	(30,277)	(18,907)
	<u>31,615</u>	<u>44,705</u>
Balance at the end of the year	<u>31,615</u>	<u>44,705</u>

### (b) Deferred tax assets and liabilities recognised:

#### (i) Movement of each component of deferred tax assets and liabilities:

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Allowances in depreciation/ amortisation US\$' 000	Depreciation charge of right-of-use asset and interest on lease liabilities US\$' 000	Credit loss allowance US\$' 000	Accumulated tax losses arising from a subsidiary US\$' 000	Total US\$' 000
<b>Deferred tax arising from:</b>					
At 1 January 2018	409	–	(8)	–	401
(Credited)/charged to profit or loss	(47)	–	(1)	–	(48)
At 31 December 2018 and 1 January 2019	362	–	(9)	–	353
(Credited)/charged to profit or loss	174	(101)	–	(39)	34
At 31 December 2019	<u>536</u>	<u>(101)</u>	<u>(9)</u>	<u>(39)</u>	<u>387</u>

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 23 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

### (b) Deferred tax assets and liabilities recognised: (Continued)

#### (ii) Reconciliation to the consolidated statement of financial position:

	2019 US\$' 000	2018 US\$' 000
Net deferred tax asset recognised in the consolidated statement of financial position	(125)	–
Net deferred tax liability recognised in the consolidated statement of financial position	512	353
	<u>387</u>	<u>353</u>

### (c) Deferred tax assets not recognised

The Group had accumulated tax losses arising from subsidiaries of approximately US\$7,980,000 (2018: US\$1,551,000). 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.

### (d) Deferred tax liabilities not recognised

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.

At 31 December 2019, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group’s subsidiaries. In the opinion of the directors, it is not probable that the subsidiaries established in Mainland China will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with the investment in the subsidiaries for which deferred tax liabilities have not been recognised was nil at 31 December 2019 (2018: US\$5,133,000).



# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 24 DEFERRED REVENUE

Deferred revenue mainly represents the unamortised portion of income received in respect of Premium Gaming Resource paid by game players for online game services.

Revenue of US\$31,564,000 recognised in the year ended 31 December 2019 was included in the balance of deferred revenue at the beginning of the year.

## 25 BUSINESS COMBINATION

On 15 July 2019, the Group acquired a property in Italy (the "Property") for consideration of Euro17,500,000 (equivalent to approximately US\$19,703,000) and obtained the control of Cedro S.R.L. ("Cedro") by acquiring 100% equity interest from previous shareholders and settling previous shareholders' loans for consideration of Euro2,000,000 (equivalent to approximately US\$2,252,000) and Euro605,000 (equivalent to approximately US\$681,000) respectively.

The Property is a historical complex located in Florence, Italy. Cedro is principally engaged in the operation of the Property. The Group intends to redevelop the Property for its own use.

The acquisition has the following effect on the Group's assets and liabilities:

	Note	At 15 July 2019 US\$' 000
Property, plant and equipment	11	22,718
Trade and other receivables		150
Cash and cash equivalents		93
Trade and other payables		(325)
		<hr/>
Net assets		22,636
		<hr/> <hr/>
Calculation of gain on acquisition of a subsidiary		
Consideration		22,636
Less: Fair value of net identifiable assets acquired		22,636
		<hr/>
Gain on acquisition of a subsidiary		–
		<hr/> <hr/>
Net cash outflow arising on the acquisition:		
		At 15 July 2019 US\$' 000
Cash consideration paid		22,636
Cash and cash equivalents acquired		(93)
		<hr/>
		22,543
		<hr/> <hr/>

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 26 CAPITAL, RESERVES AND DIVIDENDS

### (a) Movements in components of equity

#### Company

	Note	Share capital	Share premium	Share-based payment reserve (note 26 (d)(ii))	Shares held for share award scheme	Shares repurchased for cancellation	Other reserve (note 26 (d)(iv))	Retained earnings	Total
		US\$' 000	US\$' 000	US\$' 000	US\$' 000	US\$' 000	US\$' 000	US\$' 000	US\$' 000
<b>Balance at 31 December 2017</b>	3	125,435	7,915	(18,501)	(671)	1,569	113,261	229,011	
Impact on initial application of IFRS 9		-	-	-	-	-	(2,676)	(2,676)	
<b>Adjusted balance on 1 January 2018</b>	3	125,435	7,915	(18,501)	(671)	1,569	110,585	226,335	
<b>Changes in equity for 2018:</b>									
Profit for the year		-	-	-	-	-	190,013	190,013	
Equity-settled share-based payment		-	-	4,906	-	-	-	4,906	
Shares purchased for the share award scheme	26(c)	-	-	-	(4,477)	-	-	(4,477)	
Repurchase of ordinary shares	26(c)	-	-	-	-	(75,740)	-	(75,740)	
Cancellation of ordinary shares	26(c)	-*	(73,729)	-	-	73,729	-	-	
Exercise of share options	26(c)	-*	1,133	(363)	-	-	-	770	
Vesting of awarded shares	26(c)	-	146	(3,176)	3,030	-	-	-	
Dividends received for share award scheme		-	-	-	-	-	877	877	
2017 second interim dividend paid	26(b)	-	-	-	-	-	(23,803)	(23,803)	
2018 first interim dividend paid	26(b)	-	-	-	-	-	(29,194)	(29,194)	
<b>Balance at 31 December 2018</b>	3	52,985	9,282	(19,948)	(2,682)	2,446	247,601	289,687	

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 26 CAPITAL, RESERVES AND DIVIDENDS (Continued)

### (a) Movements in components of equity (Continued)

Company (Continued)

	Note	Share capital	Share premium	Share-based payment reserve (note 26 (d)(ii))	Shares held for share award scheme	Shares repurchased for cancellation	Other reserve (note 26 (d)(iv))	Retained earnings	Total
		US\$' 000	US\$' 000	US\$' 000	US\$' 000	US\$' 000	US\$' 000	US\$' 000	US\$' 000
<b>Balance at 31 December 2018</b>		3	52,985	9,282	(19,948)	(2,682)	2,446	247,601	289,687
<b>Changes in equity for 2019:</b>									
Profit for the year		-	-	-	-	-	-	164,413	164,413
Equity-settled share-based payment		-	-	3,910	-	-	-	-	3,910
Shares purchased for the share award scheme	26(c)	-	-	-	(508)	-	-	-	(508)
Repurchase of ordinary shares	26(c)	-	-	-	-	(27,042)	-	-	(27,042)
Cancellation of ordinary shares	26(c)	-*	(29,147)	-	-	29,147	-	-	-
Exercise of share options	26(c)	-*	403	(135)	-	-	-	-	268
Vesting of awarded shares	26(c)	-	136	(3,401)	3,265	-	-	-	-
Dividends received for share award scheme		-	-	-	-	-	998	-	998
2018 second interim dividend paid	26(b)	-	-	-	-	-	-	(27,251)	(27,251)
2019 first interim dividend paid	26(b)	-	-	-	-	-	-	(21,136)	(21,136)
<b>Balance at 31 December 2019</b>		<b>3</b>	<b>24,377</b>	<b>9,656</b>	<b>(17,191)</b>	<b>(577)</b>	<b>3,444</b>	<b>363,627</b>	<b>383,339</b>

\* These amounts represent amounts less than US\$1,000.

The Group, including the Company, has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and there is no net effect on the opening balance of the Company's equity as at 1 January 2019. See notes 2(c) and 30.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 26 CAPITAL, RESERVES AND DIVIDENDS (Continued)

### (b) Dividends

#### (i) Dividends payable to equity shareholders of the Company attributable to the year

	2019 US\$' 000	2018 US\$' 000
Interim dividend declared and paid of HK13.0 cents per ordinary share (2018: HK17.7 cents per ordinary share)	<u>21,136</u>	<u>29,194</u>
Second interim dividend proposed after the end of the reporting period of HK17.6 cents per ordinary share (2018: HK16.7 cents per ordinary share)	<u>28,224</u>	<u>27,270</u>

The second interim dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

#### (ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2019 US\$' 000	2018 US\$' 000
Second interim dividend in respect of the previous financial year, approved and paid during the period, of HK16.7 cents per ordinary share (2018: HK14.0 cents per ordinary share)	<u>27,251</u>	<u>23,803</u>

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 26 CAPITAL, RESERVES AND DIVIDENDS (Continued)

### (c) Share capital

A summary of the transactions during the period in the Company's issued share capital is as follows:

	Note	Number of shares in issue	Issued capital US\$' 000	Share premium US\$' 000	Shares held for share award scheme US\$' 000	Shares repurchased for cancellation US\$' 000
At 1 January 2018		1,328,453,433	3	125,435	(18,501)	(671)
Vesting of awarded shares		-	-	146	3,030	-
Share options exercised (note 22)		9,331,416	-*	1,133	-	-
Shares purchased for the share award scheme		-	-	-	(4,477)	-
Repurchase of ordinary shares		-	-	-	-	(75,740)
Cancellation of ordinary shares		(56,163,000)	-*	(73,729)	-	73,729
<b>At 31 December 2018 and 1 January 2019</b>		<b>1,281,621,849</b>	<b>3</b>	<b>52,985</b>	<b>(19,948)</b>	<b>(2,682)</b>
Vesting of awarded shares		-	-	136	3,265	-
Share options exercised (note 22)		2,126,450	-*	403	-	-
Shares purchased for the share award scheme		-	-	-	(508)	-
Repurchase of ordinary shares	i	-	-	-	-	(27,042)
Cancellation of ordinary shares		(35,828,000)	-*	(29,147)	-	29,147
<b>At 31 December 2019</b>		<b>1,247,920,299</b>	<b>3</b>	<b>24,377</b>	<b>(17,191)</b>	<b>(577)</b>

\* These amounts represent amounts less than US\$1,000.

Note:

- (i) During the year ended 31 December 2019, the Company repurchased 34,594,000 shares on the Stock Exchange with an average price of approximately HK\$6.12 per share. The total amount paid on the repurchased shares was HK\$211,878,060 (equivalent to approximately US\$27,042,000).

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 26 CAPITAL, RESERVES AND DIVIDENDS (Continued)

### (d) Nature and purpose of reserves

#### (i) *Share premium*

Under the Companies Law of the Cayman Islands, the share premium of the Company may be applied for payment of distributions or dividends to shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business.

#### (ii) *Share-based payment reserve*

The share-based payment reserve comprises the fair value of share options and awarded shares granted which are yet to be exercised. The amount will either be transferred to the share premium when the related share options are exercised, or be transferred to treasury shares when the related awarded shares are vested and transferred, or be transferred to retained earnings should the related options expire or be forfeited.

#### (iii) *Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 2(r).

#### (iv) *Other reserve*

Other reserve comprises the dividends received for share award scheme.

### (e) 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, repurchase the Company's own shares or issue new shares. No change was made in the objectives, policies or processes for managing capital during the reporting period.

The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the Group recognizes right-of-use assets and corresponding lease liabilities for almost all leases previously accounted for as operating leases as from 1 January 2019. This caused a significant increase in the Group's total debt and hence the Group's gearing ratio rose from 29.6% to 31.7% on 1 January 2019 when compared to its position as at 31 December 2018.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 26 CAPITAL, RESERVES AND DIVIDENDS (Continued)

### (e) Capital management (Continued)

The Group's gearing ratio at the end of the current and previous reporting periods and at the date of transition to IFRS 16 was as follows:

	<b>31 December 2019</b>	1 January 2019 (Note)	31 December 2018 (Note)
	<b>US\$' 000</b>	US\$' 000	US\$' 000
Total current liabilities	<b>93,794</b>	120,575	117,678
Total non-current liabilities	<b>8,132</b>	9,970	353
	<b><u>101,926</u></b>	<u>130,545</u>	<u>118,031</u>
Total current assets	<b>354,115</b>	337,925	337,925
Total non-current assets	<b>122,416</b>	74,002	61,488
	<b><u>476,531</u></b>	<u>411,927</u>	<u>399,413</u>
Gearing ratio	<b><u>21.4%</u></b>	<u>31.7%</u>	<u>29.6%</u>

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Under this approach, the comparative information is not restated. See note 2(c).

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 27 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and foreign currency risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

### (a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables and funds receivable.

#### *Trade receivables and Funds receivable*

The Group's trading terms with its customers are mainly on cash settlement, except for well-established corporate customers in the 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 minimize credit risk. Overdue balances are reviewed regularly by senior management. Funds receivable from third-party payment service providers are normally settled within three months. The Group carefully considers and monitors the creditworthiness of these third-party payment service providers.

The Group does not hold any collateral or other credit enhancements over its trade receivables and funds receivable balances. Trade receivables and funds receivable are non-interest bearing.

The Group measures loss allowances for trade receivables and funds receivable at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance is not further distinguished between the Group's different customer bases.



# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 27 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

### (a) Credit risk (Continued)

*Trade receivables and Funds receivable (Continued)*

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables:

	2019		
	Expected loss rate	Gross carrying amount US\$' 000	Loss allowance US\$' 000
Current (not past due)	5.80%	1,206	70
Less than 3 months past due	7.89%	38	3
		<u>1,244</u>	<u>73</u>
	2018		
	Expected loss rate	Gross carrying amount US\$' 000	Loss allowance US\$' 000
Current (not past due)	5.83%	745	43
Less than 3 months past due	8.30%	279	23
		<u>1,024</u>	<u>66</u>

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 27 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

### (a) Credit risk (Continued)

#### *Trade receivables and Funds receivable (Continued)*

The following table provides information about the Group's exposure to credit risk and ECLs for funds receivable:

	2019		
	Expected loss rate	Gross carrying amount US\$' 000	Loss allowance US\$' 000
Current (not past due)	0.07%	<u>33,786</u>	<u>24</u>
	2018		
	Expected loss rate	Gross carrying amount US\$' 000	Loss allowance US\$' 000
Current (not past due)	0.07%	<u>40,730</u>	<u>29</u>

Expected loss rates are based on actual loss experience over the past years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Movement in the loss allowance account in respect of trade receivables and funds receivable during the year is as follows:

	2019 US\$' 000
Balance at 1 January	95
Amounts written off during the year	(5)
Impairment losses recognised during the year	<u>7</u>
Balance at 31 December	<u>97</u>

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 27 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

### (b) Liquidity risk

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

As at 31 December 2019, the Group held cash and cash equivalents of US\$307,086,000 (2018: US\$287,547,000) and had no bank or other interest-bearing borrowings except for lease liabilities.

The following table show the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows and the earliest date the Group can be required to pay.

	2019				Total	Carrying amount at 31 December
	Contractual undiscounted cash outflow					
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years		
	US\$' 000	US\$' 000	US\$' 000	US\$' 000	US\$' 000	US\$' 000
Trade and other payables	26,377	–	–	–	26,377	26,377
Lease liabilities	3,834	3,645	4,284	471	12,234	11,384
	2018				Total	Carrying amount at 31 December
	Contractual undiscounted cash outflow					
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years		
	US\$' 000	US\$' 000	US\$' 000	US\$' 000	US\$' 000	US\$' 000
Trade and other payables	34,751	–	–	–	34,751	34,751

The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Lease liabilities include amounts recognised at the date of transition to IFRS 16 in respect of leases previously classified as operating leases under IAS 17 and amounts relating to new leases entered into during the year. Under this approach, the comparative information is not restated. See note 2(c).

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 27 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

### (c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from lease liabilities. The Group's interest rate profile as monitored by management is set out in (i) below.

#### (i) Interest rate profile

The following table details the interest rate profile of the Group's lease liabilities at the end of the reporting period.

	2019		2018
	Effective interest rate		Effective interest rate
	US\$' 000		US\$' 000
<b>Fixed rate borrowings:</b>			
Lease liabilities	4.26%	<u>11,384</u>	–
			<u>–</u>

The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Under this approach, the comparative information is not restated. See note 2(c).

#### (ii) Sensitivity analysis

The Group does not account for any fixed rate financial liabilities at fair value through profit or loss. Therefore, in respect of the fixed rate instrument, a change in interest rates at the reporting date would not affect the profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 27 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

### (d) 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.

The following table indicates the instantaneous change in the Group's profit after tax and retained earnings that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant:

	2019			2018		
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax US\$' 000	Effect on retained earnings US\$' 000	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax US\$' 000	Effect on retained earnings US\$' 000
Singapore dollars	5%	1,458	1,458	5%	3,232	3,232
	(5)%	(1,458)	(1,458)	(5)%	(3,232)	(3,232)
US dollars	5%	173	173	5%	(315)	(315)
	(5)%	(173)	(173)	(5)%	315	315

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into US dollars at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2018.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 27 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

### (e) Fair value measurement

#### (i) Financial assets and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

	Fair value at 31 December 2019	Fair value measurements as at 31 December 2019 categorised into		Fair value at 31 December 2018	Fair value measurements as at 31 December 2018 categorised into
	US\$'000	Level 1 US\$'000	Level 3 US\$'000	US\$'000	Level 3 US\$'000
<b>Recurring fair value measurements</b>					
Assets:					
Equity securities listed in					
Hong Kong	53,805	53,805	–	–	–
Unquoted equity securities	16,602	–	16,602	44,075	44,075
Convertible promissory notes	1,000	–	1,000	–	–

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 27 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

### (e) Fair value measurement (Continued)

#### (i) *Financial assets and liabilities measured at fair value* (Continued)

Information about Level 3 fair value measurements

The fair value of convertible promissory notes is determined using the scenario analysis method. The convertible promissory notes are classified as level 3 instruments as the valuation was determined based on significant inputs not observed in the market, and reflect the Group's own assumptions in measuring fair value. Significant inputs used in developing the fair value of the convertible promissory notes include time to maturity, risk-free interest rate and the straight debt discount rate.

The fair value of unquoted equity securities is determined with reference to latest available financial information of the investees, adjusted by market multiples when applicable.

The movements during the period in the balance of these Level 3 fair value measurements are as follows:

	2019 US\$' 000	2018 US\$' 000
<b>Unquoted equity securities:</b>		
At 1 January	44,075	11,770
Transferred to retained earnings relating to financial assets now measured at FVPL	–	(4,827)
Additional investments acquired	1,200	34,619
Transfer to interest in an associate upon the acquisition of additional holding in an investment	–	(3,297)
Transfer to Level 1 valuations	(31,819)	–
Fair value gain on investments	3,155	6,633
Exchange adjustments	(9)	(823)
	<u>16,602</u>	<u>44,075</u>
<b>Convertible promissory notes:</b>		
At 1 January	–	–
Additional investments acquired	1,000	–
	<u>1,000</u>	<u>–</u>
At 31 December	<u>1,000</u>	<u>–</u>

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 27 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

### (e) Fair value measurement (Continued)

#### (ii) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 31 December 2018 and 31 December 2019.

## 28 COMMITMENTS

### (a) Capital commitments outstanding at 31 December 2019 not provided for in the financial statements were as follows:

	2019 US\$' 000	2018 US\$' 000
Contracted for:	<u>209</u>	<u>874</u>

### (b) At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018 US\$' 000
Within 1 year	3,143
After 1 year but within 5 years	<u>8,920</u>
	<u>12,063</u>

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

The Group is the lessee in respect of a number of properties held under leases which were previously classified as operating leases under IAS 17. The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see note 2(c)). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in note 2(i), and the details regarding the Group's future lease payments are disclosed in note 21.



# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 29 MATERIAL RELATED PARTY TRANSACTIONS

### (a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

	2019 US\$' 000	2018 US\$' 000
Short-term employee benefits	3,249	6,490
Equity-settled share-based payment	<u>3</u>	<u>30</u>
	<u>3,252</u>	<u>6,520</u>

Total remuneration is included in "staff costs" (see note 6(b)).

### (b) Other transactions and outstanding balances with related parties

For the year ended 31 December 2019, Tap Media Technology Pte. Ltd., a joint venture of the Group, provided advertising services to the Group. The advertising expense recognised for the year ended 31 December 2019 was US\$2,345,000 (for the year to 31 December 2018: US\$2,432,000), and the balance of prepayment as at 31 December 2019 was US\$312,000 (31 December 2018: US\$1,089,000).

Save as disclosed above, the Group did not have any other material transactions or outstanding balances with related parties.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 30 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	31 December 2019 US\$' 000	1 January 2019 US\$' 000	31 December 2018 US\$' 000
<b>Non-current assets</b>			
Investments in subsidiaries	285,828	304,922	304,922
Interest in associates and joint ventures	2,666	5,949	5,949
Other financial assets	71,045	11,671	11,671
	<u>359,539</u>	<u>322,542</u>	<u>322,542</u>
<b>Current assets</b>			
Prepayments, deposits and other receivables	88	112	112
Amounts due from subsidiaries	5,409	35	35
Cash and cash equivalents	49,952	20,395	20,395
	<u>55,449</u>	<u>20,542</u>	<u>20,542</u>
<b>Current liabilities</b>			
Amounts due to subsidiaries	31,304	51,690	51,690
Other payables and accruals	345	1,707	1,707
	<u>31,649</u>	<u>53,397</u>	<u>53,397</u>
<b>Net current assets/(liabilities)</b>	<u>23,800</u>	<u>(32,855)</u>	<u>(32,855)</u>
<b>Total assets less current liabilities</b>	<u>383,339</u>	<u>289,687</u>	<u>289,687</u>
<b>NET ASSETS</b>	<u>383,339</u>	<u>289,687</u>	<u>289,687</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	3	3	3
Reserves	383,336	289,684	289,684
<b>TOTAL EQUITY</b>	<u>383,339</u>	<u>289,687</u>	<u>289,687</u>

The Company has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2(c).

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

## 31 COMPARATIVE FIGURES

The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2(c).

## 32 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2019

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and a new standard, IFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	<b>Effective for accounting periods beginning on or after</b>
Revised Conceptual framework for financial reporting	1 January 2020
Amendments to IFRS 9, IAS 39 and IFRS 7, <i>Interest Rate Benchmark Reform</i>	1 January 2020
Amendments to IFRS 3, <i>Definition of a business</i>	1 January 2020
Amendments to IAS 1 and IAS 8, <i>Definition of material</i>	1 January 2020

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

## FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below:

	Year ended 31 December				
	2019	2018	2017	2016	2015
	(Note) US\$' 000	US\$' 000	US\$' 000	US\$' 000	US\$' 000
<b>Revenue</b>	<b>667,648</b>	748,785	607,253	322,087	202,546
Cost of revenue	<b>(204,853)</b>	(225,237)	(192,661)	(103,184)	(62,007)
<b>Gross profit</b>	<b>462,795</b>	523,548	414,592	218,903	140,539
Other net income	<b>32,622</b>	9,051	4,827	1,668	1,378
Selling and distribution expenses	<b>(164,883)</b>	(186,592)	(159,016)	(80,102)	(41,652)
Administrative expenses	<b>(45,463)</b>	(44,658)	(33,444)	(23,583)	(21,840)
Research and development expenses	<b>(92,504)</b>	(63,599)	(46,697)	(35,961)	(26,944)
Other operating expenses	<b>(628)</b>	(40)	(551)	(2,575)	(6,546)
<b>Profit from operations</b>	<b>191,939</b>	237,710	179,711	78,350	44,935
Finance costs	<b>(482)</b>	–	–	–	–
Share of results of associates and joint ventures	<b>(1,506)</b>	(1,329)	(663)	(1,057)	–
<b>Profit before taxation</b>	<b>189,951</b>	236,381	179,048	77,293	44,935
Income tax expenses	<b>(25,169)</b>	(47,070)	(23,916)	(5,670)	(3,687)
<b>Profit for the year</b>	<b>164,782</b>	189,311	155,132	71,623	41,248
<b>Attributable to:</b>					
Equity shareholders of the Company	<b>164,794</b>	189,177	156,026	72,616	41,492
Non-controlling interests	<b>(12)</b>	134	(894)	(993)	(244)

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c) to the consolidated financial statements.

## FINANCIAL SUMMARY

	As at 31 December				
	2019	2018	2017	2016	2015
	(Note)				
	US\$' 000	US\$' 000	US\$' 000	US\$' 000	US\$' 000
<b>Assets, Liabilities and Equity</b>					
<b>TOTAL ASSETS</b>	<b>476,531</b>	399,413	318,467	243,431	220,126
<b>TOTAL LIABILITIES</b>	<b>101,926</b>	118,031	90,649	47,776	28,872
<b>TOTAL EQUITY</b>	<b>374,605</b>	281,382	227,818	195,655	191,254

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c) to the consolidated financial statements.

## DEFINITION

“Board”	the board of directors of the Company
“Business day(s)”	a day on which banks in Hong Kong and the Cayman Islands are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong or the Cayman Islands
“BVI”	British Virgin Islands
“China” or “PRC”	the People’s Republic of China, for the purpose of the annual report, excluding Hong Kong, Macau and Taiwan
“Company”	IGG Inc, an exempted company incorporated in the Cayman Islands whose shares are listed on the Stock Exchange
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented, or otherwise modified from time to time
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“controlling shareholders”	has the meaning ascribed thereto in the Listing Rules
“Corporate Governance Code”	code on corporate governance practices contained in Appendix 14 to Listing Rules
“Director(s)”	the director(s) of the 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

## DEFINITION

“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
“Euro”	the common basic monetary unit of the European Union
“Founders”	Mr. Zongjian Cai (蔡宗建) and Mr. Yuan Chi (池元)
“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 the 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. Deyang Zheng and 50% by Mr. Chengfeng Luo, respectively
“Group”, “IGG”, “we”, “our” or “us”	the Company and its subsidiaries
“HK\$” and “HK cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“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., a company incorporated under the laws of Singapore on 30 June 2009, a wholly-owned subsidiary of the Company
“IGG US”	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 the Company
“Independent Third Party(ies)”	individual(s) or company(ies) who is/are not connected with (within the meaning of the Listing Rules) any of the Company, Directors, chief executive or substantial shareholders of the Company, its subsidiaries or any of their respective associates

## DEFINITION

“Listing”	the listing of the Shares on the GEM
“Listing Date”	18 October 2013, on which dealings in Shares first commence on the GEM
“Listing Rules”	the Rules Governing the Listing of the Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“Main Board”	stock market operated by the Stock Exchange prior to the establishment of GEM (excluding the options market) which stock market continues to be operated by the Stock Exchange in parallel with GEM. For the avoidance of doubt, the Main Board excludes GEM
“MAU”	monthly active users
“Model Code”	the required standard of dealings for securities transactions by directors of listed issuers as set out in Appendix 10 to the Listing Rules
“New Concert Group”	the group of parties acting in concert pursuant to the amendment entered on 18 October 2016, being Mr. Zongjian Cai, Duke Online, Mr. Yuan Xu, Mr. Hong Zhang, Mr. Zhixiang Chen and Ms. Kai Chen
“New Registered Holders”	Mr. Deyang Zheng (鄭德陽) and Mr. Chengfeng Luo (羅承鋒)
“Pre-IPO Share Option Scheme”	the share option scheme adopted by the Company on 12 November 2008 and amended by written resolutions of all Shareholders passed on 16 September 2013, certain principal terms of which are summarised in the paragraph headed “Pre-IPO Share Option Scheme” in Appendix IV to the Prospectus
“Previous Structured Contracts”	a series of contracts (as supplemented) which include the Call Option Agreement, the Exclusive Technical Consulting Service Agreement, the Equity Pledge Agreement, the Power of Attorney and the Online Game Licensing Agreement, details of which are set out on Page 84 to Page 85 of the 2018 Annual Report of the Company
“Prospectus”	the prospectus of the Company dated 11 October 2013



## DEFINITION

“R&D”	research and development
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities Futures Ordinance, chapter 571 of the laws of Hong Kong
“SGD”	Singapore dollar, the lawful currency of Singapore
“Share(s)”	means ordinary share(s) of US\$0.0000025 each in the share capital of the Company
“Share Award Scheme”	the share award scheme adopted by the Company on 24 December 2013, the principal terms of which are summarised in the announcement of the Company dated 24 December 2013
“Shareholder(s)”	shareholder(s) of the Company
“Share Option Scheme”	the share option scheme adopted by the Company on 16 September 2013, the principal terms of which are summarised under the paragraph headed “Share Option Scheme” in Appendix IV to the Prospectus
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto in section 15 of the Companies Ordinance
“substantial shareholder(s)”	has the meaning ascribed thereto in the Listing Rules
“Structured Contracts”	a series of contracts which include the New Call Option Agreement, the New Exclusive Technical Consulting Service Agreement, the New Equity Pledge Agreement, the New Power of Attorney, the New Online Game Licensing Agreement and the Spouse Undertakings
“USD” or “US\$” and “US cents”	United States dollars and cents, respectively, the lawful currency of the United States of America
“Year”	the year ended 31 December 2019
“%”	per cent

\* If there is any inconsistency between the English and Chinese texts of this report, the English text of this report shall prevail over the Chinese text.