

2017

INTERIM
REPORT



CASTLE
CLASH



IGG
I GOT GAMES

Incorporated in the Cayman Islands with limited liability
IGG INC Stock Code: 799



CONTENTS

| | |
|--|----|
| Corporate Information | 2 |
| Highlights | 4 |
| Management Discussion and Analysis | 5 |
| Corporate Governance and Other Information | 12 |
| Review Report on the Interim Financial Report | 38 |
| Condensed Consolidated Statement of Profit or Loss | 39 |
| Condensed Consolidated Statement of Comprehensive Income | 40 |
| Condensed Consolidated Statement of Financial Position | 41 |
| Condensed Consolidated Statement of Changes in Equity | 43 |
| Condensed Consolidated Cash Flow Statement | 45 |
| Notes to the Unaudited Interim Financial Report | 46 |
| Definition | 65 |

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

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Singapore 159944

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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28 Queen's Road East

Wanchai

Hong Kong

AUDITOR

KPMG

LEGAL ADVISER AS TO HONG KONG LAWS

Mayer Brown JSM

LEGAL ADVISER AS TO PRC LAWS

Jingtian & Gongcheng

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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HONG KONG SHARE REGISTRAR

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Hong Kong

COMPANY WEBSITE

www.igg.com

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Fuzhou, Fujian Province
PRC

PRINCIPAL BANKS

Citibank N.A. Singapore Branch
Overseas Chinese Banking Corporation Limited
United Overseas Bank Limited
Wells Fargo Bank, N.A.

INVESTOR RELATIONS CONSULTANTS

Wonderful Sky Financial Group Limited

HIGHLIGHTS

| | Six months ended 30 June | | | |
|---|--------------------------|------------------------|--------------------------|------------------------|
| | 2017 | | 2016 | |
| | US\$' 000 (Unaudited) | HK\$' 000 ² | US\$' 000 (Unaudited) | HK\$' 000 ² |
| Revenue | 273,529 | 2,125,703 | 126,041 | 979,023 |
| Profit for the period | 76,156 | 591,839 | 25,039 | 194,490 |
| Profit for the period attributable to equity shareholders of the Company | 76,708 | 596,129 | 26,109 | 202,802 |
| Adjusted net income ¹ | 78,386 | 609,169 | 27,194 | 211,229 |

- The Group's revenue for the Period was US\$273.5 million, representing an increase of 117% over the revenue of US\$126.0 million for the corresponding period in 2016. Compared to the three months ended 31 March 2017, revenue increased by 17% for the three months ended 30 June 2017. The increase was primarily due to the significant revenue contribution of the hit title "Lords Mobile", which topped US\$41.1 million in monthly gross billing in June 2017.
 - The Group's profit for the Period was US\$76.2 million, representing an increase of 205% over the profit of US\$25.0 million for the corresponding period in 2016.
 - The Group's profit attributable to equity shareholders of the Company for the Period was US\$76.7 million, representing an increase of 194% over US\$26.1 million for the corresponding period in 2016.
 - The Group's adjusted net income for the Period was US\$78.4 million, representing an increase of 188% over US\$27.2 million for the corresponding period in 2016.
 - The Board has resolved to declare an interim dividend of HK13.0 cents per ordinary Share (equivalent to US1.7 cents per ordinary Share) and a special dividend of HK22.0 cents per ordinary Share (equivalent to US2.8 cents per ordinary Share). Total dividends for the Period would be HK35.0 cents per ordinary Share (equivalent to US4.5 cents per ordinary Share), amounting to a total of approximately US\$61 million (for the six months ended 30 June 2016: interim dividend of HK4.3 cents per ordinary Share, equivalent to US0.6 cents per ordinary Share).
- 1 Adjusted net income represents profit excluding share-based compensation. It is considered a useful supplement to the condensed consolidated statement of profit or loss indicating the Group's profitability and operational performance for the financial periods presented.
- 2 Amounts denominated in U.S. dollars have been converted into Hong Kong dollars at an exchange rate of HK\$7.7714=US\$1.00 for the Period (for the six months ended 30 June 2016: HK\$7.7675=US\$1.00), for illustration purpose only. Such conversions shall not be construed as representations that such amount in U.S. dollars were or could have been or could be converted into Hong Kong dollars at such rates or any other exchange rates on such date or any other date.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group, established in 2006, is a renowned developer and publisher of online games with a strong global presence and international customer base of 430 million registered users. Leveraging its success in client-based and browser online games, the Group redirected its strategy to target the mobile games market from 2013. Over four years of effort, the Group has developed a wide range of popular mobile games in 20 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.

Global Presence

IGG is headquartered in Singapore with regional offices in the United States, Hong Kong, Mainland China, Canada, Japan, Korea, Thailand, Belarus and the Philippines. The Group has users from more than 200 countries and regions worldwide. Over the past decade, IGG has aggressively pursued a strategy of global R&D and operations, establishing long-term relationships with hundreds of 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. Powered by the enormous success of Lords Mobile and Castle Clash, the Group was ranked 27th among the top-performing app publishers globally in 2016, by independent mobile analytics platform App Annie.

During the Period, 48%, 27% and 22% of the Group’s total revenue was generated from players in Asia, North America, and Europe respectively, which is in line with global mobile games market distribution.

Mobile Games

During the Period, driven by the explosive growth of the blockbuster title “Lords Mobile” and the solid performance of other games, the Group’s half-year revenue hit a record high of US\$273.5 million, more than double the revenue of the corresponding period last year, while net profit of US\$76.2 million for the first half of 2017 has already exceeded 2016’s full year profit. Revenue from mobile games accounted for 99% of total revenue for the Period, compared to 97% for the corresponding period in 2016.

Lords Mobile

Lords Mobile is a real-time war strategy game released in March 2016, with compelling features that attract high ARPU (average revenue per user) players. As the Group’s first cross-platform, multi-language, global mega-server game, Lords Mobile has achieved many breakthroughs and won multiple accolades. Amidst vigorous competition worldwide, Lords Mobile was nominated for Best Multiplayer Game at Google Play Awards 2017 in April this year. This follows the Most Competitive Game of 2016 award from Google Play it garnered across 73 countries in December 2016.

During the Period, monthly gross billing of Lords Mobile soared from US\$31.6 million in January 2017 to US\$41.1 million in June 2017. Furthermore, Lords Mobile accounted for 69% of the Group's total revenue in the first half of 2017, more than triple the revenue of previous hit title, Castle Clash. As of 30 June 2017, Lords Mobile ranked top five in 21 countries and regions and top ten in 66 countries and regions in terms of daily revenue on Google Play according to App Annie. Lords Mobile also moved up six spots, from 26th in January to 20th in June, on App Annie's monthly revenue chart for iOS and Google Play. As of 30 June 2017, MAU for the game had surpassed 6.5 million.

Castle Clash

Castle Clash is a fast-paced tower defense game launched in 2013. Most commendably, after 4 years of operation, Castle Clash has amassed 200 million registered users and 8 million MAU, contributing over US\$11.0 million in monthly gross billing during the Period. The Group has successfully extended the lifespan of the game by regularly introducing new game features, consistently providing industry-leading customer services, and building a large community of loyal gamers around the world. According to App Annie, Castle Clash ranked among the top ten in 17 countries on Google Play as at 30 June 2017.

Prospect

To extend its leadership position, the Group continues to focus on quality, innovation and excellence. The Group is committed to optimize and refine its games to achieve top-notch quality and longevity. There are several strategy games and casual games in the development pipeline. In addition, sequels to Castle Clash and Clash of Lords, as well as a sandbox game named TUG, are all under development.

In view of the increasingly competitive market environment, the Group strives to build on its strength in global operations. The Group has adopted a more diverse approach in its global marketing efforts to increase its market share in the mainstream markets of North America, Europe and Asia. New and hybrid marketing strategies include launching celebrity-endorsed promotional campaigns, releasing live game streaming videos hosted by popular Internet influencers, producing cinematic-quality advertisements, engaging world-famous music artistes to produce the game soundtrack, organizing international gaming tournaments, and more.

On the occasion of its 11th anniversary, the Group has established a business division to produce game merchandise based on its classic IP, with the objective of enhancing IGG's brand image, nurturing players' loyalty, and extending the reach of its games even further.

To stay ahead of technological innovation, the Group has been paying close attention to the application of LBS (location based services) and AR (augmented reality) in mobile games. In addition, the Group will continue to seek potential investment opportunities that could create synergies, accelerate its growth, or provide breakthroughs in its business.

FINANCIAL REVIEW

Revenue

The Group's revenue for the Period was US\$273.5 million, representing an increase of 117% over US\$126.0 million for the corresponding period in 2016. Compared to the second half of 2016, revenue increased by 40%. This is primarily due to the increase in revenue from "Lords Mobile".

Revenue by geographical regions

The following table sets forth a breakdown of the Group's revenue by geographical regions of players for the Period and the corresponding period in 2016, respectively:

| | Six months ended 30 June | | | |
|---------------|--------------------------|--------------|----------------|--------------|
| | 2017 | | 2016 | |
| | US\$' 000 | % | US\$' 000 | % |
| Asia | 130,107 | 47.5 | 35,484 | 28.2 |
| North America | 73,994 | 27.1 | 43,151 | 34.2 |
| Europe | 58,972 | 21.6 | 40,756 | 32.3 |
| Others | 10,456 | 3.8 | 6,650 | 5.3 |
| Total | <u>273,529</u> | <u>100.0</u> | <u>126,041</u> | <u>100.0</u> |

Revenue by games

The following table sets forth a breakdown of the Group's revenue by games for the Period and the corresponding period in 2016, respectively:

| | Six months ended 30 June | | | |
|-----------------------|--------------------------|--------------|----------------|--------------|
| | 2017 | | 2016 | |
| | US\$' 000 | % | US\$' 000 | % |
| Lords Mobile | 189,520 | 69.3 | 17,778 | 14.1 |
| Castle Clash | 61,551 | 22.5 | 71,097 | 56.4 |
| Clash of Lords series | 12,378 | 4.5 | 20,402 | 16.2 |
| Others | 10,080 | 3.7 | 16,764 | 13.3 |
| Total | <u>273,529</u> | <u>100.0</u> | <u>126,041</u> | <u>100.0</u> |

Cost of sales

The Group's cost of sales for the Period was US\$87.4 million, representing an increase of 134% compared to US\$37.4 million for the corresponding period in 2016, primarily due to the increase in channel costs as a result of mobile game business growth.

Gross profit and gross profit margin

The Group's gross profit for the Period was US\$186.1 million, representing an increase of 110% compared to US\$88.6 million for the corresponding period in 2016, primarily due to the increase in revenue from mobile games.

The Group's gross profit margin for the Period was 68%, representing a decrease of 2% compared to 70% for the corresponding period in 2016, primarily due to the increase in channel costs as a result of mobile game business growth. Compared to the second half of 2016, gross profit margin increased by 2%, primarily due to efficiencies achieved through economies of scale.

Selling and distribution costs

The Group's selling and distribution costs for the Period was US\$61.0 million, representing an increase of 79% compared to US\$34.0 million for the corresponding period in 2016, primarily due to additional advertising and promotional activities for "Lords Mobile". Selling and distribution costs-to-revenue ratio for the Period decreased to 22%, from 27% in the corresponding period in 2016.

Administrative expenses

The Group's administrative expenses for the Period were US\$13.8 million, representing an increase of 23% compared to US\$11.2 million for the corresponding period in 2016, primarily due to increases in salaries, performance-based bonuses and staff welfare as a result of business expansion. Administrative expenses-to-revenue ratio for the Period was reduced to 5%, from 9% in the corresponding period last year.

Research and development costs

The Group's research and development costs for the Period was US\$21.7 million, representing an increase of 34% compared to US\$16.2 million for the corresponding period in 2016, primarily due to (i) increases in salaries, performance-based bonuses and share-based compensation expenses for the games development team, and (ii) increases in research and development outsourcing expenses attributable to the enhancement of the games portfolio. Research and development costs-to-revenue ratio for the Period decreased to 8%, from 13% for the corresponding period in 2016.

Income tax expenses

The Group's income tax expenses for the Period was US\$14.8 million, representing an increase of 605% compared to US\$2.1 million for the corresponding period in 2016, primarily due to (i) the increase in profit before tax; (ii) the increase of composite tax rate.

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 (Incentive tax rate in 2016: 5%).

Capital expenditure

As a game developer and publisher, the Group's capital expenditures were mainly related to the purchases of property, plant and equipment such as servers, computer equipment and intangible assets, such as software and trademark. Capital expenditures for the Period and the corresponding period in 2016 are set forth below:

| | Six months ended 30 June | |
|---|--------------------------|-----------|
| | 2017 | 2016 |
| | US\$' 000 | US\$' 000 |
| Purchase of property, plant and equipment | 1,051 | 1,388 |
| Purchase of intangible assets | 26 | 39 |

Capital commitment

As at 30 June 2017, the Group did not have any capital commitment (31 December 2016: US\$0.2 million).

Liquidity and capital resources and gearing ratio

As at 30 June 2017, the Group had net current assets of US\$220.6 million (31 December 2016: US\$177.0 million), and the gearing ratio of the Group, calculated as total liabilities divided by total assets, was 25.1% (31 December 2016: 19.6%).

As at 30 June 2017, the Group had cash and cash equivalents of US\$237.3 million (31 December 2016: US\$184.1 million).

The Group did not have any bank borrowings or other financing facilities as at 30 June 2017 (31 December 2016: nil).

Operating activities

Net cash flows from operating activities was US\$90.3 million for the Period, compared to US\$23.9 million for the corresponding period in 2016. This was primarily due to the outstanding performance of "Lords Mobile".

Investing activities

Net cash flows used in investing activities was US\$4.0 million for the Period, compared to US\$3.6 million for the corresponding period in 2016, primarily attributable to the purchase of unlisted equity investments in the first half of 2017.

Financing activities

Net cash flows used in financing activities was US\$33.2 million for the Period, compared to US\$47.3 million for the corresponding period in 2016, primarily attributable to the payment of the second interim and special dividends for the year ended 31 December 2016, as well as the share buy-backs made by the Company during the Period.

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 currency. 45.7% of sales are denominated in currencies other than the functional currency of the operating units making the sales for the Period (for the six months ended 30 June 2016: 64.4%).

The Group currently does not have a hedging policy in respect of the foreign currency risk. However, the management team closely monitors foreign exchange exposure to ensure appropriate measures are implemented in a timely and effective manner. In this respect, the Group is not exposed to significant foreign currency exchange risk in its operation.

Capital structure

The capital structure of the Company consists of ordinary Shares.

Dividend

The Board resolved to declare an interim dividend of HK13.0 cents per ordinary Share (equivalent to US1.7 cents per ordinary Share) and a special dividend of HK22.0 cents per ordinary Share (equivalent to US2.8 cents per ordinary Share). Total dividends per ordinary Share for the Period would be HK35.0 cents per ordinary Share (equivalent to US4.5 cents per ordinary Share), amounting to a total of approximately US\$61 million (for the six months ended 30 June 2016: interim dividend of HK4.3 cents per ordinary Share, equivalent to US0.6 cents per ordinary Share).

The register of members of the Company will be closed from Monday, 11 September 2017 to Thursday, 14 September 2017, both days inclusive, during which period no transfer of Shares will be registered for the purpose of determining Shareholders' entitlements to the interim dividend and special dividend. The record date for entitlement to the interim dividend and special dividend is on Thursday, 14 September 2017. In order to qualify for the interim dividend and special dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, 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 Friday, 8 September 2017. The payment date of the interim dividend and special dividend is expected to be on Thursday, 28 September 2017.

Human Resources

As at 30 June 2017, the Group had 1,024 employees (30 June 2016: 910). The table below sets forth the number of employees in each functional area as at 30 June 2017 and 2016 respectively:

| Functions | As at 30 June | | | |
|------------------------|---------------------|--------------|---------------------|--------------|
| | 2017 | | 2016 | |
| | Number of Employees | % of total | Number of Employees | % of total |
| Development Teams | 550 | 53.7 | 477 | 52.4 |
| Operation Teams | 253 | 24.7 | 242 | 26.6 |
| Supporting Departments | 221 | 21.6 | 191 | 21.0 |
| TOTAL | 1,024 | 100.0 | 910 | 100.0 |

The Group's total staff-related costs amounted to US\$23.0 million for the Period (for the six months ended 30 June 2016: US\$17.4 million).

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

The Group has adopted the Pre-IPO Share Option Scheme, the Share Option Scheme, the Share Award Scheme and the Tapcash Subsidiary Share Option Scheme to motivate and reward Directors and eligible employees. Details of the schemes are set out in the sections headed "Pre-IPO Share Option Scheme", "Share Option Scheme", "Share Award Scheme" and "Tapcash Subsidiary Share Option Scheme" in this report and note 14 to the unaudited interim financial report.

All employees from development, operation and other supporting functions are entitled to training opportunities to develop their professional expertise. Skills are generally acquired and shared through internal consultation and intercommunication, as well as external trainings. Different training opportunities, such as workshops for technical expertise, language and soft skills courses, are available to employees at all levels. Intercultural exchange of ideas is encouraged via collaboration with teams from different countries.

Significant investment

During the Period, the Group did not hold any significant investment in equity interest in any other company (for the six months ended 30 June 2016: nil).

Charges on assets

As at 30 June 2017, no asset of the Group was pledged as a security for bank borrowing or any other financing activities (31 December 2016: nil).

Contingent liabilities

The Group had no contingent liabilities as at 30 June 2017 (31 December 2016: nil).

CORPORATE GOVERNANCE AND OTHER INFORMATION

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 organization 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 interests of Shareholders. During the Period, 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 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 overall 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. The balance of power and authorities is ensured by the operation of the Board and the senior management, which comprise experienced and high caliber individuals. The Board currently comprises five executive Directors, one non-executive Director and three independent non-executive Directors and has a strong independence element in its composition.

MODEL CODE

During the Period, 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 Period.

UPDATE OF DIRECTORS' INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of the Directors since the date of the Company's last published annual report are set out below:

1. Mr. Zongjian Cai receives an emolument package comprising Director's fee, salary and other benefit having reference to his position as the Company's chairman and chief executive officer. The Director's fee and salary for Mr. Zongjian Cai has been revised from US\$249,000 to US\$291,600, with effect from March 2017.
2. The Director's fee for Mr. Yuan Xu has been revised from US\$60,000 to US\$63,600 with effect from March 2017.
3. The Director's fee for Mr. Hong Zhang has been revised from US\$60,000 to US\$63,600 with effect from March 2017.
4. The Director's fee for Ms. Jessie Shen has been revised from US\$40,000 to US\$63,600 with effect from March 2017.
5. The Director's fee for Mr. Feng Chen has been revised from US\$12,000 to US\$21,200 with effect from March 2017.
6. The Director's fee for Mr. Yuan Chi has been revised from US\$60,000 to US\$63,600 with effect from March 2017.
7. The Director's fee for Dr. Horn Kee Leong has been revised from US\$40,000 to US\$42,400 with effect from March 2017.
8. Mr. Dajian Yu resigned as a director of Cadeka Technology Holding Ltd. with effect from June 2017. The Director's fee from the Company for Mr. Dajian Yu has been revised from US\$20,000 to US\$21,200 with effect from March 2017.
9. The Director's fee for Ms. Zhao Lu has been revised from US\$20,000 to US\$21,200 with effect from March 2017.

REVIEW OF INTERIM FINANCIAL STATEMENTS

Disclosure of financial information in this report complies with Appendix 16 of the Listing Rules. The audit committee of the Company has held meetings to discuss the internal controls and financial reporting matters of the Company, including the review of the unaudited interim results and the unaudited condensed consolidated interim financial statements for the Period.

The external auditor, KPMG has reviewed the interim financial report for the Period in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”.

DISCLOSURE OF INTEREST AS PER REGISTERS KEPT PURSUANT TO THE SFO

(a) Directors’ and chief executive’s interests and short positions in Shares, underlying Shares and debentures

As at 30 June 2017, 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

| Name | Capacity/Nature of interest | Number of Shares | Approximate percentage of shareholding | Number of underlying Shares | Approximate percentage of shareholding |
|----------------------------------|---|-------------------------|---|------------------------------------|---|
| Mr. Zongjian Cai (Notes 1, 2) | Interest in a controlled corporation, spouse interest, interests held jointly with another person | 254,914,657 | 18.83% | 14,750,000 | 1.09% |
| Mr. Yuan Xu (Notes 2, 3) | Beneficial owner, interest held jointly with another person | 254,914,657 | 18.83% | 14,750,000 | 1.09% |
| Mr. Hong Zhang (Notes 2, 4) | Beneficial owner, interest held jointly with another person | 254,914,657 | 18.83% | 14,750,000 | 1.09% |
| Ms. Jessie Shen (Note 5) | Beneficial owner | 3,470,000 | 0.26% | 508,000 | 0.04% |
| Mr. Feng Chen (Note 6) | Beneficial owner | 14,240,000 | 1.05% | 300,000 | 0.02% |
| Mr. Yuan Chi (Note 7) | Interest in a controlled corporation | 153,434,000 | 11.33% | 486,000 | 0.04% |
| Dr. Horn Kee Leong (Note 8) | Beneficial owner | — | — | 250,000 | 0.02% |
| Ms. Zhao Lu (Note 9) | Beneficial owner | — | — | 230,000 | 0.02% |
| Mr. Dajian Yu (Note 10) | Beneficial owner | 400,000 | 0.03% | 250,000 | 0.02% |

Notes:

- (1) 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 17,847,952 Shares held by Ms. Kai Chen, the spouse of Mr. Zongjian Cai, under the SFO. Mr. Zongjian Cai was also deemed to be interested in the 332,000 Shares which may be issued to him upon the exercise of the share options granted to him on 23 March 2015 under the Share Option Scheme.
- (2) On 16 September 2013, Mr. Zongjian Cai, Mr. Yuan Chi, Duke Online, Edmond Online, Mr. Yuan Xu, Ms. Kai Chen, Mr. Hong Zhang and Mr. Zhixiang Chen entered into an act in concert agreement, pursuant to which each of them agreed that they would act in concert with each other with respect to material matters relating to the Company's operation. On 18 October 2016, the members of the Concert Group entered into an amendment to the act in concert agreement, pursuant to which Mr. Yuan Chi and Edmond Online ceased to be members of the Concert Group and the arrangement under the act in concert agreement to jointly control the exercise of the voting rights would not continue to bind Mr. Yuan Chi and Edmond Online since the date of the amendment. Mr. Zongjian Cai, Duke Online, Mr. Yuan Xu, Ms. Kai Chen, Mr. Hong Zhang and Mr. Zhixiang Chen together formed the New Concert Group, and hereafter act in concert with each other to exercise their voting rights on the material matters will cover, among other things,

the matters which shall be approved at the annual general meeting, declaration of dividends, business plan, notifiable transactions and connected transactions subject to Shareholders' approval, if any.

As disclosed in the announcement of the Company dated 25 October 2016, the amendment to the act in concert agreement is not a conclusive evidence that Mr. Yuan Chi and Edmond Online are no longer parties acting in concert with Mr. Zongjian Cai, Duke Online, Mr. Yuan Xu, Mr. Hong Zhang, Mr. Zhixiang Chen and Ms. Kai Chen, and unless there is clear and stronger evidence to be presented, Mr. Yuan Chi and Edmond Online on the one hand and Mr. Zongjian Cai, Duke Online, Mr. Yuan Xu, Mr. Hong Zhang, Mr. Zhixiang Chen and Ms. Kai Chen on the other hand, may still be considered parties acting in concert.

- (3) Mr. Yuan Xu was the beneficial owner of 27,417,638 Shares. Mr. Yuan Xu was also deemed to be interested in (i) the 613,000 Shares which may be issued to him upon the exercise of the share options granted to him on 23 March 2015 under the Share Option Scheme; and (ii) the 4,000,000 Shares which may be issued to him upon the exercise of the share options granted to him under the Pre-IPO Share Option Scheme.
- (4) Mr. Hong Zhang was the beneficial owner of 11,381,040 Shares. Mr. Hong Zhang was also deemed to be interested in (i) the 605,000 Shares which may be issued to him upon the exercise of the share options granted to him on 23 March 2015 under the Share Option Scheme; and (ii) the 9,200,000 Shares which may be issued to him upon the exercise of the share options granted to him under the Pre-IPO Share Option Scheme.
- (5) Ms. Jessie Shen was the beneficial owner of 3,470,000 Shares and was also deemed to be interested in (i) the 367,000 Shares which may be issued to her upon exercise of the share options granted to her on 21 November 2014 under the Share Option Scheme; and (ii) the 141,000 Shares which may be issued to her upon exercise of the share options granted to her on 23 March 2015 under the Share Option Scheme.
- (6) Mr. Feng Chen was interested in an aggregate of 14,240,000 Shares and was also deemed to be interested in 300,000 Shares which may be issued to him upon exercise of the share options granted to him on 23 March 2015 under the Share Option Scheme.
- (7) Mr. Yuan Chi was interested in all the issued share capital of Edmond Online and he is the sole director of Edmond Online. Therefore, he was deemed to be interested in 153,434,000 Shares held by Edmond Online under the SFO. Mr. Yuan Chi was also deemed to be interested in the 486,000 Shares which may be issued to him upon the exercise of the share options granted to him on 23 March 2015 under the Share Option Scheme.
- (8) Dr. Horn Kee Leong was deemed to be interested in 250,000 Shares which may be issued to him upon exercise of the share options granted to him on 23 March 2015 under the Share Option Scheme.
- (9) Ms. Zhao Lu was deemed to be interested in 230,000 Shares which may be issued to her upon exercise of the share options granted to her on 23 March 2015 under the Share Option Scheme.
- (10) Mr. Dajian Yu was deemed to be interested in 250,000 Shares which may be issued to him upon exercise of the share options granted to him on 23 March 2015 under the Share Option Scheme.

Save as disclosed above, as of 30 June 2017, 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 30 June 2017, 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 | Approximate percentage of shareholding | Number of underlying Shares | Approximate percentage of shareholding |
|-----------------------------------|---|-------------------------|---|------------------------------------|---|
| Duke Online (Notes 1, 3) | Beneficial owner, interests held jointly with another person | 254,914,657 | 18.83% | 14,750,000 | 1.09% |
| Mr. Zongjian Cai (Notes 1, 3) | Interest in a controlled corporation, spouse interest, interests held jointly with another person | 254,914,657 | 18.83% | 14,750,000 | 1.09% |
| Mr. Yuan Xu (Notes 1, 3) | Beneficial owner, interests held jointly with another person | 254,914,657 | 18.83% | 14,750,000 | 1.09% |
| Mr. Hong Zhang (Notes 1, 3) | Beneficial owner, interests held jointly with another person | 254,914,657 | 18.83% | 14,750,000 | 1.09% |
| Ms. Kai Chen (Notes 1, 3) | Beneficial owner, spouse interest, interests held jointly with another person | 254,914,657 | 18.83% | 14,750,000 | 1.09% |
| Mr. Zhixiang Chen (Notes 1, 3) | Beneficial owner, interests held jointly with another person | 254,914,657 | 18.83% | 14,750,000 | 1.09% |
| Edmond Online (Notes 2, 3) | Beneficial owner | 153,434,000 | 11.33% | 486,000 | 0.04% |
| Mr. Yuan Chi (Notes 2, 3) | Interest in a controlled corporation | 153,434,000 | 11.33% | 486,000 | 0.04% |

Notes:

- (1) 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. Mr. Zongjian Cai was also deemed to be interested in the 332,000 Shares which may be issued to him upon the exercise of the share options granted to him on 23 March 2015 under the Share Option Scheme.

Mr. Yuan Xu was the beneficial owner of 27,417,638 Shares and was deemed to be interested in the 4,000,000 shares which may be issued to him upon the exercise of the share options granted to him under the Pre-IPO Share Option Scheme. Mr. Yuan Xu was also deemed to be interested in the 613,000 Shares which may be issued to him upon the exercise of the share options granted to him on 23 March 2015 under the Share Option Scheme.

Mr. Hong Zhang was the beneficial owner of 11,381,040 Shares and was deemed to be interested in the 9,200,000 Shares which may be issued to him upon the exercise of the share options granted to him under the Pre-IPO Share Option Scheme. Mr. Hong Zhang was also deemed to be interested in the 605,000 Shares which may be issued to him upon the exercise of the share options granted to him on 23 March 2015 under the Share Option Scheme.

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.

- (2) Mr. Yuan Chi was the beneficial owner of interested in all the issued share capital of Edmond Online and he is the sole director of Edmond Online. Therefore, he was deemed to be interested in 153,434,000 Shares held by Edmond Online under the SFO. Mr. Yuan Chi was also deemed to be interested in the 486,000 Shares which may be issued to him upon the exercise of the share options granted to him on 23 March 2015 under the Share Option Scheme.
- (3) On 16 September 2013, Mr. Zongjian Cai, Mr. Yuan Chi, Duke Online, Edmond Online, Mr. Yuan Xu, Ms. Kai Chen, Mr. Hong Zhang and Mr. Zhixiang Chen entered into an act in concert agreement, pursuant to which each of them agreed that they would act in concert with each other with respect to material matters relating to the Company's operation. On 18 October 2016, the members of the Concert Group entered into an amendment to the act in concert agreement, pursuant to which Mr. Yuan Chi and Edmond Online ceased to be members of the Concert Group and the arrangement under the act in concert agreement to jointly control the exercise of the voting rights would not continue to bind Mr. Yuan Chi and Edmond Online since the date of the amendment. Mr. Zongjian Cai, Duke Online, Mr. Yuan Xu, Ms. Kai Chen, Mr. Hong Zhang and Mr. Zhixiang Chen together formed the New Concert Group, and hereafter act in concert with each other to exercise their voting rights on the material matters that will cover, among other things, the matters which shall be approved at the annual general meeting, declaration of dividends, business plan, notifiable transactions and connected transactions subject to Shareholders' approval, if any.

As disclosed in the announcement of the Company dated 25 October 2016, the amendment to the act in concert agreement is not a conclusive evidence that Mr. Yuan Chi and Edmond Online are no longer parties acting in concert with Mr. Zongjian Cai, Duke Online, Mr. Yuan Xu, Mr. Hong Zhang, Mr. Zhixiang Chen and Ms. Kai Chen, and unless there is clear and stronger evidence to be presented, Mr. Yuan Chi and Edmond Online on the one hand and Mr. Zongjian Cai, Duke Online, Mr. Yuan Xu, Mr. Hong Zhang, Mr. Zhixiang Chen and Ms. Kai Chen on the other hand, may still be considered parties acting in concert.

Save as disclosed above, as at 30 June 2017, the Directors are not aware of any other persons, other than the Directors and chief executive of the Company, whose interests are set out in the section headed "Directors' and chief executive's 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.

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:

| Period within which option can be exercised | Maximum percentage of entitlement |
|---|--|
| 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 sets forth the exercise price of the share options granted on respective dates:

| Date of grant | Exercise price |
|--|-----------------------|
| 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 |

Particulars and movements of share options under the Pre-IPO Share Option Scheme during the Period by category of grantees were as follows:

| Category of grantees | Number of Pre-IPO share options | | | |
|---|---|--|--|---|
| | Outstanding as at 31 December 2016 | Exercised during the Period | Lapsed/ forfeited during the Period | Outstanding as at 30 June 2017 |
| Senior management | 13,200,000 | — | — | 13,200,000 |
| Connected persons (other than members of the senior management) | 1,980,000 | 637,000 | — | 1,343,000 |
| Other grantees who have been granted share options under the Pre-IPO Share Option Scheme to subscribe for one million Shares or more | 2,687,000 | 1,690,000 | — | 997,000 |
| Other grantees (total 207 grantees) | 19,007,412 | 9,298,412 | 25,000 | 9,684,000 |
| Total | 36,874,412 | 11,625,412 | 25,000 ^(Note 1) | 25,224,000 |

Note:

- The share options were lapsed due to the employment termination of the employees of the Group pursuant to the Pre-IPO Share Option Scheme.

Save as disclosed above, no other share options under the Pre-IPO Share Option Scheme have been exercised, lapsed or cancelled during the Period.

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.

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.

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 Period by category of grantees were as follows:

| Category of grantees | Date of grant | Exercise price per Share | Outstanding as at 31 December 2016 | Granted during the Period | Number of share options | | | Outstanding as at 30 June 2017 |
|--|-------------------|--------------------------|------------------------------------|---------------------------|-----------------------------|------------------------------------|-----------------------------|--------------------------------|
| | | | | | Exercised during the Period | Lapsed/forfeited during the Period | Cancelled during the Period | |
| Other employees and eligible persons | 11 August 2014 | HK\$5.47 | 355,000 | — | 103,000 | — | — | 252,000 |
| Director | | | | | | | | |
| Ms. Jessie Shen | 21 November 2014 | HK\$3.51 | 367,000 | — | — | — | — | 367,000 |
| Other employees and eligible persons | 21 November 2014 | HK\$3.51 | 450,000 | — | 175,000 | — | — | 275,000 |
| Directors | | | | | | | | |
| 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 | 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 | 23 March 2015 | HK\$3.90 | 250,000 | — | — | — | — | 250,000 |
| Ms. Zhao Lu | 23 March 2015 | HK\$3.90 | 250,000 | — | 20,000 | — | — | 230,000 |
| Mr. Dajian Yu | 23 March 2015 | HK\$3.90 | 250,000 | — | — | — | — | 250,000 |
| Directors' respective associate | | | | | | | | |
| Ms. Meijia Chen (a cousin of Mr. Yuan Xu) | 23 March 2015 | HK\$3.90 | 553,000 | — | — | — | — | 553,000 |
| Other employees and eligible persons | 23 March 2015 | HK\$3.90 | 2,546,500 | — | 387,500 | 15,000 | — | 2,144,000 |
| Other employees and eligible persons | 10 September 2015 | HK\$2.94 | 100,000 | — | — | — | — | 100,000 |
| Directors' respective associate | | | | | | | | |
| Mr. Neng Xu (brother of Mr. Yuan Xu) | 20 April 2017 | HK\$10.50 | — | 150,000 | — | — | — | 150,000 |
| Other employees and eligible persons | 20 April 2017 | HK\$10.50 | — | 630,000 | — | — | — | 630,000 |
| Total | | | 7,598,500 | 780,000 | 685,500 | 15,000 | — | 7,678,000 |

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.

| Share option vesting date | Percentage of share options to vest |
|----------------------------------|--|
| 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.

| Share option vesting date | Percentage of share options to vest |
|----------------------------------|--|
| 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 (including (i) Mr. Kee Lock Chua, who resigned as a non-executive Director on 4 August 2015, and (ii) Mr. Xiaojun Li, who resigned as a non-executive Director on 31 December 2015, while 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:

| Share option vesting date | Percentage of share options to vest |
|--|--|
| 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 |

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

| Share option vesting date | Percentage of share options to vest |
|----------------------------------|--|
| 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.

| Share option vesting date | Percentage of share options to vest |
|----------------------------------|--|
| 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 |

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. Save as disclosed above, none of the grantees is a Director, chief executive or substantial shareholder of the Company, nor an associate of any of them. Each share option shall entitle the holder of the share option to subscribe for one Share upon exercise of such share option at an exercise price of HK\$10.50 per Share. The closing price of the Company's shares immediately before the date of grant was HK\$9.83.

The share options granted shall vest in grantees in accordance with the timetable below, each with an exercise period commencing from the relevant share option vesting date and ending 10 years after the date of grant:

| Share option vesting date | Percentage of shares options to vest |
|----------------------------------|--|
| 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 |

Save as disclosed above, during the Period, 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.

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 Share Award 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.

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

During the Period, the Company granted the awarded shares as followings:

20 April 2017

On 20 April 2017, the Board granted 2,210,172 awarded shares to certain selected grantees at nil consideration. None of the grantees is a Director, chief executive or substantial shareholder of the Company or an associate of any of them. 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 20 April 2018 | 25% of the total number of awarded shares granted |
| On 20 April 2019 | 25% of the total number of awarded shares granted |
| On 20 April 2020 | 25% of the total number of awarded shares granted |
| On 20 April 2021 | 25% of the total number of awarded shares granted |

27 June 2017

On 27 June 2017, the Board granted a total of 591,297 awarded shares to certain eligible persons pursuant to the Share Award Scheme at nil consideration. None of the grantees is a Director, chief executive or substantial shareholder of the Company or an associate of any of them. The awarded share 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 27 June 2018 | 25% of the total number of awarded shares granted |
| On 27 June 2019 | 25% of the total number of awarded shares granted |
| On 27 June 2020 | 25% of the total number of awarded shares granted |
| On 27 June 2021 | 25% of the total number of awarded shares granted |

Particulars of the movements of the awarded shares under the Share Award Scheme during the Period are as followings:

| Date of grant | Outstanding as at 31 December 2016 | Grant during the Period | Vested during the Period | Lapsed/ forfeited during the Period | Balance as at 30 June 2017 |
|----------------------|---|--------------------------------|---------------------------------|--|-----------------------------------|
| 25 March 2014 | 700,500 | — | 350,250 | — | 350,250 |
| 11 August 2014 | 401,646 | — | — | 13,458 | 388,188 |
| 21 November 2014 | 116,050 | — | — | — | 116,050 |
| 23 March 2015 | 1,912,688 | — | 617,975 | 60,417 | 1,234,296 |
| 10 September 2015 | 624,000 | — | — | 18,750 | 605,250 |
| 8 April 2016 | 580,731 | — | 136,493 | 56,551 | 387,687 |
| 3 June 2016 | 867,737 | — | 179,432 | 150,000 | 538,305 |
| 30 August 2016 | 3,014,801 | — | — | — | 3,014,801 |
| 18 November 2016 | 1,193,485 | — | — | 30,000 | 1,163,485 |
| 20 April 2017 | — | 2,210,172 | — | — | 2,210,172 |
| 27 June 2017 | — | 591,297 | — | — | 591,297 |
| Total | 9,411,638 | 2,801,469 | 1,284,150 | 329,176^(Note) | 10,599,781 |

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

Once vested, at the request of the relevant share award grantees, the awarded shares can be transferred to the relevant share award grantees from the Trustee, or, the Trustee can sell the vested awarded shares for them and subsequently transfer the income arising from such sales to the relevant share award grantees.

Save as disclosed above, during the Period, no other awarded shares were granted, vested, or lapsed under the Share Award Scheme.

TAPCASH SUBSIDIARY SHARE OPTION SCHEME

The Company adopted the Tapcash Subsidiary Share Option Scheme on 5 May 2015. The purpose of the Tapcash Subsidiary Share Option Scheme is to offer selected eligible persons an opportunity to acquire a proprietary interest in the success of Tapcash Cayman and its subsidiaries and to motivate eligible persons to optimize their future contributions to the Tapcash 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 Tapcash Group, and additionally in the case of executive, to enable the Tapcash Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

Eligible persons mean any of the following persons: (a) an executive, any full-time or part-time employee, any person to whom any offer of employment has been made, or a person for the time being seconded to work full-time or part-time for any member of the Tapcash Group; (b) a director or proposed director (including a non-executive director and/or an independent non-executive director) of any member of the Tapcash Group; (c) a direct or indirect shareholder of any member of the Tapcash Group; (d) a supplier of goods or services to any member of the Tapcash Group; (e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Tapcash 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 Tapcash Group; and (g) an associate of any of the foregoing persons; (h) who, in the sole opinion of the board of Tapcash Cayman, will contribute to or have contributed to the Tapcash Group.

The maximum number of Tapcash Cayman Shares which may be issued upon exercise of all options to be granted under the Tapcash Subsidiary Share Option Scheme and any other schemes of the Tapcash Group (except for the options that are lapsed) shall not in aggregate exceed 10% of the Tapcash Cayman Shares in issue as at the date of approval by Shareholders at the annual general meeting of the Company held on 5 May 2015, that is, 5,000,000 Tapcash Cayman Shares.

The maximum number of Tapcash Cayman Shares issued and to be issued upon exercise of the options granted to any one eligible person (including exercised and outstanding options) in any 12-month period shall not exceed 1% of the Tapcash Cayman Shares in issue from time to time. Where any further grant of options to such an eligible person would result in the Tapcash Cayman Shares issued and to be issued upon exercise of all options granted and to be granted to such eligible person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Tapcash Cayman Shares in issue, such further grant shall be separately approved by the shareholders of the Company in general meeting with such eligible person and his close associates (or his associates if the participant is a connected person) abstaining from voting.

An option may be exercised in accordance with the terms of the Tapcash Subsidiary Share Option Scheme at any time during a period as determined by the board of directors of Tapcash Cayman 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.

The exercise price in respect of any particular option shall be such price as the board of directors of Tapcash Cayman may in its absolute discretion determine at the time of grant of the relevant option (and shall be stated in the letter containing the offer of the grant of the option) but the exercise price shall not be less than the nominal value of a Tapcash Cayman Share on the date on which the option is offered in writing to the eligible person.

The Tapcash Subsidiary Share Option Scheme shall be valid and effective for a period of 10 years commencing on the date of the annual general meeting of the Company held on 5 May 2015.

20 April 2017

On 20 April 2017, the board of directors of Tapcash Cayman granted a total of 135,000 share options to certain eligible persons pursuant to the Tapcash Subsidiary Share Option Scheme. None of the grantees is a Director, chief executive or substantial shareholder of the Company or an associate of any of them. Each share option shall entitle the holder of the share option to subscribe for one Tapcash Cayman Share upon the exercise of such share option at an exercise price of US\$0.075 per Tapcash Cayman Share.

The share options granted under the Tapcash Subsidiary Share Option Scheme shall vest in the grantees in accordance with the timetable below, each with an exercise period commencing from the relevant share option vesting date and ending 10 years after the date of grant:

| Share option vesting date | Percentage of shares options to vest |
|----------------------------------|--|
| 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 |

27 June 2017

On 27 June 2017, the board of directors of Tapcash Cayman granted a total of 500,000 share options to certain eligible persons pursuant to the Tapcash Subsidiary Share Option Scheme. None of the grantees is a Director, chief executive or substantial shareholder of the Company or an associate of any of them. Each share option shall entitle the holder of the share option to subscribe for one Tapcash Cayman Share upon the exercise of such share option at an exercise price of US\$0.075 per Tapcash Cayman Share.

The share options granted under the Tapcash Subsidiary Share Option Scheme shall vest in the grantees in accordance with the timetable below, each with an exercise period commencing from the relevant share option vesting date and ending 10 years after the date of grant:

| Share option vesting date | Percentage of shares options to vest |
|----------------------------------|--|
| On 27 June 2018 | 25% of the total number of share options granted |
| On 27 June 2019 | 25% of the total number of share options granted |
| On 27 June 2020 | 25% of the total number of share options granted |
| On 27 June 2021 | 25% of the total number of share options granted |

Particulars and movements of share options under the Tapcash Subsidiary Share Option Scheme during the Period by category of grantees were as follows:

| Date of grant | Exercise price | Number of share options | | | Outstanding as at 30 June 2017 |
|-------------------|----------------|------------------------------------|---------------------------|-------------------------------------|--------------------------------|
| | | Outstanding as at 31 December 2016 | Granted during the Period | Lapsed/ forfeited during the Period | |
| 10 September 2015 | US\$0.06 | 1,368,000 | — | 412,000 | 956,000 |
| 8 April 2016 | US\$0.075 | 40,000 | — | — | 40,000 |
| 30 August 2016 | US\$0.075 | 725,000 | — | 186,000 | 539,000 |
| 20 April 2017 | US\$0.075 | — | 135,000 | — | 135,000 |
| 27 June 2017 | US\$0.075 | — | 500,000 | — | 500,000 |
| Total | | 2,133,000 | 635,000 | 598,000^(Note) | 2,170,000 |

Note: The lapse of share options during the Period was due to termination of employment of certain grantees.

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

During the Period and up until the date of this report, except as disclosed in the sections headed "Pre-IPO Share Option Scheme", "Share Option Scheme", "Share Award Scheme" and "Tapcash Subsidiary Share Option Scheme", none of the Directors or chief executives of the Company held any share options under the Pre-IPO Share Option Scheme, the Share Option Scheme or the Tapcash Subsidiary 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 six months ended 30 June 2017 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

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 Period.

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

The Company had bought back the Shares on the Stock Exchange during the Period 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\$ | |
| January 2017 | 8,504,000 | 5.92 | 5.17 | 48,036,370 |

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 Period.

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 unaudited condensed consolidated financial statements of the Group for the Period 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.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Structured Contracts

Background

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.

Major Terms of the Structured Contracts

In 2007, Fuzhou Tianji, the Founders and Fuzhou Tianmeng entered into the 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.

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

- (i) **Call Option Agreement:** on 30 November 2007, Fuzhou Tianji, Fuzhou Tianmeng and the Founders entered into an exclusive acquisition rights agreement (as supplemented by a supplemental agreement dated 16 September 2013 entered into by the same parties, collectively the “**Call Option Agreement**”), pursuant to which the Founders irrevocably granted the exclusive right to Fuzhou Tianji to require the Founders to transfer their equity interest in Fuzhou Tianmeng to Fuzhou Tianji.
- (ii) **Equity Pledge Agreement:** on 30 November 2007, Fuzhou Tianji and the Founders entered into an equity interest pledge agreement (as supplemented by supplemental agreements dated 5 January 2009 and 16 September 2013, respectively, entered into by the same parties, collectively the “**Equity Pledge Agreement**”), pursuant to which Fuzhou Tianji was entitled to exercise its rights to sell the Founders’ pledged interest in the registered capital of Fuzhou Tianmeng on the occurrence of certain specified events.
- (iii) **Power of Attorney of Mr. Zongjian Cai:** on 30 November 2007, Mr. Zongjian Cai issued a power of attorney (as supplemented by a supplemental power of attorney dated 16 September 2013 issued by Mr. Zongjian Cai, collectively the “**Power of Attorney of Mr. Zongjian Cai**”), pursuant to which Mr. Zongjian Cai authorised Fuzhou Tianji to exercise all the shareholders’ rights of Mr. Zongjian Cai in Fuzhou Tianmeng.
- (iv) **Power of Attorney of Mr. Yuan Chi:** on 30 November 2007, Mr. Yuan Chi issued a power of attorney (as supplemented by a supplemental power of attorney dated 16 September 2013 issued by Mr. Yuan Chi, collectively the “**Power of Attorney of Mr. Yuan Chi**”), pursuant to which Mr. Yuan Chi authorized Fuzhou Tianji to exercise all the shareholders’ rights of Mr. Yuan Chi in Fuzhou Tianmeng.
- (v) **Exclusive Technical Consulting Service Agreement:** on 30 November 2007, Fuzhou Tianji and Fuzhou Tianmeng entered into an exclusive technical consulting service agreement (as supplemented by supplemental agreements dated 5 January 2009 and 16 September 2013, respectively, entered into by the same parties, collectively, “**Exclusive Technical Consulting Service Agreement**”), pursuant to which Fuzhou Tianji would provide technical support and consultation services to Fuzhou Tianmeng in consideration of services fees equivalent to the total revenue less all the related costs, expenses and taxes payable by Fuzhou Tianmeng, to be paid on a quarterly basis.
- (vi) **Online Game Licensing Agreement:** on 16 September 2013, Fuzhou Tianji and Fuzhou Tianmeng entered in an agreement for online game licensing (the “**Online Game Licensing Agreement**”), pursuant to which Fuzhou Tianji will license various online game software to Fuzhou Tianmeng for operation in the PRC market for a consideration of an initial licensing fee and commissions payable on a quarterly basis according to a percentage generally accepted in the market and such commission shall be a fair value.

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 Period:

Number of games operated:

| | Developed in-house | Licensed |
|-----------------|---------------------------|-----------------|
| | As at 30 June 2017 | |
| Fuzhou Tianmeng | 1 | 0 |

Game revenue*:

| | Revenue | Percentage of the |
|-----------------|---------------------------------|--------------------------|
| | attributable to | total revenue of |
| | the relevant entity | the Group |
| | For the six months ended | |
| | 30 June 2017 | |
| | US\$' 000 | % |
| Fuzhou Tianmeng | 271 | 0.1 |

* Game revenue is from external customers.

Assets:

| | Assets | Percentage of |
|-----------------|----------------------------|----------------------------|
| | attributable to | the total assets of |
| | the relevant entity | the Group |
| | As at 30 June 2017 | |
| | US\$' 000 | % |
| Fuzhou Tianmeng | 3,760 | 1.2 |

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 Period.
- The independent non-executive Directors will review Structured Contracts annually and confirmed 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 existing Structured Contracts.
- The Company has engaged KPMG as its auditors to perform procedures annually on the transactions contemplated under the Structured Contracts and the auditors 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 Structure 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 online data processing and transaction processing (operating E-commerce) businesses both of which can be operated by a wholly foreign-owned enterprise according to the Notice of the Ministry of Industry and Information Technology on Removing the Restrictions on Foreign Equity Ratios in Online Data Processing and Transaction Processing (Operating E-commerce) Business. 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. 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.

Draft Foreign Investment Law

On 19 January 2015, the Ministry of Commerce of the PRC (the “**MOC**”) published the draft Foreign Investment Law to solicit public comment, which, when finally adopted, will have significant impact on the foreign investment regime of the PRC. The draft Foreign Investment Law was published accompanied by the MOC’s notes (the “**Notes**”) on, among others, the background, guidelines and principle, and main content of the draft Foreign Investment Law and elaboration on several issues including the treatment of the existing structured contracts arrangement (in other words, VIE arrangements, structured contracts, or contractual arrangements) which were established before the effectiveness of the Foreign Investment Law.

The draft Foreign Investment Law proposes to standardize the market entry requirements and procedures for foreign and domestic investors, replacing the existing requirements for approval of all foreign investments by the competent foreign investment authority, and aims to consolidate and streamline the various regulatory requirements on foreign investment. Meanwhile, the draft Foreign Investment Law redefines the standard of foreign investors and foreign investment in terms of actual control. In particular, where the foreign investors incorporated under the laws of countries or regions other than the PRC, who are under the actual control of PRC investors, engage in any investment as set out in the catalogue of restrictions in the PRC, their investment may be viewed as an investment by PRC investors after the access permission review of the competent foreign investment authorities.

The Notes elaborated three suggested approaches from the academic and practical sectors for public consultation purpose:

- (i) reporting: the structured contracts will be permitted to continue following reporting to MOC that the foreign-invested enterprises are actually controlled by PRC investor(s);
- (ii) verification: the structured contracts will be permitted to continue following confirmation with MOC that the foreign-invested enterprises are actually controlled by PRC investor(s); or
- (iii) approval: the structure contracts being permitted to continue following approval by MOC.

However, the Notes also stated that MOC will broadly seek advices from the public, conduct further research on this issue and then bring out suggestion on its treatment. As advised by our PRC legal advisers, Jingtian & Gongcheng, the above three approaches are set out to solicit public opinions on the treatment of existing structured contracts arrangements and have not been formally adopted and may be subject to revisions and amendments taking into account of the results of public consultation and/or further research and recommendation. Our PRC legal advisers, Jingtian & Gongcheng also advises that there is no definite timeline when the new Foreign Investment Law will come into effect.

As advised by our PRC legal advisers, Jingtian & Gongcheng, considering that the voting rights jointly held by Mr. Zongjian Cai, Mr. Yuan Chi, Ms. Kai Chen, Mr. Zhixiang Chen, Mr. Yuan Xu, all of whom are PRC citizens, reached approximately 30% and in the situation when Mr. Yuan Chi and the others, bound by the act in concert agreement on 16 September 2013, are considered parties acting in concert, they would exert major influence on the Group and Fuzhou Tianmeng can be regarded as being controlled by PRC investors as defined under the draft Foreign Investment Law, however, as at the date of this report, the draft Foreign Investment Law and the Notes are just drafts released for the purpose of public consultation, and both of them have no legal effect. Given this, the Company is of the view that it may not be appropriate at this stage to evaluate the potential impact of the Foreign Investment Law and to formulate any specific measures to keep Fuzhou Tianmeng being controlled by PRC investors. If Fuzhou Tianmeng does not qualify as being controlled by PRC investors when the Foreign Investment Law becomes effective, 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 “Risk Factors – Risk Relating to our Contractual Arrangement – 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 Prospectus.

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 minor, 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 Period, 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 Foreign Investment Law, 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.

By Order of the Board

IGG INC

Zongjian Cai

Chairman

Hong Kong, 25 August 2017

REVIEW REPORT ON THE INTERIM FINANCIAL REPORT



TO THE BOARD OF DIRECTORS OF IGG INC

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 39 to 64 which comprises the condensed consolidated statement of financial position of IGG Inc (the “Company”) and its subsidiaries (together the “Group”) as at 30 June 2017 and the related condensed consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and consolidated cash flow statement for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim financial reporting*, issued by the International Accounting Standards Board. The Directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2017 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

KPMG

Certified Public Accountants

8th Floor, Prince’s Building

10 Chater Road

Central, Hong Kong

25 August 2017

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

| | Note | Six months ended 30 June | |
|---|------|----------------------------------|----------------------------------|
| | | 2017 US\$' 000 (Unaudited) | 2016 US\$' 000 (Unaudited) |
| Revenue | 4 | 273,529 | 126,041 |
| Cost of sales | | <u>(87,404)</u> | <u>(37,399)</u> |
| Gross profit | | <u>186,125</u> | <u>88,642</u> |
| Other income | 5 | 2,242 | 543 |
| Selling and distribution costs | | (60,986) | (34,047) |
| Administrative expenses | | (13,795) | (11,168) |
| Research and development costs | | (21,713) | (16,214) |
| Other operating expenses | | (296) | (194) |
| Share of results of associates and joint ventures | | <u>(608)</u> | <u>(432)</u> |
| Profit before taxation | 6 | 90,969 | 27,130 |
| Income tax expenses | 7 | <u>(14,813)</u> | <u>(2,091)</u> |
| Profit for the period | | <u><u>76,156</u></u> | <u><u>25,039</u></u> |
| Attributable to: | | | |
| Equity shareholders of the Company | | 76,708 | 26,109 |
| Non-controlling interests | | <u>(552)</u> | <u>(1,070)</u> |
| Profit for the period | | <u><u>76,156</u></u> | <u><u>25,039</u></u> |
| Earnings per share | 8 | | |
| Basic | | <u><u>US\$0.0576</u></u> | <u><u>US\$0.0191</u></u> |
| Diluted | | <u><u>US\$0.0561</u></u> | <u><u>US\$0.0186</u></u> |

The notes on pages 46 to 64 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 13.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Six months ended 30 June | |
|--|--------------------------|----------------------|
| | 2017 | 2016 |
| | US\$' 000 | US\$' 000 |
| | (Unaudited) | (Unaudited) |
| Profit for the period | <u>76,156</u> | <u>25,039</u> |
| Other comprehensive income for the period, after tax | | |
| <i>Items that may be reclassified subsequently to profit or loss:</i> | | |
| Exchange differences on translation of financial statements of overseas subsidiaries | 337 | 154 |
| Available-for-sale equity investment: net movement in the fair value reserve | <u>588</u> | <u>(399)</u> |
| Other comprehensive income/(loss) for the period | <u>925</u> | <u>(245)</u> |
| Total comprehensive income for the period | <u><u>77,081</u></u> | <u><u>24,794</u></u> |
| Attributable to: | | |
| Equity shareholders of the Company | 77,633 | 25,864 |
| Non-controlling interests | <u>(552)</u> | <u>(1,070)</u> |
| Total comprehensive income for the period | <u><u>77,081</u></u> | <u><u>24,794</u></u> |

The notes on pages 46 to 64 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Note | At 30 June 2017 US\$' 000 (Unaudited) | At 31 December 2016 US\$' 000 (Audited) |
|--|------|--|--|
| Non-current assets | | | |
| Property, plant and equipment | 9 | 7,054 | 7,732 |
| Intangible assets | | 203 | 393 |
| Other non-current assets | | 2,233 | 2,226 |
| Interest in associates and joint ventures | | 150 | 661 |
| Available-for-sale investments | | 11,209 | 8,118 |
| Deferred tax assets | | 16 | 14 |
| | | <u>20,865</u> | <u>19,144</u> |
| Current assets | | | |
| Trade and other receivables | 10 | 12,078 | 7,712 |
| Funds receivable | 11 | 51,755 | 32,514 |
| Cash and cash equivalents | | 237,329 | 184,061 |
| | | <u>301,162</u> | <u>224,287</u> |
| Current liabilities | | | |
| Trade and other payables | 12 | 38,085 | 23,251 |
| Tax payable | | 16,409 | 4,964 |
| Deferred revenue | | 26,109 | 19,081 |
| | | <u>80,603</u> | <u>47,296</u> |
| Net current assets | | <u>220,559</u> | <u>176,991</u> |
| Total assets less current liabilities | | <u>241,424</u> | <u>196,135</u> |
| Non-current liabilities | | | |
| Deferred tax liabilities | | 345 | 480 |
| | | <u>345</u> | <u>480</u> |
| NET ASSETS | | <u><u>241,079</u></u> | <u><u>195,655</u></u> |

The notes on pages 46 to 64 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

| | Note | At 30 June 2017 US\$' 000 (Unaudited) | At 31 December 2016 US\$' 000 (Audited) |
|--|------|--|--|
| Equity | | | |
| Share capital | 13 | 3 | 3 |
| Reserves | | <u>242,089</u> | <u>195,933</u> |
| Total equity attributable to equity shareholders of the Company | | 242,092 | 195,936 |
| Non-controlling interests | | <u>(1,013)</u> | <u>(281)</u> |
| TOTAL EQUITY | | <u>241,079</u> | <u>195,655</u> |

Approved and authorised for issue by the Board of Directors on 25 August 2017.

The notes on pages 46 to 64 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Attributable to equity shareholders of the Company

| | Share capital US\$' 000 | Share premium US\$' 000 | Share-based payment reserve US\$' 000 Note 14 | Shares held for share award scheme US\$' 000 | Share repurchased for cancellation US\$' 000 | Fair value reserve US\$' 000 | Statutory reserve US\$' 000 | Other reserve US\$' 000 | Exchange reserve US\$' 000 | Retained profits US\$' 000 | Total equity US\$' 000 | Non-controlling interests US\$' 000 | Total equity US\$' 000 |
|---|----------------------------|----------------------------|---|---|---|---------------------------------|--------------------------------|----------------------------|-------------------------------|-------------------------------|---------------------------|--|---------------------------|
| Balance at 1 January 2017 | 3 | 160,554 | 6,382 | (10,941) | — | (588) | 88 | 423 | (1,970) | 41,985 | 195,936 | (281) | 195,655 |
| Changes in equity for the six months ended 30 June 2017: | | | | | | | | | | | | | |
| Profit for the period | — | — | — | — | — | — | — | — | — | 76,708 | 76,708 | (552) | 76,156 |
| Other comprehensive income | — | — | — | — | — | 588 | — | — | 337 | — | 925 | — | 925 |
| Total comprehensive income | — | — | — | — | — | 588 | — | — | 337 | 76,708 | 77,633 | (552) | 77,081 |
| Losing control of subsidiary | — | — | — | — | — | — | — | — | — | — | — | (180) | (180) |
| Equity-settled share-based payment | — | — | 1,678 | — | — | — | — | — | — | — | 1,678 | — | 1,678 |
| Shares purchased for the Share Award Scheme | — | — | — | (5,013) | — | — | — | — | — | — | (5,013) | — | (5,013) |
| Repurchase of ordinary shares | — | — | — | — | (6,193) | — | — | — | — | — | (6,193) | — | (6,193) |
| Cancellation of ordinary shares | — | (6,193) | — | — | 6,193 | — | — | — | — | — | — | — | — |
| Exercise of share options | — | 1,622 | (572) | — | — | — | — | — | — | — | 1,050 | — | 1,050 |
| Vesting of awarded shares | — | 27 | (839) | 812 | — | — | — | — | — | — | — | — | — |
| Dividends received for share award schemes | — | — | — | — | — | — | — | 301 | — | — | 301 | — | 301 |
| 2016 second interim and special dividend paid | — | — | — | — | — | — | — | — | — | (23,300) | (23,300) | — | (23,300) |
| Balance at 30 June 2017 (unaudited) | 3 | 156,010 | 6,649 | (15,142) | — | — | 88 | 724 | (1,633) | 95,393 | 242,092 | (1,013) | 241,079 |

The notes on pages 46 to 64 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

| | Attributable to equity shareholders of the Company | | | | | | | | | | | | |
|--|--|-------------------------------|---|--|--|------------------------------------|-----------------------------------|-------------------------------|----------------------------------|----------------------------------|------------------------------|---|---------------------------|
| | Share capital US\$' 000 | Share premium US\$' 000 | Share- based payment reserve US\$' 000 Note 14 | Shares held for share award scheme US\$' 000 | Share repurchased for cancellation US\$' 000 | Fair value reserve US\$' 000 | Statutory reserve US\$' 000 | Other reserve US\$' 000 | Exchange reserve US\$' 000 | Retained profits US\$' 000 | Total equity US\$' 000 | Non- controlling interests US\$' 000 | Total equity US\$' 000 |
| Balance at 1 January 2016 | 3 | 186,870 | 5,316 | (5,829) | (1,669) | (168) | 88 | 153 | (1,295) | 7,055 | 190,524 | 730 | 191,254 |
| Changes in equity for the six months ended 30 June 2016: | | | | | | | | | | | | | |
| Profit for the period | — | — | — | — | — | — | — | — | — | 26,109 | 26,109 | (1,070) | 25,039 |
| Other comprehensive income | — | — | — | — | — | (399) | — | — | 154 | — | (245) | — | (245) |
| Total comprehensive income | — | — | — | — | — | (399) | — | — | 154 | 26,109 | 25,864 | (1,070) | 24,794 |
| Disposal of equity interest in a subsidiary without losing control | — | 20 | — | — | — | — | — | — | — | — | 20 | 19 | 39 |
| Equity-settled share-based payment | — | — | 1,085 | — | — | — | — | — | — | — | 1,085 | — | 1,085 |
| Repurchase of ordinary shares | — | — | — | — | (17,623) | — | — | — | — | — | (17,623) | — | (17,623) |
| Cancellation of ordinary shares | — | (15,659) | — | — | 15,659 | — | — | — | — | — | — | — | — |
| Exercise of share options | — | 411 | (139) | — | — | — | — | — | — | — | 272 | — | 272 |
| Vesting of awarded shares | — | 51 | (655) | 604 | — | — | — | — | — | — | — | — | — |
| Dividends received for share award schemes | — | — | — | — | — | — | — | 196 | — | — | 196 | — | 196 |
| 2015 second interim and special dividend paid | — | — | — | — | — | — | — | — | — | (30,158) | (30,158) | — | (30,158) |
| Balance at 30 June 2016 (unaudited) | 3 | 171,693 | 5,607 | (5,225) | (3,633) | (567) | 88 | 349 | (1,141) | 3,006 | 170,180 | (321) | 169,859 |

The notes on pages 46 to 64 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

| | Note | Six months ended 30 June | |
|--|------|----------------------------------|----------------------------------|
| | | 2017 US\$' 000 (Unaudited) | 2016 US\$' 000 (Unaudited) |
| Operating activities | | | |
| Cash generated from operations | | 92,766 | 25,573 |
| Income tax paid | | (2,490) | (1,691) |
| Net cash generated from operating activities | | 90,276 | 23,882 |
| Investing activities | | | |
| Payment for purchases of available-for-sale investments | | (4,059) | (3,459) |
| Investment in a joint venture | | — | (1,718) |
| Cash disposed of due to losing control of a subsidiary | 16 | (1,345) | — |
| Payment for the purchases of property, plant and equipment and intangible assets | | (1,077) | (1,427) |
| Proceeds from disposal of available-for-sale investments | | 2,388 | 3,027 |
| Proceeds from disposal of property, plant and equipment | | 83 | 17 |
| Net cash used in investing activities | | (4,010) | (3,560) |
| Financing activities | | | |
| Dividends paid | | (22,999) | (29,962) |
| Payments for repurchase of shares | | (6,193) | (17,623) |
| Payments for purchase of shares for share award schemes | | (5,013) | — |
| Proceeds from exercise of share options | | 1,050 | 272 |
| Disposal of equity interest in a subsidiary without losing control | | — | 39 |
| Net cash used in financing activities | | (33,155) | (47,274) |
| Net change in cash and cash equivalents | | 53,111 | (26,952) |
| Cash and cash equivalents at 1 January | | 184,061 | 185,503 |
| Effect of foreign exchanges rates changes | | 157 | 195 |
| Cash and cash equivalents at 30 June | | 237,329 | 158,746 |

The notes on pages 46 to 64 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in US dollars unless otherwise indicated)

1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (“IAS”) 34, *Interim financial reporting*, issued by the International Accounting Standard Board (“IASB”). This interim financial report was authorised for issue on 25 August 2017.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of IGG Inc (the “Company”) and its subsidiaries (together the “Group”) since the 2016 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”).

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG’s independent review report to the Board of Directors is included on page 38.

The financial information relating to the financial year ended 31 December 2016 that is included in the interim financial report as being previously reported information does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2016 are available from the Company’s registered office. The Company’s auditor has expressed an unqualified opinion on those financial statements in its report dated 22 March 2017.

2 CHANGES IN ACCOUNTING POLICIES

The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Group. None of these development has had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented in this interim financial report.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 OPERATING SEGMENT INFORMATION

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

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.

Geographic information

The following table sets out information about the geographical locations of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment ("specified non-current assets"). 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.

(a) Revenue from external customers

| | Six months ended 30 June | |
|---------------|--------------------------|-------------------|
| | 2017 US\$' 000 | 2016 US\$' 000 |
| Asia | 130,107 | 35,484 |
| North America | 73,994 | 43,151 |
| Europe | 58,972 | 40,756 |
| Oceania | 6,039 | 3,445 |
| South America | 3,215 | 2,436 |
| Africa | 1,202 | 769 |
| | <u>273,529</u> | <u>126,041</u> |

(b) Specified non-current assets

| | 30 June | 31 December |
|---------------|-------------------|-------------------|
| | 2017 US\$' 000 | 2016 US\$' 000 |
| PRC | 5,551 | 6,043 |
| North America | 1,133 | 1,296 |
| Singapore | 159 | 186 |
| Others | 211 | 207 |
| | <u>7,054</u> | <u>7,732</u> |

4 REVENUE

Revenue represents the value of services rendered after allowances for chargebacks and deduction of value-added tax, and is analysed as follows:

| | Six months ended 30 June | |
|-------------------------|--------------------------|----------------|
| | 2017 | 2016 |
| | US\$' 000 | US\$' 000 |
| Online game revenue | 271,627 | 123,377 |
| Joint operation revenue | 1,667 | 2,240 |
| Others | 235 | 424 |
| | <u>273,529</u> | <u>126,041</u> |

The Group's customer base was diversified and no customer had transactions with the Group exceeding 10% of the Group's aggregate revenue during the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

5 OTHER INCOME

| | Six months ended 30 June | |
|---|--------------------------|------------|
| | 2017 | 2016 |
| | US\$' 000 | US\$' 000 |
| Gain on disposal of available-for-sale investment | 832 | — |
| Exchange gain | 687 | — |
| Bank interest income | 376 | 256 |
| Government grants | 296 | 287 |
| Other | 51 | — |
| | <u>2,242</u> | <u>543</u> |

Government grants were primarily received from the government of the PRC for subsidising technology export businesses. There are no unfulfilled conditions or contingencies relating to the grants.

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

| | Six months ended 30 June | |
|---|--------------------------|---------------|
| | 2017 | 2016 |
| | US\$' 000 | US\$' 000 |
| (a) Staff costs | | |
| Salaries, wages and other benefits | 20,729 | 15,793 |
| Equity-settled share-based payments (note 14) | 1,678 | 1,085 |
| Contributions to defined contribution retirement plans | 590 | 539 |
| | <u>22,997</u> | <u>17,417</u> |
| (b) Other items | | |
| Channel cost | 82,417 | 32,892 |
| Operating lease charges in respect of leasing of properties | 2,270 | 2,426 |
| Depreciation | 1,176 | 1,035 |
| Amortisation | 217 | 242 |
| Net foreign exchange (gain)/loss | (687) | 77 |
| Loss on disposal of property, plant and equipment | 22 | 14 |
| | <u>22</u> | <u>14</u> |

7 INCOME TAX

| | Six months ended 30 June | |
|-------------------------|--------------------------|--------------|
| | 2017 | 2016 |
| | US\$' 000 | US\$' 000 |
| Current tax - Singapore | 14,724 | 2,049 |
| Current tax - Others | 226 | 85 |
| Deferred taxation | (137) | (43) |
| | <u>14,813</u> | <u>2,091</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 concessionary tax rate of 10% on qualifying income derived during the six months ended 30 June 2017 (six months ended 30 June 2016: 5%).

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

8 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of US\$76,708,000 (six months ended 30 June 2016: US\$26,109,000) and the weighted average of 1,331,218,000 ordinary shares (six months ended 30 June 2016: 1,366,063,000 shares) in issue during the interim period.

Weighted average number of ordinary shares (basic)

| | Six months ended 30 June | |
|---|--------------------------|------------------|
| | 2017 | 2016 |
| | shares '000 | shares '000 |
| Issued ordinary shares at 1 January | 1,349,900 | 1,396,712 |
| Effect of share award scheme | (17,247) | (11,164) |
| Effect of share options exercised | 7,216 | 2,961 |
| Effect of repurchase of ordinary shares | (8,651) | (22,446) |
| | <u>1,331,218</u> | <u>1,366,063</u> |

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of US\$76,708,000 (six months ended 30 June 2016: US\$26,109,000) and the weighted average number of ordinary shares of 1,368,337,000 (six months ended 30 June 2016: 1,404,275,000 shares).

Weighted average number of ordinary shares (diluted)

| | Six months ended 30 June | |
|---|--------------------------|------------------|
| | 2017 | 2016 |
| | shares '000 | shares '000 |
| Weighted average number of ordinary shares | 1,331,218 | 1,366,063 |
| Effect of deemed issue of shares under the Company's share option scheme | 30,452 | 37,017 |
| Effect of deemed issue of shares under the Company's share award scheme | 6,667 | 1,195 |
| | <u>1,368,337</u> | <u>1,404,275</u> |

9 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2017, the Group acquired items of leasehold improvements, computer equipment, office equipment, furniture and motor vehicles with a cost of US\$431,000 (six months ended 30 June 2016: US\$3,582,000). Items of computer equipment, office equipment and motor vehicles with a net book value of US\$105,000 were disposed during the six months ended 30 June 2017 (six months ended 30 June 2016: US\$31,000).

10 TRADE AND OTHER RECEIVABLES

The Group's trading terms with its customers are mainly on cash settlement, except for well established corporate customers in the advertising business and 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. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivable are non-interest-bearing.

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

| | 30 June 2017 US\$' 000 | 31 December 2016 US\$' 000 |
|---|---------------------------------------|----------------------------------|
| Within 3 months | 1,050 | 613 |
| 3 to 6 months | 752 | 48 |
| 6 months to 1 year | 298 | 78 |
| Over 1 year | — | 265 |
| Trade debtors net of allowance for doubtful debts | <u>2,100</u> | 1,004 |
| Prepayments | 8,303 | 3,844 |
| Rental deposits | 271 | 267 |
| Other receivables | <u>1,404</u> | 2,597 |
| | <u>12,078</u> | <u>7,712</u> |

No provision has been made for impairment of trade and other receivables during the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

11 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.

An allowance for doubtful debts is recorded in the year in which a loss is determined to be probable. Receivable balances are written off after all collection efforts have been exhausted.

As at 30 June 2017, all the funds receivable were aged within 3 months and no allowance for doubtful debts was provided for the funds receivable (31 December 2016: Nil).

12 TRADE AND OTHER PAYABLES

As of the end of the reporting period, the ageing analysis of trade creditors, based on the invoice date, is as follows:

| | 30 June 2017 US\$' 000 | 31 December 2016 US\$' 000 |
|-----------------------------|---------------------------------------|----------------------------------|
| Within 3 months | 20,988 | 12,442 |
| 3 to 6 months | 4,840 | 785 |
| 6 months to 1 year | 79 | 480 |
| Over 1 year | 42 | 237 |
| Total creditors | 25,949 | 13,944 |
| Salary and welfare payables | 5,132 | 3,413 |
| Other tax payables | 3,085 | 543 |
| Other payables and accruals | 3,919 | 5,351 |
| | 38,085 | 23,251 |

The trade and other payables are non-interest-bearing and are mainly settled within three months.

13 DIVIDENDS AND SHARE CAPITAL

(a) Dividends

- (i) Dividends payable to equity shareholders attributable to the interim period

| | Six months ended 30 June | |
|--|--------------------------|--------------|
| | 2017 | 2016 |
| | US\$' 000 | US\$' 000 |
| Interim dividend declared after the interim period of HK13.0 cents per ordinary share (2016: HK4.3 cents per ordinary share) | 22,543 | 7,500 |
| Special dividend declared after the interim period of HK22.0 cents per ordinary share (2016: Nil) | 38,150 | — |
| | <u>60,693</u> | <u>7,500</u> |

The interim dividend has not been recognised as a liability at the end of the reporting period.

- (ii) Dividends payable to shareholders attributable to the previous financial year, approved and paid during the interim period

| | Six months ended 30 June | |
|--|--------------------------|---------------|
| | 2017 | 2016 |
| | US\$' 000 | US\$' 000 |
| Second interim dividend in respect of the previous financial year, approved and paid during the period, of HK8.0 cents per ordinary share (2016: HK2.8 cents per ordinary share) | 13,934 | 5,046 |
| Special dividend in respect of the previous financial year, approved and paid during the period, of HK5.4 cents per ordinary share (2016: HK14.2 cents per ordinary share) | 9,366 | 25,112 |
| | <u>23,300</u> | <u>30,158</u> |

(b) Share capital

A summary of the transactions during the period in the Company's issued share capital is as follows:

| | Number of shares in issue | Issued capital US\$' 000 | Share premium account US\$' 000 | Shares held for share award scheme US\$' 000 | Shares repurchased for cancellation US\$' 000 |
|-------------------------------------|---------------------------------|--------------------------------|--|--|---|
| At 1 January 2017 | 1,349,900,187 | 3 | 160,554 | (10,941) | — |
| Vesting of awarded shares | — | — | 27 | 812 | — |
| Share options exercised (note 14) | 12,310,912 | — | 1,622 | — | — |
| Shares purchased for | | | | | |
| the Share Award Scheme (i) | — | — | — | (5,013) | — |
| Repurchase of ordinary shares (ii) | — | — | — | — | (6,193) |
| Cancellation of ordinary shares | (8,504,000) | — | (6,193) | — | 6,193 |
| At 30 June 2017 | <u>1,353,707,099</u> | <u>3</u> | <u>156,010</u> | <u>(15,142)</u> | <u>—</u> |
| At 1 January 2016 | 1,396,711,599 | 3 | 186,870 | (5,829) | (1,669) |
| Vesting of awarded shares | — | — | 51 | 604 | — |
| Share options exercised (note 14) | 5,226,088 | — | 411 | — | — |
| Repurchase of ordinary shares | — | — | — | — | (17,623) |
| Disposal of equity interest in | | | | | |
| a subsidiary without losing control | — | — | 20 | — | — |
| Cancellation of ordinary shares | (35,361,000) | — | (15,659) | — | 15,659 |
| At 30 June 2016 | <u>1,366,576,687</u> | <u>3</u> | <u>171,693</u> | <u>(5,225)</u> | <u>(3,633)</u> |

- (i) In May 2017, 3,421,000 ordinary shares have been purchased for the Share Award Scheme with total consideration of US\$5,013,000.
- (ii) In January 2017, 8,504,000 ordinary shares have been repurchased for cancellation with total consideration of US\$6,193,000.

14 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").

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 resolution of all the shareholders. The purpose of the Pre-IPO Share Option Scheme is to offer eligible persons an opportunity to acquire a proprietary interest in the success of the Group's operations, or to increase such interest by purchasing ordinary shares of the Company. Eligible participants of the Pre-IPO Share Option Scheme include employees, the Company's outside directors and consultants. Only employees, the Company's outside directors and consultants are eligible for the grant of non-statutory options or the direct award or sale of shares. Only employees are eligible for the grant of incentive share options. The Pre-IPO Share Option Scheme became effective on 31 October 2008 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum numbers of shares that are subject to options or other rights outstanding at any time under the Pre-IPO Share Option Scheme shall not exceed the number of shares that then remain available for issuance under the Pre-IPO Share Option Scheme. The Company, during the term of the Pre-IPO Share Option Scheme, shall at all times reserve and keep available sufficient authorised but unissued shares to satisfy the requirements of the Pre-IPO Share Option Scheme.

Generally the option is exercisable to the extent of the option that has been vested. Certain options are exercisable to the extent of the options that have been vested following the IPO and subject to the conditions and terms of the Pre-IPO Share Option Scheme.

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

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

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

| | <u>Six months ended 30 June 2017</u> | | <u>Six months ended 30 June 2016</u> | |
|--|---|------------------------------|---|----------------------|
| | Weighted average exercise price US\$ | Number of options | Weighted average exercise price US\$ | Number of options |
| Outstanding at the beginning of the period | 0.0619 | 36,874,412 | 0.0599 | 46,681,500 |
| Exercised during the period | 0.0597 | (11,625,412) | 0.0446 | (5,151,088) |
| Forfeited during the period | 0.0865 | (25,000) | 0.0865 | (120,000) |
| Outstanding at the end of the period | 0.0629 | <u>25,224,000</u> | 0.0617 | <u>41,410,412</u> |

The number and the weighted average exercise price of exercisable share options under the Pre-IPO Share Option Scheme at the end of the period/year:

| | <u>30 June 2017</u> | | <u>31 December 2016</u> | |
|---|---|------------------------------|---|----------------------|
| | Weighted average exercise price US\$ | Number of options | Weighted average exercise price US\$ | Number of options |
| Exercisable at the end of the period/year | US\$0.0629 | 25,224,000 | US\$0.0598 | 33,944,412 |

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

| 30 June 2017 | | |
|--------------------------|--|--------------------------|
| Number of options | Exercise price per share US\$ | Exercise period |
| 536,000 | 0.0081 | since IPO to 30-06-2018 |
| 4,000,000 | 0.0378 | 05-12-2009 to 04-12-2018 |
| 3,535,000 | 0.0500 | since IPO to 31-07-2019 |
| 6,726,000 | 0.0525 | since IPO to 20-04-2021 |
| 20,000 | 0.0525 | since IPO to 02-05-2021 |
| 30,000 | 0.0525 | since IPO to 15-05-2021 |
| 903,500 | 0.0865 | since IPO to 13-08-2021 |
| 1,158,000 | 0.0865 | since IPO to 14-01-2022 |
| 3,931,000 | 0.0865 | since IPO to 21-05-2022 |
| 4,384,500 | 0.0865 | since IPO to 31-03-2023 |
| <u>25,224,000</u> | | |

No equity-settled share options under Pre-IPO Share Option Scheme have been granted during six months ended 30 June 2017 and 2016 respectively.

As at 30 June 2017, the Pre-IPO share options outstanding had a weighted average remaining contractual life of 3.68 years (31 December 2016: 4.19 years).

Post-IPO Share Option Scheme

The Company operates a share option scheme (the "Post-IPO Share Option Scheme") for the purpose of giving 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 (defined as below), to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

Eligible persons of the Post-IPO Share Option Scheme include a) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of the Group ("Executives"), 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 of directors, will contribute to or have contributed to the Group.

The Post-IPO Share Option Scheme became effective on 18 October 2013 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares to be issued upon exercise of all share options to be granted under the Post-IPO Share Option Scheme and any other scheme of the Company shall not in aggregate exceed 10% of the total number of shares in issue on the Listing Date (assuming that the Over-allotment Option is not exercised) and the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Share Option Scheme and any other schemes of the Company shall not exceed 30% of the shares of the Company in issue from time to time. The maximum number of shares issuable under share options to each eligible participant in the Post-IPO Share Option Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or a substantial shareholder of the Company, or to any of their respective associates, are subject to approval in advance by the independent non-executive directors, excluding the independent non-executive directors who or whose associates are the grantee. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK\$5,000,000, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK\$1.0 in total by the grantee. The exercise period of the share options granted is determinable by the board of directors in its absolute discretion, and commences after a certain vesting period and ends on a date which is not later than ten years from the date of grant of the share options.

The exercise price in respect of any particular option shall be such price as the board of directors may in its absolute discretion determines at the time of grant of the relevant option (and shall be stated in the letter containing the offer of the grant of the option) but the exercise price shall be at least the highest of: (a) the closing price of a share as stated in the Stock Exchange's daily quotation sheet on the offer date, which must be a business day; (b) 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; and (c) the nominal value of a share on the offer date.

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

The following share options were outstanding under the Post-IPO Share Option Scheme during the six months ended 30 June 2017:

| | Six months ended 30 June 2017 | | Six months ended 30 June 2016 | |
|--|--------------------------------------|-------------------|--------------------------------------|-------------------|
| | Weighted average exercise price HK\$ | Number of options | Weighted average exercise price HK\$ | Number of options |
| Outstanding at the beginning of the period | 3.92 | 7,598,500 | 3.90 | 7,966,000 |
| Granted during the period | 10.50 | 780,000 | — | — |
| Exercised during the period | 4.04 | (685,500) | 3.51 | (75,000) |
| Forfeited during the period | 3.90 | (15,000) | 3.55 | (230,000) |
| Outstanding at the end of the period | 4.58 | <u>7,678,000</u> | 3.92 | <u>7,661,000</u> |

The number and the weighted average exercise price of exercisable share options under the Post-IPO Share Option Scheme at the end of the period/year:

| | 30 June 2017 | | 31 December 2016 | |
|---|---------------------------------|-------------------|---------------------------------|-------------------|
| | Weighted average exercise price | Number of options | Weighted average exercise price | Number of options |
| Exercisable at the end of the period/year | HK\$3.90 | 3,294,169 | HK\$3.95 | 2,279,086 |

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

| 30 June 2017 Number of options | Exercise price per share HK\$ | Exercise period |
|-----------------------------------|----------------------------------|--------------------------|
| 252,000 | 5.47 | 11-08-2015 to 11-08-2024 |
| 642,000 | 3.51 | 21-11-2015 to 21-11-2024 |
| 4,474,000 | 3.90 | 23-03-2016 to 23-03-2025 |
| 1,430,000 | 3.90 | 03-06-2016 to 03-06-2025 |
| 100,000 | 2.94 | 10-09-2016 to 10-09-2025 |
| 780,000 | 10.50 | 20-04-2018 to 19-04-2027 |
| <u>7,678,000</u> | | |

On 20 April 2017, the Company granted a total of 780,000 share options to certain employees of the Group with an exercise price of HK\$10.50 per share. The closing price of the Company's shares immediately before the date of grant was HK\$9.83.

As at 30 June 2017, the Post-IPO share options outstanding had a weighted average remaining contractual life of 7.90 years (31 December 2016: 8.17 years).

For both Pre-IPO share options and Post-IPO share options, the weighted average closing price of the Company's shares immediately before date on which share options were exercised during the period was HK\$8.58 (six months ended 30 June 2016: HK\$3.54). Share options exercised under Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme during the six months ended 30 June 2017 resulted in the issuance of 12,310,912 (six months ended 30 June 2016: 5,226,088) ordinary shares of the Company and share premium of US\$1,622,000 (six months ended 30 June 2016: US\$411,000), as further detailed in note 13 to the financial statements.

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. The awarded shares shall be either (i) allotted and issued by 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 vesting period of the awarded share is determined by the Board. The awarded shares granted shall vest in the grantees in accordance with the schedule as determined by the Board.

Movements in the number of shares held for the Share Award Scheme and awarded shares for the six months ended 30 June 2017 are as follows:

| | Number of shares held for the Share Award Scheme | Number of awarded shares | Total |
|---|---|-----------------------------|-------------------|
| At 1 January 2017 | 8,471,852 | 9,411,638 | 17,883,490 |
| Purchased | 3,421,000 | — | 3,421,000 |
| Granted | (2,801,469) | 2,801,469 | — |
| Forfeited | 329,176 | (329,176) | — |
| Vested | — | (1,284,150) | (1,284,150) |
| | <u>9,420,559</u> | <u>10,599,781</u> | <u>20,020,340</u> |
| At 30 June 2017 | | | |
| Vested but not transferred as at 30 June 2017 | | | <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 six months ended 30 June 2017 was HK\$10.96 per share.

The awarded shares granted during the six months ended 30 June 2017 and outstanding as at the period then ended will vest in anniversary of grant date with each of 25% being vested annually.

15 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Fair value of listed equity investments

The fair values of listed equity investments are based on quoted market prices and measured using Level 1 inputs as defined in IFRS 13, *Fair value measurement*, i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

(b) Fair value of financial assets and liabilities carried at other than fair value

All financial assets and liabilities are carried at amounts not materially different from their fair values as at 30 June 2017 and 31 December 2016.

16 LOSING CONTROL OF SUBSIDIARY

On 16 June 2017, the Group entered into a shareholders agreement with individual shareholders of Tap Media Technology Inc. and agreed that unanimous approval shall be required for all members of the board on decisions regarding operating and financing activities significantly affect their returns to Tap Media Technology Inc., and the Group is only entitled to appoint one (1) director out of three (3) directors in the board. As a result, the Group cannot exercise unilateral control over the board of directors of Tap Media Technology Inc.. Tap Media Technology Inc. became a joint venture of the Group since 16 June 2017.

The above transaction had the following effect on the Group's assets and liabilities upon the date when control was lost:

| | US\$' 000 |
|---|----------------|
| Current assets | 1,761 |
| Non-current assets | 22 |
| Less: current liabilities | 1,505 |
| | <hr/> |
| Net identifiable assets and liabilities disposed of | 278 |
| | <hr/> <hr/> |
| Percentage of equity interest held by the Group | 61% |
| Interest in joint venture recognised | 170 |
| | <hr/> |
| Consideration received, satisfied in cash | — |
| Less: cash and cash equivalent disposed of | 1,345 |
| | <hr/> |
| Net cash effect | (1,345) |
| | <hr/> <hr/> |

17 CAPITAL COMMITMENTS OUTSTANDING NOT PROVIDED FOR IN THE INTERIM FINANCIAL REPORT

| | At 30 June 2017 US\$' 000 | At 31 December 2016 US\$' 000 |
|----------------|--|-------------------------------------|
| Contracted for | — | 167 |

18 CONTINGENT LIABILITIES

As at 30 June 2017 and 31 December 2016, neither the Group nor the Company had any significant contingent liabilities.

19 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group is as follows:

| | Six months ended 30 June | |
|------------------------------------|---------------------------------|-------------------|
| | 2017 US\$' 000 | 2016 US\$' 000 |
| Short-term employee benefits | 3,195 | 650 |
| Equity-settled share-based payment | 119 | 303 |
| | <u>3,314</u> | <u>953</u> |

(b) Other transactions and outstanding balance with related parties

During the six months ended 30 June 2017, 199 Digital Co., Ltd., an associate of the Group provided customer and marketing services to the Group. The service fee paid and payable was US\$295,000 (six months ended 30 June 2016: US\$66,000) and the balance of prepayment as at 30 June 2017 was US\$26,000 (31 December 2016: US\$71,000).

During the six months ended 30 June 2017, Hongbin You, a company wholly owned by the sister-in-law of Mr. Hong Zhang, one of the Group's directors, provided consultant service to the Group. The service fee incurred was US\$25,000 (six months ended 30 June 2016: US\$25,000) and the amount payable as at 30 June 2017 was US\$4,000 (31 December 2016: US\$4,000).

During the six months ended 30 June 2017, Tap Media Technology Pte. Ltd., a joint venture of the Group provided advertising services to the Group. The advertising expense recognised for the period was US\$100,000, and the balance of prepayment as at 30 June 2017 was US\$996,000 (31 December 2016: Nil).

During the six months ended 30 June 2017, a loan of US\$500,000 (six months ended 30 June 2016: Nil) with annual interest rate of 2% was provided to PocketSocial Technologies Inc. ("PST"), a joint venture of the Group, and the loan balance as at 30 June 2017 was US\$500,000(31 December 2016: Nil).

Except for the loan balance due from PST, the balance with related parties are unsecured, interest-free and payable on demand.

20 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE SIX MONTHS ENDED 30 JUNE 2017

A number of amendments and new standards are effective for annual periods beginning after 1 January 2017 and earlier application is permitted; however, the Group has not early adopted any new or amended standards in preparing this interim financial report.

The Group has the following updates to the information provided in the last annual financial statements about the possible impacts of the new standards issued but not yet effective which may have a significant impact on the Group's consolidated financial statements.

IFRS 9, Financial instruments

IFRS 9 will replace the current standard on accounting for financial instruments, IAS 39, *Financial instruments: Recognition and measurement*. IFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. On the other hand, IFRS 9 incorporates without substantive changes the requirements of IAS 39 for recognition and derecognition of financial instruments and the classification of financial liabilities.

The Group has decided not to adopt IFRS 9 until it becomes mandatory on 1 January 2018. Expected impacts of the new requirements on the Group's financial statements are as follows:

(a) Classification and measurement

IFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss ("FVTPL") and (3) fair value through other comprehensive income ("FVTOCI") as follows:

- The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then effective interest, impairments and gains/losses on disposal will be recognised in profit or loss.
- For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

Based on the preliminary assessment, the Group expects that its equity securities investments currently designated as FVTOCI will continue with their classification and measurements upon the adoption of IFRS 9.

The classification and measurement requirements for financial liabilities under IFRS 9 are largely unchanged from IAS 39, except that IFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's own credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement may not have any impact on the Group on adoption of IFRS 9.

(b) Impairment

The new impairment model in IFRS 9 replaces the “incurred loss” model in IAS 39 with an “expected credit loss” model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances.

This new impairment model may result in an earlier recognition of credit losses on the Group’s trade receivables and other financial assets. However, a more detailed analysis is required to determine the extent of the impact.

IFRS 15, Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. IFRS 15 will replace the existing revenue standards, IAS 18, *Revenue*, which covers revenue arising from sale of goods and rendering of services, and IAS 11, *Construction contracts*, which specifies the accounting for revenue from construction contracts. The Group is currently assessing the impacts of adopting IFRS 15 on its financial statements. Based on the preliminary assessment, the Group has identified that the timing of revenue recognition is likely to be affected.

Currently, revenue arising from sale of the Premium Gaming Resource is recognised either upon consumption or ratably over the practical usage period predetermined in the game or throughout the estimated user life of paying players as appropriate.

Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. IFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

- When the customer simultaneously receives and consumes the benefits provided by the entity’s performance, as the entity performs;
- When the entity’s performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;
- When the entity’s performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity’s activities do not fall into any of these 3 situations, then under IFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed.

As a result of this change from the risk-and-reward approach to the contract-by- contract transfer-of-control approach, it is possible that for the Group’s sale of the Premium Gaming Resource the point in time when revenue is recognised may be earlier or later than under the current accounting policy. However, further analysis is required to determine whether this change in accounting policy may have a material impact on the amounts reported in any given financial reporting period.

IFRS 16, Leases

Currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some operating leases as the lessee.

Once IFRS 16 is adopted, lessee will account for its operating leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding “right-of-use” asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term. IFRS 16 will primarily affect the Group’s accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. At 30 June 2017 the Group’s future minimum lease payments under non-cancellable operating leases amount to US\$8,229,000 and US\$356,000 for properties and other assets respectively, the majority of which is payable either between 1 and 5 years after the reporting date. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once IFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of IFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of IFRS 16 and the effects of discounting.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Group has decided not to early adopt IFRS 16 in its 2018 consolidated financial statements.

DEFINITION

| | |
|---------------------------------|--|
| “Board” or “Board of Directors” | 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 this interim 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 |
| “Concert Group” | the group of parties acting in concert pursuant to the act in concert agreement, being Mr. Zongjian Cai, Duke Online, Mr. Yuan Chi, Edmond Online, Mr. Yuan Xu, Mr. Hong Zhang, Mr. Zhixiang Chen and Ms. Kai Chen |
| “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 |

| | |
|-------------------------------------|--|
| “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 |
| “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. Zongjian Cai and 50% by Mr. Yuan Chi, respectively |
| “GEM” | Growth Enterprise Market |
| “GEM Listing Rules” | the Rules Governing the Listing of Securities on the GEM |
| “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 Singapore” | IGG Singapore Pte. Ltd. (formerly known as Skyunion Pte. Ltd.), a company incorporated under the laws of Singapore on 30 June 2009, a wholly-owned subsidiary of the Company |
| “IP” | Intellectual Property |
| “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 |

| | |
|-------------------------------|---|
| “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 |
| “Period” | the six months ended 30 June 2017 |
| “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 |
| “Prospectus” | the prospectus of the Company dated 11 October 2013 |
| “SFO” | Securities Futures Ordinance, chapter 571 of the laws of Hong Kong |
| “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 |
| “substantial shareholder(s)” | has the meaning ascribed thereto in the Listing Rules |
| “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 |
| “Tapcash Cayman” | Tap Media Technology Inc., an exempted company incorporated under the laws of the Cayman Islands with limited liability on 11 November 2014, a formerly non-wholly owned subsidiary which became a joint venture of the Company since 16 June 2017 |
| “Tapcash Cayman Share(s)” | ordinary share(s) of US\$0.00025 each in the capital of Tapcash Cayman |
| “Tapcash Group” | Tapcash Cayman and its subsidiaries |
| “Tapcash Subsidiary Share Option Scheme” | the share option scheme of Tapcash Cayman and its subsidiaries, the principal terms of which were summarized in the circular of the Company dated 31 March 2015 |
| “U.S. dollar(s)” or “US\$” and “US cents” | United States dollars and cents, respectively, the lawful currency of the United States of America |
| “%” | 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.*